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Political Survival and Economic Development in Microstates: The Cases of Liechtenstein, the Cook Islands and Niue

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Abstract
The 21st century international system contains many small polities of varying degrees of self-governance, ranging from fully sovereign states to mere autonomies or special administrative regions. Their existence provokes scholarly debates on both the effects of smallness on domestic institutions and the role of diminutive units in an international system dominated by large powers. In particular, it raises the question of the meaning of sovereignty, statehood and politico-economic viability in the face of serious geographic and demographic challenges.

In this context, one group of tiny states appears as especially intriguing. Due to the constraints imposed by their smallness, these states function in close relationships with at least one larger state acting as a benign protector of their political and economic viability. The existence of such peculiar arrangements, together with these states’ minuscule size and relative obscurity has led to some confusion regarding their political status and place within the international system. Much of the puzzlement owes to the fact that such polities have rarely, if ever, been studied together as a separate analytical category within the broader scholarship of small states and territories.

This thesis seeks to explore and analyse these unique polities and offer some insights into the determinants of their political survival and economic development. It begins by offering a novel, but historically justified, conceptual approach to defining and identifying them. While most of the literature uses the term “microstate” to describe some of the smallest political units in the international system, this label tends to be used in an inconsistent and weakly justified manner. In many cases, the efforts to identify microstates and distinguish them from other types of states are limited to suggesting arbitrary and inconsistent quantitative cut-off points applied to collections of polities often representing an entire spectrum of political statuses.

As an alternative to this problematic approach, this thesis argues that microstates can credibly be conceptualised as modern protected states, i.e. sovereign states that have been able unilaterally to delegate some of the attributes of their sovereignty to larger powers in exchange for benign protection so as better to manage their geographic and demographic constraints. The combination of quantitative conditions along with the phenomenon of benign protection is what truly differentiates microstates from both small and other states. Seen from this perspective, micro-statehood indicates not just small size but also deeper and more complex political consequences.

In its quest to understand how certain states succeed in becoming protected states and how they manage to maximise the political and economic benefits offered by their arrangements with larger powers, this thesis proposes a theoretical framework aimed at explaining both the process behind the formation and the continuous existence of benign protection and the different ways in which the relationship can be managed for the purpose of political and economic gain. This thesis studies three examples of microstates: Liechtenstein, the Cook Islands, and
to a lesser extent, Niue. By analysing their respective histories of interactions with larger powers, it explores empirically the dynamics of micro-statehood and benign protection. The central argument of this thesis is that small size and lack of geopolitical importance are not necessarily handicaps but can be positive factors permitting, given favourable historical circumstances, certain political units to secure and sustain unusually advantageous arrangements with larger powers. The thesis also offers a number of insights into the effects of geographic and demographic constraints on the politico-economic well-being of some of the world’s smallest political units.
To Kamila,
my wife and travel companion,
whose support, patience and love have allowed me to complete this thesis.
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Chapter 1: Introduction

The political map of the world in the 21st century contains a significant number of very small distinct political entities with defined territories and varying degrees of self-governance. Some of them are independent in the conduct of their domestic and foreign affairs. Others, while sovereign, delegate some of their attributes of sovereignty to bigger neighbour or neighbours. Finally, there are those communities that are formally parts of larger powers and yet have a high degree of autonomy, especially at the domestic level.

While tiny polities are hardly a novelty in international relations (Dommen, 1985, p. 17; Sundhaussen, 2003), their current multitude and position in international relations and global economy have both fascinated and perplexed modern historians, sociologists, political scientists and economists (e.g. Benedict 1967; Harden 1985; Hintjens & Newitt 1992; Hobsbawm 1992; Parrish 1990; Reid 1975; Plischke 1977; Catudal 1975). As noted by Simpson (2007, 29), “there is an extensive and expanding literature concerning small states”. Many scholars have been interested not only in the role that small states play in the world dominated by great powers (e.g. Amstrup 1976; East 1973; Goetschel 1998; Harden 1985; Hey 2003; Keohane 1969; Mohamed 2002; Neumann and Gstöhl 2004) but also in the possible effects of diminutive geographic or demographic size on various states’ economic performance (e.g. Armstrong and Read 1995, 1998; Baldacchino 2006; Grydehøj 2011; Katzenstein 1985; Mehmet and Tahiroglu 2002; Milne 2000; Srinivasan 1986; Sutton 2011; Tõnurist 2010) and political institutions (e.g. AJPA 1994; Alesina 2003; Bray and Fergus 1986; Schumacher 1973; Veenendaal 2015). This extensive research fits into “a long tradition in the history of political thinking in Europe” (Amstrup, 1976, p. 163) concerned with the effects of size on states’ behaviour and institutions.

In this context, one group of tiny states appears as especially intriguing. Due to the constraints imposed by their smallness, these states function in close relationships with at least one larger state acting as a benign protector of their political and economic viability. The existence of such peculiar arrangements, together with these states’ minuscule size and relative obscurity has led to some confusion regarding their political status and place within the international system. Much of the puzzlement owes to the fact that such polities have rarely, if ever, been studied together as a separate analytical category within the broader scholarship of small states and territories.

One of the key characteristics of this rich scholarship is the problem it has with precisely defining “its own subject, 'the small state’” (Amstrup, 1976, p. 165). As noted by Maass (Maass, 2009, p. 66): “despite the existence of a substantial specialised literature on small states and the existence of small states in large numbers, the phenomenon of the small state remains vaguely defined, by scholars as well as practitioners.” Notwithstanding the long-standing problem of finding meaningful ways to differentiate between small and large states, more recently
scholars have recognised that some polities are so diminutive and institutionally peculiar they need to be studied separately from both large and small states. This realisation has led to the creation and popular usage of an assumingly distinct, albeit not very precise (Warrington, 1994), category of very small political entities: the microstates. This concept appears as both relevant and essential to this thesis as its main focus centres on the politico-economic viability of some of the world’s smallest and most institutionally unique polities.

Presumably, microstates are polities distinctive enough, to merit being treated separately from both “normal” and “small” states (Warrington, 1994). After all, if they were only quantitatively different from other political units, then looking at them in isolation from larger states would make little sense from the scholarly point of view. For political scientists and economists, it is not merely geographic or demographic smallness in itself that should matter, but whether or not smallness produces any significant qualitative consequences. In other words, the microstates “as a category of analysis would only be useful in terms of the characteristics of these states and, the relevance of such characteristics to the role they play in the international system” (Mohamed, 2002, p. 3). As such, any viable definition or concept of microstates must facilitate a clear identification of qualitatively distinct political units whose peculiarity derives from certain geographic and demographic constraints.

Unfortunately, it seems that the existing scholarship on microstates lacks such a definition (Orlow, 1995). While scholars appear to agree that a microstate is simply a “very small state”, there is little consensus (Warrington, 1994), or even reasoned argument, over what constitutes both “very small” and “state”. Consequently, the current definitions of microstates are hampered by serious problems of inconsistency, arbitrariness, vagueness and inability to meaningfully isolate qualitatively distinct political units.

As an alternative to this problematic approach to defining and identifying microstates, this thesis offers a novel, but historically justified, definition of microstates. I argue that a useful and viable way of looking at microstates could be to see them as modern protected states, i.e. sovereign states that can unilaterally depute certain attributes of sovereignty to larger powers in exchange for benign protection of their political and economic viability. Importantly, these unique institutional relationships with larger states are both necessitated and permitted by microstates’ real or perceived smallness and geopolitical insignificance. From this perspective, microstates are more than merely very small states, but rather are unique political entities worthy of a focused academic enquiry. This approach to the study of microstates would permit not only to address the lack of “terminological clarity and theoretical coherence” (Sieber, 1983) that characterizes the current small and micro states scholarships but also

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1 This is the currently most popular name for the smallest sovereign polities. Prior to World War Two such terms as “Lilliputian state” or “ministates” were more prevalent. In general, all these terms seem to have been used interchangeably in discussions on the world’s smallest political entities. In line with the practice, I will use the three terms interchangeably, with some attention to the historical and academic practice.

2 As noted by Crowards (2002) regarding the issue of determining what constitutes “small size” in international politics.
to study both the political phenomenon of protected statehood and the peculiar politico-economic situation of some of the world’s smallest political communities.

Therefore, a new, comprehensive and qualitative definition of microstates is both needed and long overdue. Without it, studies on very small political units face the problems of not only justifying the selection of their research objects but also making their findings useful and relevant to other researchers. At the same time, it is important to note that the aim of introducing the new definition is not to question or reject the rich body of literature dedicated to studying tiny polities. Instead, the suggested conceptualization of microstates could help to organise and enrich the existing scholarship by offering a method for isolating qualitatively distinct political entities. Doing so would also permit scholars to meaningfully draw clear boundaries between the otherwise often confused categories of sub-national jurisdictions, microstates and larger states. In the context of this thesis, such a definition will be a necessary and useful tool "establishing the basic parameters for analysis, offering a conceptual framework and identifying cases or examples for more detailed study" (Simpson 2007, 26–27).

The key aim of this thesis is to understand why and how certain polities become and continue to exist as microstates understood as modern protected states. As such, this thesis is concerned with both their political survival and economic well-being, and it seeks to explore how microstates can safeguard their sovereignty, maximise their economic opportunities and achieve long-term prosperity within a benign protection framework. It is the purpose of this thesis to understand not only what economic and political benefits can be gained by microstates directly from their arrangements with protecting powers but also what determines the type, scope and effects of these different benefits.

Therefore, the main research question asked by this study can be formulated as:

“What determines microstates’ political survival and economic development as modern protected states?”

This research question is supplemented by the following sub-questions:

- “How do certain entities become microstates/protected states?”
- “How do these entities maintain and use their special relationships with larger states?”
- “What are the effects of different ways of managing benign protection?”

To answer these questions, the thesis introduces a theoretical framework of “managed protection” which seeks to explain the creation, maintenance and specific shape of benign protection arrangements. I argue that microstates

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3 While most, if not all, of the so-called sub-national jurisdictions are small, their peculiarity and attractiveness to researchers seem to lie in their lack of statehood and continuous existence within their metropolitan structures (e.g. Baldacchino 2008). Consequently, it does not appear as either useful or justified to lump them together with sovereign states into the same analytical category merely because of their shared, and arbitrarily selected, geographic or demographic features. In fact, this has been recognized by some scholars who differentiate between microstates and sub-national jurisdictions, but at the same time still continue to identify these units on the basis of arbitrary quantitative thresholds (e.g. Grydehøj 2011).
maintain their politico-economic viability and expand their economic opportunities via successful management of their relationships with their respective protecting powers. As such the “managed protection” framework is a focused adaptation of Baldacchino’s (1993) original framework of “managed dependency” that has informed scholars interested in understanding the political economy of various diminutive polities. Baldacchino sought to explain how small political entities (both sovereign states and sub-national jurisdictions) manage to secure prosperity by successfully “manipulate[ing] the larger countries (or regional blocs) to create a local advantage for themselves” (Hampton & Christensen, 2002, p. 1663).

The managed protection framework also focuses on the importance of managing external relations for securing prosperity. However, unlike the broader managed dependency framework, managed protection is applied to a narrow set of diminutive polities, namely to those microstates understood as modern protected states. As such, it aims to explain the process of obtaining, maintaining and potentially expanding economic and political benefits derived from a specific type of durable inter-state arrangement, as distinct from ordinary interactions between various types of small polities and larger states or groups of states.

At its core, the managed protection framework proposes that successful management of the relationship between microstates and their respective protecting powers guarantees not only survivability but significant economic opportunities that can lay the foundations for economic development and prosperity. As such, somewhat paradoxically, the economic success linked to delegating some of the attributes of sovereignty to a larger state can increase a microstate’s political standing. At the same time, I suggest that the relationship between microstates and their protecting powers can also be mismanaged and lead to an increased dependence on the protecting power and consequent diminishing of political importance. The empirical chapters of this thesis will demonstrate how various microstates have managed or in some cases mismanaged their arrangements with larger states.

The main argument of this thesis is that the key factor that makes the formation of modern protected statehood possible is the smallness and perceived lack of significance of the small polity. With the help of favourable historical circumstances and leadership, small states manage to persuade much larger states to act as their protectors and to grant them certain key privileges and/or assistance either unconditionally or in exchange for a rather benign and limited accommodation to the priorities or preferences of the protector in matters of policy. Such benevolent relationships can be sustained for as long as the protected state is perceived as small and incapable of posing any significant burden on the protecting power. While benign protection alone can ensure economic viability and political survival, microstates can maximise their economic opportunities, achieve high levels of development and increase their political power through successful management of their relationship with the benign protector.

