UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Vulnerability profile of Vanuatu

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Prepared by the Division for Africa, Least Developed Countries and Special Programmes of UNCTAD, in anticipation of the 2012 review by the Committee for Development Policy (CDP), on 12-16 March 2012, of the UN list of Least Developed Countries (LDCs), in accordance with General Assembly resolution 59/209.

Summary

The New Hebrides gained independence from France and the United Kingdom on 30 July 1980, thereby becoming the Republic of Vanuatu. The country was admitted in the Least Developed Countries category in 1985.

Vanuatu met two graduation thresholds (GDP pc; human assets) in 1994 and 1997. It met only one graduation threshold in 2000 (GDP pc) and 2003 (GNI pc). In 2006, Vanuatu again met two graduation thresholds (GNI pc; human assets), thereby pre-qualifying for graduation. The country exceeded the same two graduation thresholds (GNI pc; human assets) in 2009, but was not recommended for graduation because of uncertainties with regard to the human assets performance of the country, and more generally "about the sustainability of … improvements" in relevant social indicators and the national income. In the context of the 2012 review of the list of LDCs, Vanuatu is found to have risen above two graduation thresholds for the fifth time (1994, 1997, 2006, 2009, 2012). There is therefore a uniquely long history of the non-graduation of Vanuatu.

Vanuatu is one the countries most exposed to violent natural disasters. Its economy is also exposed to adverse influences beyond domestic control, a phenomenon only economic diversification and a widening of the economic base could alleviate. This is where the most encouraging aspects of Vanuatu's development can be found.

There has been little progress in rural productive capacities, but accelerating prosperity in and around the two urban centres (Port-Vila on Efate; Luganville in Santo). The main common denominator to the fast-growing segments of the economy has been the buoyant construction industry (hotels and private real estate). Though a symptomatic dual economy with a sharp rural-urban contrast, Vanuatu has demonstrated a measure of structural progress based on increased productive capacity and prefiguring a better ability, in the future, to pursue development efforts. Human capabilities are visibly developing, as is the physical infrastructure. These basic factors of the enabling environment for enterprise development and continued productive capacity-building augur well for Vanuatu's future economic specialization.

At present, the leading economic pillar of structural progress is international tourism (with growing potential for specialized forms of tourism), which alone accounts for 54% of gross export earnings. The financial and offshore service sector (which does not only involve offshore banking and has its own re-specialization potential) could be another catalyst for reversing the brain drain, and could stimulate the development of new outsourced services, which is turn will need more and more communication services and business services. A modern services pillar (beyond tourism) therefore potentially exists, with a wealth of employment opportunities. The bovine meat industry, with its reputation of quality production, constitutes another success story, while Vanuatu's competitive advantage in traditional and other crops continues to be recognized.

This enhanced economic specialization, which is actively encouraged and supported by national policy makers, is overall a factor of economic resilience and lesser economic dependence. Vanuatu increasingly resembles, through its socio-economic performance, many small island developing States (SIDS) that were always outside the Least Developed Countries category.

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Section 1 of this country profile describes the uniquely long (15-year) history of Vanuatu's graduation from Least Developed Country (LDC) status. Sections 2, 3 and 4 examine the situation of the country with regard to the three criteria that are used for identifying LDCs, namely, the low-income criterion, the human capital weakness criterion, and the economic vulnerability criterion.

1. Historical context

Vanuatu was admitted in the category of Least Developed Countries in 1985. At its 29th session in January 1994, the Committee for Development Planning (CDP) observed that Vanuatu exceeded by $316 the graduation threshold ($799) for the gross domestic product per capita (1990-1992 annual average) criterion, which at that time was the indicator relevant to the low-income criterion. The CDP also noted that the country exceeded by one index point the graduation threshold used for the quality of life criterion, which was materialized by an "augmented physical quality of life index" (APQLI). By virtue of the graduation rule whereby a country could be graduated from LDC status if it had "exceeded the cut-off point on the per capita income criterion … and the cut-off point on either the APQLI or the EDI [*Economic Diversification Index*] for three years"[1], the Committee recommended that Vanuatu's graduation be envisaged if "this finding … [*was going to be*] confirmed at the time of the 1997 review"[2].

