THE STATE OF SIDS REPORT 2026

Defending the special case

Edited by Eliorah Malifa, Emily Wilkinson, Jack Corbett, Matt Bishop, Gail Hurley, Courtney Lindsay, Rachid Bouhia and George Carter

Chapter 2

RESILIENT ECONOMIES: INCREASING PRODUCTIVE CAPACITIES IN A SELF-HELP WORLD

The Resilient and Sustainable Islands Initiative
by ODI Global

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Abbreviations and acronyms

ABAS	Antigua and Barbuda Agenda for SIDS
AIS	Atlantic, Indian Ocean and South China Sea
BBNJ	Agreement under the United Nations Convention on the Law of the Sea on the Conservation and Sustainable Use of Marine Biological Diversity of Areas beyond National Jurisdiction
EEZ	Exclusive Economic Zone
FDI	foreign direct investment
GDP	gross domestic product
GNI	gross national income
ICT	information and communication technology
MRV	measurement, reporting and verification
MSP	marine spatial planning
OECD	Organisation for Economic Co-operation and Development
PCI	Productive Capacities Index
R&D	research and development
SIDS	Small Island Developing States
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

2. RESILIENT ECONOMIES: INCREASING PRODUCTIVE CAPACITIES IN A SELF-HELP WORLD

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The Bahamas. Photo: Fernando Jorge/Unsplash.

Summary

Integrated, cross-sectoral planning and innovative financing are absolutely necessary to move Small Island Developing States (SIDS) beyond short-term survival towards sustainable structural transformation.

SIDS are at the forefront of debates around global economic resilience, balancing intrinsic vulnerabilities – their small size, geographic isolation and extreme climate exposure – with capacity to exploit economic niches.

Tourism, offshore banking and other financial services have brought SIDS considerable economic success over recent decades. But COVID-19 exposed the limits of these models. Diversification has proven to be an elusive goal and, in its absence, SIDS economies are struggling to achieve genuinely sustainable development due to their exposure to external shocks.

The problems SIDS have confronted in diversifying their economies have led to a renewed focus on self-sufficiency, especially since the pandemic. But this is not fully reflected in the Antigua and Barbuda Agenda for SIDS (ABAS) (UN-OHRLLS, 2024). This Agenda argues that the structural challenges to economic growth and sustainable development include lack of data, insufficient technical and institutional capacity for decision-making, poor connectivity (in some cases) and inadequate access to global supply chains. So, while the ABAS outlines where SIDS should focus their attention, it also welcomes the support of the international community in developing and expanding these capacities and sectors.

This chapter is organised around four interconnected pillars – *productive capacities, trade and investment, resilient and sustainable tourism*, and *sustainable ocean-based economies* – all central to the sustained (and sustainable) development of island nations.

2.1 Key debates

The core debates on economic resilience in SIDS highlight the severity and interconnected nature of their structural vulnerabilities. There is consensus across academic and policy research: incremental, siloed approaches cannot address the complex nature of economic crises in SIDS, which are triggered by external shocks but compounded by local economic development models.

The return of a 'self-help system' – where multilateralism is declining and the special case of SIDS is increasingly under threat (Bishop et al., 2025) – limits the adoption of traditional economic solutions. These generally involve greater openness and integration and will therefore be progressively harder to achieve.

In the emerging reality, SIDS can no longer rely on the same level of multilateral concessions and support that previously underpinned their development trajectories. Instead, the geopolitical transition is placing a greater burden on SIDS to build internal resilience while navigating a less certain and less open international environment.

One response to this shift is a return to the older concept of economic self-sufficiency as a critical dimension of resilience against accelerating climate risks. For SIDS, self-sufficiency translates into the intentional strengthening of productive capacities, trade and investment, resilient tourism and the blue economy to reduce dependency on volatile external systems. Achieving this amid the return of great power competition will require deeper collaboration and knowledge-sharing among island nations on successful business models, adapted financial innovations and effective tourism restructuring. SIDS must also cooperate with neighbouring larger states by diversifying both products and partners so they can better reap the benefits of trade and investment within the self-help system.

The blue economy presents a huge opportunity for SIDS economies to achieve economic self-sufficiency; however, it is also a key arena where the self-help system manifests. There is an urgent need for SIDS to assert sovereignty over their Exclusive Economic Zones (EEZs), but they will need to collaborate with other SIDS and with development partners to capitalise on this. SIDS must use diplomatic and legal channels – which are currently being eroded by the return of self-help – to secure their maritime territories, but this remains more challenging in certain regions than others. This reinforces the emerging paradox of SIDS development: inter-state collaboration has become more significant for securing economic growth at the precise moment that it is becoming increasingly difficult to achieve.

2.1.1 SIDS economies

SIDS have a unique economic profile, distinguished by specific and well-known structural constraints. These constraints are shared by islands, despite considerable variation in economic performance and gross domestic product (GDP) per capita[1] across subregions (Figure 2.1). They all

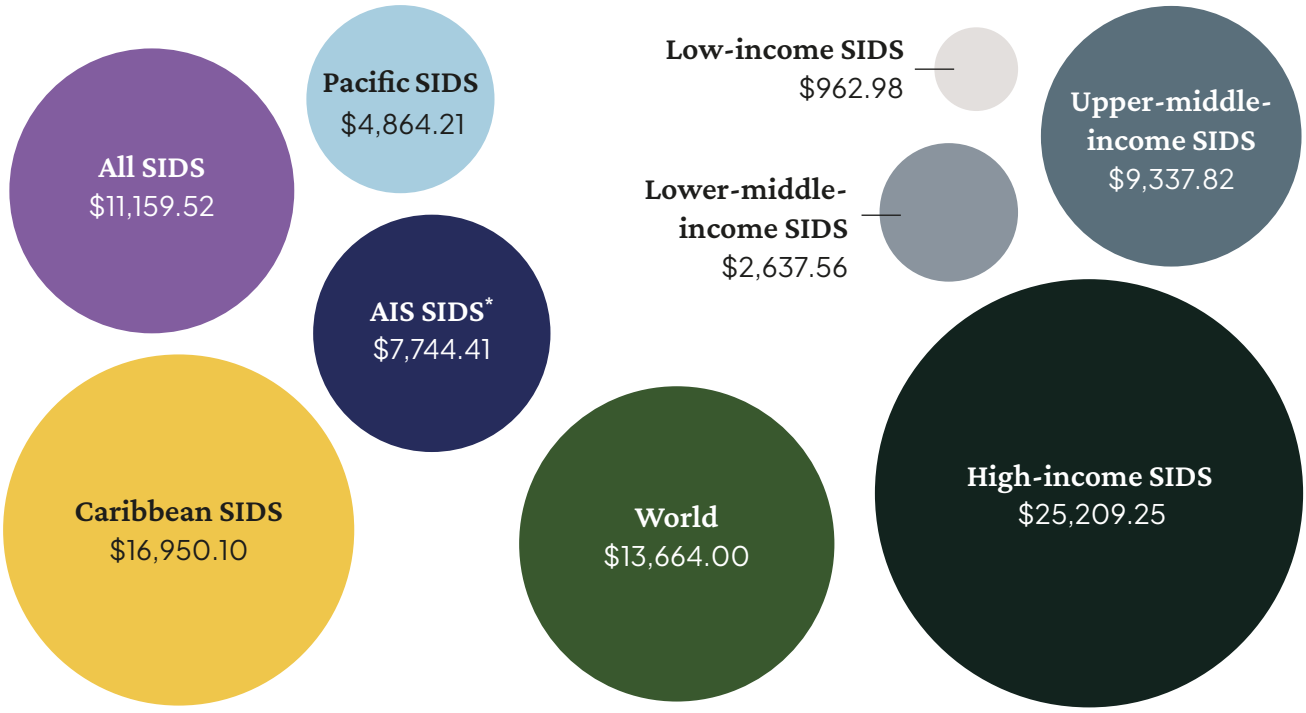
1 Although useful, GDP per capita (like gross national income (GNI) per capita) remains an incomplete measure of economic progress in SIDS. For more detail, see Bishop et al. (2021).

relate to inherent smallness and a limited resource base, which restrict market size and economies of scale, in turn leading to higher operational costs and constrained economic diversification.

SIDS' scale limitation, combined with geographically dispersed populations across multiple remote islands, means smaller markets and a high cost per capita to deliver public services. This reality is reflected in government spending. Annual government expenditure and tax revenues as a share of GDP are typically about 8% higher among SIDS than the world average (Figure 2.2), illustrating the elevated cost of maintaining state capacity.

Remoteness and isolation impose other burdens too, notably high transportation costs and supply chain uncertainties. SIDS rely on trade for income and this dependence – coupled with a high reliance on imports (especially for food and fuel) – makes them vulnerable to external shocks and price volatility. This exposure results in high domestic inflation: annual inflation in SIDS was 11.1% in 2023, with Caribbean SIDS experiencing rates above 20.5% in 2023 before declining in 2024 (Alleyne and Blagrave, 2025).

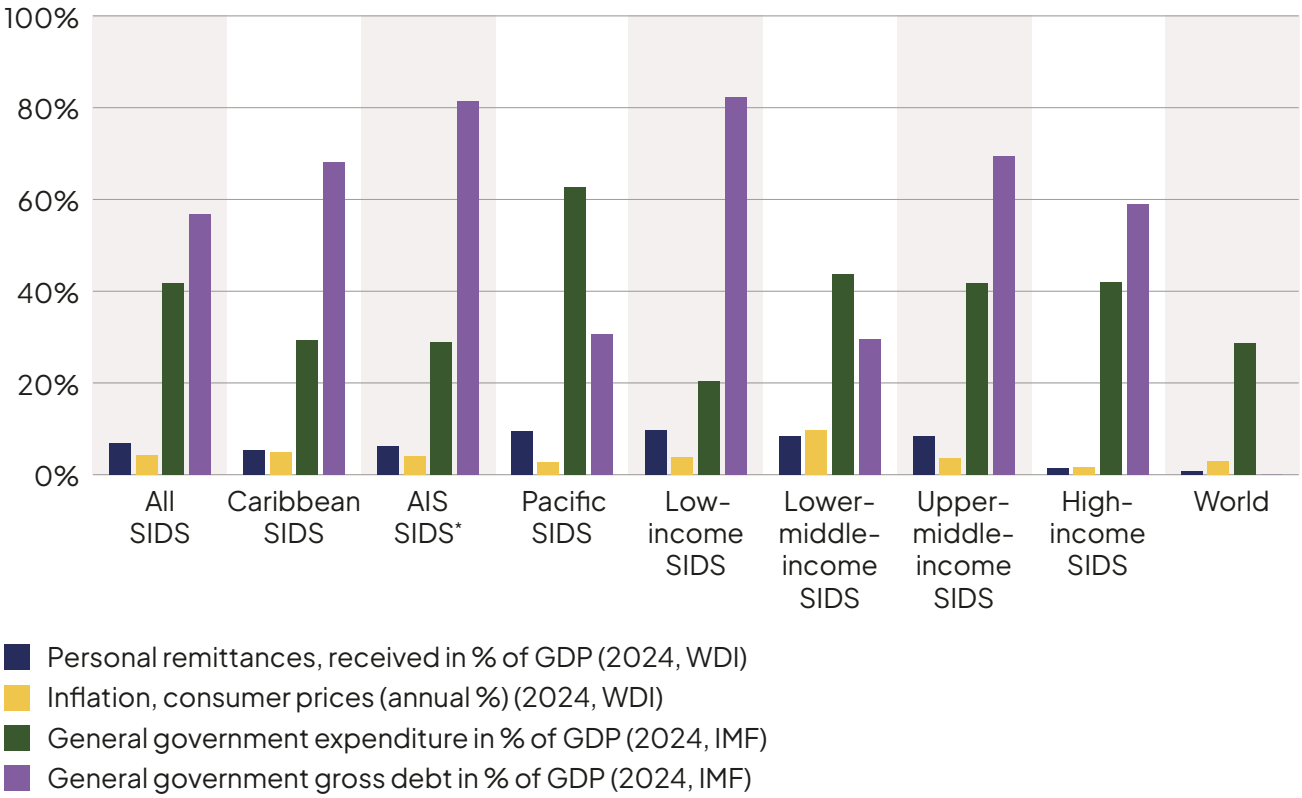
Figure 2.1 GDP per capita, 2024 (US$, purchasing power parity, PPP)



Note: *Excluding Singapore. AIS = Atlantic, Indian Ocean and South China Sea.

