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The Power of Jurisdiction in Promoting Social Policies in Smaller States

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Prepared for the joint Commonwealth Secretariat/UNRISD Project on **Social Policies in Small States**

DRAFT WORKING DOCUMENT

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Scripted Jurisdictions

One of the characteristics of the contemporary, knowledge saturated world is that, the smaller a country or territory, the more likely is it that informative or argumentative material relating to its affairs is being presented not by insiders or domestic commentators but by external observers. The latter are driven not so much by empirical observation, as by inference and specific interests. Where smaller countries or territories also happen to be classified as developing, and therefore less in a position to determine their own public script and image, then this tendency is enhanced. Moreover, the elites of many developing states, and small states most of all, are trained or educated abroad and most would tend to embrace the same exogenously developed paradigms.

Some would argue that there is no such thing as a small state: there is nothing specific about smallness that warrants such a category or its analysis: the problems and challenges of small states are identical to those of larger ones (e.g. Easterly & Kraay, 2000); similar arguments have sought to debunk islandness as a relevant analytic category (Selywn, 1980). However, the available scripts that *do* relate to the specificities of smaller (and mainly island) states can be classified into two general, stylized clusters: the "smaller is beautiful" and the "smaller is vulnerable". They have both been mobilized in response to what Peter Drucker (1986) describes as "integrating economies, splitting polities": the growing urbanization of the world's populations, an increasing interconnectedness and concentration of economic power across the globe, and yet a proliferation of mainly smaller states, in apparent contradiction to the concurrent trends of economic consolidation and concentration. The pioneers in this field include Baker Fox (1959); Vital (1967); Rothstein (1968); Keohane (1969) and Baehr (1975).

The first cluster has been fashionable since the 1970s, when there was an explosion of interest in devolution, sustainability and democratic renewal. This interest in turn rode on a wave of European traditions of Enlightenment – such as De Montesquieu (1748: Book IX) and Jean-Jacques Rousseau (1765) - and an even older concern with the ideal size of a democratic polity that can be traced back to Plato[2]. The assumed logic of scale economies was questioned, especially where this applied to political systems. The undercurrent leitmotifs here are self-reliance, authenticity, self-management, popular democratic participation, and a plausible reaction against mass anonymity and insignificant peripherality (Schumacher, 1973, Chapter 5; Kohr, 1973; Berreman, 1978: 235; McRobie, 1981; Max-Neef, 1982). Against a global context of dynamism and uncertainty – what Emery & Trist (1965) described as a "turbulent field environment" - it is argued that smaller systems are more vibrant, versatile and flexible; they stand a better chance of coping and surviving rapid change than do larger, monolithic, more staid and complex systems (Blazic-Metzner & Hughes, 1982: 86; Srinivasan, 1986: 211; Sutton, 1987: 18; Chiew,

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[1] I am deliberately using the word smaller" rather than "small", resurrecting a usage preferred by Burton Benedict (1966, 1967) and Gerald Berreman (1978), in order to alert readers to a tendency in the literature – driven primarily by US-based political scientists - to equate large states as 'normal'. This is hardly the case in practice. Out of 237 jurisdictions listed in the CIA *World Factbook* (CIA, 2006), only 23 have populations of over 50 million; while 158 have populations of less than 10 million (of which 41 with a population of up to 100,000). Clearly, the so-called 'small state' is the typical state size (as it has also been for most of recorded history). In contrast, the *large* state is the quirk and the anomaly. There is also "no widely accepted definition of a small state" (Crowards, 2002: 143). Moreover, and as already observed by Baehr (1975: 466), there is no sharp dichotomy between 'small' and 'large' states.

[2] Plato calculated the ideal size of a democratic polity as 5,040 heads of households – a size that should allow every citizen to know every other citizen personally (*see* Alesina & Spolaore, 2003, *passim*).

1993). Smaller countries are also claimed to practise more benign politics and to enjoy social cohesiveness (Kuznets, 1960: 28; Knox, 1967: 44; Dommen, 1980: 942).

The second approach, also spawned at around the same time, arose from concerns with the alleged inherent economic non-viability of smaller jurisdictions (Robinson, 1960; Demas 1965; Blair, 1967; Jalan, 1982; Lloyd, 1968; Rothstein, 1968; Vital, 1967). Since the mid- 1980s, with **Grenada** and the **Falklands/Malvinas** episodes still fresh, there has been a consistent, often strident, international concern with the general vulnerability and security challenges of smaller developing states (Alford, 1984; Bray, 1987; Bray & Packer, 1993: 20; Bune, 1987; Commonwealth Consultative Group, 1985; Diggines, 1985; Harden, 1985; Lyon, 1985). Susceptibility to natural disasters, remoteness, insularity, limited institutional capacity, limited commodity diversification, and a high degree of openness to price fluctuations, the whims of aid donors, tour operators and foreign investors … these are the main component factors of vulnerability, which tend to be exogenous to smaller states and over which they therefore may have little, if any, influence or control (Dolman, 1985: 42; Dommen, 1980: 936; Doumenge, 1985: 86; Kaminarides *et al*., 1989; Wood, 1967: 2). In particular, the composite conditions of openness, a high trade-to-GDP ratio and the dependence on a very few (typically just one) export commodity are claimed to render smaller states highly vulnerable to external shocks (e.g. Briguglio, 1995). The initiative has matured into vulnerability indices that have been championed by a Commonwealth Secretariat/World Bank Joint Task Force (2000), and the United Nations Environment Program. Thanks to these initiatives, reference to SIDS (Small Island Developing States) has become commonplace. Today, discourse about the environmental vulnerability of islands has also gained currency, thanks in particular to the diplomatic efforts of the Alliance of Small and Island States (AOSIS), in its turn based on the plight of such smaller and low-lying countries as **Kiribati, Maldives, Marshall Islands** and **Tuvalu** (Lewis, 1990; 1999; Pelling & Uitto, 2001). Titles of texts discussing the predicament of small states frequently feature ominous terms and phrases. Apart from 'vulnerability', these include: "problems", "dilemmas", "small is dangerous", "paradise lost" (Easterly & Kraay, 2000: 2013), and, more recently, 'sinking' and 'disappearing'.

That the two clusters of received wisdom have continued to persist is largely an outcome of their attracting different, even mutually exclusive, sympathizers. The 'small is beautiful' is a case made by, and for, urban refugees, artists and creative agents, wanting and willing to escape metropolitan life, its stressors, tempo and lonely crowds. It is also a draw for those experimenting with smaller scale and "appropriate" technologies, since smaller units are arguably easier to transform as well as to manage. Meanwhile, the 'small is vulnerable' thesis has increasingly curried favour with smaller state politicians and development planners, keen to use scientific arguments and data to lobby for some kind of special deals within a liberalizing global trade regime: the latter seeks ultimately to eliminate barriers to free trade.

Neither of the explanatory polarities can serve as an appropriate holistic explanation for smaller state behaviour, simply because smaller states don't necessarily follow the same patterns of development – this being an outcome of both domestic and external circumstances. Indeed, the key limitations of the two approaches, in spite of their obvious diametrical opposition, is that they share four fundamental characteristics: they are both driven by *myths* about the presumed dystopic/utopic nature of the small state (e.g. Baechler, 1998: 272); they are both essentially *reductionist*, because they pare down the complexity of social systems to a few, key, causal factors; they are both *structuralist*, because they theorize away the role of actors by prioritizing that of structures; and they are both *determinist*, in that structures are programmed to operate in fixed and specific, pre-set ways that are hardly liable to human tweaking.

Moving away from the Bland

I may hazard to say that these respective litanies of hope and despair about the smaller state have been undergoing a subtle form of *rapprochement* in recent years. From their own differing platforms, they appear to be coming round to a stronger appreciation of strategic issues, institutional practices, legal features, regulatory capacities, and behavioural response mechanisms that suggests themselves as better and more comprehensive explanatory tools of why some smaller states succeed and others don't. A sober assessment of the predicament of smaller states must consider idiosyncrasies like geography, history and ethnicity, as well as political leadership, the emergence and quality of public institutions, the extent and expression of democratization, and the effusion of collective identity. Wars and civil strife; corruption; rampant crime; extreme poverty; extreme wealth inequality; low levels of health, literacy and life expectancy; disrespect for basic human rights and freedoms, a mistrust of those in public office; a mistrust in the administrators of justice; weak public infrastructures; a disregard for heritage; an inactive civil society and un/under-developed welfare systems . . . these features certainly do not help to promote widespread well-being and prosperity, in smaller states as much as in larger ones.

After all, the jury is still out, and the scholarly literature about smaller states in the contemporary world is mixed. For example, recent research by the Commonwealth Secretariat highlights the lack of 'market power' of smaller states and their lack of capacity to properly prepare for and conclude crucial trade negotiations (Horscroft, 2005). The World Bank has argued that smaller economies suffer from higher costs of doing business (Winters, 2005): "[I]n the limit, free trade could mean no trade for these [smaller] economies" (Winters & Martins, 2004: 348). Smallness, combined with islandness and peripherality, can be argued to render smaller economies particularly exposed to external shocks (*e.g.* Briguglio, 1995; Encontre, 1999).