In order to verify the proposed theoretical model and accompanying expectations on the basis of qualitative and quantitative data and methods described in Chapter 3, I chose to empirically examine three cases of microstates: Liechtenstein, the Cook Islands, and to a lesser extent, Niue. As I demonstrate throughout the thesis,
all three states can be classified as microstates understood as modern protected states, on the basis of not just their small size but also its qualitative consequences, namely the delegation of certain attributes of sovereignty by these states to larger states in exchange of benign protection of their politico-economic viability.

This thesis is structured as follows. Chapter 2 highlights and explores the limitations of the current approaches to defining small and microstates and presents the arguments for conceptualising microstates as modern protected states. Based on these foundations, Chapter 3 introduces the theoretical framework guiding this thesis. It explains the process through which certain entities become microstates/modern protected states. Furthermore, it examines the potential impact of benign protection on economic development in microstates. It also argues that it is possible to identify two types of benign protection (active and passive), each with different effects on the dynamics of politico-economic development in microstates. Additionally, it presents the consolidated methodological approach of the thesis. Chapters 4 and 5 look at the specific case studies, with a strong emphasis on the historical developments that led to the formation of the examined microstates, as well as an analysis of both the factors that have sustained these relationships and the impact of benign protection on their political survival and economic development. Finally, Chapter 6 offers a summary of the findings and explores the avenues for future research.
Chapter 2: What is a microstate? Towards a new definition of Micro-Statehood

This chapter is divided into three sections. The first section offers a brief overview of the history of and reasons behind the current academic interest in small and very small polities. It also discusses the emergence of the small states studies and the problems encountered by this discipline with defining “its own subject matter” (Amstrup, 1976, p. 165). The purpose of this section is to demonstrate the importance and relevance of research on the functioning of small polities, as well to locate the microstates scholarship within a broader discipline with which it shares many of the definitional problems. The second section presents the current approaches to defining microstates as well as their respective shortcomings. Finally, the third part of chapter introduces and argues for the adoption of a new definition of microstates.

Small States in International Politics and Academia

The Perplexing Rise of Small States

The “outburst of cartographic activity” (Herr, 1988) that followed the two World Wars and the wave of decolonisation resulted in the creation of a significant number of small political units. Their proliferation was met with both academic interest and a significant degree of scepticism. After all, the dominant understanding of economic and political viability offered little more than pessimism regarding the continuous survival, not to mention the success, of small political units (Baldacchino 1993; Hobsbawm 1992). While many of the ancient and enlightenment philosophers “emphasized the benefits of small and homogeneous polities” (Alesina, 2003, p. 303) and perceived the small state as an attractive alternative to large political units supposed to be tyrannical and corrupt, the viability of such small entities was “regarded as precarious” (Amstrup, 1976, p. 162).

Prominent Greek philosophers dedicated a lot of attention to the question of appropriate size and scale for political institutions (Livingstone, 2010). Aristotle observed that “to the size of states there is a limit, as there is to other things, plants, animals, implements, for none of these things retain their natural power when they are too large or too small” (Jowett, 1943, p. 287). As noted by Livingston (2010) “Plato and Aristotle thought the function of political association is to achieve human excellence. Since virtue is acquired through emulation of character, face to face knowledge is required of political participants, and this places a limit on the size of the polity”. Consequently, both Aristotle and Plato had a clear preference for small (or even very small, judging by our modern standards) size. As observed by Alesina (2003, 303): “Plato calculated the optimal size of a polity down to the precise number of households, namely 5,040 heads of families. Aristotle argued that a polity should be no larger than a size in which everybody knows personally everybody else. In fact, he argued in The Politics that ‘experience has shown that it is difficult, if not impossible, for a populous state to be run by good laws’”.

For instance, according to David Hume (1987, 119–120): “A large government is accustomed by degrees to tyranny; because each act of violence is at first performed upon a part, which, being distant from the majority, is not taken notice of, nor excites any violent ferment. Besides, a large government, though the whole be discontented, may, by a little art, be kept in obedience; while each part, ignorant of the resolutions of the rest, is afraid to begin any commotion or insurrection. Not to mention, that there is a superstitious reverence for princes, which mankind naturally contract when they do not often see the sovereign, and when many of them become not acquainted with him so as to perceive his weaknesses. And as large states can afford a great expense, in order to support
This perception of vulnerability was further enhanced in the 19th century when the politico-economic success of such large countries as France or Great Britain and the rise of the ideas of nation-states and great powers, made many of the contemporary thinkers and politicians see large size as greatly beneficial from the economic and geopolitical perspectives (Amstrup, 1976; Hobsbawm, 1992; Neumann & Gstöhl, 2004). Consequently, while in the previous centuries "the small state was the norm" (Peterson, 2006, p. 735)\(^6\) by the 19th century even the existence of independent Belgium or Portugal appeared as "ridiculous" because of their perceived small size (Hobsbawm, 1992, p. 31). Similar attitudes prevailed through much of the 20th century with some authors claiming that small states are economically and politically inefficient "anachronisms" that could even be seen as "dangerous to peace" because of their attractiveness to "powerful and unscrupulous neighbours" (Catudal, 1975, p. 187).

And yet, despite the repeated predictions of the demise of small polities (Buffet & Heuser, 1998, p. 15), the second half of the 20th century was marked by not only their unprecedented multiplication but also politico-economic success. In general, it seems that diminutive political entities enjoy today more security, prestige and influence than "at any other time in history" (Hey, 2003, p. 1). Furthermore, contrary to the pessimistic predictions (e.g. Benedict, 1967; Marcy, Scitovsky and Triffin in Robinson, 1960), it is now evident that many of the small and very small sovereign political communities, and even more so the zones of special jurisdiction, can function as well or even better than large national economies (Armstrong & Read, 2000; Baldacchino, 1993; Bray & Fergus, 1986a; Dommen, 1980; Jalan, 1982; Mehmet & Tahiroglu, 2002)\(^7\). It has been suggested that this phenomenon might be a by-product of a revolution in transport and communication which, coupled with trade liberalisation, theoretically permit small states and other types of political units to trade with or provide services, mainly financial, directly to the global economy (Alesina, 2003; Alesina & Wacziarg, 1998; Armstrong & Read, 1998; Hobsbawm, 1996; Palan, 2002; Van Fossen, 2007). While not without merit, such arguments alone fail to explain why and how diminutive polities in particular (Armstrong & Read, 1998; Baldacchino & Bertram, 2009; Mehmet & Tahiroglu, 2002) have been so successful at making a use of the new economic and technological opportunities\(^8\). After all, the same global changes have not led to an economic development of so many larger political units, most notably in Africa. In fact, it seems that at least some of the tiny polities have even

\(^6\) As noted by Abramson (Abramson, 2016, p. 3), "the period between 1500 and 1800 was one in which small political communities not only persisted but remained the typical form of political organization" and in that era small states were arguably "more likely to survive than their larger counterparts".

\(^7\) In fact, their overall performance has been so impressive that it has served as an inspiration and justification for countless new separatist movements (Hobsbawm, 1996, pp. 281-282)

\(^8\) To be clear, not all diminutive polities have been successful. The cases of Nauru or Haiti are clear indicators that smallness is no guarantee for prosperity. However, as noted by Baldacchino and Bertram (2009, 156) "the general global picture for small (mainly island) states is positive. That for non-sovereign (mainly island) jurisdictions is even better."
surpassed the old, well-established Western economies in terms of all major economic indicators per capita – a development that certainly comes as a surprise to the proponents of various theories asserting that globalisation primarily benefits old capitalist centres (e.g. Simpson, 1990).

These developments have thus resulted in an increase of scholarly interest in diminutive polities and the subsequent emergence of an extensive small states scholarship (for an excellent overview see: Jazbec, 2001, pp. 36–40) centred around the idea that small size is of qualitative significance (Warrington, 1994) and that it “may in fact be a source of comparative advantage” (Mehmet & Tahirolgu, 2002, p. 152). The problem is that, despite decades of academic enquiry, there is still no satisfactory or widely accepted definition of what constitutes small size and which states should be labelled as “small” (Jazbec, 2001; Neumann & Gstöhl, 2004; Orlow, 1995; Sutton & Payne, 1993).

How Small is Small?
From the very beginning, “research on small states in the international system has been hampered by the problem of a definition of its own subject matter, the ‘small state’, and a substantial part of the literature is concerned with this problem. Nevertheless, no satisfactory definition has been presented” (Amstrup, 1976, p. 165). While the existence of small states does not seem to be questioned, the problem has always been to meaningfully separate them from other analytical categories (Jazbec, 2001, p. 36). The main reason for this situation has been the vague nature of the concepts of size and smallness (Amstrup, 1976). In order to determine what constitutes “small”, scholars have suggested a number of approaches ranging from “linking size with some measurable state attributes” (Jazbec, 2001, p. 39), through defining small states by what they are not, i.e. contrasting them with “great” and “middle” powers (Neumann & Gstöhl, 2004, p. 4) to declaring smallness purely a matter of perception (Rothstein, 1968). All of these approaches have inevitably suffered from the problems of arbitrariness, incoherence and lack of clarity (Armstrong & Read, 2002; Baldacchino, 1998; Bray, 1987; Jazbec, 2001; Srinivasan, 1986; Taylor, 1969; Tõnurist, 2010). In effect, the concept of small states remains so “vague and contested” (Sutton, 2011, p.150) that some scholars have even chosen to “avoid the entire problem of definition either because it is irrelevant to them or because it seems impossible to solve” (Amstrup, 1976, p. 165).

The Existing Approaches to Defining Microstates
Despite the problems with determining what constitutes a small state, the last decades have seen an expansion of the literature dedicated to the study of presumably even more distinct polities, the so-called “microstates”, i.e. “the smallest of the small states” (Neemia, 1995, p. 4). The most basic definitions of the term microstate suggest that it is simply “a very small state” (Richards, 1990,

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9 It is worth noting that while the rise in the number of small states as well as in their politico-economic importance began shortly after the Second World War, due to the preoccupation “the emergent bipolarity and the Cold War” it took social scientists a couple of decades to appreciate the importance and peculiarity of this development (Neumann & Gstöhl, 2004, p. 8).

10 As notes by Maass (2009, 70), “the small state exists regardless of any inability to pin-point it down as a ‘separate category’ in the context of the ‘social world.’”
or one with a size “so small as to invite comment” (Warrington, 1994, p. 4). The problem is that the meaning of neither “small” nor “state” is unambiguous (ibid.). Consequently, all studies on microstates face the challenge of selecting the appropriate criteria for size and deciding which entities can be called states (Bray, 1987). As this section will demonstrate, the efforts to define microstates on the basis of the above composites have been hampered by severe problems and limitations, often similar to those hampering the small states scholarship.

The Problem of Size

Quite unsurprisingly, much of the search for a definition of microstates has been almost exclusively focused on the question of size, i.e. “the independent variable” (Amstrup, 1976; Jazbec, 2001). It has thus been primarily concerned with determining how small merits the label “micro”. Yet, in order to do so, one must be able to offer a viable way of not only measuring size but also of drawing a line between micro, small and large. Both of these endeavours can be seen as inherently problematic.

For a start, there are numerous ways of measuring a country’s size. These include “population, geographical area, economic activity either singly or as composite indices” (Warrington, 1994, p. 4). Some scholars have argued for combining the above criteria together to create a ranking of states based on some composite score where microstates would simply be the states occupying the lowest positions (e.g. Reid, 1975). Such suggestions have been criticised on the grounds that making combined calculations would perhaps be too “cumbersome” and “arbitrary” (Neemia, 1995, p. 14). In result, more academics have tended instead to select one single “variable as a yardstick in the classification of states according to size” (ibid.). While in some cases territory has been used for this purpose (e.g. George, 2009; Mehmet & Tahiroglu, 2002), it seems that population size has gradually become the most commonly used variable (Neemia, 1995) primarily because of its popularity in the previous literature (Crowards, 2002, p. 143). Yet, while focusing on a single parameter might appear more convenient or reliable, it is also quite problematic. One can argue that countries similar in one geographic or demographic aspect can nevertheless be so different on all others that putting them into one category makes little sense. For instance, Singapore has roughly the same size of territory as Tonga and yet it is difficult to imagine more contrasting states when it comes to such matters as economic performance, military strength and international standing. Similarly, while Iceland has similar population size as Brunei, there is little more that these two countries have in common. Consequently, it is unclear what benefit could be derived from grouping such diverse entities together on the basis of their single shared quantitative feature.