Source: World Bank (n.d.), World Development Indicators (https://databank.worldbank.org/source/world-development-indicators), 14 November 2025.

Figure 2.2 Selected macroeconomic indicators, 2024



Note: *Excluding Singapore. Country groupings are based on income levels using World Bank groupings. Data are not available for world average general government gross debt.

Source: World Bank (n.d.), World Development Indicators (https://databank.worldbank.org/source/world-development-indicators); International Monetary Fund (2025), World Economic Outlook database (https://www.imf.org/en/publications/weo/weo-database/2025/april/download-entire-database), 14 November 2025.

SIDS' economic vulnerabilities are further intensified by climate change, which undermines productive capacity and increases the cost of disaster reconstruction. From 2000 to 2022, annual economic losses in SIDS attributed to climate change alone amounted to US$1.7 billion, representing 0.8% of collective GDP (Panwar et al., 2025). These figures contribute to already high debt levels. With government debt in SIDS standing at around 67% of GDP on average (Figure 2.2), close to half of all SIDS are assessed as being at high risk of, or already in, debt distress (Hurley et al., 2024).

That said, many SIDS have achieved high living standards through sustained economic growth. This has been supported by remittances, which constitute the largest source of external financing to SIDS and provide critical financial buffers (UNCTAD, 2021). They account for over 20% of GDP in Tonga, Samoa and Haiti (World Bank, 2022), with Tonga being the world's most remittance-dependent country at 50% of GDP.

2.1.2 Productive capacities

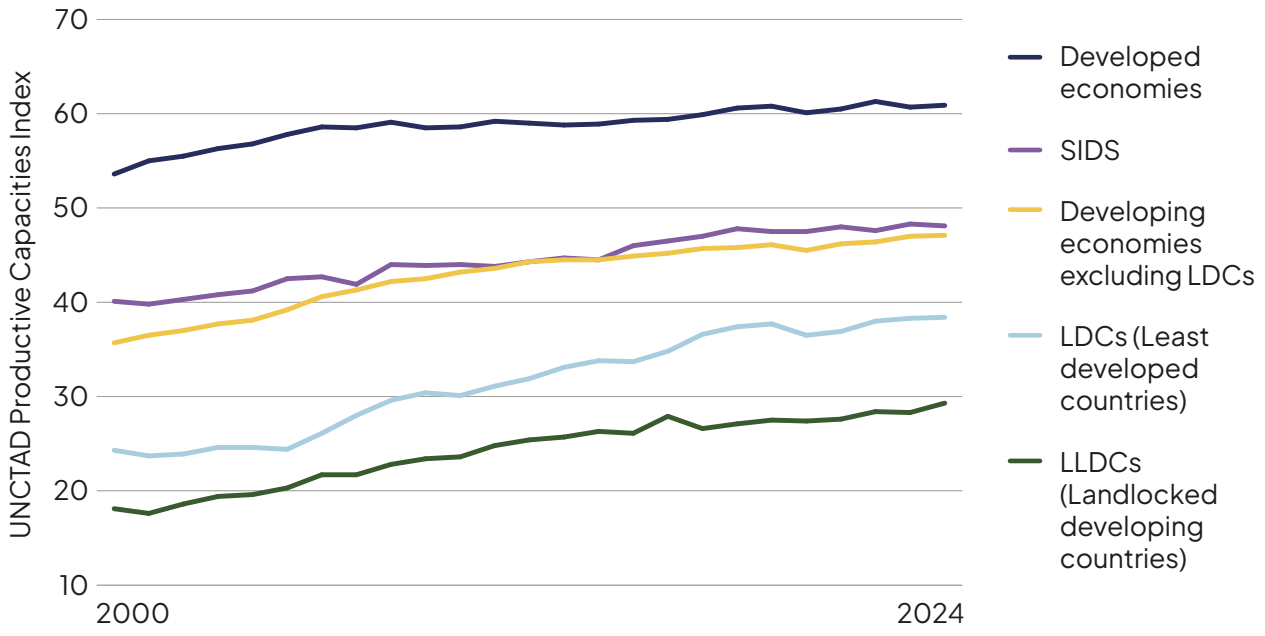
Strengthening SIDS' productive capacities is a central component of the ABAS. This

is structured around building resilient economies and creating productive populations. Specifically, the ABAS highlights the need for SIDS to invest in higher-productivity sectors, including advanced technologies and the digital economy, to reduce brain drain and promote better-paying jobs. It also calls for productive capacity to be expanded through holistic development programmes and national capacity gap assessments.[2]

Although the notion of productive capacities has long featured in the global policy agenda and in national development strategies, it remained undefined for many years. Over recent decades, however, the UN Conference on Trade and Development (UNCTAD) has developed a comprehensive conceptual framework defining productive capacities as 'the productive resources, entrepreneurial capabilities, and production linkages that collectively determine a country's ability to produce goods and services for sustained growth and development' (UNCTAD, 2025a).

UNCTAD has also developed the Productive Capacities Index (PCI), which enables the measurement and benchmarking of productive capacities across countries and regions. Several key insights can be drawn from this for SIDS. Although SIDS previously outperformed the developing-country average before the 2010s, their progress has since slowed and they now perform on a par with other developing economies (Figure 2.3).

Figure 2.3 Evolution of productive capacities across UN country groupings, 2000–2024



Source: UNCTAD (2025a).

2 See ABAS, sections 2.3 and 4.1 (or paragraphs 27–32 and 54–58) (UN-OHRLLS, 2024), which address the transformation of productive sectors and the promotion of skills and innovation for the digital economy.

This stagnation is partly explained by the recurrence of global shocks since 2010, which have disproportionately affected SIDS' productive capacities and have constrained their ability to recover or shift towards new development pathways.

The SIDS group is heterogenous in terms of productive capacities. It displays a wide spread of outliers, from economies at the top of the distribution such as Singapore, to countries at the lower end such as Haiti and Guinea-Bissau. Since 2019 and the onset of the COVID-19 pandemic, SIDS have also experienced markedly divergent trajectories, with several countries recovering and advancing significantly. This includes Kiribati, Guyana, Comoros, Grenada and the Dominican Republic. In contrast, Papua New Guinea, the Marshall Islands, Antigua and Barbuda, the Maldives, São Tomé and Príncipe, and Mauritius have seen flat PCI scores since the pandemic; Suriname, Haiti, Trinidad and Tobago, Cuba and Fiji have seen a decline.

Although natural capital is often abundant in SIDS, overexploitation and limited technical and financial resources make it hard to manage assets sustainably.

The PCI further breaks down productive capacities into eight categories: human capital, natural capital, energy, transport, information and communication technologies (ICTs), institutions, private sector and structural change (UNCTAD, 2025a; Bouhia and Delelegn Arega, 2026). Human capital in Caribbean SIDS is generally strong, but the region suffers from brain drain and small labour pools (Smith and Jules, 2025). Meanwhile, the Pacific islands struggle more with out-migration and maintaining a stable, skilled workforce (Ali et al., 2026). Although natural capital is often abundant in SIDS, overexploitation and limited technical and financial resources make it hard to manage assets sustainably (Batra and Norheim, 2022). Critically, access to finance is restricted by high borrowing costs and narrow fiscal bases (Hurley et al., 2025a).

Filming Climate Blueprint, Barbados, 2025. Photo: RESI/ Ben Merker, Merk Films.

Technology and innovation are vital for overcoming geographic isolation, yet most SIDS underinvest in research and development (R&D). The exceptions are Mauritius and Cabo Verde, which are leading digital initiatives (WIPO et al., 2024), plus Caribbean nations such as Barbados, which is striving to build digital hubs (WIPO et al., 2024). Pacific SIDS in particular face

significant hurdles due to poor infrastructure, although advances in areas like Fiji's fintech show potential. Fostering digital skills and investing in connectivity are essential for resilience, despite resource scarcity challenges (ITU, 2024).

SIDS also struggle to achieve economies of scale or attract diversified investment (Pomeroy, 2021). This is because SIDS are not well integrated in global production networks due to small domestic markets, high transport costs and limited bargaining power. To overcome this, island nations have specialised in niche sectors such as eco-tourism, fisheries and offshore financial services, with the latter providing a major source of revenue and employment in several jurisdictions over recent decades (Baldacchino, 2014; OECD, 2023). However, initiatives by the Organisation for Economic Co-operation and Development (OECD) and the G20 to curb tax avoidance and evasion, together with tax justice campaigns led by non-governmental organisations, have tightened regulation and increased compliance costs for offshore financial centres. This puts SIDS' development model under pressure (Johannesen and Zucman, 2014; Tax Justice Network, 2022).

At the same time, weak and costly connectivity continues to cap growth in both goods and services exports, despite efforts to deepen regional integration and invest in transport and digital networks (UNCTAD, 2024). Infrastructure remains a major bottleneck here: while some countries, such as Samoa and Haiti, have upgraded or rehabilitated roads and ports to improve resilience to extreme weather and maintain basic connectivity, infrastructure gaps and maintenance backlogs remain large across states (OECD, 2023). These dynamics highlight two interlinked but distinct constraints on SIDS' productive capacities: weak production linkages into global and regional value chains, and chronic infrastructure deficits that raise transaction costs and limit the returns to private investment (UNCTAD, 2024).