Yet, vulnerability (in the usual sense of the term) applies most clearly in the *environmental* realm, in cases of natural disasters - earthquakes, volcanic eruptions, droughts, floods, hurricanes or tsunami. The economic havoc that the latter leaves is very real and can extend into the medium to long term (with ultimate disappearance in the case of sea level rise); yet, there is no well-established and compelling empirical basis for claiming the *economic* vulnerability of smaller states. Paradoxically, the often-cited openness to international trade (one of the key components of the vulnerability index), with associated volatility, is a source of strength rather than weakness for smaller economies, obliging them to be internationally competitive on open markets and preventing them from collapsing into anarchy or protectionism on economic terms (Alesina & Spolaore, 2003; Armstrong & Read, 2004: 214, 217-8).

Similarly, a "heavy dependence" on transfers from abroad (and especially aid and remittances) is often perceived as evidence of vulnerability (*e.g.* Atkins *et al.,* 2000: 31), but can equally be an indication of success in luring funds, capital and 'rents' from other economies (Kakazu, 1994) and establishing flourishing diasporas. Conceptualizations of the importance of economic self-reliance for economic development have somehow given way in time to broader appreciations, such as to the viability of strategies by smaller states that seek such rent extraction (Poirine, 1998). Researchers such as Armstrong & Read (1998: 13) have argued that many smaller states have managed to compensate effectively for their small size by "optimal endogenous policy formulation and implementation"; they suggest that "investigation of the policy stance of successful micro-states, *particularly in the sphere of international political economy*, is likely to be fruitful" (emphasis added). As Warrington (1998: 105) shrewdly remarks, a smaller state's "governing wits" may well compensate handsomely for any disadvantages that may, legitimately or otherwise, be associated with its smaller size. The intimation here is that the deployment of *jurisdictional capacity*, for the maximization of leverage over domestic and international resources, is a crucial feature of smaller state prosperity.

Evidence of Jurisdictional Resourcefulness

I would argue that the evidence of the "resourcefulness of jurisdiction" is strong, sustained and widespread: it can be glimpsed 'downstream', in the economic statistics of smaller states and territories. On balance, smaller economies do not appear to be doing badly:

Key economic indicators for 41 smaller states assign them a mean GNI *per capita* of US$2,748 for 2003; compare this statistic with the mean for all Least Developed Countries (US$810), and that for all Middle Income Countries (US$1,920). (The mean for smaller states would be even higher were it not dragged down by 7 African smaller states - **Comoros, Djibouti, Equatorial Guinea, Gambia, Guinea Bissau, Lesotho, São Tomé y Principe** - along with **Papua New Guinea** (is that a smaller state?), newly independent **Timor Leste, Bhutan, Kiribati** and the **Solomon Islands**, all of which have GNI *per capita* of less than US$1,000 (Horscroft, 2005: 42, Table 3.1).

Take the annual economic review of Commonwealth small states, which compares vital statistics of the 35 Commonwealth jurisdictions with similar values for 28 other countries, all collated from World Bank data. In terms of GDP per capita, **Gambia, Guyana, Lesotho** and **Sierra Leone** are the only Commonwealth smaller states considered to be low-income economies. Three of these 4 are located in Africa, the main geographic location of the world's poorest and least developed states. At the other end of the scale, the 6 Commonwealth smaller states that are high-income economies are all rather small: the **Bahamas, Brunei, Cyprus, Malta, Singapore** and **New Zealand** (Commonwealth Secretariat, 2005: Table 4). The poorest economies have the largest contributions by agriculture to overall GDP (typically, 20% - 60%), whereas the richest small economies have no agricultural sector worth noting (**Singapore** = 0%; **Malta** and **Bahamas** = 3%; **Brunei** = 5%; **Cyprus** = 7%, as at 2003) (Commonwealth Secretariat, 2005: Table 5). (**New Zealand**, with a 5% share, is nevertheless a major exporter of pastoral commodities, whose processing and transportation accounts for a larger share of GDP.) It has been argued that a strong agricultural lobby tends to brake an economy from industrialization and/or economic diversification; Streeten (1993: 199) calls agriculture a "slowcoach" of development. To the extent that this is correct, the absence of a rural hinterland is potentially good news for development[3].

Consider next the grouping of smaller developing states by region and by levels of human development (as measured by the UNDP using 2000 data), including indicators such as life expectancy at birth, adult literacy, gross primary secondary and tertiary enrolment, and GDP per capita at purchasing power parity. Ten small countries - **Barbados, Bahamas, Antigua & Barbuda, Brunei, Bahrain, Malta, Cyprus, Bhutan, Qatar** and **Estonia** - have the highest human development levels – and all except the last three are smaller island developing states. At the other end, there are just three smaller countries with low levels of human development: **Djibouti, Gambia** and **Guinea-Bissau** (Liou & Ding, 2002). These three states are, again, all in Africa.

Confirming these observations, the OECD includes both **Iceland** and **Luxembourg** amongst its members; while out of the World Bank's list of 44 high-income, non-OECD countries, ALL (except Israel?) are smaller states or territories: these include all 6 European smaller enclave states of **Andorra, Gibraltar, Liechtenstein, Monaco, San Marino** and the **Vatican** (Davies *et al*., 2006: Appendix V). Out of the large number of Caribbean states and sub-national island jurisdictions, the World Bank only considers **Cuba,** the **Dominican Republic, Jamaica** and **St Vincent and the Grenadines** as "lower middle income economies", while **Haiti** is the only Caribbean nation to appear as a "lower income economy". It is pertinent to note that 4 out of the 5 countries in this grouping are the largest and most heavily populated economies in the region. The exception, **St Vincent and the Grenadines**, is still reeling from the uncertainty surrounding bananas, its main export crop, and painfully making the switch to other economic

[3] **New Zealand** and **Ireland** are, to some extent, the exceptions that prove this rule: both economies have rural hinterlands that are highly developed, technologically sophisticated, and globalized in outlook.

activities, particularly tourism and construction (Caribbean Development Bank, 2005), but also drugs: the country is the largest producer of marijuana in the Eastern Caribbean (US Department of State, 2006).

It may come as a surprise that a listing of the 10 richest countries of the world in terms of GDP *per capita* according to the World Bank would only feature two "large states": Japan and the USA. The other eight have populations of less than 10 million each, and three have populations of less than 1 million. **Liechtenstein** holds the top spot, followed by **Luxembourg**. **Iceland** is also included (*e.g.* www.quia.com/rd/6913.html).

Politics in Smaller States

Do then political assets effectively compensate for the structural economic disadvantages of smaller size? Already in 1973, Robert Dahl and Edward Tufte were exploring the complex relationship between smaller size and democratic traditions – even though, at that time, their collection of smaller states included Sweden, Switzerland and Austria. Still, they did conclude that differences in power and information were more likely to be minimized in such smaller territories. Other researchers have remarked that smaller states, and smaller *island* states in particular, were more likely to manifest democratic political systems, and irrespective of levels of economic development (Anckar, 2002; Commonwealth Advisory Group, 1997; Hadenius, 1992: 61-61, 122-127; Fry, 2002: 86). Even where smaller countries are socially or ethnically fragmented, elites tend to cooperate across such cultural divides, generating political stability, a throwback to the seminal work by Arendt Lijphart (1968) on The Netherlands. Ott (2000) argued that the personalistic and informal social structures of a smaller polity nurture multiple role relations that facilitate elite cooperation and mitigate social conflict: an observation that can be traced back to Benedict (1966). More recently, Alesina & Spolaore (2003) have investigated optimal country size as a function of two competing issues: the advantage of *large* size in reaping economies of scale in the production of public goods; and the advantage of *small* size in maintaining the homogeneity of a population. A big nation can spread the cost of producing public goods over more people, thus reducing the cost *per capita*; but, in doing so, it could run into the "one size fits all" problem.

However, this literature is not to be misconstrued as meaning that smaller states practise benign politics: partisan and/or ethnic rivalry in smaller polities can be quite intense, especially in two-party competitions where the winner takes all ... and the loser gets nothing. We need only remind ourselves of the situation in **Fiji, Sri Lanka, Jamaica** and, more recently, **Palestine** and **Lebanon**. In smaller polities, it is also easier for elected politicians to micro-manage, involving themselves in the execution of their policies, and to supervise the allocation of 'spoils', to the consternation of career executives and civil servants (Buker, 2001; Butter, 1985: 35; Lowenthal, 1987: 39; Richards, 1982: 155; Rodhouse, 1987). Senior public servants find themselves closely associated with particular leaders, parties and policies, creating difficulties when there is a change of policy, minister or government (Sutton, 2007: 213; Baker, 1992). Moreover, the presence of "natural monopolies" is more likely in smaller jurisdictions, leading to market distortions (e.g. Armstrong *et al*., 1993; Briguglio & Buttigieg, 2004). Smaller countries that have been deeply penetrated by colonialism (that is, where colonialism arrived early, stayed late, and penetrated all aspects of society), as are those in the Commonwealth Caribbean, are even more likely to be, and remain, democratic (Srebrnik, 2003: 333). More challenging is the assertion, by Feyrer & Sacerdote (2006) that, the longer an island spent as a colony, the higher its present-day living standards and the lower its infant mortality rate: each additional century of European colonization is associated with a 40% boost in income today and a reduction in infant mortality of 2.6 deaths per 1,000 births: a commentary that may require a revision of most post-colonial theory. In any case, gone today is much of the naïveté that used to accompany such glib, pseudo-scientific statements as: "the [societies] of some smaller countries are harmonious because everybody knows everybody else very well" (Bray, 1992: 26).