At its 31st session in May 1997, the CDP observed that Vanuatu, with a gross domestic product per capita (1993-1995 annual average) of $1,206 and an APQLI score of 60, was exceeding by $341 and 8 index points the graduation thresholds used for these two criteria ($865 and 52, respectively). The Committee stated that Vanuatu had remained "well above the threshold for both GDP per capita and APQLI", and

[1] United Nations, Committee for Development Planning, Report on the twenty-ninth session (12-14 January 1994), Economic and Social Council, Official Records, 1994, Supplement No. 2, E/1994/22, p. 67.
[2] ibid., p. 65.

appeared "to be stable or improving" under all criteria. On these grounds, the CDP recommended “that Vanuatu be graduated from the list immediately”[3].

At its 34th plenary meeting on 18 July 1997, the Economic and Social Council endorsed this recommendation in the same terms (decision 1997/223)[4]. However, a wide convergence of views in favour of a deferment of the question of Vanuatu's graduation brought the General Assembly, in its resolution 52/210 of 18 December 1997, to decide to "postpone its consideration" of the CDP's recommendation with a view to taking a decision on this matter at a later stage (para. 3). The postponement was justified by a desire, on the part of the Assembly, to bring the CDP to give due consideration to the outcome of ongoing work, in the United Nations, on the usefulness of a vulnerability index as a criterion for identifying LDCs, and accordingly, to the possibility of bringing significant improvements to the relevant methodology[5].

At its substantive session of July 1998, the Economic and Social Council, in turn, recognized the need to re-examine the question of Vanuatu's graduation in the light of the methodological refinements that had been called upon in 1997, and decided "to postpone its consideration of the graduation of Vanuatu" until the CDP had submitted its views on the usefulness of a vulnerability index (resolution 1998/39 of 30 July 1998).

The Committee for Development Policy, at its first session in April 1999, proposed the adoption of a vulnerability criterion, which was substantiated by the new Economic Vulnerability Index (EVI), a substitute for the old Economic Diversification Index (EDI)[6].

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[3] United Nations, Committee for Development Planning, Report on the thirty-first session (5-9 May 1997), Economic and Social Council, Official Records, 1997, Supplement No. 15, E/1997/35, p. 40 (para. 230).
[4] United Nations, Resolutions and decisions of the Economic and Social Council, Official Records, 1997, Supplement No. 1, New York, 1999, p. 141.
[5] In its 1997 report, the CDP had already explicitly foreseen the possible "usefulness of a vulnerability index as an element of the criteria for the designation of the least developed countries" (para. 240c).
[6] At the same time, the Committee considered that “an index of economic vulnerability could give only a partial and approximate measure of the relative level of vulnerability of a country”, and that, “elements of structural vulnerability and handicaps, besides those covered by the indices used as criteria, [needed] to be considered on a case-by-case basis” (para. 122). The Committee therefore recommended “that a document --to be called a country “vulnerability profile”-- should be prepared for

The 2000 review of the list of LDCs was the first in which the economic vulnerability criterion was used by the CDP. The Committee observed that the country, with a per capita GDP estimated at $1,419 (1996-1998 annual average), was 37% above the graduation threshold relevant to the low-income criterion ($1,035), thereby demonstrating a stable performance in comparison with 1994 and 1997. The CDP, on the other hand, noted that the country's score under the quality of life criterion had dropped below the graduation line (at 94.5%), a lower performance level that had been observed in 1991[7]. The Committee found the situation of Vanuatu only marginally better under the new economic vulnerability criterion than it had previously been under the economic diversification criterion (the country was at 75% of the graduation threshold). Overall, Vanuatu was meeting only one graduation criterion and therefore had ceased to qualify for graduation[8].