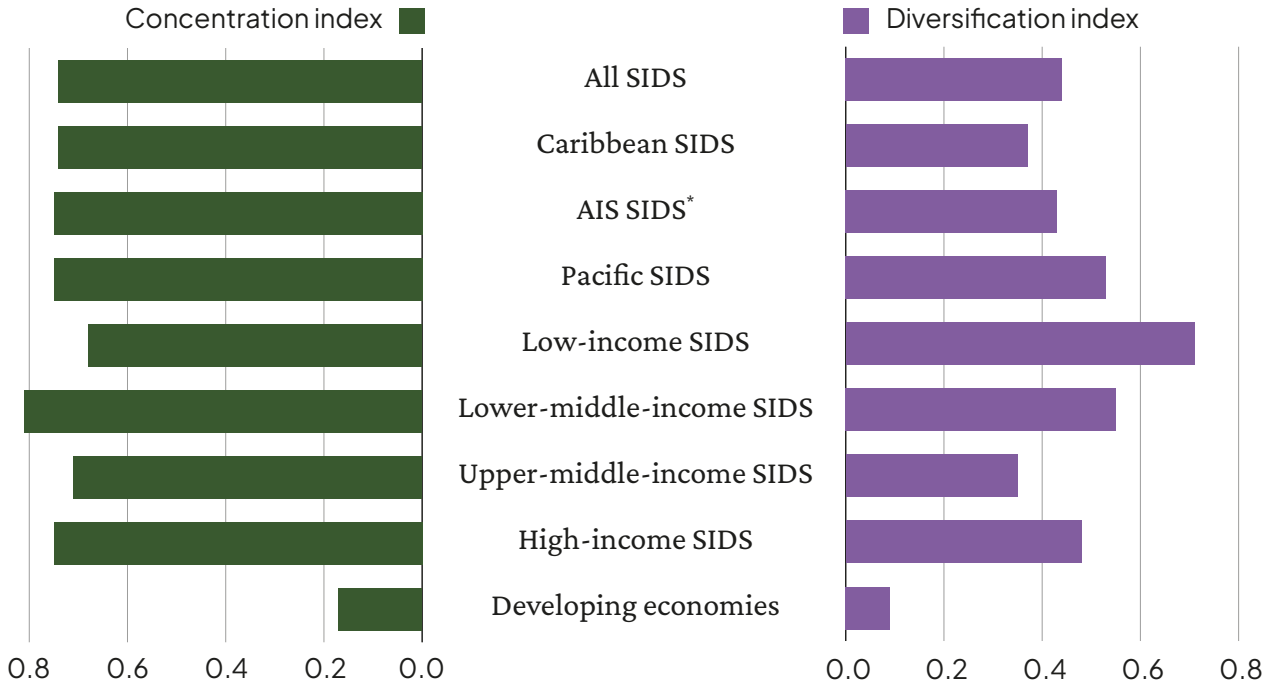
Finally, strong institutional frameworks are essential to improve productive capacities, but these are often weak in SIDS due to limited administrative capability. Caribbean SIDS generally exhibit strong institutions but struggle with consistent implementation (Barrow-Giles and Marshall, 2018; Baldacchino, 2014), while Pacific Island communities rely on traditional systems amid weaker formal governance (Larmour, 2005). A core, cross-regional challenge that is noted particularly in the AIS region is the high cost per capita of running and maintaining the effective institutional frameworks necessary to foster productive capacities (Moncada and Nguyen, 2024). In all cases, capacity-strengthening initiatives are vital but require better tailoring to local imperatives (Wilkinson et al., 2025).

2.1.3 Trade and investment

Constrained by persistent structural vulnerabilities, SIDS' share of global trade remains low at only 0.8% (WTO, 2024). The global trading environment has intensified competition for SIDS due to the shift since 2008 from traditional non-reciprocal trade preferences (e.g., Lomé IV Convention) to reciprocal agreements (e.g., Economic Partnership Agreements). This demands compliance with stringent international standards despite limited national capacities.

Competition is structurally worsened by SIDS' lack of trade diversification. Exports are highly concentrated in a few products and their trade patterns are very different from global trade (Figure 2.4), making them more vulnerable to disruptions and shocks. Interestingly, there is little difference between income levels or geographical groupings of SIDS, so even high-income SIDS are vulnerable to shocks and disruptions connected to trade. Relationships with trading partners do vary across SIDS, however. The Pacific SIDS are more reliant on a few trade partners, and their trade fluctuates a lot more than other SIDS (Figure 2.5).

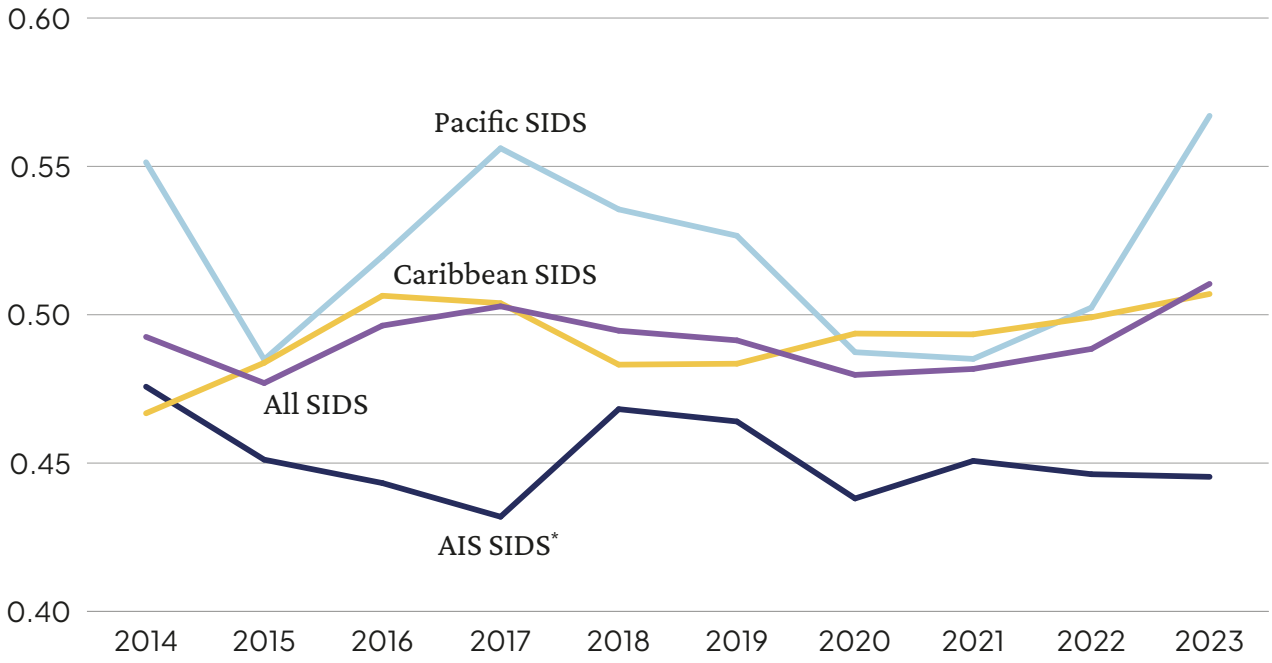
Figure 2.4 Export concentration and diversification indices for merchandise, 2024



Note: *Excluding Singapore. Country income groupings based on World Bank groupings. The concentration index indicates the extent to which exports are concentrated in a small number of products versus even distribution across products. The diversification index measures how much the product structure of a country or group's exports differs from the global trade pattern.

Source: UNCTAD (n.d.) UNCTAD Data Hub (https://unctadstat-api.unctad.org/bulkdownload/US.ConcentDiversIndices/US_ConcentDiversIndices), 14 November 2025.

Figure 2.5 Export reliance on trade partners, 2014–2023



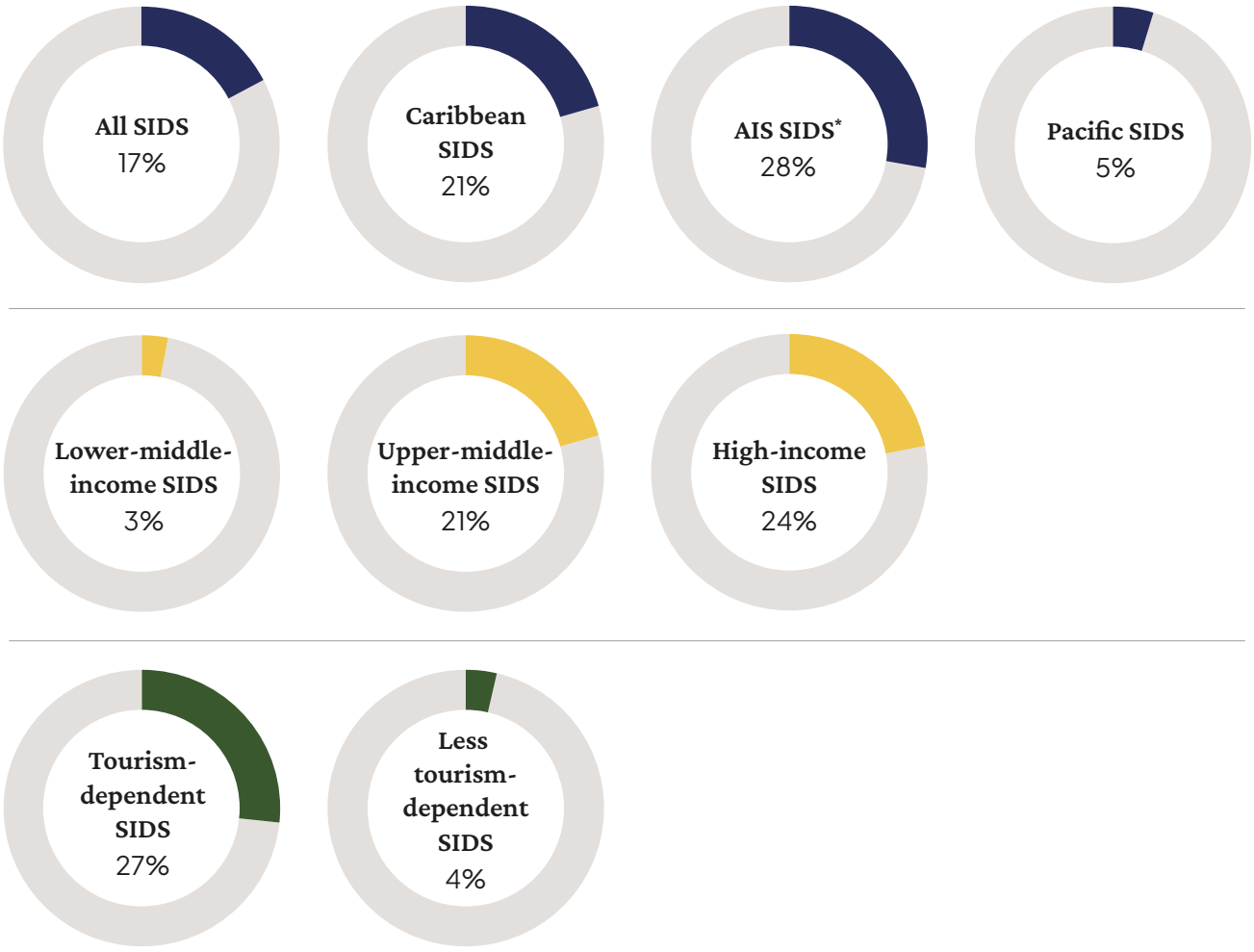
Note: *Excluding Singapore. The reliance ratio is calculated as the share of export value to trade partners on the total export value each year. Trade partners include Australia, China, Japan, New Zealand, the US and the European Union (EU). The data provide a harmonised view of both goods and services, the latter of which is the primary export engine for most SIDS. However, please note that trade in services data are subject to higher margins of error than merchandise trade due to measurement complexities and varying national reporting capacities. This may result in underestimations of service-based economic activity in regions with significant data deficits.