In any case, the problems with determining micro-size are not limited to choosing the right quantitative geographic or demographic attribute(s) for measurement.

11 Some realist scholars, due to their preoccupation with power, seem prefer the term “the possession of power resources” rather than “size” (e.g. Oest & Wivel 2010). The two effectively refer to the same set of “capabilities such as population, territory or gross domestic product (GDP)” (ibid.).

12 As it was argued by Amstrup (1976) regarding small states, it is perhaps assumed that a satisfactory definition of the independent variable would make it possible to “predict something about dependent variable, viz. the behaviour of [micro] states".
More importantly, there is little consensus on the issue of which particular quantitative threshold should be used for isolating microstates from larger political units. Some scholars choose to apply very precise quantitative cut-off points to a broad spectrum of indices. For instance, according to Taylor (1969) a microstate is an entity with a land area not larger than 144.822 square kilometres, a GNP smaller than 1.538 million$ and a population of less than 2.928.000. Others prefer less rigid thresholds and apply them mostly to population size. Yet, even then there are significant differences in the suggested ceilings. While 1 million inhabitants seems to be the most widely used cut-off point (e.g. Baldacchino, 1993; Boyce & Herr, 2008; Sutton & Payne, 1993) the literature presents many alternative propositions ranging from 100,000 (Sutton, 2011, p. 145) to 10 million (Parrish, 1990, p. 41). In result, the current literature on microstates is “replete with a multiplicity of population cut-off points” that are not only weakly justified, but that also demonstrate “the lack of consensus among writers and observers of microstates” (Neemia, 1995, p. 15). In consequence of the above issues much of the microstate scholarship consists of numerous arbitrary and inconsistent definitions of micro-size that differ on the account of both what to measure and at what point to separate the micro from other magnitudes (Dommen, 1985, p. 10; Warrington, 1994, p. 4).

Arguably, the broader enquiry into what constitutes a small size is hampered by very similar problems. One response to these challenges in the scholarly research on small states has been to argue for rejecting definitions of small size (or small states) “based purely on objective or tangible criteria” (Rothstein quoted in Keohane, 1969, p. 292). What they suggest instead is to consider smallness as a “perceptual problem” (Amstrup, 1976, p. 166) or “merely a frame of mind, a subjective condition which pervades the mind-set of the actor thus moulding horizons and agendas for action and perception”(Baldacchino, 1993, p. 159). From this perspective, a small state would be one that either perceives itself or is perceived by others as such (Neemia, 1995, pp. 68–69; Geser cited in Neumann & Gstöhl, 2004, p.5). This approach, while not without its own serious limitations, might seem to offer a more justified and viable way of identifying smallness than any method reliant on arbitrary cut-off values. However, when it comes to identifying microstates it becomes inherently problematic. Oest and Wivel (Oest & Wivel, 2010, p. 432) have rightly pointed out that any definition of smallness based exclusively on perception obscures “the distinction between microstates, small states and middle powers” and as such cannot be useful for isolating microstates from other types of polities.

To mitigate these difficulties, small states scholarship offers yet another solution – a suggestion to focus on the dependent variable, i.e. behaviour, rather than the independent one, i.e. size (for an overview of this approach see: Amstrup, 1976). Arguably, such an approach can permit not only a clearer and more consistent method for identifying smallness but also a way for determining boundaries between different types of small states. The latter can be seen as of particular relevance and importance to the research on microstates. And indeed, the focus

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13 From the practical point of view, any assessment of perception is inherently difficult and far from precise. What is more, defying smallness on this basis might result in conceptual confusion, particularly when it comes to differentiating between the small and the weak (Neemia, 1995, p. 69)
on behaviour, or “power projection” (Oest & Wivel, 2010), forms a basis of some of the more recent definitions of microstates. To Oest and Wivel (2010, p. 434): “A microstate is a state that is always the weak state in an asymmetric relationship when interacting with another state at the global, regional or sub-regional levels, unless dealing with other microstates.”

By this definition, microstates appear as qualitatively, and not merely quantitatively, distinct units. However, this approach also faces several challenges. From the practical point of view, determining which states could be labelled as always weak is not an easy task. This is especially true if one is concerned with actual power projection and not merely with identifying any objective power resources. The complexity of inter-state relations and the issue-specific nature of power (Neumann & Gstöhl, 2004, p. 5) suggest that any decision to label a state as permanently weak can easily be contested. One can thus argue that the concept of weak behaviour is “no less elusive” (Amstrup, 1976, p. 165) than that of small or micro size.

Another problem with definitions focusing on the dependent variable, just like some of the perceptual approaches to size (Rothstein, 1968), is that they seem to suggest that small or micro states are not only weak powers (as proposed in Oest’s and Wivel’s definition) but also weak or very weak states (Sutton, 2011). While this has been a rather common practice, there are good arguments for not confusing the two concepts (Amstrup, 1976; Neemia, 1995). Political entities may become (or never cease being) weak for many different reasons and smallness is potentially only one of them. More often, weakness is a result of poor

14 By the same token: „A superpower is a state that is never the weak part in an asymmetric relationship when interacting with another state at the global, regional or sub-regional level. A middle power is a state that is always the weak state in an asymmetric relationship at the global level but typically the strong state in an asymmetric relationship at the regional and sub-regional levels. A small state is a state that is the weak state in an asymmetric relationship at the global and regional levels but typically the stronger state at the sub-regional level” (Oest & Wivel, 2010, p. 434).

15 I.e. some states might be extremely strong in one particular area (e.g. the oil sector) and extremely weak in all others, including their military security (Neumann & Gstöhl, 2004, p. 5)

16 For instance, both Slovakia and the Vatican can be seen as weaker than any of their neighbours and probably not stronger than any of the regional or global players with which they have any meaningful interactions. Does this mean that Slovakia and the Vatican should belong to the same category? And if yes, then what category would that be? Microstates? Small States? If not, then which one is stronger? Is it the Vatican with its undisputable global influence or Slovakia with its greater geographic and demographic resources and ability to influence such bodies as the EU to an arguably greater degree than the Vatican? Finally, how do we classify these two entities in relation to other states with which they have little or no interactions? Is it even possible to assess foreign policy behaviour in the absence of interactions? For instance, is Slovakia stronger or weaker than New Zealand, Fiji or Bolivia? Answers to these questions are by no means simple and suggest the potential difficulties with defining micro-size from this perspective.

17 Buzan (1983) draws a clear distinction between weak powers and weak states. According to him (p.66): „states vary not only in respect of their status as powers but also in respect of their weakness or strength as members of the category of states. (...) Strength as a state neither depends on, nor correlates with, power. Weak powers, like Austria, the Netherlands, Norway, and Singapore are all strong states, while quite substantial powers like Argentina, Brazil, Nigeria, Spain, Iran and Pakistan, are all rather weak as states”.

18 According to Sutton (2011, p.144) the confusion originates from both the habit of using the categories of small, middle and great powers to describe different actors in the international system and from the traditional focus on the study of war and diplomacy in which areas small states appeared as weak.

19 For a good description of the weak states’ characteristics see Holsti (1995).
governance, conflict and/or underdevelopment (Rice & Patrick, 2008). In fact, small size can be seen as a possible source of political and economic strength (e.g. Peterson 2006; Armstrong & Read 2002a). In general, weakness (either in terms of state strength or power) does not necessarily depend on or correlate with any particular demographic or geographic conditions. Therefore, treating smallness as analogous to weakness compromises the idea of studying the politico-economic effects of geographic smallness and insignificance. As such, it is of little help when it comes to an understanding not only the functioning of some of the world’s smallest polities but also the concept of micro-size.

The Problem of Statehood
It has been argued thus far that the attempts to satisfactorily determine what constitutes micro-size have been largely unsuccessful. Yet, no less confusion surrounds the term “state”. According to perhaps the most authoritative and popular modern definition proposed in the Montevideo Convention of 1933 on the Rights and Duties of States, a state is a political entity possessing: “(a) a permanent population; (b) a defined territory; (c) government; and (d) capacity to enter into relations with other states” (‘The Montevideo Convention on the Rights and Duties of States’, 1933). The last criterion is commonly associated with sovereignty, which is generally seen as the key prerequisite for statehood (Kreijen, 2004, pp. 21–22; Shen, 2000, pp. 1134–1137). In reality, the above criteria have been subject to quite different interpretations (Grant, 1998; Shen, 2000; Vidmar, 2012), especially when it comes to an understanding or appreciation of the concept of sovereignty.

The last decades have seen the rise of an idea that sovereignty is an anachronistic and increasingly meaningless or even undesirable concept in the age of globalisation and transnational institutions (Bickerton, Cunliffe, & Gourevitch, 2007, pp. 1–19). Accordingly, the assumption that for an entity to be called a state it needs to be undoubtedly sovereign has been undermined. This dissociation has been particularly prominent in the case of small polities. The term microstate has been applied to entities with quite distinct political or constitutional status (Warrington, 1994, p. 4) - from independent Malta (e.g. Armstrong & Read, 1995) through British quasi-colonies (e.g. McElroy & Parry, 2011) to dependencies (e.g. Rendu, 2004) or even China’s Special Administrative Regions (e.g. George, 2009). As noted by one author arguing for considering the British crown dependency of Jersey as a microstate: “legal sovereignty forms what may be seen as an artificial divide on the continuum between absolute independence of action for a political

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20 E.g. Somalia can be seen as in the state of permanent weakness not because of its geographic or demographic size (it is in fact a large country) but due to its internal conflict.
21 In fact, many of the new small and very small states are indeed in at least some aspects stronger than the large empires of which they used to be parts (Herr, 1988)
22 Additionally, in the last decades this largely “empirical” approach to determining statehood has in many cases been replaced by a “juridical” one. The latter approach developed in the era of decolonisation when a number of entities achieved international recognition of sovereignty not on the basis of their empirical statehood (most notably not on the basis of having an effective government), but rather as a result of an international “agreement or acquiescence concerning a new international legal principle that acknowledged as incipiently sovereign all colonies which desired independence” (Jackson, 1987, p. 526).
23 For instance, as argued by the United Nations Secretary: „The time of absolute and exclusive sovereignty (...) has passed; its theory was never matched by reality“ (Boutros-Ghali, 1992).
entity and absolute powerlessness. (...) Thus sovereignty can be viewed in practical terms to be an area on a continuum” (Rendu, 2004, p. 17).

Yet, as it was noted by Beattie, scholars dismissing the importance of sovereignty seem to confuse it with self-sufficiency (Beattie, 2004, p. 352). The concept of sovereignty does not imply autarky or independence from external circumstances, but freedom to choose how to react to them (Beattie, 2004, p. 352; Bickerton et al., 2007; Palan, 1998)\textsuperscript{24}. Likewise, the concept of sovereignty is not incompatible with delegation of authority. What matters is whether a given entity has the power “to determine its own ‘competence’” (Merriam, 2000, p. 98). This exclusive “power to determine the limits of jurisdiction”, and not the scope of activity of state authority over its territory, “is an essential mark of sovereignty” (ibid.)\textsuperscript{25}.

In essence, sovereignty is based on the principles of ultimate government accountability and responsibility which cannot be relative or flexible (Bickerton et al., 2007; Furedi, 2007). As such, it is inseparable from the notions of independence and statehood (Duursma, 1996). If any degree of distinctiveness or self-governance can justify the label state or microstate, then the whole idea of studying the phenomenon of political viability despite geographical constraints makes little sense. For this reason, some authors differentiate between sub-national (mostly insular) jurisdictions and microstates, with the former analysed with an exclusive focus on economic viability (e.g. Baldacchino, 2008; Grydehøj, 2011). Unfortunately, such practice is quite rare and, in any case, it is not followed by any attempt to offer a richer definition of microstates.