Streeten (1993) is representative of this more balanced and more sophisticated, grounded analysis of the political economy of the smaller state. In a short but eclectic paper, he argues that the poorer smaller states are those that still depend heavily on the export of raw materials; such as banana, sugar, copra, phosphate, tobacco and cocoa (*ibid.:* 199). They also lag behind larger states in the development of a manufacturing base (*ibid*.: 197), so much so that some smaller countries only industrialize to support a service sector: such as producing souvenirs or gourmet food for tourist purchase (Baldacchino, 1998). Greater openness and smaller size makes import substitution industrialization strategies difficult, if not impossible, obliging an "export or perish" orientation (Brookfield, 1987; Baldacchino, 2005a). Indeed, for smaller countries, even more than for larger ones, exporting provides their only option to capture economies of scale (Streeten, 1993: 198). Moreover, smaller countries grow faster and have higher productivity than larger countries, and Streeten argues that smaller countries seem to be *more* equitable, 'indicating greater social cohesion' (*ibid.*: 199). They also generally land better terms in foreign aid: "one of the most well-established generalizations in the foreign assistance field is the so-called 'small country effect', according to which aid per head increases, and the terms of aid improve, as the size of the country declines" (*ibid.*: 200). "A few million dollars go a long way on a speck of land" (*The Economist*, 1991). Streeten (1993: 200) also suggests that collective action problems may be solved more easily in smaller countries where free-riding is more visible and people tend to know each other and meet face to face, crossing over into each others' networks and thus bridging tight, ethnic or pseudo-ethnic groups. Their smaller size should also reduce transaction costs: information flows more easily (often by word of mouth), and principal-agent problems should be fewer, with greater ease of supervision. And although they may be more vulnerable to the risks of natural disasters and trade instability, smaller countries are also likely to be more flexible and resilient.

Critiquing Vulnerability

While an understanding of the character of vulnerability may have helped to explain why smaller states still need international attention and aid in spite of nominally high GNI *per capita* levels, what is more important is how any such vulnerability can be mitigated, rather than just accepted as a "structural handicap". And so, the notion of resilience as a component for an effective policy response is now on the agenda (e.g. Briguglio *et al*., 2006). To those wedded to the vulnerability concept, there is some appreciation of the need, and possibility, of analyzing the concept of resilience and how that leads to "capacity building" in the context of adversity.

The very concept of vulnerability has, meanwhile, not escaped criticism. The international community has been supportive, acknowledging and taking note of the heightened vulnerability concerns of smaller developing states, including major references in both the Barbados 1994 and the Mauritius 2005 declarations. Active measures have been adopted – particularly addressed at "capacity building" - with support from such UN institutions as UNEP, UNDP, UNCTAD, UNIDO and UNRISD. Yet, the 'vulnerability' concept remains elusive and subject to some scepticism (e.g. Hein, 2004). Moreover, openness - one of the alleged components of economic vulnerability - is itself a basis for a competitive export-orientation of smaller economies and which has prevented their lapse into protectionism and autarchy (Baldacchino, 2000). Such openness to international trade, with its associated volatility, is a source of strength rather than weakness for small economies, obliging them to be internationally competitive on open markets and preventing them from collapsing into anarchy or protectionism on economic terms (Alesina & Spolaore, 2003; Armstrong & Read, 2004: 214, 217-8). Thus, trade openness, and globalization generally, bring opportunities as well as risks: studies of smaller states have tended to focus on the nature of their vulnerabilities, without considering that these jurisdictions may have *actively managed* similar external pressures in different ways (Braütigam & Woolcock, 2001). The latter would include the redistributive measures of a, generally omnipresent, welfarist state which would act to cushion external shocks (Cameron, 1978; Garrett, 1998). Indeed, smaller states are "hardwired for success" precisely *because* they are, and they know they are, vulnerable to world market forces (Katzenstein, 1985, 2003). Paradoxically, "vulnerability has a *significantly positive impact* upon the long-term growth performance of small states, contrary to the expected *a priori* negative effect" (Armstrong & Read, 2002: 452, emphasis in original).

The events which demonstrate vulnerability are often a one-sided account of the development process of smaller states. To the harbingers of woe – including both economic downturns and environmental disasters - must be added the heralds of good fortune, whose impacts on the smaller country are likely to be just as powerful: the attraction of a major foreign investor; a boom tourist season; clinching a major bilateral deal; securing a niche export market. Both curses and blessings from away come upon the smaller country in a common and distinct manner: with a suddenness of impact (often without prior warning); with an intensity of effect (often with 100% coverage) and a high speed of penetration and engulfment. We are talking about an economy which, being smaller, is more naturally "boom and bust", "peak and trough" oriented than larger counterparts. In fact, the very concept of 'development' sounds strangely hollow for such candidates (Baldacchino, 1993: 37). The key explanations for such jerks are usually external events. Vulnerability is perhaps better described as "volatility" (Dommen, 1980; Easterly & Kraay, 2000).

The Link with the World Beyond

Appropriately, in a resilient system, individual units – whether individuals, households or even whole countries – are able to command support and resources from elsewhere (Homer-Dixon, 2006: 286). And this is where the vulnerability thesis is itself also 'vulnerable': it presupposes that a smaller state is a closed system as far as its resourcefulness is concerned. But this assumption betrays an ignorance of the very constitution of most smaller countries. Because of the intense, enduring and total effect of that external event – colonialism – many smaller states have found themselves linked to, and carried piggyback onto, the global network of their administrative overlord. Most have been accommodated – at times begrudgingly (as in the case of Britain), at times more enthusiastically (as in the case of France) – onto this circuit of trade, culture, education, employment, language, legislation and religious belief (Hintjens & Newitt, 1992). This makes their citizens (and not just their elites) more likely to embrace, and be assimilated into, Western culture (Caldwell *et al.*, 1980; Miles, 1985). This is a lucrative circuit that smaller states are loath to lose: and they deploy their jurisdictional capacity to refresh and consolidate it as best they can.

In these and similar aspects, smaller states have been successful because they have usurped their size. No wonder that the citizens of most small states, and small island states in particular, are disproportionately avid travellers, well represented overseas, confident users of inter-national languages, keen trans-national brokers and mercantilists, active in regional and international fora.

Smaller countries also represent quintessential peripheral locations whose inhabitants have a high propensity towards migration. International migration has long been recognized as heaviest from the world's smallest territories (e.g. Ward, 1967: 95; King & Connell, 1999). The highest proportion of non-OECD graduates living in an OECD country in 2005 were from **Guyana, Jamaica, Haiti, Trinidad & Tobago, Fiji,** Angola, **Cyprus and Mauritius** – all but one of which are smaller states (*The Economist*, 2005a). The ingrained openness of smaller states serves to orient their island inhabitants towards the metropole, for inspiration, vacation, shopping, education, employment, or simply escape. Emigration is often the only viable 'exit' option to what could become a pervasive and stifling totality, monopoly and intimacy of the local socio-cultural environment (Baldacchino, 1997). Smaller state citizens are known to have a higher propensity to migrate to developed countries (Connell & King, 1999). At any point in time, a significant percentage of the population of a smaller country may be away at the respective metropole/s (Baldacchino, 1997: 89; Lowenthal, 1987: 41-43). High levels of urbanization at home act to dislodge residents from outlying villages or islands (in the case of archipelagos) and render them potentially more mobile regionally and internationally (Bertram & Watters, 1986: 55-57). This brings about a loss of trained human resources, a 'brain/skill drain' from the periphery to the core that thwarts development, a trend that is well documented with regards to such professions as doctors, nurses and teachers[4]. For various smaller state households, however, migration becomes a strategic resource, since offspring sent away can be expected to infuse remittances, in cash or in kind, to the home economy: in various instances (such as **Barbados, Botswana, Cape Verde, Samoa** and **Tonga**), these are significant contributions to the gross national product (Gmelch, 1987; Ahlburg & Brown, 1998). Actually, development aid is fast being outstripped by migrant worker remittances, now the largest single category of international financial flows to smaller states (Bertram & Poirine, 2007: 354). The converse is also true: given their permeability to such exogenous links, these smaller jurisdictions are their local inhabitants are also disproportionately high recipients of foreign tourist visitors, foreign consultants, seasonal foreign residents, even foreign spouses.