Source: OECD (n.d.) Balanced trade statistics (https://www.oecd.org/en/data/datasets/oecd-balanced-trade-statistics.html), 14 November 2025.

Within the World Trade Organization (WTO), SIDS are included under the broader Small Vulnerable Economies Work Programme (WTO, 2022). The Alliance of Small Island States (AOSIS) has advocated for more targeted forms of special and differential treatment for SIDS, including longer transition periods for implementing obligations (e.g., the Trade Facilitation Agreement), simplified notification requirements and greater policy space for subsidies in agriculture and fisheries (Ancharaz, 2019). Regional priorities vary significantly though. Pacific SIDS tend to focus on managing their vast EEZs and climate-linked disciplines, supported by the 2025 Fisheries Subsidies Agreement (Hopewell, 2026); Caribbean SIDS prioritise flexibilities for services trade (tourism); and in the AIS region most are concerned with reducing high transport costs and strengthening digital trade capacity (Mooneeram-Chadee, 2025). Furthermore, countries like the Solomon Islands, Comoros and Haiti have pushed to maintain duty-free, quota-free access and flexible rules of origin as they face preference erosion.

SIDS' structural reliance on a narrow range of exports, often a single commodity like tourism, is compounded by high market concentration. This makes SIDS highly susceptible to external shocks and global economic downturns. Extreme exposure is evident in tourism-dependent SIDS, where the share of inbound tourism expenditure as a percentage of GDP is notably high (Figure 2.6). For example, in 2023, about 38% of export revenues in SIDS came from international tourism, a figure that reached up to 85% in some destinations (WTO, 2024). Overall, the COVID-19 pandemic caused international tourist arrivals in SIDS to decline by 76% in 2020 and 72% in 2021, resulting in an estimated US$90 billion in lost tourism export revenues from 2020 to 2022 (ITC, 2024).

Figure 2.6 Share of inbound tourism expenditure, 2022 (% GDP)



Note: *Excluding Singapore. Tourism-dependent SIDS are those whose share of inbound tourism expenditures stood at over 20% of GDP in 2019. Ten are in the Caribbean, three in the AIS region and four in the Pacific.

Source: UN Tourism (n.d.), Tourism Statistics Database (https://www.untourism.int/tourism-statistics/tourism-statistics-database), 14 November 2025.

The Maldives. Photo: Asad Photo Maldives/Pexels.

Foreign direct investment (FDI) remains a crucial capital source for SIDS, particularly for tourism (Read, 2008) – though it can introduce a mismatch with long-term sustainable development goals if the investment prioritises short-term profit over the preservation of natural capital and social cohesion. This structural challenge has amplified the urgency for SIDS to diversify their export base and deepen regional integration. Intra-regional trade has increased by 35% (from around US$11 million in 2015 to US$15 million in 2024), with the largest rises seen in Pacific SIDS (57%) and Caribbean SIDS (18.4%) (UNCTAD, 2025b). Regional initiatives like the Caribbean Community (CARICOM) serve as models for advanced integration (Didier, 2020), which can increase bargaining power and reduce transaction costs (Guerrero et al., 2009).

SIDS are also leveraging digitalisation to reduce the barrier of geographic distance, creating new opportunities in digital trade and e-commerce. Examples range from Tuvalu's exploration of the metaverse to the anticipated US$1 billion Jamaican e-commerce market (UNDP, 2024). Despite the potential for significant cost savings, hurdles remain though, including limited broadband, high internet costs and inadequate cybersecurity. Given these challenges, a central policy debate revolves around updating international trade frameworks to support SIDS' digital ambitions and granting the necessary special and differential treatment flexibilities for recovery and resilience-building after disasters (OECS, 2018).

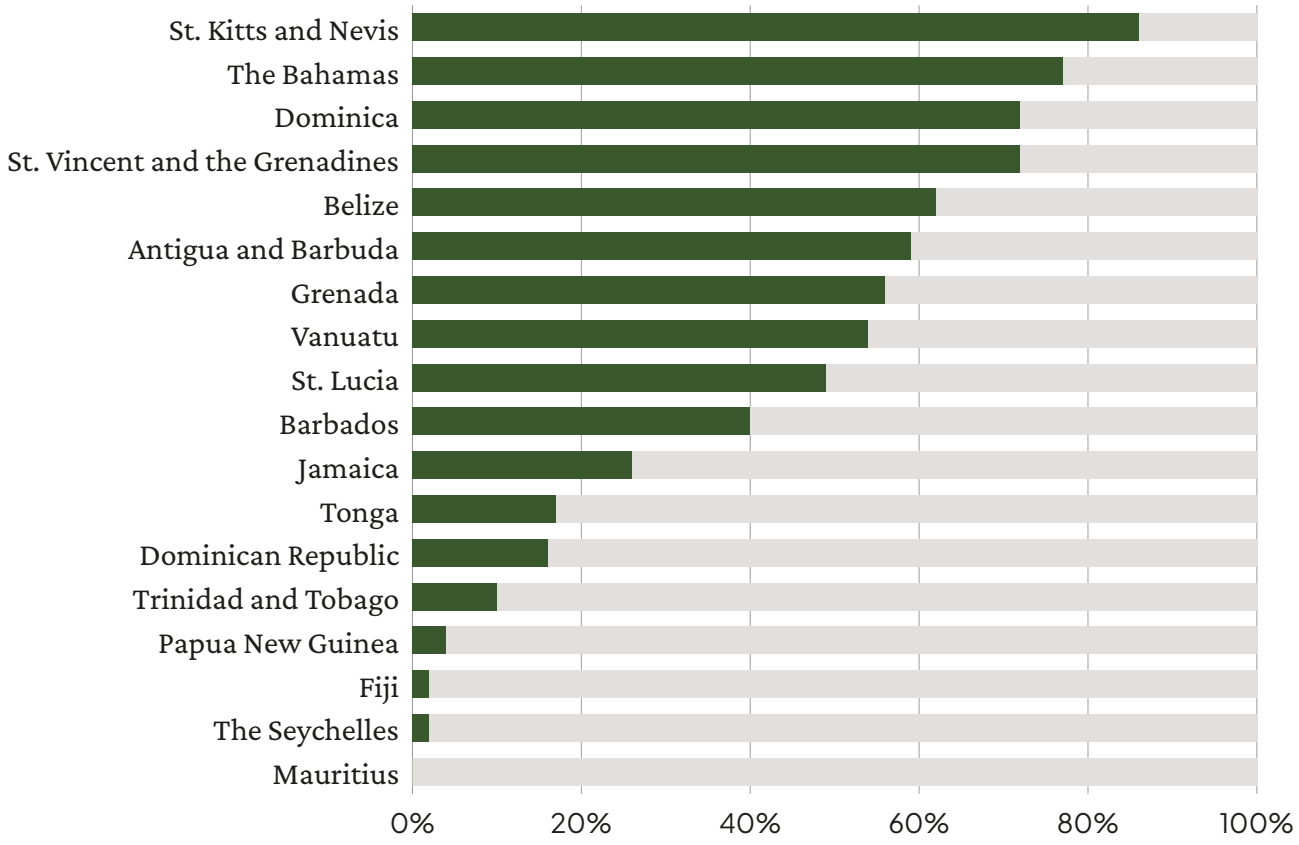
2.1.4 Resilient and sustainable tourism

Tourism is a critical industry for many SIDS. But, despite being an economic powerhouse, the emissions related to visitor transport contribute to climate change (Wolf et al., 2024). In turn, this places tourism assets at risk (Wuddivira et al., 2023).

This dilemma demands a critical re-evaluation of tourism-led growth (Giampiccoli et al., 2021). The popularity of SIDS destinations can easily lead to over-tourism, resulting in unsustainable environmental and social effects. This is especially problematic for more remote islands, such as those in the Pacific (Butler and Dodds, 2022).

Cruise tourism represents a significant portion of the visitor economy. This is evidenced by high figures for inbound tourism arrivals by water in the Caribbean (Figure 2.7), with select SIDS generating millions of US dollars in the 2023/2024 cruise year through taxes. However, the economic impact is often diluted when vessels spend little time in port and guests participate primarily in pre-arranged and paid-for excursions, limiting local business support (Hoarau-Heemstra et al., 2023).

Figure 2.7 Share of cruise ship visitors among total international visitors, 2022



Source: UN Tourism (n.d.), Tourism Statistics Database (https://www.untourism.int/tourism-statistics/tourism-statistics-database), 14 November 2025.

Taxation is an important policy tool to mitigate these negative externalities. In the Caribbean, the common practice of negotiating a per-person tourism 'head tax' (McLean, 2023) is often presented as a competitive 'race to the bottom'. Conversely, channelling tourism-generated funds (like hotel or green taxes) towards conservation and infrastructure projects is often seen as more beneficial, though follow-through is crucial (Sridharan, 2025). For example, the Maldives only began earmarking its 2015 'green tax' for environmental projects in 2019 (Shumais and Mohamed, 2020).

Policy-makers must ensure such measures address both fiscal effectiveness and social equity. This includes considering targeted tax relief, for instance reducing property taxes in port-adjacent neighbourhoods (del Saz Salazar and Tovar, 2026). This functions as a compensatory mechanism for local residents who bear the disproportionate hidden costs of large-scale tourism – increased noise and air pollution, traffic congestion, and the degradation of local amenities caused by heavy cruise ship traffic. By offsetting these localised environmental and social burdens, such fiscal adjustments help ensure that the economic benefits of tourism do not come at the direct expense of the community's quality of life.