The idea of micro-statehood should then be viewed as inseparable from the concepts of statehood and sovereignty. However, this does not mean that the exercise of sovereignty cannot be affected by the conditions of extreme smallness and geographic insignificance. It could perhaps be useful to look at microstates precisely from the perspective of how their geographic and demographic situations affect their sovereign existence. And indeed, it appears that much of the microstate literature “seems to congeal around issues of sovereignty and action capacity” (Neumann & Gstöhl, 2004, p. 6). Out of this focus, comes a definition of microstates that tries to capture the concept of micro-size by looking at its effect on sovereignty. So, Neumann and Gstöhl (ibid.) view microstates as those states:

whose claim to maintain effective sovereignty on a territory is in some degree questioned by other states, and that cannot maintain what larger states at any one given time define as the minimum required presence in

\textsuperscript{24} As rightly noted by Jackson (Jackson, 1999, p. 432) economic autonomy (understood as insulation from foreign economic influences or control) is a matter of policy and not a defining feature of sovereign states.

\textsuperscript{25} This approach is also consistent with another Charles Tilly’s (Tilly, 1992, pp. 1–2) definition of states according to which states are “coercion-wielding organizations that are distinct from households and kinship groups and exercise clear priority in some respects over all other organizations within substantial territories”. The term “substantial territories” may seem to be posing a problem for diminutive entities. However, Tilly explicitly clarified and argued that “such entities as today’s Monaco and San Marino” should also be classified as “states” despite not having “substantial” territories “on the grounds that other unambiguous states treat them as fellow-states” (Tilly, 1992, p. 2). It is clear that these “unambiguous states” recognise the microstates’ exclusive power to determine the limits of their own jurisdiction and their possession of “a clear preponderance of the coercive means” (Abramson, 2016, p. 5) on their non-substantial, albeit still clearly defined territory.
the international society of states (membership in international organizations, embassies in key capitals, etc.) because of a perceived lack of resources” (p. 6).

While perhaps well-directed, such a definition is ultimately problematic as it focuses merely on studying the opinions, standards and perceptions of certain “other states” and not the nature and actions of policies it seeks to define. As such, it can easily become inclusive of a great many entities experiencing institutional crises and lack of administrative resources. It is important to note for instance that the officials of large states, such as the United States, have often labelled all sorts of states ranging from Congo to Myanmar as “failed” or unable to “maintain effective sovereignty” (e.g. Wyler 2008). Putting aside the question of the objectivity in large powers’ assessments of other states’ ability to exercise sovereignty, this definition repeats the mistake of other approaches in that it equals weakness with smallness. In consequence, its ability to explain the phenomenon of small political communities’ politico-economic viability is debatable.

In sum, despite decades of academic research and countless publications, there is still no definition of the term microstate that could provide a useful tool for a meaningful isolation of states qualitatively distinct due to their inherent quantitative conditions. As such, the understanding of the domestic and international factors permitting political and economic viability despite geographic and demographic constraints remains limited and obscured by a great variety of cases brought under the microstate category. Interestingly, a better way of defining microstates and grasping their peculiar nature can perhaps be found in the experiences and debates preceding the post WWII proliferation of new diminutive polities, which are sketched in the following section.

**Microstates as Modern Protected States: Towards a New Definition**

**The League of Nations and the Lilliputian States**

Nearly a century ago the League of Nations was faced with the problem of the then called “Lilliputian States” (Crawford, 2007, p. 183). In 1919 and 1920 the Republic of San Marino, the Principality of Monaco and the Principality of Liechtenstein submitted their applications for membership in the organisation. While the first two soon abandoned the idea, Liechtenstein remained persistent in its efforts and “pursued the matter to the full” (Gunter, 1974). In response to its request, the League ordered a detailed examination of the applicant’s qualifications. In 1920, following an inquiry into Liechtenstein’s situation, The Firth (Admissions) Committee rejected its application arguing that:

There can be no doubt that juridically the Principality of Liechtenstein is a sovereign State, but by reason of her limited area, small population, and her geographical position, she has chosen to depute to others some of the attributes of sovereignty. (…) For the above reasons, we are of the opinion that the Principality of Liechtenstein could not discharge all the international obligations, which would be imposed on her by the Covenant. (quoted in: Schwebel, 1973, p. 108)
As it was observed by Edvard Beneš, the Czechoslovak Minister of Foreign Affairs at the time, the reason for the rejection of Liechtenstein’s application was not "its small size, but its close connection with another State (...) One may deduce from the decision taken with regard to these [mini-] States that, in practice, the smallness of a State does not prevent its being admitted into the League” (quoted in: Snyder, 2010, p. 51). Yet, this opinion was not shared by various academics who insisted that constraints imposed by smallness were more important than deputation of certain sovereign attributes (e.g. Gunter, 1974, p. 499). One argument in favour of such a view was the fact that certain political units such as Austria or British India had arguably less (or no more) sovereignty over their affairs than Liechtenstein and yet were accepted as member states of the League of Nations (ibid.) Other scholars argued that following World War II the successor of the League, the United Nations, readily granted membership to the obviously non-sovereign states of Soviet Socialist Republics of Belarus and Ukraine and continued to deny it to the Principality (Kohn, 1967, p. 548). As observed by Dommen, although the League of Nations couldn’t present any quantitative threshold for membership, it was clear that by rejecting Liechtenstein’s application it demonstrated a “preference for large sizes” (1985, p.4).

These scholars are probably right to note that tiny size played an important role in the rejection of the Principality of Liechtenstein’s application. Yet, the exclusive focus on geography oversimplifies the matter and fails to appreciate the meaning of smallness in the case of Liechtenstein (and other contemporary microstates). It seems that the key to the League’s decision was the clear political consequence of smallness and not its particular numerical geographic or demographic representation. Liechtenstein was not only quantitatively different to the other applicants and member states - due to its size it chose to become qualitatively distinct. Perhaps unwittingly, the League of Nations managed to provide a qualitative threshold for microstates. It was recognized that such states were entities so geographically and demographically constrained that they independently chose to depute some of their external sovereignty to their larger neighbours. The term “mini” or “micro” referred not only to the size of territory but also the extent of state capacities. The League of Nations admitted that Liechtenstein was both sovereign (and internationally recognised as such) and yet under de facto and de jure benign protection of its larger neighbour. Interestingly, such a situation was not a novelty in the practice of international relations. A long time before the times of the League of Nations, the theoreticians and practitioners of diplomacy recognised a category of political units called “protected states” (Berridge & Lloyd, 2012; Crawford, 2007, pp. 286–294).

**Lilliputians as Protected States**

Many classical writers, including Grotius, believed that an “unequal alliance”, with one State offering benign or amicable protection or patronage over another, was “quite consistent with the sovereignty of the latter” (Crawford, 2007, p. 286)26. In

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26 As noted by James (James, 1986, pp. 100–101): “a protected state (...) not only is constitutionally independent before it assumes that status - as is indicated by the fact that it becomes a protected state by way of an international treaty; it also persists in that condition thereafter, as the independence of its constitution is unaffected by the treaty of protection. It has not become part of a wider constitutional setup but has just entered into a rather special treaty relationship with another
the earlier centuries it was accepted that “states which were unable to maintain their sovereignty unaided could have their internal autonomy underwritten if a willing major power came forward to protect them” (Herr, 1988). Unlike protectorates (especially in their colonial context), the protected states came into existence through genuine, consensual agreements between two or more sovereign parties (Herr, 1988, p. 289) and assumed: respect for independence, protection and assistance offered either unconditionally or in exchange for a rather benign and limited “accommodation to the wishes of the protector in matters of policy” (Baty, 1921, p. 109). The protected states delegated some of their authority but retained independent control over their domestic affairs and at least some degree of influence over their foreign affairs (Crawford, 2007, p. 288). What was peculiar was the fact, that the relative benefits of such arrangements were far greater for the protected than for the protector. At the price of voluntarily choosing to “restrict the exercise of its sovereign rights in a certain area, allowing another [state] to act on its behalf” (James, 1986, pp. 100–101) (with an at least theoretical option for terminating the agreement at will), a protected state gained political support or protection, and very “favourable economic terms such as market access” (Turner, 2007, p. 19).

While this form of statehood was somewhat common in medieval and early modern Europe, by the 19th century it seemed that the “conception of a really independent, but protected, State had disappeared” (Baty, 1921, p. 111). According to historians, by the second half of the 19th century, the protectors gradually dismantled any real independence of their protected states and either annexed them or turned them into non-independent façade states (Alexandrowicz, 1973; Baty, 1921; Johnston, 1973). Although the term “protected State” was still in use in the 20th century (and presented in contrast to the term “protectorate”), it referred to political units such as the Malay and Persian Gulf states that were obviously non-sovereign (Crawford, 2007, p. 287; Parry, 1960).

However, how else could one describe Liechtenstein’s (and other Lilliputian states’) status? According to the League of Nations Liechtenstein was truly sovereign and independent and yet at the same time protected and assisted by its neighbour undertaking some responsibility for the Principality’s conduct of foreign affairs (Kohn, 1967). The European microstates were indeed “medieval relics” (Hass, 2004), but not due to their size but because of being the only surviving protected states. Somewhat paradoxically their survival as protected sovereignties was arguably largely due to their extreme smallness, political insignificance and lack of any natural resources (Duursma, 1996; Eccardt, 2005; Sundhauussen, 2003). The term ministate referred thus, perhaps implicitly, to both quantitative geographic insignificance and a peculiar political status, the two being inherently linked, the small size making sustainable unequal alliance likely and protection making survival despite the odds possible.

The peculiarity of such entities as Liechtenstein lied in their survival as undoubtedly sovereign states despite both the extreme geographic/demographic constraints and the strong universal bias in favour of large nation-states. This state. From which it may be concluded that it remains a sovereign state - and a fully sovereign one at that, there being no half measures in this sphere.”
survival can only be explained by looking at the protection offered to the Principality (and other microstates) by its large neighbour. Hence, it is the protected state status that merits a real academic inquiry.

If the microstates had not entered into unequal alliances with larger neighbours, they would have most probably simply disappeared from the political map of Europe. In fact, their continual presence was widely perceived as a “historical accident” (Bartmann, 2012; Hass, 2004). This may explain the fact that following the League of Nation’s decision regarding Liechtenstein very little, if any, attention was dedicated to the issue of micro/protected statehood. It was perhaps assumed that the model of political arrangement adopted by the European Lilliputian state was simply an out-dated anachronism of little relevance to any other present or future cases. It was probably expected that such oddities would in any case soon disappear, as they were seen as doomed to economic failure notwithstanding their protection. Indeed, all of the microstates were characterised by poverty (Hobsbawm, 1996, p. 281). Liechtenstein of the 1920s was among the poorest countries in Europe (Hass, 2004; Stringer, 2006); Monaco had a revolution in 1910 triggered by high unemployment and poverty (‘Is Monaco Doomed? Other Nations Want It’, 1910); and San Marino remained a poor, remote, peasant economy (Sundhaussen, 2003). Hence, even though the European microstates were truly quantitatively and qualitatively unique entities, they never attracted any significant attention and gradually became little more than cartographic oddities.

In consequence, by the time new political communities quantitatively similar to the European Lilliputian states emerged as a result of decolonisation (Herr, 1988), the implicit understanding that microstates were not only small but also protected states had largely been forgotten. Instead, the microstate has become a vague and vast category defined purely in terms of arbitrary geographic or demographic cut-off points. In practical terms, the only difference between it and the broader “small states” grouping is the, rather unjustified, inclusion of various sub-national jurisdictions within its scope. Otherwise, when it comes to sovereign states, the microstate scholarship is hardly distinguishable from the broader and often richer study of small powers/economies. In its current meaning, the term is thus of little help when it comes to the analysis of the phenomenon of modern protected states; or long-term political and economic strategies for viability despite severe geographic constraints.

**Microstates as Modern Protected States**

In the light of the above and drawing from the historical experiences, I suggest a new but historically justified definition of microstates below:

**Microstates are modern protected states, i.e. sovereign states that have been able unilaterally to depute certain attributes of sovereignty to larger powers in**

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27 Surprisingly, certain scholars have actually noted that some of the new tiny sovereign polities can best be described as “modern protected states” (Michal, 1993). However, this observation has not led them to explore the possibility that protected statehood could be seen as a criterion for a meaningful isolation of both qualitatively and quantitatively unique states.
exchange for benign protection of their political and economic viability against their geographic or demographic constraints.