The 2003 review of the list generated broadly similar results with respect to Vanuatu. The gross domestic product (GDP) had been replaced by the gross national income (GNI) under the low-income criterion. This methodological change and the economic regression that had taken place in 2001 (GDP in real terms: -3%) partly explained the lower performance in 2003 than in 2000 above the graduation threshold (120% instead of 137%). The 1999-2001 average GNI per capita was estimated at $1,083 while the relevant graduation threshold was $900. With regard to the human capital criterion, now materialized by a human assets index (HAI)[9], Vanuatu remained under the graduation line (at 94% of the threshold), at a performance level similar to that of 2000. The EVI score of the country, at 74% of the threshold, indicated that Vanuatu was still highly vulnerable in comparison with other countries. Overall, this three-tier performance depicted a situation comparable to that of 1991, i.e., prior to

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that purpose on a regular basis", and noted UNCTAD's readiness to provide such profiles (paragraph 123).

[7] In commenting on this set-back in Vanuatu's performance, the Committee noted that the social indicators had "stagnated or improved less than in other developing countries, [thereby] making the relative position [of Vanuatu] less favourable than it had appeared in the previous reviews". This relative deterioration was corroborated by a decrease, from 1997 to 2000, in the ratio of Vanuatu's APQLI score to the average APQLI score of all LDCs (from 1.46 to 1.38). See: United Nations, Committee for Development Policy, Report on the second session (3-7 April 2000), Economic and Social Council, Official Records, 2000, Supplement No. 13, E/1999/33, (box on p. 29).

[8] This was explicitly stated by the Committee on p. 28 of its 2000 report.

[9] The "augmented physical quality of life index" (APQLI) was restyled "human assets index" (HAI) by the CDP in 2002. See: United Nations, Committee for Development Policy, Report on the fourth session (8-12 April 2002), Economic and Social Council, Official Records, 2002, Supplement No. 13, E/2002/33, p. 22.

the "graduation history" of the country. The CDP did not need to mention the case of Vanuatu in its 2003 report.

It was not until the 2006 review of the list that Vanuatu re-emerged as a potential graduation case, with an overall performance similar to that of 1994, involving progress above the graduation threshold for the low-income criterion, a score marginally above the graduation border with respect to the human capital criterion, and a poor performance under the economic vulnerability criterion. At its eighth session on 20-24 March 2006, the Committee noted that Vanuatu (along with three other LDCs) met two graduation criteria (per capita GNI and HAI) while demonstrating "a very high EVI score", which meant suffering from a very high degree of vulnerability. In accordance with the two-criterion graduation rule postulating eligibility for graduation after a first observation, "the Committee considered Vanuatu eligible for graduation"[10].

The same situation was observed in 2009, with a performance above the same two graduation thresholds (GNI per capita; human assets). The CDP again refrained from recommending graduation because of uncertainties with regard to the human assets performance of the country, and more generally "about the sustainability of … improvements" in relevant social indicators and in the national income of the country[11].

2. The situation of Vanuatu with regard to the low-income criterion

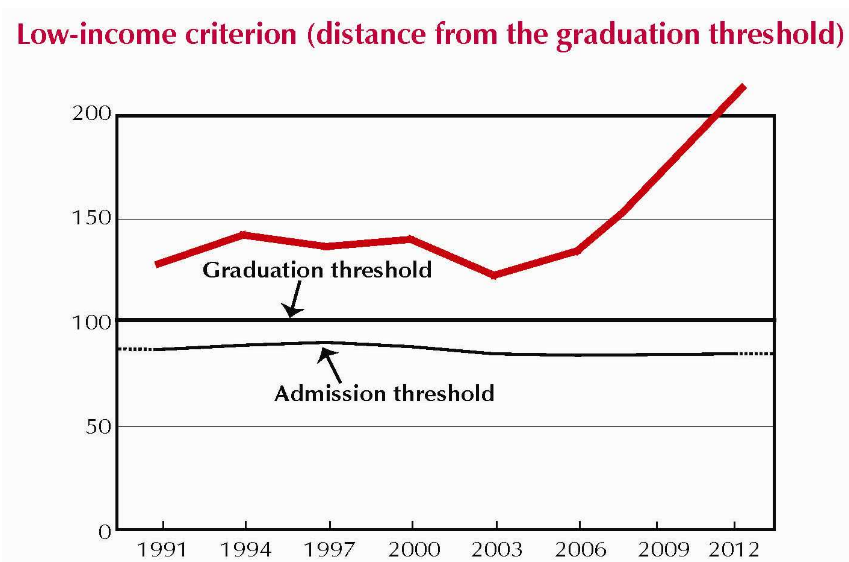
Graph 1 depicts the evolution of Vanuatu's distance to the graduation threshold through the eight historical reviews of the list of LDCs (1991, 1994, 1997, 2000, 2003, 2006, 2009, 2012). All data in the graph have been standardized into an index under which the graduation threshold stands at 100, so that the country's score vis-à-vis the graduation threshold can be read in percentage terms at any point of