Several niche tourism models offer pathways to enhance sustainability and resilience. Slow tourism focuses on preserving local culture and food production (Walker and Lee, 2021), while creative tourism offers cultural learning experiences – though both risk commodification if they become too mainstream (Baixinho et al., 2020). The rise of digital nomadism post-pandemic has formalised remote work long-stays (Cook, 2023), but attracting these visitors requires that SIDS strengthen their infrastructure, including transportation links and internet connectivity (Zhou et al., 2024). Eco-tourism, which aims to contribute positively to conservation and community well-being (Das and Chatterjee, 2015), is often supported by certifications (Brown et al., 2021) but it remains vulnerable to greenwashing (Buckley et al., 2024). Research on Maldivian resorts indicates a difference in messaging, with high-end resorts often framing the natural environment as a luxury feature with less focus on practical sustainability practices (Galli et al., 2025). Finally, community-based tourism, which involves high local participation in low-density and low-investment models, supports more equitable outcomes (Giampiccoli et al., 2021), but barriers like a lack of decision-making structures and power disparities between stakeholders can still limit inclusivity (Reindrawati, 2023).

2.1.5 Sustainable ocean-based economies

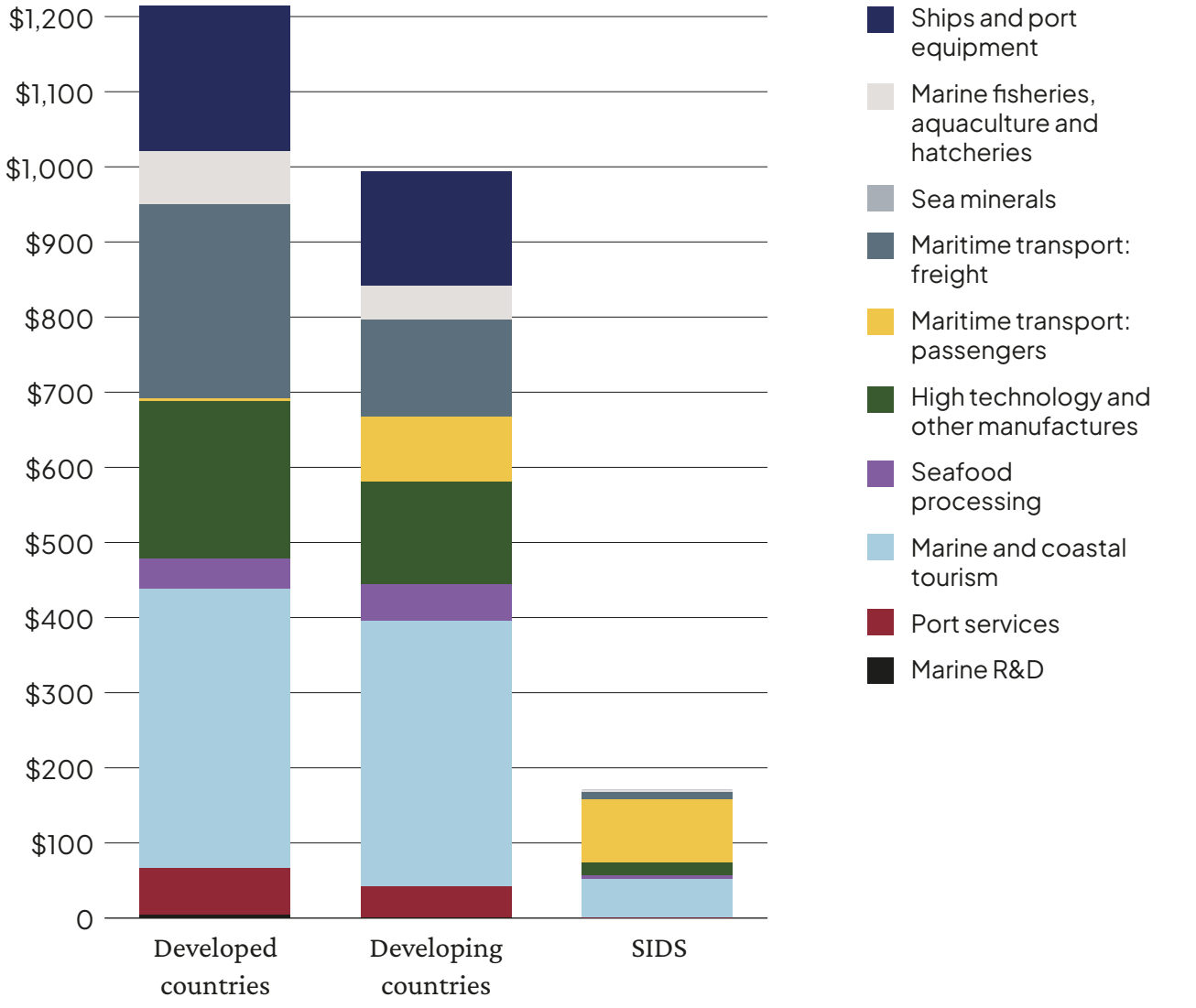
The blue economy is an evolving concept that seeks to balance the pursuit of ocean-based economic activity – including established sectors like fisheries, coastal tourism and maritime transport plus new sectors like marine biotechnology – with the reduction of environmental risks and degradation (Smith-Godfrey, 2016).

Despite the vast collective EEZ of SIDS, fewer than half of these island nations currently address the blue economy through national policy documents (Pouponneau, 2023). Furthermore, the development of coordinated policies is complicated by different interpretations of the activities encompassed within the blue economy.

The marine extraction of oil, gas and minerals is emerging as an area of contestation, for example (Hassanali, 2020).

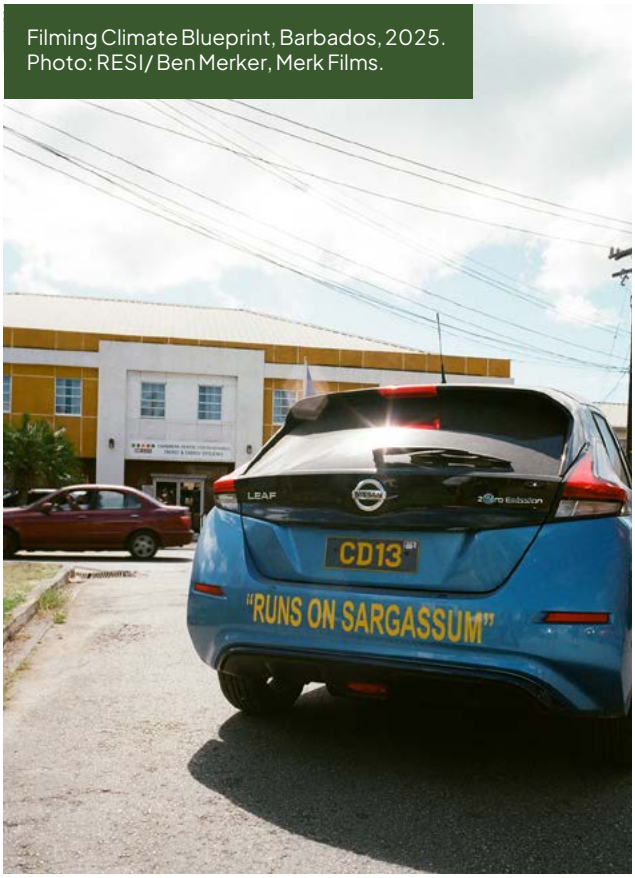
The central challenge for SIDS is 'ocean inequity'. In 2023, SIDS' per capita ocean exports (comprising both goods and services) exceeded US$2,600 – nearly 10 times the world average (UNCTAD, 2025b). While SIDS are by far the most dependent of all country categories on the ocean economy on a per capita basis, deriving an average of 11% of GDP from the ocean, their ocean economies remain poorly diversified (Figure 2.8). For instance, 87% of SIDS' ocean-related economic activity is concentrated in services currently, specifically coastal-related tourism (UNCTAD, 2025b). Such a high concentration in the tourism sector creates acute vulnerability to external and environmental shocks, limiting the ability of SIDS to benefit fully from the burgeoning global blue economy.

Figure 2.8 Diversification of ocean exports, 2023 (US$ billions)



Source: Hurley et al. (2025b), extracted from UNCTAD Stat (2025).

This structural imbalance is further evidenced by the lack of participation from SIDS in high-tech ocean sectors. Industries such as offshore renewable energy and marine pharmaceuticals represent 16% of ocean-related trade globally and over 17% in developed countries, yet they account for only 9.7% in SIDS (Hurley et al., 2025b). SIDS' contribution to marine research and development is also negligible: of the 13,000+ patents associated with marine genetic sequences, only four originate from institutions located in SIDS (Blasiak et al., 2018).



Filming Climate Blueprint, Barbados, 2025. Photo: RESI/ Ben Merker, Merk Films.

For most SIDS dependent on imported fossil fuels, marine renewables offer a pathway to energy independence.

For hydrocarbon-rich SIDS like Trinidad and Tobago, a transition towards marine renewables ideally requires the incorporation of 'just transition' principles to ensure equitable access to energy and employment (Singh et al., 2023). However, much of the literature on this topic focuses on large, high-income countries with far greater adaptive capacity (Bishop et al., 2021). This presents an 'economic-climate justice dilemma' (Phillips, 2023) – the transition away from fossil fuel production in hydrocarbon-rich SIDS must be financed in a way that addresses their unique development and climate adaptation needs.

Conversely, for most SIDS dependent on imported fossil fuels, marine renewables offer a pathway to energy independence. However, key to catalysing such projects is the availability of early-stage funding and regional implementation programmes to allow SIDS to take advantage of economies of scale and enhance their bargaining power in negotiations with commercial entities (Appiott et al., 2014; Habib and Parris, 2025).

Fisheries remains a major economic sector, but smaller local fleets frequently face a significant competitive disadvantage against highly subsidised and industrialised foreign fleets (Hurley et al., 2025b). The sector is also linked to serious environmental challenges, including the proliferation of 'ghost' fishing gear, the escape of farmed species, chemical pollution and eutrophication at aquaculture sites (Maes and Messing, 2025).

Broader policy and diplomatic tensions are evident in international agreements such as the Parties to the Nauru Agreement (Aqorau, 2019), which has created the world's largest sustainable tuna fishery. They are also evident in the 2023 Agreement under the

UN Convention on the Law of the Sea on the Conservation and Sustainable Use of Marine Biological Diversity of Areas beyond National Jurisdiction (BBNJ Agreement), which has revealed different views of fish species as a natural resource, a source of biodiversity for conservation or a source of genetic material for capitalisation (Sebuliba et al., 2025). Similarly, deep-sea mining shows how the short-term exploitation of natural capital can undermine long-term development goals, with the added risks of profound uncertainty regarding the state of socioecological systems and potential diplomatic disagreements across SIDS territories and regions.

2.2 Recent trends and contributions

There is global consensus on the need for a rapid transition towards high-value, diversified economies rooted in green and blue growth. Yet the path forward is increasingly obstructed by shifting geopolitics. Specifically, the return of great power competition undermines the multilateral institutions that once provided predictable support for SIDS and a stable system that encouraged inter-state cooperation.