This definition permits identification and isolation of states on the basis of their qualitative political uniqueness resulting from both their own and external perception of resourcelessness, physical constraints and geographic insignificance. The real or perceived geographic weakness and resourcelessness make microstates’ leaders determined to seek or accept external protection and institutional assistance even at the cost of losing some of their sovereign attributes. At the same time, the real or perceived geographic insignificance of microstates, coupled with certain historical, personal or strategic considerations, induces larger countries’ leaders to provide microstates with non-reciprocal, benign protection. Micro-statehood thus entails not only observable geographic or demographic smallness but also the voluntary and non-reciprocal delegation by micro-state leaders of some “authority normally exclusively retained by [sovereign] self-governing state, often in the field of defence and foreign affairs” in exchange for protection and/or “favourable economic terms such as market access” (Turner, 2007, p. 19).

Admittedly, microstates are not the only states delegating certain attributes of sovereignty or decision-making powers to third parties. For instance, the European Union (EU) member states delegate a significant number of functions to the EU while retaining their own sovereignty. The difference between such arrangements and protected statehood however is that in the case of the former these agreements are reciprocal in their nature and assume equal mutual benefits. In the case of protected micro-states, both the delegation of attributes and benefits of the agreement (e.g. access to markets, consular assistance, economic aid, etc.) are largely or even exclusively one-sided. In contrast to military alliances that sometimes are of unequal nature, benign protection involves comprehensive political and economic arrangements that go beyond traditional or non-traditional security concerns and that to a large degree determine the internal and external functioning of microstates. Unlike in the case of mere military allies, microstates are usually offered virtually unlimited access to their protecting powers’ markets.

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28 As such, this definition goes beyond Neumann’s and Gstöhl’s notion that microstates are merely states externally perceived as lacking resources or effective sovereignty.

29 The empirical observations support the view that a relationship of benign protection is only accepted by and offered to states perceived as geographically or demographically diminutive and insignificant. When circumstances change (e.g. population growth, discovery of natural resources, ideological changes, etc.), it is likely that the parties may choose to end the agreement and the microstate subsequently either turns into a “normal” state or becomes annexed into a larger power.

30 It is important to note that the peculiar political arrangements adopted by microstates are not merely a consequence of their own condition but also a reflection of the nature of the modern geopolitical system, which remains dominated by large states or economies with clear boundaries. As it was observed by Alesina and Wacziarg (1998, p.307): “In a world without international trade, political boundaries identify markets and countries face economic incentives to be large. On the contrary, the more a country can trade with the rest of the world, the less one can identify its political borders with the boundaries of its market”. In other words, in a world of absolutely unrestricted trade, there would be little economic incentive for microstates to seek affiliation with larger states. Similarly, it could be argued that in a world dominated exclusively by tiny polities the political survival of each state would not necessitate any unilateral delegation of any attributes of sovereignty.

31 In fact, in most cases military protection is not the central element of the arrangements between microstates and their protecting powers.
(for both goods and labour) and key social infrastructure (such as education or healthcare) as well as administrative assistance, particularly in the areas of diplomacy and border management. Benign protection is thus a unique type of inter-state relationship both because it is inherently linked to geographic or demographic constraints and because of its distinctive scope, character and significance to the protected (micro) state. Microstates can therefore be meaningfully isolated from the broader category of small states not on the basis of some quantitative thresholds, but through the appreciation of their distinctive political status.

The unique relationship between microstates and their protecting powers allows them to overcome the challenges to their political and economic viability resulting from unfavourable geographic or demographic conditions. The concepts of political and economic viability can admittedly be seen as elusive and perhaps subject to some controversy. However, for the purpose of this thesis I propose seeing them simply as the political and economic dimensions of survivability. As such, political viability can be understood as the ability to survive as a sovereign state capable of effective domestic governance and participation in the international affairs. Political viability is naturally closely linked to economic viability. However, it is important to recognise that an economic potential or capacity of a given political unit or community by themselves do not guarantee their political survival, attainment of sovereignty or even political autonomy. Indeed, many wealthy parts of the world (especially those of small size relative to their neighbours) have lost or struggle to gain sovereignty precisely because of their economic potential. As such, economic viability should not be seen as automatic guarantee of political viability. Instead, it can be understood as a necessary, but insufficient condition for political survival of a given community. Economic viability entails secured “liveability” (Baldacchino, 1993a, p. 40), i.e. a sustained availability of resources necessary to guarantee physical survival of a given community

By adopting the above definition of microstates as of 2013, one can limit the number of microstates to the following nine states:

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32 In fact, some scholars go as far as to argue that economic viability should be understood as “the capability to exist and develop as a separate state in a world of highly economically interdependent states” (Schroeder, 1992, p. 549).

33 It is important to note that all the resources necessary for the survival of a small community do not necessarily need to originate from within its territory. As rightly noted by Baldacchino (Baldacchino, 2006b, pp. 46–47) “as far as small islands are concerned, speaking of sustainable development is a contradiction-in-terms because the small local-insular would not survive without drawing in resources and assets from, while flushing out excesses and undesirables to, a hinterland beyond”.

27
All of the above polities are tiny sovereign states that have independently deputed some of the attributes of sovereignty to larger states in order to remain politically and economically viable despite their physical limitations. As such, they fit well into the classical definition of protected states. What is more, all these states also fall under all of the popular quantitative demographic and geographic thresholds for microstates.

In contrast to the currently dominant definitions of microstates, the above list does not include any of the numerous sub-national jurisdictions, as they, by definition, are not states. Furthermore, it excludes a small number of sovereign states demographically very similar (i.e. with population not greater than 100,000) to the above microstates that have not established any special relationships with larger states (e.g. Dominica, Tuvalu, Nauru). These states have managed to retain sovereignty and a degree of economic security (albeit not necessarily prosperity, political influence or even long-term security) largely due to their “islandness”\(^36\) (Baldacchino, 2004), special geographic advantages\(^37\), benevolence of the broader international community (expressed through flows of aid and recognition of sovereignty) and revenues derived “renting” sovereignty (Drezner, 2001; Rich, 2009)\(^38\). These foundations of politico-economic viability

\(^{34}\) Source: (‘CIA World Fact Book’, 2016)
\(^{36}\) Islands are obviously “geographically finite, total, discrete, sharply precise physical [entities]” which makes their distinct political status (especially in the case of single islands or small archipelagos) more likely than in the case of polities in closer proximity and land borders shared with other territories (Baldacchino, 2004).
\(^{37}\) For example, favourable climate, attractive beaches and proximity to large tourism markets in the case of the Caribbean states.
\(^{38}\) Paradoxically, the international recognition of sovereignty of such states as Nauru can be seen as a façade hiding politico-economic non-viability and de facto failure to function as an independent actor on the international arena. In fact, many of the internationally recognised sovereign states
have often proven to be rather shaky with Nauru becoming a “failed state” following the ending of its phosphate mining industry and the collapse of its numerous disastrous and often corrupt investment schemes (Connell, 2006). It can be argued that such states are yet to find a sustainable solution to the constraints imposed on them by geography or demographics and consequently exist in the shadow of a politico-economic troubles. However, despite the challenges they face, just like many larger, yet still small, sovereign states such as Malta, Barbados, Singapore, Brunei, Sao Tome and Principe, The Bahamas, Luxembourg, and Iceland casually labelled as “microstates” (e.g. Herbertsson & Zoega 2002; Mehmet & Tahirgolu 2002), they are structurally no different to other sovereign states. Consequently, while their politico-economic performance and size-specific challenges and opportunities might indeed deserve closer academic scrutiny (Veenendaal, 2013c), there is little reason why this should take place outside of the broader and more established “small states”, “small economies” or even “small island states” scholarship concerned with the effects of size and scale on political and economic functioning of states (Castello & Ozawa, 1999; Easterly, 2000; Fox, 1969; Ingebritsen, Neumann, Gstohl, & Beyer, 2006; Katzenstein, 1985; Livingstone, 2010).

Moreover, I choose not to include certain de facto states, such as Abkhazia, in the list of microstates. While most of them are geographically and demographically small and survive under benign protection from a larger power, their constraints and motivations for accepting protection result mainly from the lack of any wider political recognition of de jure sovereignty and not from geographic constraints per se (Caspersen, 2008, 2009; Cornell, 2000; Pegg, 1999). Hence, from the academic point of view, these states should best be studied as a separate category of political units.

I have also chosen not to include either the Vatican or the Sovereign Military Order of Malta on the list of microstates. While these two entities are sovereign objects of the international law (although not necessarily states39), their political status can be viewed as means of ensuring that their respective organizations (i.e. the Roman Catholic Church and the Military Order of Malta) and/or leaders (i.e. the Pope and the Grand Commander) can “freely exercise” their spiritual or charitable functions (Mendelson, 1972, p. 612). They should thus be regarded not as protected or micro states, but as protected institutions. Finally, it is important to note that the above list of microstates is by no means fixed and can certainly be subject to changes. Indeed, some of the microstates (such as Monaco or some of the Pacific island states) used to exist, sometimes only temporarily, as non-sovereign entities directly controlled by large powers. Conversely, some of the

39 As it was observed by Mendelson (1972, p.612), “it may be doubted whether the territorial entity, the Vatican, meets the traditional criteria of statehood” as it hardly has a permanent population and as its governmental functions are „not, for the most part, exercised in relation to, or for the benefit of, the City itself.” Even more doubts surround the statehood of The Sovereign Military Order of Malta that not only does not have a permanent population, but is also essentially deterritorialized (Cox, 2003; Rayfuse, 2009). Consequently, the latter is rarely, if ever, recognized as a state even by those countries that recognize it as a sovereign entity (Cox, 2003)
currently fully sovereign states used to function as protected states but have since changed their status (Gilmore, 1982; Laing, 1974).

This thesis will focus on three specific microstates: Liechtenstein, Niue and the Cook Islands. A detailed analysis of their respective histories, institutions and foreign relations will be offered in the remaining chapters of this thesis. All of these microstates offer opportunities for exploring the nature of benign protection or unequal alliance in contemporary international relations. What is more, they are also interesting from yet another point of view. While structurally similar, these entities represent different politico-economic models and diverse levels of economic performance. The significant differences in their levels of economic development despite strong structural similarities present an opportunity for evaluation of both various domestic developmental strategies and the ways in which the status of protected states can be exploited for economic gains. Similarly, their comparable external institutional circumstances and geographic or demographic constraints make research into their diverse political systems both more interesting and more viable.

Conclusion
This chapter has attempted to demonstrate that despite a long and rich history of scholarly research on small polities, I have found little agreement on how to define political and economic smallness. Consequently, the utility of the concept of small states is burdened by problems and limitations. Even more confusion surrounds the term “microstates”, because anyone interested in identifying them has to separate them not only from normal or large states but also from small political units. Consequently, approaches in the existing scholarly literature either are limited to suggesting arbitrary and inconsistent quantitative cut-off points or fall into the trap of viewing smallness as identical to weakness. In effect, they do not offer tools for studying qualitatively distinct political units.

To address these problems, this chapter has suggested an alternative way of looking at microstates. I have argued that the unique status of microstates is only in part a consequence of their real or perceived smallness and geographic insignificance insofar as these create both the necessity and the opportunity for the unique type of political arrangement. But the central theme of this thesis is that microstates can more credibly be conceptualised as modern protected states, i.e. sovereign political entities that have been able unilaterally to delegate some of the attributes of their sovereignty to larger powers in exchange for benign protection. Such a definition of microstates offers tools not only for studying the functioning of some of the world’s smallest sovereign entities but also for analysing the phenomenon of benign protection. This conception is of vital importance to the remaining sections of the thesis. I hope this conceptual framework will be found useful by not only those scholars interested in the study of smallness but also those interested in the exploration of the more unusual forms of inter-state relations and strategies for political survival and success in a world dominated by great powers.

40 Providing a detailed description and comparison of all the microstates is beyond the scope of this thesis. It could however, be a potentially fruitful avenue for further research.
Chapter 3: Theoretical Framework and Methodology

Theoretical Framework

Introduction
This chapter proposes a theoretical framework to facilitate an understanding of the phenomenon of benign protection and the microstates’ politico-economic functioning within it. An appropriate theoretical approach is essential to explaining the phenomenon of benign protection that by itself seems to run counter to the conventional understanding of sovereignty and international relations. Therefore, it is important to explain not only the behaviour of microstates or the consequences of benign protection but also why and how certain political entities become benignly protected.