[10] United Nations, Committee for Development Policy, Report on the eighth session (20-24 March 2006), Economic and Social Council, Official Records, 2006, Supplement No. 13, E/2006/33, p. 22. The Committee accordingly "recommended that information be collected on the situation of [Kiribati, Tuvalu and Vanuatu] before the next triennial review in order to allow a fully informed in-depth assessment".

history[12]. At the same time, each graph shows a line representing the threshold for adding a country to the list ("admission threshold"). The distance between the inclusion threshold and the graduation threshold represents the methodological margin between these two borders.

With a performance at 213% of the graduation line in 2012, Vanuatu remains on a linear path of progress amplifying the impression that already prevailed in 2009, namely, a combination of relative prosperity and high economic vulnerability, indeed a context of particular relevance to small island developing States and an emblematic illustration of the "island paradox".

Graph 1



2.1 *GNI vs. GDP*

For the gross national income (GNI) per capita, the 3-year average used by the CDP in 2009 was $1,737. The equivalent estimate in 2012, based on the World Bank's online database (2008-2010), is $2,540. For the gross domestic product (GDP) per

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[11] United Nations, Committee for Development Policy, Report on the eleventh session (9-13 March 2009), Economic and Social Council, Official Records, 2009, Supplement No. 13, E/2009/33, para. 29.

[12] The changes that were brought to the methodology over time (EVI replacing EDI in 2000; GNI per capita replacing GDP per capita and HAI replacing APQLI in 2003) do not affect the way the graphs should be read.

capita, the 3-year average based on the World Bank's online database (2008-2010) is $2,681.

GNI was smaller than GDP throughout the 2000 decade (except in 2001, year in which GNI exceeded GDP --by 0.7%). The (negative) net factor income explaining the difference between GDP and GNI has always been small or very small (e.g. 5.5% in 2008; 0.2% in 2009; 9.5% in 2010). At the same time, the balance of payments of Vanuatu indicates that the balance of private current transfers (mainly private remittances) is positive, albeit equivalent to a small or very small proportion of current account receipts (exports of goods and services + income from abroad): 0.1% in 2007; 0.5% in 2008; 1% in 2009.

The apparent contradiction between a negative net factor income and a positive balance of private current transfers is a common phenomenon in countries where the respective amounts account for a very small proportion of the economy. In the case of Vanuatu, this difference is largely explained by the difference between the remittances that are taken into account in the calculation of GNI and the remittances that are included in the net private current transfers entering the current account (the upper part of the balance of payments table). The balance of private current transfers is positive because it reflects all remittances, i.e. private transfers from persons permanently living abroad as well as seasonal labourers who were hired abroad under special labour mobility schemes. The peak effect of such schemes, for Vanuatu, was felt in 2009. At the same time, the net factor income (on which GNI is based) takes into consideration only the remittances from nationals who spent less than a year abroad and accordingly continued, in national accounts terms, to be regarded as a full-fledged segment of the domestic economy ("short-term remittances"). In Vanuatu, the net factor income is negative because the short-term remittance outflows due to expatriates on short assignments (in real estate, specialized tourism, offshore finance, etc.) exceed the short-term remittance inflows consisting of wages brought back by ni-Vanuatu labourers returning home after seasonal employment periods abroad.