The transition to a self-help system has seen the return of ideas and concepts that foreground economic self-sufficiency. These ideas have become especially salient post-COVID-19, due to the havoc wrought to SIDS economies by the closure of borders globally.

There are two versions of the self-sufficiency argument. The first and older meaning emphasises sacrifice: SIDS need to do more with less if they are to increase their resilience by decoupling from the global economy. The second version does not imply isolation, but rather the intentional nurturing of internal strengths – specifically through productive capacities and resilient tourism – to reduce dependency on increasingly volatile external concessions. This latter approach is more in-keeping with the core tenets of the ABAS, but shifting geopolitics seem to be working against it.

Regional integration will be essential to navigate the self-help environment. Deeper integration has long been viewed as a panacea for SIDS development. But, too often, it has promised more than has been delivered (Bishop and Payne, 2010). This needs to change.

Firstly, intra-SIDS integration – that is, deeper collaboration among these island nations as a whole – is critical for knowledge-sharing regarding success stories, failures and best practices. This includes scaling effective business models to build productive capacities and deploying innovative financial tools adapted to the SIDS context. Secondly, strategic external integration – achieved by pursuing deeper integration with neighbouring 'larger' states and diversifying partners – can help diversify products and services. SIDS can better reap the benefits of global trade and investment while mitigating the risks of over-reliance on any single power.

The blue economy is a primary arena where the self-help system manifests. Consequently, SIDS must urgently assert sovereignty over their EEZs. Through diplomatic channels and legal frameworks – as demonstrated by Mauritius (see Box 2.2) – SIDS are securing their maritime assets, although the feasibility of such assertions is more challenging in some regions than

others. Similarly, the Pacific Maritime Security Programme is the latest version of a long-running initiative that pairs Australian naval capacity with SIDS' expertise to police the world's largest sustainable tuna fishery (Aqorau, 2019). Both examples highlight the importance of nurturing internal strengths.

2.2.1 Strengthening and diversifying productive capacities

Building resilience in SIDS economies is fundamentally dependent on strengthening and diversifying productive capacities. Recent policy contributions highlight de-risking core sectors from external shocks and climate impacts on the one hand, and, on the other, promoting structural transformation into green, high-value, knowledge-intensive industries. The goal is to move beyond primary commodity reliance towards a robust, flexible economic base.

Significant investment has been made in climate-proofing infrastructure through initiatives supported by multilateral development banks. These focus on resilient transport, water and energy systems. The strategic push towards achieving 100% renewable energy (as committed by numerous SIDS) is crucial here, as it restructures productive capacity around green technologies, directly mitigating the vulnerability associated with high import dependence on volatile fossil fuels. Furthermore, the promotion of high-value, low-footprint services – such as financial services, ICT and business process outsourcing – is actively supported as a model for diversification (e.g., the success seen in Mauritius and the emerging focus in Jamaica and Fiji).

However, the scale and speed of this necessary transformation are severely limited by compounding institutional failures, data deficits and a chronic lack of adequate financing. This creates an inherent trade-off between the high aspirations of diversification and the ground-level capacity to execute it.

First, transitioning to these high-value sectors requires a significant, sustained investment in human capital, advanced digital infrastructure and regulatory reform. The limited institutional capacities of many SIDS are often overwhelmed by the high transaction costs and administrative complexity required to manage these projects, diverting scarce technical expertise from other pressing governance needs.

The goal is to move beyond primary commodity reliance towards a robust, flexible economic base.

Second, the ability to target, measure and scale productive capacity initiatives is undermined by the same data deficit that restricts concessional financing. Without granular, subnational data on skills gaps, private sector output and value chain bottlenecks in remote communities, the policies designed to promote diversification (such as support for micro, small and medium enterprises) often fail to reach the populations most in need. This results in limited inclusive growth and slow economic restructuring.

The need for high-quality, comprehensive data to overcome these challenges is paramount. Policy analysis aimed at

productive transformation relies on specialised indices and data sources – for example, the PCI and regional metrics such as the Caribbean Digital Transformation Index – to assess dimensions like infrastructure, human capital and innovation (see Appendix 1). Consequently, while the political will and technological blueprints exist, lack of sufficient concessional funding and pervasive institutional capacity constraints mean that these productive transformation efforts are not keeping pace with the rapidly accelerating effects of climate change and global economic volatility.

2.2.2 Modernising trade and investment

Recent contributions to trade and investment in SIDS have focused on leveraging data, modernising policy frameworks and strengthening regional cooperation to address persistent vulnerabilities. For instance, the International Trade Centre (ITC, 2024) has developed a new Trade Tracker for SIDS,[3] providing a user-friendly tool for policy-makers to analyse trade trends. To address the vulnerability of SIDS to external shocks, UNCTAD's SIDS strategy promotes a new development model to foster structural transformation and move up global value chains (UNCTAD, 2024), enabling SIDS to escape the 'low value-added trap' (Nurse, 2016).

However, advancement of this structural transformation is severely undermined by the twin-deficit challenge: high public debt combined with large climate-induced productive capacity losses. This situation creates a critical trade-off where a current financial crisis consumes the resources needed to avert a future climate crisis.

This trade-off is fundamentally rooted in financial and data limitations. The reliance on GNI per capita often misclassifies SIDS as high-income, excluding them from the concessional finance needed for trade capacity-building and climate adaptation. The debt pressures that result from this limited access continue to divert public resources away from crucial investments in trade competitiveness, digitalisation and public services, which severely undermines the SIDS economies.

2.2.3 Shifting to sustainable tourism models

As the impacts of overtourism become evident, many SIDS are actively pursuing a transition towards more sustainable models. Recent case studies highlight the need for inclusive, collaborative planning. However, this transition is hampered by significant governance and institutional gaps, creating a persistent trade-off in policy integration.

Many Pacific nations fail to formally link climate change policy and tourism policy (Becken and Loehr, 2025). Furthermore, where connections are made, the emphasis is heavily skewed towards adaptation (protecting coastal assets), with far less attention given to the tourism sector's crucial role in emissions mitigation (reducing the carbon footprint of the tourism model itself). This tension between protecting the existing,

3 See https://trade-tracker.org/

high-volume industry and fundamentally changing its core, high-carbon business model limits the speed of transition.

Critically, the inability to scale sustainable tourism is constrained by the data deficit and a generalised reluctance to implement fiscal measures (such as cruise levies) that could internalise the sector's environmental costs. While there are no one-size-fits-all solutions, the lack of granular, subnational data prevents targeted investment, while the hesitancy to tax tourism arrivals for fear of losing competitiveness limits the domestic revenue available for essential environmental and infrastructure projects. Liu and Howes (2024) highlight the unevenness of post-pandemic recovery, noting that Palau's decline was due to the slow return of Asian tourists, while Vanuatu's growth was driven by lower-revenue cruise tourists.

Analysis like this highlights the critical importance of place-based data and the fiscal courage to capture value from specific tourism segments. Without data and revenue-generating tax policies, SIDS risk assuming similar contexts across different islands. This leads to misdirected investment and ineffective policy that fails to account for the true environmental impact of mass tourism.

Cruise ship, the Bahamas. Photo: Sahil Singh/Pexels.

2.2.4 Transitioning towards sustainable ocean-based economies

Governance and stakeholder engagement are vital but often contradictory themes for the development of sustainable ocean-based economies. For example, how can large-scale ocean energy projects consider place identity and attachment when selecting sites, balancing an inherent conflict between industrial development and community values (Cavallo et al., 2023).

The 2022 World Bank guidance note *Blue economy data and tools* provides a comprehensive overview of resources for marine spatial planning (Lee and Castaño-Isaza, 2022). However, the effective application of these sophisticated planning tools is impeded by substantive data gaps and institutional failures in many developing countries. Challenges include the length and granularity of environmental data records and the failure to formally document traditional or Indigenous knowledge (Foley, 2021). This institutional disconnect between traditional knowledge and 'traditional' science remains a fundamental barrier to evidence-based management and investment, especially as advanced digital capacity is a prerequisite for high-value blue economy diversification (e.g., smart fisheries and marine biotechnology).

But a deeper structural tension exists – the debate over the ultimate purpose of the blue economy. Without a clear definition that prioritises social and environmental goals, there is a risk that development focuses narrowly on economic growth at the expense of environmental sustainability and social equity (UN DESA, 2024). The data-limited environment exacerbates this risk, manifesting as a lack of integrated marine spatial planning (MSP) necessary to prevent conflicts between sectors and ensure equitable benefit-sharing. This is particularly true for small-scale artisanal fisheries whose livelihoods are often marginalised by large-scale projects.

Filming Climate Blueprint, Barbados, 2025. Photo: RESI/ Ben Merker, Merk Films.

Box 2.1 The Seychelles: innovative finance to boost the blue economy

The launch of the world's first sovereign blue bond by the Seychelles shows how innovative finance can simultaneously address multiple development challenges for SIDS. It provides a blueprint for leveraging institutional frameworks and multistakeholder collaboration to unlock natural capital, attract targeted investment and build cross-economy resilience.

At its core, the blue bond strengthens productive capacities by channelling US$15 million into sustainable fisheries and marine conservation. This mechanism leverages SIDS' unique assets, such as vast EEZs and rich marine biodiversity, to foster economic diversification and strengthen production linkages away from often vulnerable sectors.

The bond balances economic activity with environmental preservation. It helps mitigate environmental challenges for sectors like fisheries, such as overfishing and pollution, thereby reconciling economic growth with the health of the marine ecosystem.

The initiative also addresses the persistent challenge of limited access to concessional finance and FDI. Unlike more volatile forms of FDI, the blue bond provides stable, purpose-driven capital directly tied to national sustainable development goals. This enhances fiscal resilience and reduces reliance on debt-inducing traditional external finance.

Finally, the initiative has strong ties to resilient and sustainable tourism. The marine conservation efforts funded by the blue bond preserve the natural assets – such as coral reefs and biodiversity – that underpin SIDS' tourism economies. This protection ensures the long-term viability of eco-tourism and niche tourism, which are less susceptible to overtourism, underscoring the necessity of integrated policy approaches.

The success of the original deal depended on a US$5 million World Bank partial credit guarantee and a US$5 million concessional loan from the Global Environment Facility (GEF). This made it a blended finance solution heavily de-risked by multilaterals, not a purely commercial issuance. But the Blue Investment Fund (BIF) suffered from slow uptake because its design – including a 4% interest rate, bureaucratic processes and capital reserve requirements – was largely inaccessible to the small-scale fishers and local enterprises it was intended to empower.

Can the Seychelles' blue bond be replicated?
While the macro-level policy is a triumph for the Seychelles, replication across SIDS remains limited by the need for robust institutional capacity, high-level financial expertise and a stable credit profile. These challenges sit alongside high fixed transaction costs and the political will needed to enact stringent conservation measures.