Those smaller states which have had more difficulty in exploiting the opportunities of the global economy – like the **Comoros, Lesotho, Maldives, São Tomé y Principe, Solomon Islands, Suriname, Swaziland, Vanuatu** – seem to have shifted their focus away from, or lost the interest of, their former colonial overlord (Britain, France, Portugal, The Netherlands). They may have tried to court different, closer, regional players (Australia, India, Sri Lanka, South Africa, Japan, China, Taiwan?), but not necessarily successfully. Again, not surprisingly, some of these smaller states have been less open to embrace globalization because of cultural, religious or geographical reasons (for instance, **Maldives** for its religious fundamentalism; **Lesotho** and **Swaziland** for their land-locked nature[5]).

The disposition towards the outside world may change in its details, but the disposition is essential for small state prosperity. Thus, Bertram (2006) identifies a taxonomy of small state economic development with three broad "species": one based on migration which ensures remittances from abroad, and of a large local bureaucracy sustained by international aid (acronym = MIRAB)[6]; one based on tourism (acronym = SITE)[7]; and one based on discretion over taxation, offshore finance, shipping registration, property ownership and citizenship (acronym = PROFIT)[8]. For all their contrasts, the three share a need for the successful management of external relations: since they don't have a hinterland of their own (Hintjens, 1991: 38), the world's smaller states would "… find it hard even to survive without drawing in resources and assets from, while flushing out excesses and undesirables to, a hinterland beyond" (Baldacchino, 2006a: 49).

State Endowments

The operative words here are 'management' and 'good governance'. In our discussions about smaller states, one needs to shift the emphasis away from the *smallness* of a state, to the nature and powers of a *state*. And, even here, we may be led to believe that the powers of a state are, by definition, territorial: in other words, a state can only exercise its powers over a clearly circumscribed geographical territory. If so, then a smaller jurisdiction, whether a state or not, would still not be expected to fare well. But this is a

4 For example, 'Teacher Brain Drain Threat', *The Times Higher Education Supplement,* London, UK, 19th March 2004. www.nottingham.ac.uk/education/centres/ccer/brain-drain.phtml?menu=mobility&sub=non. The Savannah Accord iterates a concern with the drain of qualified teachers from the Commonwealth Caribbean, partly because of "recruitment by other countries" www.thecommonwealth.org/shared_asp_files/uploadedfiles/%7B3D92204E-19FF-4977-B4B0-C084DFC076A0%7D_savannah.pdf.

5 The citizens of land-locked smaller states have lower than average Gross National Incomes per capita than non land-locked smaller states (Armstrong & Read, 2006: 89).

6 **MI**gration, **R**emittances, **A**id and **B**ureaucracy. (Bertram & Watters, 1985).

7 **S**mall **I**sland **T**ourism **E**conomy (McElroy, 2006)

8 **P**eople, **R**esource management, **O**verseas engagement and para-diplomacy, **FI**nance and **T**ransportation (Baldacchino, 2006).

surprisingly faulty deduction. States are potentially well endowed with the ability to influence events that take place beyond their shores. Politically independent smaller states still ride unperturbed, 'piggy back' on the resources – economic, military and juridical – of other larger states (e.g. Olson & Zeckhauser, 1966; Amstrup, 1976: 172). Through pseudo-membership of hard currency areas, as well as free-riding on international defence agreements, these smaller states enjoy an envious fiscal stability and a military defence capability that they would otherwise find impossible to sustain with their own means (Galbis, 1984; Armstrong & Read, 2002; Bartmann, 2004). They also pursue niche strategies within the international regulatory framework and seek to maximize rent-seeking as against value added opportunities. They also exploit the "importance of being unimportant", using their low political and economic profile to develop commerce by establishing flexible fiscal, environmental and commercial registration regulations (e.g. Hampton & Abbott, 1999).

It is ironic that it is the smaller and often ignored jurisdiction that understands the competitive rules of international political economy – it often would ignore these rules at its peril! – and would do so faster and better that does the larger, more comfortable, more established state counterpart. In virtually every success story of a smaller state – like **Cyprus, Estonia, Iceland, Liechtenstein, Luxembourg, Malta, Mauritius, Slovenia** - the script is the same (Milne, 1999): the imaginative use of state legal resources in effective public policy has been central to its transformation. Constitutional resources, particularly in smaller states, should be recognized for the large reservoirs of economic potential that they really are (Milne, 1997).

The transition from economic weakness to strength comes about when communities actually face the challenge of self-reliance, and decide, often in very different ways, how to move their economy and society forward. This collective stock-taking and reappraisal often takes place against a backdrop of economic and political uncertainty when the promise of success and the threat of failure can be very real. Frequently, strategic economic planning arises when these smaller jurisdictions come face to face with the fact that they are on their own *either* because they have already moved decisively toward political independence and must assume the economic challenge that comes with that, or because the non-viability of the traditional economy drives them to it. In either case, the political and economic dimensions of the problem are inextricably intertwined. Consider the following four cases[9].

When **Malta** moved towards political independence from Britain in 1964, one of its gravest challenges was to find a way to retool the local economy from that of a British naval base in the Mediterranean to a more diversified national economy compatible with its new official neutrality. The nature and direction of the transition were spelt out in a number of early planning documents that drew upon the thinking of outside consultants from the United Kingdom.[4] These served as the basis for a vigorous and largely successful public policy programme aimed at attracting inward investment in manufacturing. **Malta** provided among the most attractive incentives for manufacturing concerns in Europe in the form of tax holidays, free or subsidized factory space, exemption from customs duties, and the like. In a review of the history of this aggressive period of economic policymaking, Spiteri (1997: 297) captured the remarkable employment shift that followed this transition from an older naval economy to a future in manufacturing:

> "During the two decades [1960s and 1970s], employment in manufacturing rose from 9,690 to 30,519 and employment in tourism from 400 to 3,382. This constituted a development which more than made good for the decline in [Military] Services employment which relentlessly drifted from 22,500 to 4,423".

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[9] The immediately following case material about **Malta, Isle of Man, Iceland** and the **European microstates** is adapted from Milne (2000: 7-8).

Much of the funding for the transition came from British grants to assist the former colony in making the necessary adjustments, together with renegotiated payments for the British naval bases on the island. In the end, the island's economic shift to manufacturing and tourism, and the conversion of the naval dockyards from military to civilian work, were carried out so swiftly and successfully that all British military facilities on the island were closed by 1979, only 15 years after independence.

The **Isle of Man** also used outside consultants to assist with their plans to move the economy of the Isle of Man from reliance upon primary industries and tourism, toward a future in offshore finance. Although the **Channel Islands** had already begun to mark out just such a transition before the Manx programme got under way, it was plain to see as early as the 1960s the advantages that these smaller jurisdictions offered in lower taxes and less regulation compared to the highly taxed British mainland. While the Manx turned to a low-tax economic strategy in the 1960s almost by instinct rather than by grand design, it was not long before the benefits from this approach began to suggest the need for a more comprehensive and rational strategy of economic growth and diversification into finance, insurance, and manufacturing. These plans came together in a more or less coherent form during the 1970s, with subsequent decades providing a useful learning curve for the Manx as they proceeded with implementation of this economic policy.

In **Iceland**, there was a gradual process of economic and political improvement as Icelanders assumed more responsibility for their well-being within a colonial relationship with Denmark over the last century; but it was not until full independence in 1944 that the people confronted the hard reality that their economic future would ultimately rest upon themselves. Self-reliance, in that sense, was not a mere philosophic choice, but rather a practical necessity. The country was then one of the poorest in Europe. Economic development in Iceland subsequently proceeded on a much more decentralized community basis than in many other island locations, often with municipal public investment and equity from co-operatives in trawlers, plants, shopping and hotel complexes, and energy systems.

The story of the modern economic transition in **Liechtenstein, Luxembourg** or **San Marino** is broadly similar. In each case, smaller-sized communities recognized their vulnerability, due to an inadequate level of economic diversification, and took steps in recent decades to transform the economic basis of the state. All three saw a need, for example, to develop a comprehensive strategy that would exploit much lower levels of taxation than those in larger neighbouring states in order to attract high-end manufacturing, together with financial institutions and services; all developed programmes to stimulate tourism as part of the larger effort at creating a successful and diversified economy. Of course, like the **Isle of Man**, it was up to the local authorities finally to ensure that they could deliver the required policy and regulatory framework that would ensure their genuine competitiveness within Europe and the larger global marketplace.

One can here adopt a perspective that, literally, allows for a conceptualization of the *manufacture* of development, where the polity *constructs its economic space* by shrewdly and intelligently exploiting the multiple layers of its jurisdictional capacity for its self-interest (Baldacchino & Milne, 2000: 231). In this scenario, some powers stand out as even more important than others.

The Power of Jurisdiction

It should be clear by now that it is impossible to disentangle the economics of a smaller state from its politics. One needs to take stock of the sheer economics of law and policy; the economic measure of different jurisdictional levers; and of the 'governing wits' that permit effective public administration. The manufacture of this kind of political economy in the context of an increasingly integrated global economy is a bundling of three distinct but inter-related factors: *law*, which lays the foundation for a smaller state's economic performance by deploying the right constitutional instruments; *policy*, which involves the skilled and effective administration and management of determined public policy; and *culture*, which invests the whole enterprise with a shared sense of identity, confidence and collective purpose (Baldacchino & Milne, 2000).