If one considers the overall remittance landscape (private current transfers in the balance of payments), Vanuatu demonstrates the smallest remittances-to-GDP ratio among small island developing States of the Pacific (1.1%, compared with 3.2%

in the Solomon Islands; 6.4% in Tuvalu; 8.0% in Kiribati; 23.2% in Samoa). In a context of economic transformation toward more national involvement in high value-added sectors (owners and employees, notably in service sectors), one could foresee a positive (instead of negative) net factor income, reflecting greater reliance on nationals (lesser involvement of expatriates) in high-income sectors. Continuation of labour-abroad schemes would at the same time sustain the overall remittance inflow. The mechanical result of a shift from a negative to a positive net factor income would be a GNI greater than GDP. By standing near to this milestone (GNI greater than GDP instead of GNI smaller than GDP), Vanuatu demonstrates its closeness to a meaningful threshold of structural progress, namely, greater involvement of nationals in high value-added sectors, a goal implying commensurate human skill development.

2.2 *The income distribution status (based on household income and expenditure surveys)*

An estimated 40% of the total population (over half of people in rural areas) has an income around $1 a day, and 10-15% of the population is under the basic needs poverty line. The new economic specialization of the country has increased the income inequalities between rural and urban areas, notably as a result of job creation in stable or vibrant (high-value-added) export sectors such as tourism, air transport, financial and offshore services (in addition to farming), and non-export sectors closely linked to the export pillars, namely, construction and the multi-faceted domestic tertiary economy. Over half of the total population of Vanuatu still depend on subsistence agriculture for their livelihood. Vanuatu's income distribution pattern, given the dispersion of islands and the rapid growth of modern activities, evolves only slowly --if at all-- in the direction of greater equity: those who leave peripheral areas for better employment opportunities in modern sectors leave behind them an insular population whose lastingly low income is in sharper and sharper contrast with urban wages. This situation places Vanuatu in a situation comparable to those of Cape Verde and Maldives (also archipelagoes), and rather less enviable than that of Samoa, one of the most even societies in the Pacific.

3. <u>The situation of Vanuatu with regard to the human capital weakness criterion</u>

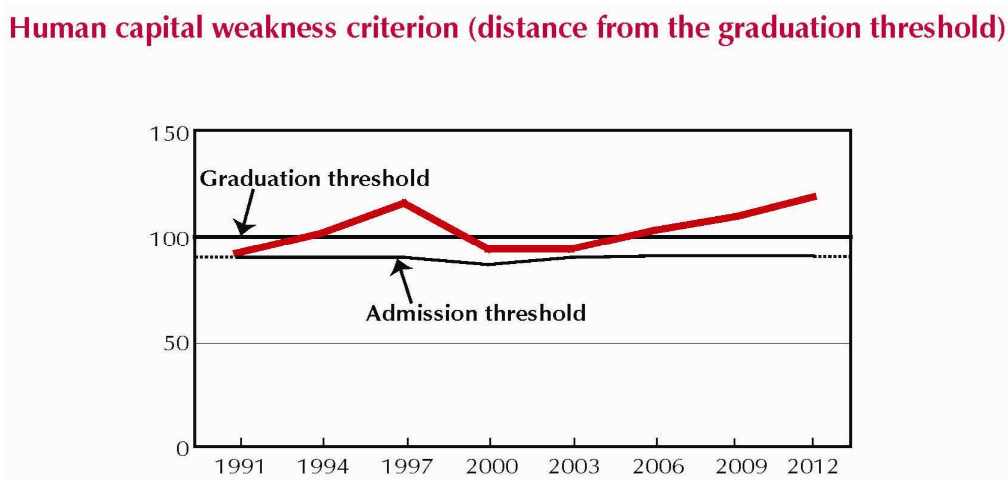
Vanuatu's progress above the graduation threshold relevant to the human assets criterion has been steady since the 2006 review of the list:

2006: 103.1% of the threshold

2009: 109.5% of the threshold

2012: 117.7% of the threshold.