Box 2.2 Mauritius: strengthening productive capacities through digital transformation and diversification

The transition by Mauritius from a sugar-based economy to a diversified, upper-middle-income nation shows how SIDS can build resilience and overcome geographic isolation through technology and strategic partnerships. This approach enabled the economy to rebound from a 14.6% contraction in 2020 due to the COVID-19 pandemic to an 8.7% rise in real GDP in 2022, despite subsequent moderation (World Bank, 2025).

The country's success is rooted in deliberate strategies to enhance its productive capacity through sustained investment in digital infrastructure and human capital. By developing its ICT sector, business process outsourcing and financial services, Mauritius shifted from reliance on a single commodity to a portfolio of high-value services. This has bolstered the country's resilience to external shocks and fostered high-skilled employment, enabling Mauritius to move up the global value chain.

The transformation was facilitated by effective public–private partnerships, creating a conducive environment for FDI. Also, Mauritius has strategically recognised its vast marine environment (EEZ of 2.3 million km²) as a new frontier, prioritising the sustainable blue economy. It established a dedicated ministry, and it is leveraging technological expertise (e.g., satellite data for maritime security and combating illegal, unreported and unregulated (IUU) fishing) and investing in new frontiers like marine biotechnology. This model shows that advanced digital capacity is a prerequisite for high-value blue economy diversification, so SIDS can move beyond simple tourism and traditional fisheries towards knowledge-intensive ocean sectors.

Despite its overall success, however, Mauritius faces significant structural challenges. Internally, sustainability is threatened by high public debt and fiscal pressure from an ageing society. And labour market constraints persist, including a skills mismatch. Moreover, efforts to boost the blue economy have drawn criticism concerning governance and inclusion, with policy around MSP risking 'ocean grabbing' by favouring large-scale private investors over traditional small-scale fishers.

Can Mauritius' approach to productive capacity be replicated?
Most SIDS lack the sustained political stability, institutional capacity and multidecade strategic commitment of Mauritius so replication is complex. Financial and human resource constraints also make it prohibitive to build high-quality digital infrastructure. While Mauritius boasts near-universal mobile broadband, many SIDS struggle with connectivity affordability and a digital skills gap. Crucially, the sheer scale of diversification across textiles, tourism, finance and ICT – which allows Mauritius to absorb shocks effectively – is difficult for smaller SIDS with more limited resource endowments to match.

Box 2.3 Barbados: integrated resilience through financial innovation for sustainable tourism and the blue economy

Barbados has strategically embraced the blue economy as a core driver for resilient and sustainable economic growth. It has positioned itself as a global leader in innovative climate finance, including through the Bridgetown Initiative (Government of Barbados, 2022). This comprehensive approach balances economic activity with environmental preservation by strengthening its primary economic engine – tourism – while actively diversifying into new, high-value ocean-based sectors.

Instead of relying on mass tourism, Barbados is cultivating sustainable, high-value niche segments like eco-tourism and wellness retreats, where long-term viability is directly linked to the preservation of its natural marine assets (e.g., coral reefs). This strategy is reinforced by government action, including a nationwide ban on single-use plastics.

Barbados is also aggressively pursuing energy independence by exploring ocean energy technologies. This includes offshore wind, to help achieve its target of 100% renewable energy by 2030, thus reducing its critical dependence on imported fossil fuels.

The country has diversified by investing in marine biotechnology, such as researching the use of problematic sargassum seaweed to create new, valuable products.

Barbados' resilience strategy is complemented by its use of innovative finance instruments, including a recent debt-for-nature swap, to unlock dedicated funding for marine conservation. The transaction, which included the issuance of a blue bond, was completed in 2022.

The government successfully repurchased approximately US$150 million of high-interest sovereign debt (average cost of around 7.2%) and replaced it with a new, lower-cost Blue Loan (all-in cost roughly 4.9%). This lower-cost debt was secured by credit guarantees from the Inter-American Development Bank and the Nature Conservancy. The operation will enable fiscal savings of about US$50 million over 15 years to be channelled into a dedicated Barbados Environmental Sustainability Fund. In exchange, the country committed to protecting and effectively managing up to 30% of its ocean territory, a significant increase from near-zero protection. Crucially, the Blue Loan includes a disaster clause allowing for the deferral of principal payments for up to two years following a major climate event or pandemic, providing essential fiscal space during crises.

Building on this success, in 2024, Barbados completed a subsequent debt-for-climate-resilience operation, refinancing US$300 million in domestic debt to generate an estimated US$125 million in savings for investments in climate-resilient water and sewage infrastructure.

The Barbados model faces inherent challenges and limitations though. Internally, SIDS remain acutely vulnerable to escalating climate change impacts, including sea-level rise and more intense hurricanes. These directly threaten coastal assets and the tourism economy. Effective implementation requires substantial and sustained investment in local technical capacity and research for complex activities like MSP, which can strain limited national resources. Furthermore, the successful execution of a holistic blue economy strategy demands strong, ongoing coordination across government agencies and with local communities.

Can Barbados' approach to the blue economy be replicated?
Significant limitations exist for other SIDS seeking to replicate the model applied by Barbados. The suitability of the blue bond operation depends on each country's external debt profile and the availability of development partner support. Moreover, structuring these sophisticated financial deals requires a high level of financial, legal and political expertise that is often expensive and a major constraint in smaller nations.

Parliament building in Bridgetown, Barbados. Photo: David Broad/Wikimedia Commons.

2.3 Evidence and knowledge gaps

The advancement of resilient economies in SIDS is currently constrained by large knowledge gaps and pervasive data deficits across key sectors. This directly hinders effective policy-making, strategic investment and the accurate measurement of the true value and health of SIDS' resources. These knowledge and data deficits must be addressed to successfully implement the ABAS and to foster resilient, diversified SIDS economies.

2.3.1 Data and metrics gaps

The data challenges faced by SIDS are deeply rooted and explicitly recognised in the ABAS. The scarcity of detailed, high-quality data – particularly from outer islands, remote communities and informal sectors – directly hampers tailored policy-making.

Advanced statistical systems need to be built that effectively merge traditional statistics with geospatial and Indigenous knowledge using digital platforms. These systems require strengthened data governance, robust capacity-building, and coordinated funding and management from governments, regional bodies and international partners.

Research must play a significant role by assessing gaps and facilitating the effective integration of SIDS' local and Indigenous knowledge with 'traditional' science, especially through participatory dialogues. Successful initiatives, such as the United Nations Development Programme's (UNDP, 2024) geospatial data workshops, have shown how tailored training and technology transfer can improve data quality. UNCTAD (2025a) has also launched an initiative to improve the measurement of productive capacities in SIDS. This is building statistical capacity in collaboration with international custodian agencies, but the initiative remains concentrated in a handful of Caribbean pilot countries for the time being.

Ultimately, fostering inclusive local data ecosystems, supported by multistakeholder collaboration, is essential to enable precise vulnerability assessments and to drive more effective investment and resource allocation in SIDS (UNDP, 2024). The new Global Data Hub being set up under the SIDS Centre of Excellence will help foster these kinds of data ecosystems.

2.3.2 Financing and investment gaps

Significant knowledge gaps also persist regarding the flow of stable, long-term FDI into SIDS. Research is needed to overcome investor perceptions that SIDS are 'too risky' due to a lack of robust, verifiable data (Habib and Parris, 2025). This information deficit prevents the effective marketing of high-potential investment opportunities and the accurate assessment of risk-adjusted returns, thereby hindering the attraction of quality capital that supports national development goals.

The continued reliance on GNI per capita to determine eligibility for concessional finance classifies many SIDS as middle- or high-income. This leaves SIDS under-resourced (Habib and Parris, 2025) because it excludes them from vital concessional funding despite their high climate adaptation costs (UNCTAD, 2021) and pronounced economic vulnerabilities (Briguglio and Moncada, 2022). Furthermore, the application of innovative

financing mechanisms, such as blue/green bonds, remains limited to date (Mohan, 2023). Despite their potential, there is poor understanding of such mechanisms among many SIDS (UNEP, 2025). More research and well-designed pilot projects are needed to maximise the potential of these new and sophisticated mechanisms, particularly for emerging sectors like the blue economy.

2.3.3 Technology, innovation and R&D gaps

SIDS have insufficient research or data on technology adoption, R&D spending and innovation outcomes to benchmark their performance and effectively scale successful initiatives beyond traditionally dominant sectors like tourism and fisheries. It also means SIDS often lack the tailored insights needed to transition to high-value, knowledge-based economies.

This challenge is particularly acute in the marine domain. There is a significant lack of capacity to undertake deep- and open-ocean scientific research and to access the necessary technology for long-term marine management and surveillance. This limits SIDS' ability to fully understand and protect their vast EEZs, which are crucial for the blue economy. The digital and R&D gap severely constrains the future of the blue economy because advanced digital tools are a prerequisite for progress. This includes for marine biotechnology (enabling rapid, high-throughput analysis of marine genetic resources); smart fisheries (using artificial intelligence (AI) and sensors for precise, sustainable stock management); and blue carbon finance (implementing the complex measurement, reporting and verification (MRV) systems required to monetise blue carbon assets).

Establishing innovation observatories and fostering targeted technology transfer partnerships would fill these gaps. Such strategies would empower SIDS to bypass traditional development barriers and accelerate their technological integration.

2.3.4 Governance and institutional gaps

There are significant knowledge gaps regarding the most effective governance innovations for building resilient economies in SIDS. Few rigorous assessments have been undertaken of the specific governance models that work best or how informal institutions and diaspora networks contribute to national resilience. Without a common understanding or a clear definition of what a sustainable ocean-based economy truly entails, there is a risk that development will prioritise short-term economic growth at the expense of crucial environmental sustainability and social equity goals (UN DESA, 2024).

A key challenge is the lack of integrated MSP. Integrated MSP is necessary to prevent conflicts between different ocean-based sectors (e.g., tourism, shipping and energy development) and to ensure equitable benefit-sharing. This is particularly important for small-scale artisanal fisheries, whose livelihoods are often overlooked in large-scale projects.

Additionally, global and regional knowledge platforms need to be created that focus on governance innovation and social capital. These would facilitate peer learning and the diffusion of evidence-based policy solutions across SIDS.

2.3.5 Value chain and linkage gaps

Mapping of production linkages and value chains remains limited, especially beyond the established sectors of tourism and fisheries. Without detailed analysis of these linkages, SIDS are missing crucial opportunities for economic diversification and deeper integration into regional and global markets.

In the tourism sector there is a persistent gap in the analysis of how to ensure that benefits are effectively retained locally and how to foster genuine, equitable partnerships with local communities (UNCTAD, 2021; Pantin, 1999). This prevents the formulation of policies that maximise the spillover effects of tourism into local agriculture, craft and services.

SIDS are missing crucial opportunities for economic diversification and deeper integration into regional and global markets.

To address these limitations, focused research and technical support are needed to identify key bottlenecks and to pilot innovative public–private partnerships. This is particularly necessary in high-potential emerging sectors like the blue economy and the creative industries.