Looking at jurisdiction as a resource, one can draw up a list of possible manifestations of the deployment of such resourcefulness. In the context of smaller states, it can even be conflated to mean the exercise of sovereignty. Henry Srebrnik (personal correspondence, 2003, 2007) has developed this list of the basic legislative and executive variables associated with jurisdiction:

degree of constitutionally-entrenched jurisdictional autonomy

judicial powers and control over legal system (civil and/or criminal)

separate electoral system and political parties

control over customs, duties, taxation and other revenues and fiscal resources

control over banking and insurance

control over the currency

control of international trade

control of the environment and natural resources (including offshore resources)

control over citizenship, immigration, and rights of residency

control over land ownership and use

control over aviation, communications, postal services and transportation

control over defence, foreign affairs and security

relations with other jurisdictions; ability to sign international agreements and have representation abroad

control over culture and language

control over education and institutions of higher learning

sense of national identity and shared history

degree of influence and representation in central institutions of decision-making units and bodies of governance in larger entities (such as a federation).

Critical Legal Capacities

Are all these capacities important in equal measure? The literature based on the performance of smaller states suggests that a number of these legal capacities present themselves as more critical ingredients in shaping economic prosperity (e.g. Milne, 2000; Baldacchino & Milne, 2000):

> *Powers over banking, finance, taxation and insurance*: Most offshore finance centres are located on smaller, often island or enclave territories: one particular web-site lists 42 'low tax offshore jurisdictions'[10]. This is because the latter habitually involve few significant domestic transactions, benefit by widening their tax base, draw in 'rent' based surpluses from elsewhere and are therefore not unduly troubled by low tax policies (Baldacchino & Fabri, 1999: 141; Kakazu, 1994). The risk here is that smallness may precipitate a "capture of the local state" by international financial capital, such as international banks and large accountancy firms (Christensen & Hampton, 1999), as well as not-so respectable operations (Royle, 2001: 180). Baldacchino & Milne (2000: 232) consider the power to tax, and tax differently, as critical to the economic prosperity of such smaller states as **Luxembourg**, **San Marino** and **Liechtenstein**. The financial services sector in the **Bahamas** contributed 15-20% of GDP in 2004; that in **Dominica** and in **St Vincent & the Grenadines** some 9.5% of GDP by 2003; finance-related fees collected in the **Cayman Islands** generated some 23% of government revenue in the period 2000-2003 (Vlcek, 2007, *passim*). An exceedingly low tax environment – via low corporate taxes and business rates, generous capital allowances, absence of capital gains tax, wealth tax, capital transfer tax, inheritance tax, death or estate duties, along with low personal income tax rates (15-20%) - goes a long way towards attracting both manufacturing and service industries (*ibid*.). This is not to imply however, that success is guaranteed: **Vanuatu** sought to establish an offshore financial sector from as early as the 1970s, but this has been operating under "low standards of supervision"; the enabling legislation is in need of "a complete overhaul" and various provisions have not been enforced due to lack of financial and human resources (IMF, 2003: 9).
>
> *Powers over exports and imports*: The central strategic choice facing a smaller economy is not *whether* to export but *what* to export: the more external resources that can be drawn in, the higher the *per capita* income that can be sustained (Bertram & Poirine, 2007: 330). Developing international trade regimes have been seeking an equalization of trade policy under the rubric of 'free trade'. However, the suspension of multilateral trade talks at the World Trade Organization in July 2006 has ensured that there is (again, and for now) more scope in scrutinizing bilateral, preferential deals between jurisdictions (Baldwin, 2006; *The Economist*, 2006). Some smaller states have done very well in this context with the promotion of free port and/or export processing zones (EPZs) in conditions of relative safety and political stability. In **Fiji, Ireland, Malta, Mauritius** and **Singapore,** constitutional power has been put to work in the service of enhancing export volume and performance (e.g. Lee Kuan Yew, 2000; Elek *et al*., 1993; Arrow, 1997; Milne, 1999; Subramaniam & Roy, 2001 respectively)[11]. Creating hassle-free and attractive zones for manufacturing, repackaging and international shipping activities has proved to be a viable economic strategy in the right circumstances. EPZs have been more likely to fail where basic human rights and labour laws have been curtailed, leading to a reputation for low-skill and low-quality processing, while incurring public resentment; transport infrastructure is also necessary to connect products efficiently to their eventual markets.
>
> *Powers over natural resources*: for **Iceland**, it was only after asserting and enforcing local jurisdiction over its territorial waters and its exclusive economic zone – including four dramatic 'Cod wars' with the United Kingdom - that it was able to develop and protect its rich fishery with self-interest in mind. And, although the primary sector is not normally a strong basis for smaller

[10] http://www.lowtax.net/lowtax/html/jurhom.html. The largest jurisdiction on the list is Switzerland.
[11] Funnily enough, Briguglio *et al.* (2005: 27) call this the "Singapore Paradox": "the seeming contradiction that a country can be highly vulnerable and yet attain high levels of GDP per capita".

jurisdictional prosperity, Iceland has developed skilled processing industries and expertise, thus adding value to the industry. Other smaller economies which have become dependent on rich mineral deposits – such as **Equatorial Guinea** and **São Tomé y Principe** (oil and gas) – would do well to note the "riches to rags" transition of phosphate-rich **Nauru** (Connell, 2006). After all, the most successful smaller economies are those that have moved away from any prior dependence on cash crops and commodities geared for mass markets.

Meanwhile, the contribution of islands to cultural, environmental and biological diversity is proportionately much greater than the size of their territories or populations (*e.g.* Young, 1999: 253). Some of UNESCO's current 851 World Heritage Sites are to be found in smaller territories: these include the old city of Dilmun in **Bahrain**; the barrier reef system in **Belize**; the Choirokoitia remains in **Cyprus**; national parks in **Dominica, St Kitts & Nevis** and **St Lucia**; James Island in **Gambia,** the Aldabra Atoll in the **Seychelles**, East Rennell Island in the **Solomon Islands**, megalithic temples in **Malta**, and historic Paramaraibo in **Surinam.** For smaller jurisdictions that host places of natural beauty or recognized cultural heritage, the opportunities of developing niche tourism industries that depart from the mass 'sun, sand and sea' model beckon. Here, the absence of an industrialization phase unwittingly helps to avoid brownfield sites and to maintain a more pristine natural environment, which is more conducive to an attractive tourism destination.

Powers over transportation: Difficulties with transportation affect a whole range of issues, including: the viability of a tourism industry, a manufacturing export strategy, absence of economies of scale, as well as access to emergency off-island health care (Baldacchino & Milne, 2000: 234). Greater distances mean higher costs for the transport of goods, services and people, and effectively reduce access to the metropole (Connell & Aldrich, 1992: 33). The **Åland Islands** developed their own shipping registry and safeguarded duty-free transactions on Åland ships flying the Åland flag (Lindström, 2000): in doing so, they solved not only their own transportation problems, but the bulk of their economic problems by making themselves a shipping 'hub' for the transit of people and goods between the neighbouring states of Sweden and Finland.

The same idea of making one's smaller territory a 'hub' between neighbouring land masses has appealed to **Iceland**, as it positions itself as the hub or transit point between Europe and North America. The national airline, Icelandair, principally serves to tie together a network of European and North American cities with Keflavik as an entrepôt. A key element in its modern economic success in fisheries, tourism, and other areas has been this ability to use its constitutional leverage to reach out with its national airline and thus encompass a wider economic space. The **Isle of Man** likes to see itself as located in the exact centre between Ireland, Scotland, Wales and England, while **Malta** considers itself the 'stepping stone' between Europe and North Africa, and has done well with its trans-shipment and bunkering services.

Powers over free movement of persons: Given that smallness increases the disposition towards all-round volatility (e.g. Dommen, 1980; Easterly & Kraay, 2000), the threats of depopulation or overpopulation loom larger; as do the resulting impacts on labour supply and demand, on housing stock surplus or shortages. Acute emigration - and, less often, immigration - is the safety valve readily available in response to all-to-frequent demographic, real estate or employment imbalances. Overall, the problems of human resource planning are particularly acute in smaller states (Connell, 1988: 23). A stock of overseas-resident migrants sustains a flow of remittance transfers that constitutes a significant, legitimate and regular provision of foreign exchange (Prasad, 2004: 51-53). Remittance providers can be depended upon for the provision of cash and/or gifts in kind for a limited time period, after which they may be replaced or refreshed with new emigrants who would kick-start the process once more (Prasad, 2003). Such a cycle represents a shrewd income-maximization strategy by a household that functions as a fully-fledged "transnational corporation of kin" (Marcus, 1981). Large diasporas in metropolitan cities are also keen consumers of exported local products (such as gourmet foods), as well as long-stay/repeat tourists.