<u>Graph 2</u>



The population of Vanuatu was estimated at 239,700 in 2010. Its annual growth rate has been between 2.5% and 2.6% since 2006.

3.1 *Percentage of population undernourished (component of the HAI)*

The CDP, in 2009, estimated this indicator at 7% (2003-2005 data). The counterpart estimate in 2012 (2006-2008 data) is 5%.

Health authorities consider this estimate realistic, and the nutrition situation unchanged since 2009. The prevailing pattern of food preferences involves increased reliance on imported food ("we sell our taro to buy rice"), which exposes people to price shocks as well as dietary imbalances. A third of all people are considered overweight.

The proportion of people with access to safe water sources has considerably increased in 20 years: from 57% in 1990 to 83% in 2009. Yet a national survey in 2006 revealed that only 21.5% of the total population was enjoying the comfort of piped water at home as their source of drinking water, and this ratio was 13% within the 30% of the population with the lowest levels of income.

3.2 *Child (under 5) mortality rate (component of the HAI)*

The CDP, in 2009, estimated this indicator at 42.1 per 1,000 (2000-2005 data). The counterpart estimate in 2012 (2005-2010 data) is 34.6 per 1,000.

National health authorities estimate the child mortality rate to be 24 per 1,000 (2009), a figure that compares favourably with the 1999 record: 32 per 1,000. The 42 per 1,000 estimate reflected the situation in the early 1990s. Rural people's access to health services, though largely confined to basic facilities, has improved despite the geographical dispersion of island communities in the archipelago, which remains an obstacle to any effort to fairly distribute government expenditure in rural areas.

Life expectancy at birth, since 2000, has been estimated at 70 years.

3.3 *Secondary school enrolment rate (component of the HAI)*

The CDP, in 2009, estimated this indicator at 40.1% (2004-2007 data). The counterpart estimate in 2012 (2006-2011 data) is 54.7%.

Implementation, since 2006, of an education management information system (the *SIGEN*) has enabled government to find a gross secondary school enrolment rate of 37.4%. Yet, this figure reflects, for most students, only the early part of the school year, and overlooks the high drop-out rate. The latter causes the gross enrolment rate to be well under 20% if one takes into account students who would have attended at least a full semester (10% for students attending the full school year). Most parents in rural areas cannot afford the expense of a full year at secondary level (85 to 90% of Form 13 or 14 students drop out for these and other reasons). This observation was made in 2009, and recent consultations with Education officials have indicated an unchanged situation. Though skeptical about the 40% estimate for the reasons explained above, the Education officials did not attempt to discourage continued use of this figure by the CDP.

3.4 *Adult literacy rate (component of the HAI)*

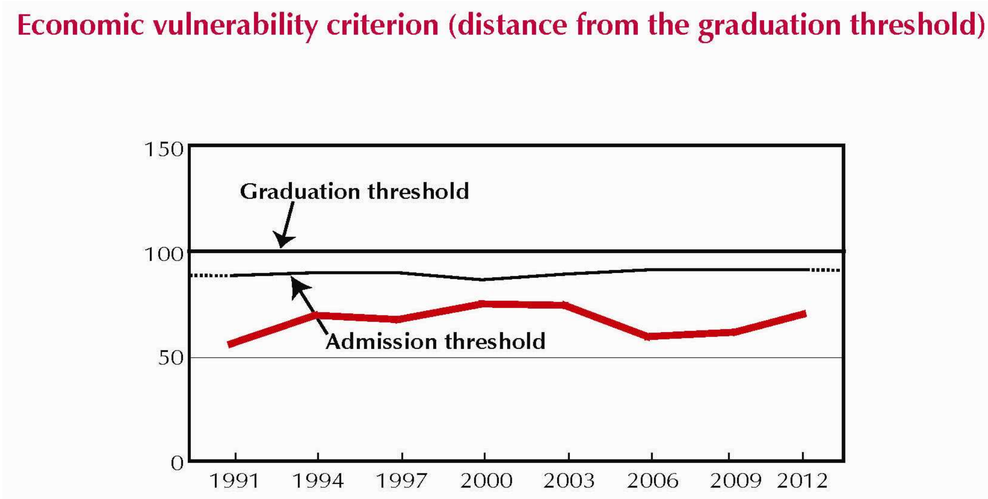
The CDP, in 2009, estimated this indicator at 78.1% (2000-2007 data). At the same time, the World Bank estimated the adult literacy rate at 81% (quoted by the IMF, 2011). The counterpart estimate at the CDP's disposal in 2012 (2005-2010 data) is 82%.