2.4 Looking ahead

The future for SIDS is shaped by a confluence of demographic, technological and environmental shifts, ranging from rising climate risks to increasing digital trade and new forms of innovative finance. Countries will need to strategically navigate these trends to successfully build long-term resilience and foster sustainable growth.

Historically, SIDS have exploited niches in the global economy, especially in the financial services sector (Corbett, 2023). The focus on niches can and should continue. But new niches will need to be cultivated for SIDS to prosper in the emerging international order. The literature provides clues about such opportunities.

Filming Climate Blueprint, Barbados, 2025. Photo: RESI/ Ben Merker, Merk Films.

2.4.1 Green leapfrogging

To sustainably manage public debt and simultaneously increase investment and productive capacities, SIDS need to move fast as opportunities arise. One such opportunity is in 'green leapfrogging' from heavy fossil fuel dependence towards achieving 100% renewable energy by 2030 (as committed by many SIDS). This transition is vital for restructuring productive capacities around green technologies and mitigating the economic vulnerability associated with high import dependence.

This focus on knowledge-intensive sectors is crucial for moving up the global value chain. However, it will require long-term dedicated investment from both public and private sectors.

Furthermore, the focus among SIDS is decisively shifting towards high-value, low-footprint industries. SIDS like Mauritius have already set a successful model by diversifying into financial and ICT-enabled services, with others like Jamaica and Fiji following suit. This focus on knowledge-intensive sectors is crucial for moving up the global value chain. However, it will require long-term dedicated investment from both public and private sectors.

2.4.2 Trade, investment and digital diversification

Future trends in trade and investment will be dominated by efforts to reduce the extreme vulnerability of SIDS' highly open economies, which often exhibit trade-to-GDP ratios exceeding 100%.

Reliance on imported food and dependence on external markets make SIDS exceptionally susceptible to global shocks. A crucial response here is to embrace digital trade and e-commerce as a structural tool to overcome geographic remoteness and market fragmentation.

For SIDS, digitalisation is effectively a leapfrog strategy allowing micro, small and medium enterprises to directly access global consumers. This bypasses high logistical costs and helps SIDS move beyond the 'low value-added trap' traditionally associated with primary commodity exports. The focus for policy-makers, exemplified by initiatives like Trinidad and Tobago's National E-Commerce Strategy, is on creating the necessary legal and regulatory frameworks (e.g., e-signatures, data protection) and strengthening regional cooperation to harmonise rules. This harmonisation is essential for making digital trade a truly viable engine of inclusive growth and diversification.

2.4.3 High-value niche tourism

The tourism sector, which forms the economic backbone of many SIDS, must transition to a model that manages the inherent paradox of climate risk (the threat to coastal assets) and carbon contribution (from international transport). Countries will need to move decisively away from high-volume, low-yield operations (such as traditional mass cruise tourism) towards sustainable, high-value, low-density niches.

Tourism models that focus on regenerating the natural capital assets on which SIDS depend for tourism are already being

developed. These revenue-raising models levy businesses and consumers that utilise (and damage) natural assets, with revenues going back into protecting and improving those natural capital assets. One example is Palau's successful Green Fee.

The rapid rise of digital nomad visa schemes across the Caribbean and Pacific signals another strategic shift to attract long-term, high-spending visitors whose economic contribution is less extractive and whose presence requires less physical infrastructure stress than transient tourists. To ensure this model is equitable and sustainable, there is growing emphasis on community-based tourism and authentic eco-tourism. While this trend helps to mitigate over-tourism and ensures greater local retention of benefits, it does require significant investment in high-speed internet connectivity and modernised transport links to meet the expectations of this new visitor class. This demands that policy-makers integrate their tourism strategy with national infrastructure planning.

2.4.4 Unlocking ocean capital

The blue economy is transitioning from a conceptual priority to a practical policy imperative. Yet this transition is unfolding within a fragmented and often lawless global ocean governance framework.

Lack of enforcement of the 2023 BBNJ Agreement remains a key challenge, leaving vast areas beyond national jurisdiction vulnerable to unregulated exploitation. And this governance vacuum is mirrored by a critical data deficit. Currently, it is impossible to produce official international statistics for EEZs, leaving many SIDS unable to fully quantify or protect their maritime assets. The industry-led push into deep-sea mining exists in a regulatory vacuum too, threatening long-term socioecological systems for short-term mineral gain.

The blue economy is transitioning from a conceptual priority to a practical policy imperative.

Within this complex landscape, there are niche opportunities for SIDS in the development of blue carbon finance mechanisms to unlock capital for both climate mitigation and adaptation. Blue carbon involves the carbon sequestration stored in coastal ecosystems like mangroves and seagrass meadows. However, for these mechanisms to move beyond niche pilot projects, they need to be supported by international legal architecture that closes existing enforcement loopholes and provides SIDS with statistical and diplomatic tools to assert true sovereignty over their waters.

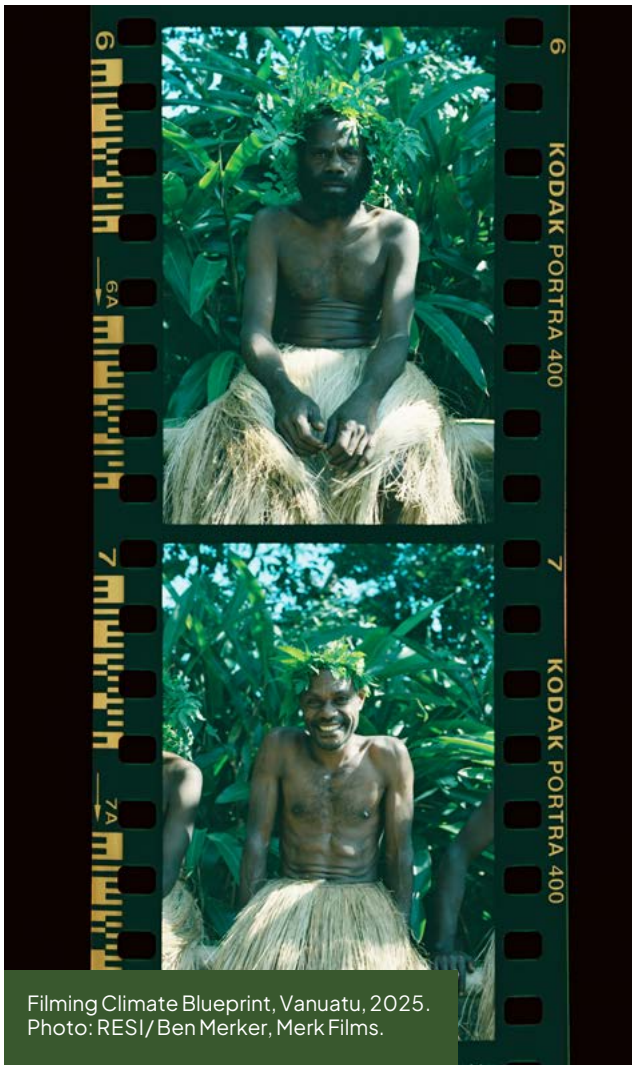
The Bahamas has begun establishing a regulatory environment with its Carbon Markets Initiatives Bill, aiming to monetise these natural assets. However, the viability of blue carbon credits is constrained by high upfront MRV costs and reliance on a volatile voluntary carbon market. This highlights the critical need for digital transformation and R&D, because high-quality and continuous MRV relies entirely on satellite data, advanced sensors and digital platforms.

Furthermore, while coral reefs and kelp forests are crucial ecosystems for adaptation, fisheries and coastal protection, they are not widely included in blue carbon mitigation methodologies currently. The future

success of this sector hinges on two things: 1) expanding the scope of accredited blue carbon assets, and 2) building the capacity of SIDS to manage complex financial and governance requirements, leveraging innovative tools like those demonstrated by Belize's Blue Carbon Working Group.

SIDS policy-makers and their international partners should deepen cross-sectoral integration across government ministries and down to local communities. This requires a holistic approach, as future resilience cannot rely on siloed, sector-specific strategies. And it requires recognition that financial, human and natural assets are inextricably linked.

The core challenge remains one of funding. Reliance on an outdated and restricted GNI-based classification system severely curtails SIDS' access to concessional finance, penalising development progress. The global community must transition to vulnerability-adjusted financing frameworks to support SIDS undertaking structural transformations.



Filming Climate Blueprint, Vanuatu, 2025. Photo: RESI/Ben Merker, Merk Films.

For SIDS, solidifying this integrated and sustainable future means taking a long-term outlook, focused on three strategic areas:

1. digital leadership, leveraging small-scale for high-value digital services and blue technology
2. climate-smart structural transformation, integrating climate action into every major economic policy decision to drive new sustainable growth
3. harnessing Indigenous knowledge, formally bridging the gap between scientific planning tools and traditional knowledge systems for locally owned and effective resource management.

Ultimately, by leveraging technology and investing strategically in their unique natural and human capital, SIDS can overcome traditional constraints and secure a more prosperous future.

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Appendix 1. Key data sources and indices measuring productive capacities in SIDS

Data source/index	Scope/focus	Description/coverage	Reference
UNCTAD Productive Capacities Index (PCI)	Comprehensive multidimensional index.	Assesses 43 indicators across 8 dimensions including human capital, infrastructure, innovation, institutions. Global coverage of all SIDS.	UNCTAD (2025a)
UNDP SIDS Data Platform	Economic, social, infrastructure, innovation and climate-resilience data.	Global coverage of SIDS, providing comprehensive and updated statistics for policy and analysis.	UNDP (n.d.)
Caribbean Digital Transformation Index	ICT adoption and digital economy metrics.	Regional focus on Caribbean SIDS, tracking progress in digital infrastructure and digital economic activity.	CDB (2023)
Pacific Economic Monitor (Asian Development Bank)	Economic trends and infrastructure.	Biannual updates focused on Pacific SIDS' economic performance and infrastructure developments.	ADB (2024)
Food and Agriculture Organization (FAO) blue transformation and fisheries statistics	Sector-specific focus on blue economy and fisheries.	Data covering marine resources, fisheries sustainability and economic contributions of blue economy sectors.	FAO (2024)
OECD reports on infrastructure finance	Infrastructure finance, green bonds, innovative financing mechanisms.	Analyses and recommendations on infrastructure investment and financing challenges in SIDS.	OECD (2023)
International Telecommunication Union (ITU) reports on digital development	Development of digital infrastructure and e-governance.	Detailed analysis of ICT development and connectivity in SIDS.	ITU (2024)
Academic and think tank research	Context-specific analyses covering economic diversification, productivity, resilience and policy implications.	In-depth studies providing qualitative and quantitative insights tailored to SIDS contexts.	Hambleton and Jeyaseelan (2024); Briguglio and Moncada (2022); Pomeroy (2021)

Source: Authors' compilation.

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Eydhafushi, the Maldives. Photo: Asad Photo Maldives/pexels.