The chapter begins with an overview of the theoretical discussions on the sources of economic development in very small political entities. It then briefly presents the managed dependency framework and how it could be adapted to the specific situation of microstates understood as modern protected states. Thereafter, the analytical tools used to analyse the relations between microstates and their respective protecting powers are overviewed. Following this, the chapter offers a detailed explanation of the key variables determining the successful management of protection for the purpose of maximising economic benefits. In the final section, it presents the consolidated methodological approach of the thesis.

Context: From Dependency to Managed or Mismanaged Dependency

As hinted in the previous chapters, the dominant economic growth and development paradigms view all types of very small political units as inherently vulnerable, profoundly economically disadvantaged and particularly prone to natural disasters and environmental degradation (Armstrong & Read, 1995; Briguglio, 1995; Dommen, 1980; Hezel, 2012; Jalan, 1982; Kuznets, 1960; Robinson, 1960; Selwyn, 1975). Because of the above challenges and due to the small political units’ invariable and arguably inevitable need for openness to the global economy (Baldacchino, 2011; Easterly, 2000; Gantner, 2002, p. 67), micropolities can perhaps be viewed as more likely than any other types of polities to become politically, economically or otherwise dependent on larger economies or their metropolitan centres (Bellam, 1980).

Academics interested in studying the question of economic development have tended to view this condition as inherently problematic. From the point of view of one of the main schools of development, the dependency school, this situation of obvious dependence on the richer and larger economies should make true

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41 The term used by Baldacchino (2013) to describe both diminutive sovereign states and tiny sub-national jurisdictions
economic development in these units very unlikely or even impossible (e.g. Frank, 1967). The dependency theory was developed in the 1950s in opposition to modernisation theory (G. Simpson, 1990, p. 73) and in response to the perceived persistency of poverty in large parts of the world (Ferraro, 2008). According to its proponents, the international inequalities result from a particular structure and hierarchy of the global politico-economic order (Chasy-Dunn, 2007). As explained Frank "contemporary underdevelopment is in large part the historical product of past and continuing economic and other relations between the satellite underdeveloped and the now developed metropolitan countries." (Frank, 1972, p. 3) In the view of the dependency scholars, the world is divided between the wealthy, well-established and dominant "core", and impoverished, underdeveloped "periphery" (Bertram & Watters, 1984b; Ferraro, 2008). To be located in the latter arguably means being subjected to powerful external forces (such as multinational corporations, international organisations, rules of trade, global markets, etc.) that represent the interests of the core and as such ensure the perpetual "underdevelopment" of the periphery (Ferraro, 2008).

Dependency theory scholars argue that the world capitalist system has created and enforced a rigid division of labour according to which the dependent states’ economic roles are reduced to the provision of raw materials, cheap labour, and demand for obsolete goods and technologies. From this perspective, the poor countries are not merely "catching up" to the wealthy economies, but are in fact placed in the permanent position of disadvantage, exploitation and poverty (Chasy-Dunn, 2007; Ferraro, 2008; G. Simpson, 1990). Consequently, the only viable alternative to underdevelopment is economic growth based on self-sufficiency and self-reliance that should arguably be pursued through economic nationalism and/or revolutionary activism (Bertram & Watters, 1984).

42 The intellectual origins of the modernisation theory can be traced back to response of the American intellectuals and politicians to the changing geopolitical international setting following the end of the Second World War. The onset of the Cold War, as well as the disintegration of the European colonial empires sparked an interest in the issues surrounding economic and political development of the post-colonial territories in Africa and Asia (Tipps, 1973, p. 200). In this context, modernisation theory was meant to provide the tools for understanding the reasons behind the perceived poverty, instability and "underdevelopment" of much of the non-Western world. Largely due to its acceptance of the conventional Western "idea that social change may be studied by analogy with the biological growth of individual organisms" (Tipps, 1973, pp. 200–201) modernisation theory perceives development as an evolutionary, lengthy and complex processes requiring a systemic transformation of traditional, "primitive" socio-economic and political institutions into "modern" and "advanced" ones (i.e. akin to those present in the developed/Western world) (Huntington, 1971; Neemia, 1995, p. 65; Tipps, 1973). This change from traditional into modern is meant to result in the dramatically increased control of humans over their natural environment and greater ability to satisfy their desires. At the practical level modernisation is also thought of as an irreversible process creating not just wealthier but also more homogenous and integrated societies (Huntington, 1971, pp. 286–290). Furthermore, the outcomes of modernisation are perceived by the proponents of modernisation theory as "progress", i.e. a desired improvement of a given society’s material conditions (Bertram & Watters, 1984b, p. 85) that can generate positive socio-political outcomes, namely either an increased likelihood of an emergence or survival of a democratic political system (Lipset, 1959; Przeworski & Limongi, 1997). What is of particular relevance to this thesis is the observation that the modernisation theory tends to examine nations or countries as "discrete and independent units" (G. Simpson, 1990, p. 73) and focuses on their internal, domestic circumstances and policies without paying much attention on the international context and the impact of interstate relations on specific polities’ economic development (Chase-Dunn, 1975, p. 725; G. Simpson, 1990, p. 73; So, 1990, p. 58).
The merit of the dependency theory is its focus on the global economy as an interconnected whole rather than a collection of disconnected national economies. Its disadvantages are that “it misunderstands much of what it tries to explain and, even more serious, that it generates policy proposals that are disastrous” (Davies, 2006). The recent decades have demonstrated that most of the dependency theory’s policy recommendations, i.e. heavy protectionism, state ownership of the means of production, import substitution and isolation from foreign sources of capital, have failed virtually everywhere where they have been tried (ibid.)

And nowhere have the problems of the dependency theory been as visible as in the case of tiny political units. The policy recommendations based on protectionism and economic nationalism are not only detrimental, but quite simply unfeasible in the case of very small polities lacking both natural and human resources (Armstrong & Read, 2003; Cole, 1993). More importantly, the last decades of impressive economic growth in so many of the small political units suggest that it is far from clear that the condition of certain political or economic dependence on a metropolitan, protecting or merely neighbouring power should be seen as passive or necessarily harmful (Rendu, 2004). In light of the above, it is clear that a different framework is necessary in order to understand the operation of very small economies.

An alternative paradigm explaining the economic development in at least some of the diminutive polities was offered by perhaps the most prominent of small state scholars, Godfrey Baldacchino. In his essay “Bursting the bubble: the pseudo-development strategies of microstates” (1993), he reversed the dependency theory and suggested a new framework, later described as “managed dependency” (Hampton & Christensen, 2002), offering tools for analysing and explaining the economic growth (or lack thereof) in different types of very small states and jurisdictions (Baldacchino, 1993). Baldacchino’s point of departure was that, from the perspective of political economy, smallness or even remoteness should not necessarily be viewed as disadvantages – instead they could be regarded as opportunities (Baldacchino, 1993a, p. 37). Being small and unimportant, diminutive sovereign states and sub-national jurisdictions are able to secure a variety of concessions, special privileges and material benefits from larger economies or regional blocs (Hampton & Christensen, 2002, p. 1663). As noted by Armstrong and Read (Armstrong & Read, 2002a), tiny entities manage to achieve success “by virtue of their small size” demonstrating “the importance of being unimportant”.

According to the managed dependency paradigm, this advantage becomes particularly beneficial in the case of non-sovereign, yet substantially autonomous, units which can engage in a process of managing dependency with the metropolitan power holding responsibility for their survival and development (Baldacchino & Milne, 2008; Rendu, 2004). Such sub-national jurisdictions achieve economic viability either through direct financial transfers from the metropolitan

Furthermore, contrary to most of the dependency school’s assumptions, East Asian countries have achieved unprecedented levels of economic growth and decline in poverty levels (The Economist, 2012) following their opening up to global markets and partial liberalisation of their domestic economies (e.g. Morrison, 2012)
power or through securing channels to engage in various economic niche (and potentially illegitimate) activities, particularly in the field of finance and banking (Baldacchino, 1993). The latter are granted by metropolitan powers because they wish their dependencies to be economically self-reliant and politically stable. Dependencies become especially attractive from the point of view of such activities because they are viewed as politically and economically stable by virtue of being constitutionally affiliated with a large and respectful economy.

So, successful diminutive policies are those that can actively manage their dependency on their metropolitan power so as to preserve and exploit a dependency relationship to advantage (Rendu, 2004, p. 75). The metropolitan powers also benefit from the process, because by granting favourable economic terms to their dependencies, they maintain a formal bureaucratic structure of communication and can easily “exert informal and covert pressure” without instigating separatist feelings or publicizing potential disputes in the international arena (ibid. 88). In contrast, the “few particularly poor microstates are actually those which have failed to establish (or have abrogated) sufficiently intimate relations with a prosperous protector” (Baldacchino, 1993a, p. 38). Not surprisingly, scholars from the managed dependency school often discount the value of sovereignty and praise constitutional affiliation as the best framework for achieving long-term economic viability and even prosperity (e.g. Baldacchino, 2008; McElroy & Parry, 2011; McElroy, 2006; Rendu, 2004).

It is argued here that managed dependency provides a useful framework for understanding the operation of the economies of at least some of the entities broadly categorised as small or micro states (Rendu, 2004, p. 75). However, it also suffers from several limitations. One criticism of this theory focuses on its overly optimistic assessment of the tiny dependencies’ ability to achieve long-term economic stability and self-reliance. According to some authors, writing since the publication of Baldacchino’s work, managed dependency strategy has in some cases perhaps turned into a “mismanaged dependency” (Hampton and Christensen 2002, 1663). In their view, many of the sub-national jurisdictions have found themselves in an uncomfortable situation where the continuation of their prosperity is now “inextricably linked to the future of offshore finance and tax haven activity” which is currently under scrutiny and pressure from the world’s most powerful states and international institutions (Weichenrieder & Xu, 2015). In other words, at least some of such units might have become potentially unstable monocultures dependent not only on their respective metropolitan powers but also on the global financial industry (Rendu, 2010).

Yet, more importantly, in its current form the managed dependency paradigm is of the greatest relevance to non-sovereign political entities and not to microstates understood as sovereign (even if protected) states. While this framework acknowledges that being small and unimportant alone can help all types of polities

44 Interestingly, this process has not taken place in either the sovereign microstates functioning under benign protection of a larger power (e.g. Liechtenstein, San Marino) or in many other very small, but sovereign states (e.g. Singapore, Luxembourg, Malta). Unlike the dependencies, such states, while usually heavily involved in the financial industry, tend to have much more diversified economies.
to secure favourable deals with larger economies, it also implies that a sustainable and manageable economic arrangement is particularly likely to take place in the context of non-sovereignty and political affiliation with the “mainland” (e.g. Christensen and Hampton 1999). Not surprisingly, the managed dependency school is primarily concerned with the study of relationships between non-sovereign offshore entities and their metropolitan (sovereign) powers. Indeed, the idea that constitutional arrangements that do not involve achieving full sovereignty by the micropolity are more beneficial than sovereignty is one of the central points made by scholars associated with the managed dependency scholarship (Baldacchino, 2013; Baldacchino & Hepburn, 2012; Baldacchino & Milne, 2008).

However, one could argue that from this perspective, prospering sub-national jurisdictions should perhaps best be described as semi-bottom-up Special Economic Zones (SEZ). Unlike in the case of traditional SEZs, political or cultural distinctiveness plays the most important, albeit not the only\(^{45}\), role in the decision of the metropolitan power to permit their creation and to support their continuous existence.\(^{46}\) Economic development in sub-national jurisdiction thus becomes a matter of domestic political bargaining resulting in a privileged or special status within a larger sovereign unit. In this context, the managed dependency framework can be seen as a useful tool for the analysis of domestic politics and how local elites in sub-national units can negotiate special privileges or additional powers from their metropolitan centres, especially in situation when the central government itself might be interested in the potential benefits of diversifying its territorial jurisdiction in order to attract specific types of economic activity or for the purpose of policy experimentation. While the processes of managing such a dependency are certainly fascinating and worthy of detailed academic enquiry, it is arguably of less relevance to those interested in the inter-state relations and the survival of some of the smallest states in the global political arena dominated by larger powers.