Meanwhile, cognizant of their small size and the risk of rampant inflation caused by high levels of immigration, various small economies have used their jurisdictional powers to enact regulations that effectively limit or screen the number of those who can work, become residents and/or gain citizenship. Places like **Åland, Bermuda, Jersey** and **Malta** have put in place mechanisms which limit the access to property by foreigners, often in conjunction with time, language or financial criteria (e.g. Kemeny & Llewellyn-Wilson, 1998).

Powers over island branding for niche manufacturing. Research on smaller jurisdictions has identified various examples of business success that depend on an entrepreneurial flair that often manifests 'glocal' strategies, and the circulation between 'home' and 'away' of entrepreneurs has appeared as a clear indicator for such a success. Many of those who set up business on smaller states are 'transnationals', having spent long stretches of time living and working away from their home, and choosing to return after they had identified the clients and markets and had amassed the contacts, education and experience which allowed them a much better chance of being successful, export-oriented entrepreneurs: Fred Sevele, of **Tonga**, currently Prime Minister, or Ken Roberts, CEO of the Employers' Federation of **Fiji**, are high-profile examples (e.g. James, 2000; Baldacchino, 1999 respectively). Others have successfully managed to develop and nurture their innovative business ideas after accumulating skill and contacts working with large, often multi-national, companies. Others still were even more critically dependent on foreign capital, clientele or expertise to get their own local business going. Amongst these, there is an important category of entrepreneurs who are *not* citizens of small jurisdictions by birth but by choice or circumstance: they are resident expatriates or 'lifestyle entrepreneurs' (Ioannides & Petersen, 2003), lured to the small territory by a variety of ways, and especially by its typically quaint and enticing quality of life (Baldacchino & Vella Bonnici, 2005; Baldacchino & Fairbairn, 2006).

Meanwhile, in spite of the obvious difficulties associated with competitive export-oriented manufacturing from smaller states, especially if enisled, there are exceptional examples of success worth showcasing (Baldacchino, 2005b, 2005c). Pepper sauces from **Trinidad & Tobago,** rum from **Barbados** and **Jamaica**, decorative glass from **Malta**, cod liver oil from **Iceland**, sea plants and kava from **Fiji** and **Vanuatu**, and taro chips from **Samoa** are but a few examples of boutique, niche market products with high local value added and which ride on powerful island brands, the brainchild of various male and female entrepreneurs in smaller jurisdictions (Fairbairn, 2006; Novaczek & Stuart, 2006; Prasad & Raj, 2006; Punnett & Morrison, 2006; *see also* NISSOS Project at: http://www.islandstudies.ca/Small-Business-From-Small-Islands/).

Powers over rentable assets: By virtue of being specific jurisdictions in specific geographical locations, smaller states have every incentive to become 'norm entrepreneurs': creatively fashioning new products and new services that they can sell or lease to international buyers, thus accruing 'rents'. These include aid, licences, stamp duties, customs receipts, land or fishing taxes, leases for military bases, casinos, yacht berths, space tracking facilities, listening posts, trans-shipment services, bunkering, philately, sites for movies[12] and TV serials[13], retirement villas and summer cottages for expatriates, plus other so-called 'invisible receipts' (Dommen, 1981; Legarda, 1984: 43; Baldacchino, 1993: 40; Prasad, 2004). **Liberia** and **Panama** are the world's largest shipping

[12] The box office hit *Castaway* (starring Tom Hanks) was filmed on Monuriki Island (Yasawa Group, **Fiji**); the *Lord of the Rings* Trilogy was filmed in South Island, **New Zealand**; *Count of Monte Cristo* was filmed in **Malta**.
[13] So, for example, TV blockbuster series *Survivor* has been filmed in such locations as **Cook Islands, French Polynesia, Guatemala, Malaysia, Panama, Palau, Thailand** and **Vanuatu**.

registries by gross tonnage. **Macao** has overtaken Las Vegas as the world's gambling capital. The various Scandinavian countries (**Norway, Sweden, Finland, Denmark, and Iceland**) have emerged as world leaders in international diplomacy via the brokering of peace processes (e.g. Ingebritsen, 2006).

The internet is providing new opportunities: there are country code top-level internet domains (of which **Moldova**'s *.md*, **Nauru**'s *.nu*, **São Tomé y Principe**'s *.st* and **Tuvalu**'s *.tv* are of special interest to international clients). And there is online gambling. **Antigua & Barbuda** is today the smallest country to successfully litigate a case in the World Trade Organization's 12-year-history: it has slammed the USA over its illegal restrictions on internet gambling sites based overseas and asked other countries to join in seeking compensation from the USA for its failure to comply with global trade rules (International Herald Tribune, 2007).

Powers that usurp sovereignty: Tapping into international "free riding" and "rent seeking" is so vital that various smaller jurisdictions have opted *not* to pursue full sovereignty because their elites feel that such a status would not necessarily enhance but may rather erode their ability to tap largesse from larger states. This pragmatic response is one key explanation for the contemporary popularity of smaller, sub-national, often island, jurisdictions (SNIJs) which cherish autonomy but not sovereignty (e.g. Ramos & Rivera, 2001)[14]. From a SNIJ perspective, there are various plausible reasons for aspiring to an 'arms' length' relationship – but a relationship nevertheless - with a larger, 'mainland', benevolent patron. Connell (1994) and McElroy & Mahoney (2000) explain how the smaller players in these unequal dyads derive substantial economic advantages from the arrangement. These include: free trade with, and export preference from, the parent country; social welfare assistance; ready access to external capital through special tax concessions; availability of external labour markets through migration; aid-financed infrastructure and communications; higher quality health and educational systems; natural disaster relief; and provision of costly external defence. Many small islanders from sub-national jurisdictions look upon citizenship rights as a double privilege: it is a condition which grants the basis for property ownership and employment on their own island; while providing them with a passport for potential emigration and freedom of access to the territory and labour markets of the metropolitan power (Baldacchino, 2006b: 858). Autonomy without sovereignty may also facilitate tourism development because of easier terms of access and security. Meanwhile, 'paradiplomacy' can still be profitably pursued with increasing boldness (Bartmann, 2006). Most such special conditions emerge in the context of a history of a relatively benign colonial relationship: typically one dominated by strategic rather than economically exploitative interests. *The Economist* (2003a) has claimed that the island citizens of **Aruba, Bermuda** and **French Polynesia** are amongst the world's top ten richest people: all three are SNIJs, benefiting from customized linkages with the much larger states of the Netherlands, the United Kingdom and France respectively. Various other sub-national island jurisdictions partake of some form of profitable asymmetrical federalism with(in) a typically larger state (Stevens, 1977; Baldacchino, 2004; Baldacchino & Milne, 2006).

The configuration of legal capacities outlined above corresponds to the signature of the PROFIT cluster described earlier. These are jurisdictions keenly interested in: " … a shrewd immigration and cyclical migration policy; engaging in tough external negotiations concerning the use of mineral, natural, political or other imaginative resources; securing and controlling viable means of transportation; and luring foreign direct investment via very low/no taxes" (Bertram, 2006: 5). However, the MIRAB and SITE clusters described earlier remain viable in their own right, as long as they succeed in securing revenue flows.

[14] There are some 100 such jurisdictions, most of which are small. **Puerto Rico** and **Taiwan** would be amongst the largest. These SNIJs have received *36 times* more bilateral aid than comparable independent island states: US$3,099 per capita (Poirine, 1999: 843, Table 1).

Given the openness of small island economies to events beyond their control, and the likely high impact of any such events on the domestic economy, one should not be surprised to find evidence of dynamism: particular islands mutate as their environments shift. When a longitudinal perspective is adopted, the economies of small states tend to move in and out of a specific cluster. An increase or decrease in tourism; more or less aid provision; the success or failure of a key private industry or sub-sector (like fisheries or banking), can oblige a small economy to move (often quite swiftly) out of one cluster and into another. This dynamic flexibility and "rapid response capability" (Bertram & Poirine, 2007: 333) is a strategic (although it could also be a default) response to opportunity, especially necessary in situations where there is hyper-specialization of economic activity at a national level (Baldacchino & Bertram, 2008).

See Figure 1: Shopping around for the right Role Models
(Source: Baldacchino & Bertram, 2008)

Consider, by way of example, the economic lurching through history of the Caribbean island state of **St Lucia**, set up as a plantation economy following European discovery. Sugar drove the plantation economy for many decades; but was eclipsed by coal (1990-1930); which was in turn overtaken by bananas during the 1960s; tourism then surpassed bananas in revenue in 1993 (Fodor's Caribbean, 2007, *passim*). An attempt at low-skill, export-oriented manufacturing fuelled by foreign investment was largely unsuccessful (Kelly, 1986). With each (often dramatic) ebb of a specific "growth pole" and the emergence of another, the socio-economy suffers painful dislocation: unemployment and relative poverty set in amongst the losers who may fight against the change of fortune but who eventually are often forced to adapt somewhat; draw on social or state supports; switch to what is perceived as the next winning horse; or else, as is typical amongst small islanders, opt for exi(s)le (Bongie, 1998) or at least stint overseas.