A 2007 AusAID-funded survey found an adult literacy rate of 33%, which corroborated two earlier surveys by the ADB (33.5% in 1997) and the South Pacific Commission (34% in 2001). This low performance was explained by the fact that, for a large majority of ni-Vanuatu, the ability to write as acquired at primary school level was subsequently lost as a result of the predominance of oral communication in private and work life. Education officials have been more inclined to trust the CDP and World Bank estimates quoted above, which according to them are fairer reflections of the educational efforts successfully pursued by the country. The question of the relative importance of national vs. international languages (Bislama vs. English or French) was left unanswered.

4. <u>The situation of Vanuatu with regard to the economic vulnerability criterion</u>

If considered in a long-term perspective, Vanuatu' situation under the graduation threshold relevant to the economic vulnerability criterion has not improved: the score in 2012 (68.5% of the graduation line) is not better than the counterpart figure nearly 20 years earlier (69.0% in 1994). The progress recorded in 2012 (from 61.2% in 2009) nevertheless echoes the lesser economic exposure to shocks, a result of the gradually rewarding diversification landscape.

Graph 3



4.1 *Exposure to natural shocks*

Vanuatu demonstrates one of the highest rates of exposure to violent natural shocks in the world. Some 32 major earthquakes struck the country in 31 years (since independence was gained in July 1980), with an average magnitude of 6.6 on the Richter scale. Table 1 shows the 10 latest events, two of which had a magnitude exceeding 7.

At least 10 active volcanic sites throughout the country permanently expose thousands of islanders to serious risks, given the practical difficulties inherent in any evacuation plan in a small island State.

Over 100 tropical cyclones struck the country in 40 years, including about 60 hurricane force events (average of 2 cyclones per year). Three cyclones of hurricane force took place in January-February 2011. Flooding and drought events associated with the Southern Oscillation Index (El Niño/La Niña) have also been frequent.

Table 1
Major earthquakes in Vanuatu since 2008

Date of event	Magnitude on the Richter scale	Location of main damage (island)
10 June 2008	5.9	Efate
2 June 2009	6.3	Efate
5 June 2009	5.7	Efate
12 June 2009	6.0	Efate
16 July 2009	5.8	Efate
26 July 2009	5.8	Etafe
10 August 2010	7.3	Efate
25 December 2010	7.3	Tanna
9 January 2011	6.6	Erromango
17 January 2011	6.3	Efate

Source: information provided by the Seismology Office, Government of Vanuatu (Mr. David Nakedau, Senior Technician), June 2011.

4.2 *Instability of agricultural production (component of the EVI)*

The CDP, in 2009, observed that Vanuatu had the second highest level of agricultural production instability (after Tuvalu) among small island developing States (SIDS) of the Pacific, and that this level was 37% higher than the average level of Pacific SIDS other than Vanuatu in 1990-2005. There has always been great instability, over the years, in the production of copra, coconut oil, beef, cocoa and kava. With four of these five products (all except cocoa) accounting for only 14% of total exports of goods and services in 2009 (compared with 80.5% for service exports), the level of diversification already demonstrated by the country can be regarded as a factor of overall resilience of the economy to natural shocks. Yet food crop losses have often been among elements of the damage caused by violent shocks (particularly cyclones), alongside the impact on houses and the infrastructure.