What the managed dependency framework overlooks is the possibility that a favourable and stable politico-economic arrangement can exist between separate sovereign states and not only between autonomous jurisdiction and their metropolitan powers. The previous chapter suggested that such an agreement, in the form of benign protection, is not only possible, but can also be seen as a defining feature of a qualitatively unique category of sovereign states. With its focus on the opportunities presented by the small size and lack of importance, the managed dependency framework can be a useful starting point for studying microstates’ strategies for political and economic viability. At the same time, however, it needs to be modified and expanded in order to fully account for the

\(^{45}\) It has sometimes been argued that certain offshore financial centres and tax havens created in the dependencies of large economies can be seen as beneficial to both their hosting sub-national jurisdictions and to their respective metropolitan powers (Naylor, 2004, 2005; Palan, 2015).

\(^{46}\) Traditional SEZs are the top-down creations of central government motivated by various economic, political, social and strategic reasons. Most of the SEZs have been established “to overcome barriers that hinder investment in the wider economy, including restrictive policies, poor governance, inadequate infrastructure, and problematic access to land” and thereby “attract foreign investment, promote export-oriented growth, and generate employment.” (Farole, 2011).
inter-state dimension of their relationships with both respective patron states and the wider international community. For a theoretical framework to be relevant and applicable to qualitatively defined microstates, it must be capable of explaining both foreign policy decisions of the relevant actors (microstates and their protectors) and domestic policies implemented within the separate economic structure of sovereign microstates. Fulfilling these requirements is one of the aims of this thesis.

**Management of Benign Protection**

Using the managed dependency paradigm as a starting point, this chapter suggests a new framework for the analysis of microstates economic and political survival - managed protection. Like managed dependency, managed protection assumes that smallness and unimportance can potentially be translated into political and economic assets. Similarly to managed dependency theory, it maintains that the viability of geographically and demographically constrained political entities depends on their successful long-term arrangements with larger economies. It thus proposes that microstates can play an active role in the formation and management of their relationship with a protector. On the one hand, they have the ability to shape the character and scope of protection they receive\(^{47}\), and on the other, they have the ability to choose their own domestic policies\(^{48}\) that allow for the potential exploitation of the opportunities offered by benign protection. As in the case of managed dependency, the managed protection paradigm further suggests that the larger power can benefit from the process of management of protection. Through the framework of protection management, large states can maintain channels for communication and guidance of decision-making with microstates. As such, a benign protection relationship allows large states to exert influence on microstates without the danger of being put in the “embarrassing position of being perceived as bullying” tiny, defenceless and yet sovereign states, especially when these happen to be former colonies (Rendu, 2004, p. 88).

Unlike the managed dependency theory, however, the managed protection model suggests that the arrangements between microstates and their patrons are outcomes of diplomatic interactions between separate sovereign states with distinct national interests. The managed protection paradigm views microstates as legitimate and recognized participants in the international system that, unlike sub-national jurisdictions, cannot be arbitrarily stripped of autonomy by larger powers.\(^{49}\) Consequently, unlike managed dependency, building a paradigm of managed protection must integrate elements of international relations (IR) scholarship into its explanation of the nature and dynamics of relations between microstates and their benign protectors.

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\(^{47}\) Small size and lack of geopolitical importance can be perceived as microstates’ assets in negotiating specific agreements with their larger protectors.

\(^{48}\) Admittedly, sovereign microstates have significantly more freedom in this area than non-sovereign subnational jurisdictions which can have their policies potentially vetoed by metropolitan powers.

\(^{49}\) In contrast, while the UK allows its dependencies “self-government by setting a very high threshold before intervening, (...) when intervention is deemed necessary [it] reserves the right to use its (...) powers to their fullest extent” (Rendu 2004, p.90).
Formation of Benign Protection Arrangements

The International Relations (IR) discipline offers numerous theoretical tools for studying interactions between states in the international arena. Unfortunately, however, it has traditionally focused on the study of great powers and as such it has largely overlooked the challenges posed to it by small and very small states (Ingebritslien et al., 2006; Neumann & Gstöhl, 2004; Thorhallsson, 2012). Similarly, microstates understood as modern protected states have so far received little attention and have often not even been considered as proper participants in the international system due to their “lack of administrative resources” (Neumann & Gstöhl, 2004, p. 7). Consequently, one may find that each of the three dominant international relations paradigms, realism, liberalism, and constructivism, are inadequate when deployed to explain both the survival of microstates and their relationships with protecting powers. One of the aims of this thesis is to offer a meaningful contribution of the International Relations scholarship and address some of the challenges presented by the microstates’ functioning in the international system to some of the main arguments put forward by various schools of IR.

The proponents of realism see states are the central actors of the anarchic world of politics (Frankel, 1997, pp. xiv–xv) in which “states look for opportunities to take advantage of each other, and therefore have little reason to trust each other” (Mearsheimer, 1994, p. 9). According to the realist paradigm, “politics is governed by objective laws that have their roots in human nature” (Morgenthau, 2005). As noted by Donnelly “realism emphasizes the constraints on politics imposed by human nature and the absence of international government. Together, they make international relations largely a realm of power and interest” (Donnelly, 2000, p. 9). According to the realist school, states are “motivated primarily by their national (or group) interests” (Gilpin, 1996, p. 7). While the specific understanding of these interests is “determined by dominant elites and may be quite particularistic”, the anarchic nature of the international system means that “a governing elite must out of necessity put a high premium on the security and survival of the state” (ibid.). The anarchic world is also one where states “cannot depend on other for their security” and where any alliance is only a “temporary marriage of convenience” (Mearsheimer, 1994, p. 11). For realists, states always pursue their own self-interest “because it pays to be selfish in a self-help world” (ibid.). The survival and continuous existence of microstates pose challenges to the above assumptions. After all, microstates have all managed to safeguard or gain sovereignty despite their minuscule size, lack of resources and absolute defencelessness. Furthermore, they have all managed to secure long-lasting (in some case centuries long) unequal alliances or unilateral support from larger powers, without offering much in return.

Liberalism, on the surface, may offer a better explanation for the microstates’ survival. Liberal scholars argue that societal interests, ideas, and institutions play a crucial role in determining foreign policy priorities and states’ behaviour in the

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50 For a good overview of the key challenges posed by the tiniest sovereign states’ functioning in the international system to some of the main realist assumptions and arguments see Sharman (Sharman, 2016b).
international arena (Moravcsik, 1997). According to liberal scholars, shared principles prove to be more important than realist calculations when it comes to forming alliances and establishing cooperation (Owen, 1994). Similarly, liberalism “challenges the idea that threat perceptions are determined by the balance of power; rather, they are determined by ideology as reinforced by corresponding institutions” (Sari, 2008, p. 29). Yet again, when faced with the issue of microstates’ survival and relations with protecting powers, liberalism suffers from several limitations. For instance, contrary to the implications of the liberal theory, the regimes and ideologies of the European microstates have often been substantially different to the ones of their protecting powers. Liberalism does not provide an answer to the question of why and how only a handful of tiny sovereign states have survived in Europe while so many others have been annexed by or unified with larger states. Furthermore, using liberal theory alone, it is difficult to understand why only some of the post-colonial entities have been offered and accepted benign protection from their former colonial powers.

The third major international relations perspective, constructivism, is, in fact, more of “a set of assumption about the world and human motivation and agency” than a theory (Slaughter, 1994). According to constructivists, all “world politics is socially constructed” in a sense that “the fundamental structures of international politics are social rather than material (...) and that these structures shape actors’ identities and interests, rather than just their behaviour” (Wendt, 1995, pp. 71–71). To constructivists, international relations are not merely rational interactions reflecting objective material opportunities and constraints but manifestations of identities, various perceptions and beliefs (Slaughter, 1994). While constructivism can perhaps enrich the understanding of relations between microstates and other actors, by itself it cannot explain either the phenomenon of benign protection or the peculiar nature of microstates’ presence in the international system. Empirical observations suggest that severe objective material (geographic and demographic) constraints have been crucial determinants of microstates internal policies and foreign relations. In the case of microstates, quantitative similarities translate into qualitative ones across cultures and ideologies. In other words, microstates’ domestic conditions present them with both policy preferences and opportunities.

The above review of the three major perspectives in the study of international relations demonstrates their respective limitations when studying microstates from a purely international relations perspective. The common problem with these approaches is that they overlook the peculiarity of microstates’ domestic circumstances and their impact on both microstates’ policies and the attitude of

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51 For instance, both Liechtenstein and Monaco are monarchies protected by democracies. Similarly, San Marino survived and received protection of independence from the Italian state that was otherwise strongly committed to political unification of not only the Apennine Peninsula, but all lands inhabited by “Italians”. Furthermore, the European microstates have very often pursued economic policies that could potentially undermine the earnings of their protecting powers (e.g. duty free alcohol and tobacco sales in Andorra).

52 Furthermore, it is difficult to explain from the position of liberalism, why in the case of these microstates, many years of benign protection and support have not resulted in the closer political integration of the microstates into the structures of their protectors. If anything, it can be argued, protection has permitted microstates to strengthen their sovereignty and distinctiveness.
other states towards them. What is thus required is an analytical tool that would take into account domestic, international, material and ideational factors (Hudson & Vore, 1995). Such a tool can be provided by Foreign Policy Analysis (FPA). FPA “covers the interactions within states and amongst its diverse agents, as well the perceptions and misperceptions, the images of other states, and the ideologies and personal characters of everyone involved” (Sari, 2008, p. 35). As noted by Hudson (2005, 21): “Because it takes as its premise that the ground of IR is human decision makers acting singly or in groups, foreign policy analysis is situated at the intersection of all social science and policy fields as they relate to international affairs.” As such, it is a flexible and comprehensive framework for studying the behaviour of all types of states. It is also particularly relevant to the study of microstates as it acknowledges and highlights the significance of state’s size in the shaping of its foreign policy behaviour (East, 1973). More importantly, unlike in the case of at least some of the major branches of realism, from the FPA’s perspective small size and unimportance do not need to equal disadvantage or weaker bargaining position, it can, in fact, be seen as a possible advantages (e.g. Goetschel, 1998; Hey, 2003). Furthermore, FPA emphasises domestic dynamics and characters of political leaders (Hudson, 2005) both of which seem to have played prominent roles in the shaping of microstates’ relationships with their benign protectors\(^{53}\). FPA can thus provide a model for the analysis of the creation of the relationship of benign protection/establishment of modern protected statehood. Figure 1 offers a graphic representation of this process:

\(\textbf{Figure 1: Chain of causality between smallness and benign protection}\)

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\(^{53}\) The role of political leaders and single historical events has been particularly prominent in the case of Liechtenstein (Beattie, 2004; Hass, 2004), but it also featured in the histories of all other microstates.
The independent variable is the state’s smallness and geopolitical insignificance understood as both severe geographic and demographic constraints and the real or perceived lack of geopolitical significance. Geopolitically significant states are those holding a geographic position or natural resources perceived as valuable or strategically important to larger states. Such states have historically either been annexed or controlled by larger powers or have managed to use revenues from natural resources to overcome or mitigate some of the limitations posed by their minuscule size and/or remoteness and have consequently become “normal” participants in international political and economic affairs. Some of the Persian Gulf states or Brunai are good examples of such states.

The intervening variables are the significant factors that permit the establishment of close and favourable relations with larger powers. As such, they can be seen as playing a mediating role in the benign protection formation process by turning the conditions presented by smallness and geopolitical insignificance into specific foreign policy outcomes. These variables include:

- the behaviour of political elites of both the microstates and their potential protecting powers in response to the circumstances created by the microstates’ smallness and geopolitical insignificance;
- the personalities, political aims and abilities of specific leaders (as was particularly notable in the case of Liechtenstein or Monaco);
- the effect of changing norms and their effects on the external attitudes to the existence of various polities in the international systems (as was of particular importance in the formation of benign protection in the context of decolonisation);
- important historical events/precedents that interplay with the microstates’ smallness and geopolitical position; or concerns about the potential costs of political alternatives to protection.

In this context, it is important to note that a successful establishment of benign protection depends on both parties. While microstates’ leadership, type of government and image are key to the process, the political priorities, the domestic dynamics, interests and perceptions of the potential protecting power are of equal (if not greater) significance.

The combination of these factors leads to the dependent variable, the establishment of benign protection, i.e. a close, treaty relationship between the microstate and the larger state in which the former delegates some of its attributes of sovereignty to the latter in order to safeguard its politico-economic viability by securing “favourable economic terms” (Turner, 2007, p. 19), political protection and administrative assistance. While larger states may find it beneficial to assist their smaller partners, the key feature of their relationship is that in relative terms the microstates receive greater benefits than their benign protectors.