A similar flexible specialization - in training and (self) employment - is an equally viable strategic response at the individual or household level (Fergus, 1991: 56). Longitudinal studies demonstrate an agile and entrepreneurial responsiveness by citizens of small states to shifting opportunities in different stages of their lives. Theirs is a deployment of "economies of scope", of polyvalency, or of "occupational multiplicity" – terms that have emerged following research in primarily Caribbean economies, such as by Lambros Comitas (1963) and Richard Frucht (1967). Being "a Jack, or Jill, of many trades" (Bennell & Oxenham, 1983) may not meet the blessing of international observers bred in a context where rigid specialization and core focus is the mantra. Yet: "… in small countries, the best may sometimes be defined in terms of flexibility and breadth, rather than depth" (Brock, 1988: 306; Farrugia & Attard, 1989; *also* Baldacchino & Bertram, 2008).

Social Policies to Match

The political autonomy enjoyed by many smaller states in the contemporary political system often translates successfully into the deployment of stronger measures of export orientation, economic liberalization, flexible adaptation and creative trans-territorial diplomacy, when compared to like-sized mainland territories (Poirine, 1998). These measures typically translate into an ideology of nationwide social partnership and high levels of domestic social capital. Many smaller states have very strong voter turnouts in democratic elections; political scientist Jeffrey Richards correctly put his finger on the "societal homogeneity and particularism associated with smallness; the strong self-conscious feeling of a sense of collective identity asserted against the outside world; the more intimate relationship of state and society" (Richards, 1982: 170). Less heroically, many citizens in smaller states just cannot afford not to vote, or to be seen not to (e.g. Hirczy, 1995).

Yet, there are real dangers ahead. Smaller states may lose or ditch local symbols and local cultural resources, embracing in their stead the enthralling icons of the metropole and its obsession on glamorous consumption. They become 'dwarf societies' (Harrigan, 1978), proudly mimicking the development policies presumably tried and tested in the metropole. Place succumbs to space, being an object of, and party to, cultural dependency and incorporation. Otherwise, in a condition of conscious incompetence, these symbols tend towards malaise, dejection, even despair; a sense of loss of ownership and loss of control over public policy; of fatalism; of a historical outcome which locates a specific people as creatures or victims, rather than creators or agents, of their predicament. This is a hopeless and disabling script; one of negative energy. It becomes all the more tempting and justifiable when the smaller state's jurisdictional capacities experience erosion with the passage of time.

In contrast, the arts and culture of vibrant economies with high social capital assets are 'glocal'. They move easily between home and away, are at ease with foreigners, and are often themselves ingenious vehicles for export promotion. They are expressions of confidence, of assertive intent to seek and tap exogenous markets, often with original products and services. In spite of having similar make-ups and therefore internally competitive, these smaller societies, manifesting pragmatism, have devised impressive cross-border and regional institutions, which already include regional fora[15], universities[16] and an emerging regional confederation of smaller states[17]. They embody a *"progressive* sense of place" (Massey, 1993: 66) - dynamized and rendered vibrant by a people keen to express, manifest and locate it centrally within their *Weltanschauung,* or life-world. A progressive sense of place, Doreen Massey continues, consists in "articulated moments in networks of social relations and understandings" (*ibid.*).

Judging from the lessons of both success and failure, what are the essential features of 'articulated social relations'? A review of the literature and examples of 'best practice' suggest that they should embody as many of the following five characteristics as possible (Baldacchino, 2005d):

1. Transcending geophysical delineations by reaching out to the (relatively large) diasporic hinterland of smaller state citizens abroad: crucial for markets, flow of people and ideas, investment and entrepreneurship. The rhetoric of the skills/brain drain also needs to be reined in; we have only ourselves to blame if we cannot hold on to or bring back those who have left, usually for their own good; the real challenge is not to prevent the mobile and able from leaving but to learn how eventually to tap their new skills for local purposes. One needs to cultivate an indigenous 'glocal' elite, one which is proud of its roots yet at ease in both local and global spaces (*after* Courchene, 1995; Robertson, 1995).

2. Ensuring that the administrative apparatus (the state, in a sovereign territory) is the embodiment of the nation. Has this machinery been captured and taken over by a comprador faction, leading to public disillusionment, particularly about its redistributive and representative functions? The political institutions inherited by many smaller postcolonial states lack a foundation in indigenous culture, are guided by elites of questionable skill and are managed by poorly trained bureaucrats who place personal and group interests above those of the state (Palmer, 1997: 217-227; Srebrnik, 2000: 65). Partisan politics can also take on damaging, proto-ethnic qualities: as in the case of **Fiji, Jamaica** or **Malta** (Baldacchino, 2002).

3. Fostering a public administration that believes in itself, and is not a victim of low self--esteem or inferiority complexes. A high level of popular confidence in the public service and political institutions is essential. An effective, educated and neutral bureaucracy, one which facilitates the operations of both state and civil society, is a powerful contributor to, as well as a

[15] Such as the Pacific Community, the Caribbean Community and the Indian Ocean Commission.
[16] Notably, the University of the West Indies and the University of the South Pacific.
[17] The Organisation of Eastern Caribbean States, with 7 members and 2 associate members. The OECS has its own currency, central bank, supreme court and has negotiated international agreements.

reflection of, high social capital.

4. Expanding on the nature of understandings, to incorporate all forms of human and other natural expression; in other words, seeking a holistic sense of place. This holistic vision, for example, cannot fail to include a keen environmental sensitivity, or to find expression in art, song and literature.

5. Embracing an openness to diversity and pluralism, with minimal social class and status barriers and tensions, in order to facilitate a flexible, supple, 'learning organization' setting (e.g. McClelland, 1967).

These characteristics are nothing less than the raw constituents of the 'geometry of power' (Massey, 1993). They are the manifestations of high levels of 'cool' and resourcefulness that can catapult the citizens of small states into the world with bursting confidence in their ability to handle - together - whatever may be in store. It is to these objectives that the social policies of small states should be addressed.

Furthermore, looking at economic activity in and for smaller jurisdictions *per se*, one intention should be able to breed and encourage locally based but high value added and export oriented entrepreneurial activity. For this to happen, it is important to encourage - rather than dissuade - local citizens to visit and spend *some* extended period of time as migrants in the metropole, for education or employment. The policy objective should be directed at the breeding and refreshing of a transnational diaspora, enticing citizens from smaller places to forge links with the metropole *and* maintain links with local life, culture and relations. This is the meaning of 'glocalization': being both global and local in orientation (Connell & King, 1999: 2; Jolly, 2001), exploiting what has been described above as both *roots* and *routes* (Clifford, 1997) and developing a "progressive sense of place" (Massey, 1993).

Were smaller state governments to encourage citizens to go 'away' - for reasons that include tapping foreign markets, studying in foreign universities and colleges, working with international firms, learning and practising new languages, meeting potential clients, befriending potential business partners and bumping into potential business ideas – then, the same smaller state governments may devise appropriate policies to lure such citizens back home, with its promise of a better quality of life. (Similar policies could also be the magnet which attracts expatriates to become localized entrepreneurs.) But, even if these citizens are <u>not</u> lured back, remittances already constitute an important fiscal transfer from the metropole for many smaller economies (e.g. Prasad, 2004). This flow could be complemented by a transfer of *knowledge* and *human* capital. Even better, rather than the zero sum game of 'brain/brawn drain/gain', it may be time to switch to a discourse of brain/brawn 'rotation' or 'circulation' that speaks to a different reality of cyclical mobility, trans-nationalism and identity (Baldacchino, 2006c; *The Economist,* 2005b).

Finally, local citizens of smaller jurisdictions should be critically confronted with the evidence, rather than the myth or the hype, surrounding their size. They should be shown – by means of hard evidence - that the paradigm of economic vulnerability, or of its antithesis, resilience – still standard fare in most conventional economics textbooks that consider the challenges of smaller size - can be usurped (e.g. Baldacchino & Vella Bonnici, 2005; Bertram & Poirine, 2007).

For What Kind of Development?

Meanwhile, the deployment of such jurisdictional powers is usually intended for policy objectives. As long as these speak to basic human rights – basic literacy, access to clean water, the 8 UN Millennium Development Goals (http://www.un.org/millenniumgoals/) - there is usually general agreement as to their validity and the relevance of their pursuit via appropriate public policy measures. Other key objectives, however, may have ideological foundations, or connect to specific conceptualizations of "the good life'. Thus jurisdiction may be used to increase or cut taxes; to widen or reduce social inequality; to enhance or reduce the role of the state in economic development; and to protect local industries or expose them to trans-national competition.

John Galtung (1996: 131) reminds us that, in spite of much talk about sustainability, most definitions of 'development' still imply either GNP growth and/or Western models of modernization. Most observers continue to examine and assess the "success" of smaller (and not so smaller) states on such criteria. Smaller states need to remain critical of these, also because they could easily fail to identify key strengths, just because they are not monetized or otherwise difficult to measure. Social networks are strong, scapes are valuable, political activism is high, and reciprocity is a key feature of socio-economic life. These features – along with healthy environments, vibrant cultures and safe communities – could prove to be very attractive qualities of a 'way of life' that appears to have been lost in many a large metropolis. Jurisdiction needs to be deployed to value, preserve and enhance such qualities.