4.3 *Victims of natural disasters (component of the EVI)*

The CDP, in 2009, had observed a level of homelessness in Vanuatu equal to the average level of all other Pacific SIDS for which relevant data are available. The enriched indicator of victimization, which refers to survivors' need for "food, water, shelter, sanitation or medical assistance" can only aptly capture the shock dimension Vanuatu islanders are exposed to.

4.4 *Instability of exports of goods and services (component of the EVI)*

Beyond the economic impact of natural shocks, Vanuatu is significantly exposed to the effects of demand and price factors, which affect its balance of payments. Over the 2000 decade, the instability of merchandise exports was particularly high for kava, bovine meat, copra, timber, and coconut oil exports, five products that accounted for an average 83.5% of total merchandise exports over the 2007-2010 period.

Yet the CDP, in 2009, observed a level of export instability 38% lower in Vanuatu than in other Pacific SIDS (72% lower than Kiribati's instability, 59% lower than Tuvalu's, and 3% lower than Samoa's). This reflects the very significant role of international services (over 80% of total exports over the last half-decade) as a factor of relative economic resilience, which explains the fairly steady growth potential Vanuatu has demonstrated over the last decade.

4.5 *Primary activities as a percentage of GDP (component of the EVI)*

The CDP, in 2009, estimated the share of agriculture, forestry and fisheries in GDP at 13.9% (2007 data).

Trade in services, over the last decade, have developed further as the mainstay of Vanuatu's economy, with gross tourism receipts alone now accounting for 3.9 times the total value of merchandise exports. Therefore, the historical decrease in the economic importance of primary sectors is a consequence of the gradual re-specialization of the economy as much as of the structural disadvantages of remoteness and smallness. The latter nevertheless continue to affect the competitiveness and viability of Vanuatu's farming and fisheries, which remain an important part of the socio-economic fabric of the country, given the density of rural households still participating in these traditional activities.

Outside the primary economy, it is worth noting that hotel development and rapid growth in foreign ownership of real estate have boosted the construction sector, while the specialization of the rural sector was not changing significantly. As a result, the pattern of Vanuatu's specialization has increasingly been that of a dual economy, with a modern urban sector on the one hand, and a majority of the population, in rural areas, relegated outside the sphere of structural progress.

4.6 *Merchandise export concentration (component of the EVI)*

CDP, in 2009, observed a merchandise export concentration 41% higher in Vanuatu than in all other SIDS of the Pacific for which relevant data were available (and only second to the Solomon Islands). Yet with six products of significant importance (copra, coconut oil, kava, bovine meet, cocoa beans, timber) accounting for 94% of total merchandise exports in 2010, Vanuatu's economic landscape outside modern or urban activities does not look highly concentrated. The global outlook (overall structure of goods and services) is that of a fair diversification pattern (12 significant economic sectors: 6 merchandise sectors and 6 service sectors). One should therefore not pay too much attention to this component of the EVI, which defeats the prevailing impression of fair structural progress in Vanuatu.

4.7 *Economic size and distance from main markets* (*component of the EVI)*

With the rural part of the country enjoying limited socio-economic progress, smallness continues to be a feature of Vanuatu's overall economy. Whether smallness has radically handicapped Vanuatu's developments in the modern sector remains debatable: size does not appear to have hindered competitiveness in key areas such as tourism, offshore and financial services and air transport.

Geographical remoteness has always been a structural handicap for Vanuatu, but mainly a factor of economic difficulties for the rural economy. In addition to the country's remoteness from international markets, it is important to note the scarcity of transport services between some of the outer islands of the archipelago on the one hand, and the capital island on the other.

4.8 *Share of population living in low-lying areas (new component of the EVI)*

Vanuatu is a set of volcanic islands, not atoll islands of the Maldives or Tuvalu type. Accordingly, the share of population living in low-lying areas is necessarily small (not measured by public authorities). This component contributes to mitigating the vulnerability score of Vanuatu.