Jurisdiction also needs to support and make room for civil society to participate in sustaining these features. Given the preponderant role of government in small economies, and the absence of a strong industrial manufacturing sector – **Malta, Fiji, Mauritius** & **Trinidad and Tobago** are the main exceptions here[18] - civil society is often represented by community organizations and faith-based /church-affiliated units, apart from significant corporate players in the services sector – like hotels or banks (easily the largest private sector employers). Those small states with large primary sectors must contend with a strong, often protectionist, agricultural lobby.

Appropriate and Measurable Indicators

With these ideas in mind, the flexing of the power of jurisdiction by smaller states, and the extent to which any such strategies make for a diversified economy, can be determined and assessed on the basis of the following seven indicators:

- The smaller state's percentage of total imports of goods and services that are made up by: (1) merchandise exports; (2) tourism receipts; (3) remittances; (4) bilateral and multilateral aid flows; (5) revenues from financial services; and (6) a residual for 'any other income'.
- Powers over free movement of persons (workers' remittances and compensation of employees, received (US$); workers' remittances and compensation of employees (% of GDP); % of the first-generation diaspora as a percentage of the resident population of a smaller state.
- The prevalence of short and long term circular migration across time - measured by the percentage of adult citizens who have spent minimum periods of time (e.g. 12 months) away for work or education.
- The securing of access by smaller state citizens to foreign labour markets - via dual citizenship provisions and any other, special access concessions.
- Powers over rentable assets (revenue generated from military or tele-communications bases, royalties received).
- Involvement and impact of smaller states in international and regional fora (negotiating votes in international and regional fora, or receiving payments through foreign diplomacy);
- Other original 'development strategies', such as trust funds, philately, rent/sale of domain names.

[18] The largest employer in the manufacturing sector of a small state is often a brewery.

Conclusion

> "Small countries are not a simply-scaled down versions of large countries. They have an ecology of their own. We believe there is a cluster of factors which suggest particular strategies in the smaller states of the world" (Commonwealth Secretariat, 1986: 5-6; Bray, 1990: 266).

> "It has been forcefully argued that small … economies cannot be simply looked upon as bounded entities expected to attempt and succeed in developing a productive capacity from inherent resources. This is a nationalist fallacy which fails to appreciate that small [jurisdictions] are organic parts of a wider economic system from which, on balance, they derive substantial benefits (Kakazu, 1988).

The flow of cash, goods and people across borders is especially lucrative and unavoidable for the smallest territories: where the interface with the world is of much greater significance than the local land area. Successful smaller states and their citizens are parts of a larger set-piece, a trans-national formation of locales, spaces of flows, people, beliefs, values and practices. This cross-territorial meshing creates conditions for the generation of ample doses of both bridging and bonding social capital (Groome Wynne, 2007, *after* Putnam, 2000). It also makes small states amenable to federative initiatives, especially where they are geographically clustered. At home, smaller state citizens become experts at "managing intimacy" (Lowenthal, 1987: 32); living with a ubiquitous state; and containing disagreement, all in the interests of stability and compromise. Partisan politics is most damaging in two-party legislatures, where political parties take on clan characteristics, and those who are not with you are against you. Most criticism and innovation to the smaller state are suggested and driven by 'outsiders', who have that discretion that allows them to trump inbuilt conservatism and administrative inertia (Sutton, 2007: 204). They are entrepôt sites, which tend to exploit externally induced change, subordinating it to local advantage, mitigating specialization with nimbleness. Their economic success is part of a deliberate regionalist or internationalist engagement (Warrington & Milne, 2007). With their entrenched societal corporatism, smaller states continue to prosper: not because they have found a solution to the problem of change, but because they have found a way to live with change (Katzenstein, 1985: 211; 2003: 30). It is the awareness of this contextualization that explains the resilience, relative prosperity and sheer existence of smaller states, just as much as it explains their vulnerability.

The citizens of smaller states tend to enjoy above average levels of Gross National Income *per capita*, as well as high levels of literacy, health and life expectancy. But they also enjoy what typically remains unmeasured: high stocks of social capital; family and community bonding; a disposition towards economies of scope and multi-functionality; vibrant democratic participation; a dynamic diaspora; political stability; and relatively large public sectors which promote more egalitarian societies. Note that so-called 'poorer' states may do surprisingly well on alternative indices, and 'richer' states may do surprisingly badly: thus, **Vanuatu** was ranked 207th out of 233 economies when measured against Gross Domestic Product; but emerged as the happiest nation on the planet in a 2006 survey, while the United Kingdom is ranked 108^{th} on the same survey (BBC News, 2006). A stronger appreciation of the pillars of sustainable development - social justice, ecological balance, cultural vibrancy and self-reliance (e.g. Nurse, 2006) - would also help to raise timely questions as to what 'development' is all about.

In summary, this paper has sought to present a more positively critical assessment of the predicament of smaller states, and how their jurisdictional status and powers can be conceived and converted into economic resources. This is not to escape or shy away from an acknowledgement of real challenges: from the ravages of cyclones and hurricanes, to the snail's pace of administrative reform; from the threats of drug trafficking and money laundering, to the loss of skilled labour and the looming loss of land with sea level rise. It should however make a welcome change to look at the glass as half full rather than half empty. A tightly focused, agency-driven, global research exercise could investigate in more detail how the more successful smaller societies around the world have risen to the occasion and have overcome any specific historical conjectures and crises.

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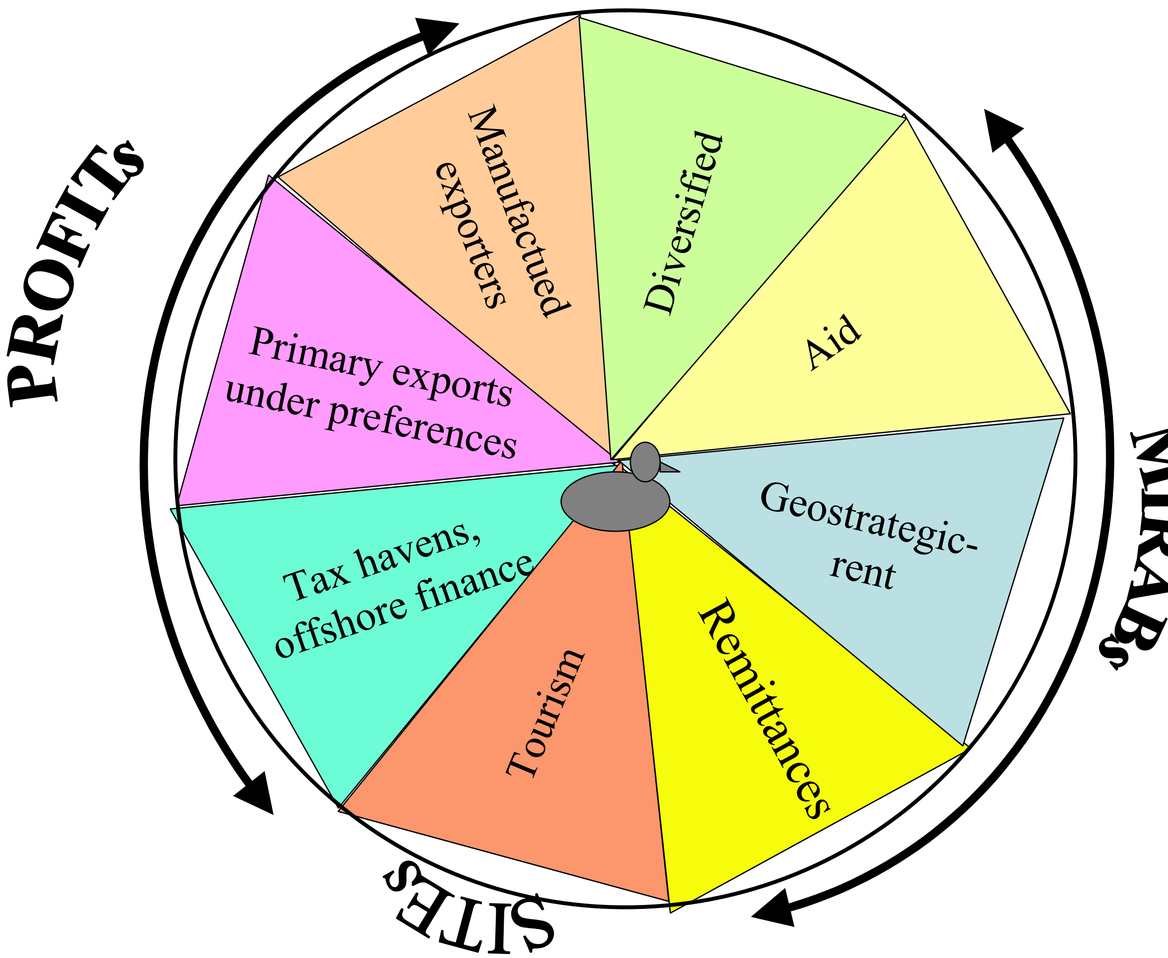
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