One of the key arguments of this thesis is that a successfully managed protection relationship offers the clear benefits of deep and durable affiliation with a larger power typically associated with non-sovereign status (Baldacchino, 2006a; Baldacchino & Milne, 2008) and also the international prestige, flexibility, responsibility and security of domestic political choices typically associated with
sovereign statehood (Bickerton et al., 2007). While it is true that many sub-national jurisdictions succeed in securing both prosperity and “national identity, local culture and the general exercise of local power” (Baldacchino & Milne, 2008, p. 4) by successfully managing their position within the jurisdictional boundaries of a larger sovereign state, the continuous preservation of their autonomous institutions is far from guaranteed and their fortunes are inseparably linked to the fortunes of their metropolitan state over which they ultimately have close to no control. For instance, despite the long history of autonomous status, distinct culture, insularity, long distance to the mainland, and local support for self-government the Norfolk Island was swiftly stripped of its autonomy in May 2015. According to one Australian official, the island’s status was always an “experiment” that the government determined to be a failure and consequently decided to terminate (Davey, 2015; Totaro, 2016). By contrast, the protected microstates can enjoy the benefits of close association without being doomed to fully share the fate and responsibilities of its protecting power54.

Management of Benign Protection and Economic Development

Within the managed protection framework, the existence of benign protection arrangements becomes one of the key intervening variables in the chain of causality between smallness/lack of geopolitical importance and economic development. Other intervening variables include specific geographic circumstances (e.g. proximity to trading blocs and specific states), history and domestic policies. Together with benign protection, these factors moderate the relationship between smallness and economic development.

The managed protection relationship is represented in Figure 2:

*Figure 2: Chain of causality between benign protection and economic development*

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54 E.g. Liechtenstein not only chose to stay neutral in the war that led to the collapse of its first protecting power, but was also able to change its protecting power from the defeated (and faced with severe economic challenges) Austria to stable Switzerland (Koźbial, 2010).
Among the identified intervening variables, benign protection and domestic policies adopted by microstates play an arguably more significant moderating role in the process of translating smallness into economic benefits than other variables, including specific geographic circumstances. It has often suggested that remoteness of the Pacific islands should be seen as the key variable hampering economic growth in the region (Hezel, 2012). Specific geographic circumstances are certainly not without importance. To some scholars however, long distances between microstates and the rest of the world are no longer necessarily detrimental to economic development. On the one hand, it has been argued that thanks to the revolution in transportation and communications as well as rapid economic development in the Pacific region, the Pacific microstates are growing less isolated (Cole, 1993; Gibson, 2007; Gillis, 2001). On the other hand, it has often noted that a degree of remoteness should not necessarily be viewed as an inherent problem as it can either be easily offset by the right choice of export products or types of economic service activities (e.g. Armstrong & Read, 2005; Srinivasan, 1986) or even turned into an economic advantage from the point of view of attractiveness as a tourist or discreet banking destination (Amoamo, 2011; Van Fossen, 2003b; Gillis, 2001). Furthermore, it is worth noting that the European microstates, often landlocked and with no airport facilities, already achieved impressive economic growth over half a century ago without the Internet or mass global travel opportunities. Arguably, whatever the problems Pacific island nations might be facing today when it comes to transportation and communications, these are not fundamentally greater than the challenges faced by the European microstates in the 1950s. Therefore, this research project will focus on the policies of microstates and their patrons as the most significant intervening variables in the chain of causality between the relationship of benign protection and politico-economic well-being.

When it comes to the protecting power’s policies, this thesis’ observation is that it is possible to distinguish between two major types of utilizing protection for the purpose of maximising economic benefits: the Passive (out-sourcing) type; and the Active (in-sourcing) type.

The former, prevalent in the case of the European microstates, assumes that the protecting power primarily facilitates access to wider markets, offers certain administrative assistance (especially when it comes to foreign representation), reputation, stability and possibly military defence, without offering any significant direct financial transfers or taking direct responsibility for the microstates’ residents’ economic well-being. In other words, it permits the out-sourcing of certain administrative, economic or welfare functions and operations with the goal of minimising the cost of running the bureaucratic machinery of the microstate. The latter, characteristic of Cook Islands’ and Niue’s relationship with New Zealand, is largely based on a more active type of assistance to the protected states through both various forms of direct subsidies and in-sourcing the provision of various (externally funded) administrative, economic and social functions and goods into the microstates. Such a type of protection involves direct and indirect financial and other kinds of support either to microstates’ government or its residents or both. It also often involves measures aimed at protecting the
microstate’s market and direct support for various developmental and commercial projects in the microstate.

*Figure 3. Different types of benign protection*

While in theory we should be able to easily distinguish between these two general types of protection, in practice the management of protection is a rather fluid and complex process and it is possible that some of the generally actively protected microstates (or their respective protecting powers) adopt some of the out-sourcing policies more characteristic of the passively protected microstates. As such, while we should be able to distinguish between actively and passively protected microstates, it could be useful to think of these different protection types as of a complex spectrum of policy choices, with some microstates firmly following one of the models and others moving slightly towards the centre or actively trying to alter their policies and adopt an alternative model.

*Figure 4. Spectrum of Protection Management*
It is important to note that while the empirical chapters of this thesis provide arguments, suggestions and observations regarding the potential effects of the different types of benign protection (passive, active and combinations of the elements from either of these) on both economic and political development of microstates, these observations may be insufficient to determine that the adoption of one type or the other is the most important variable explaining the divergent economic trajectories observed across microstates. It is possible that other intervening variables play a more significant role when it comes to determining the difference in the character and rate of economic development in the examined microstates.

In particular, microstates’ domestic policies might, in some cases, play a more significant role in determining the difference in economic trajectories across microstates than the adoption of specific types of benign protection. Microstates’ domestic policies vary across different microstates. The European microstates seem to adopt a much more “market-oriented” approach to economic development and strive to offer a low-taxated and bureaucracy-free environment conductive to various types of economic activity (Fehlmann, Grahlow, & Lutz, 2002). Interestingly, in addition to the opportunities presented by their specific arrangements with their respective benign protectors, small size and lack of resources or direct outside assistance, seem to be very important factors determining this policy direction (Armstrong & Read, 2000, p. 288). The Pacific microstates, on the other hand, have favoured development strategies based on or at least guided by a relatively large public sector sustained by financial aid from the protecting power (Connell 2007).

The choice of type of protection as well as the related microstates’ domestic economic policies are both parts of the process of protection management.
Microstates, due to their size, insignificance and histories of close relations with protectors, have the possibility of manipulating protecting powers to their advantage. As such, they can play a disproportionately significant role in the management of their benign protection. Large powers tend to accommodate the wishes of their small protectorates as long as they do not involve excessive costs since protection management provides them with tools for exercising influence on the microstates without it being seen as neo-colonial, bullying, or even patronising.

It is possible that the choice of type of benign protection, as well as other domestic and foreign policies, can result in the mismanagement of protection. While any type of benign protection enhances politico-economic viability, from the point of view of economic success, well-managed protection creates conditions favourable to self-reliant and stable economic growth. It appears that the passive model of protection is more likely to create better economic results. As the empirical chapters that follow will demonstrate, Liechtenstein seems to have managed its protection particularly well through a combination of passive protection and unique domestic policies. The Principality has used its protecting power(s) to acquire access to wider markets and outsource the provision of some of the costliest public goods. At the same time, it has remained committed to fiscal discipline, low taxes and a small but efficient bureaucracy which turned it into not only one of the most attractive business locations on the continent but also an increasingly confident player in international politics (Beattie, 2004; Fehlmann et al., 2002; Stringer, 2006).

By contrast, mismanaged protection might result in creating or entrenching an arguably undesirable reliance on either direct financial transfers (in the form of aid and subsidies) from the patron or a potentially risky monoculture economy or both. The empirical chapters of this thesis will suggest that mismanaged protection is to some extent an accurate description of what has taken place in both the Cook Islands and Niue. Empirical evidence suggests that at least some of the active features of New Zealand’s protection (most notably subsidies aimed at sustaining jobs in bureaucratic institutions and funding relatively large scale developmental projects) may have had a detrimental effect on the islands’ socio-economic development, especially when coupled with the implementation of various misguided domestic policies (Connell, 2006; Hughes, 2003a, 2003b; Knapman, 1986).

This leads to the dependent variable, which is economic development. The defining characteristics of this term are arguably both elusive and controversial (Thirlwall, 1989, p. 22). For the purpose of this research, this thesis accepts a broader approach to economic development, seeing it as a sustained raise in the standard of living of a given community (Deardorff, n.d.; Fosu, 2004; Gunning, 2008). This entails an ability of an economy to meet the basic needs and (often rising)

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55 As was the case when France under De Gaulle "looked sourly upon the exemption from income and inheritance taxes which French subjects could achieve by establishing residence in Monaco, and in 1962 French customs officers blocked the main roads leading in and out of the principality. The next year [the Prince of Monaco] was obliged to renegotiate Monaco's independence by conceding that French citizens would no longer be able to claim tax privileges." (The Telegraph 2005)
expectations of the people but also increasing the people’s self-esteem and freedom (understood as not just freedom from want but also increasing range of human choice) (Goulet, 1971; Lewis, 1963, p. 420; Todaro & Smith, 2012, pp. 21–22). As such economic development goes beyond economic viability and implies more than steady “liveability” or a static capacity to survive (Baldacchino, 1993a, p. 40). Economic development can be seen as a dynamic process that implies change and transformation of the socio-economic situation within a polity or a community (Bangura, 2011; Chaudri, 2001, pp. 1–3; Shaffer, 2006; Thirlwall, 2006, p. 17). However, it is important to note that economic development should not be perceived as synonymous with economic growth. While the two concepts are closely related, they are nonetheless quite different. Economic growth “involves doing more of what we are currently doing in a manner that is fundamentally the same as what is currently being done” (Shaffer, 2006, p. 61). By contrast, economic development is a more complex, long term process implying a “change in the capacity to act and innovate” and “some semblance of structural change” reflecting “changes in technology, ownership patterns, occupational mixes, product mixes, industry mixes, and institutions” (ibid.). Importantly, economic development “reduces vulnerability to outside-the-community changes” (ibid.). This point of particular relevance to small polities for which economic development represents an opportunity to transcend the limitations imposed by small size and other geographic and demographic constraints.

It is important to note economic development can rest on various foundations ranging from external subsidies, remittances or collection of economic rent (Baldacchino & Bertram, 2009), to the existence of “an economy generating internally the productive requirements for expanded reproduction through time” (Baldacchino, 1993a, p. 40). In the context of benign protection, it is useful to think about development models as of a spectrum of arrangements and outcomes ranging from full economic dependence on direct assistance that guarantees acceptably high (and improving) living standards (a “government/welfare

56 In the past, economic development was presented primarily in terms of measurable growth targets with little regard for the sources, beneficiaries and long-term effects of growth. However, more recently it’s been recognised that “societies are not indifferent (…) to the type of output that is produced, or to the economic environment in which it is produced”, consequently it is now often acknowledged that “a concept of development is required that embraces the major economic and social objectives and values that societies strive for” (Thirlwall, 2006, p. 17).

57 A human development theorist Denis Goulet proposed (Goulet, 1971) conceptualising development as a process composed of three basic elements: life-sustenance, self-esteem and freedom. As noted by Thirlwall (Thirlwall, 2006, pp. 17–18) the first one entails the satisfaction of certain basic needs (such as housing, food or clothing); the second refers to “the feeling of self-respect and independence” and “eradicating the feeling of dominance and dependence that is associated with inferior economic status”; the third one refers to both freedom from want but also to an expanding “range of human choice open to individuals and societies at large”. These three components can be seen as closely interlinked with the lack of basic material goods limiting opportunities and self-esteem, and the lack of self-esteem or freedom making material poverty more difficult to escape (ibid.).

58 Barrie Macdonald noted in 1986 that in the context of small societies of Oceania the ability of the economy to meet the changing expectations and aspirations of the people is a more meaningful indicator of economic viability than seeing it merely as a community’s capacity to physically survive (Macdonald, 1986, p. 118). However, it could be argued that economic development is precisely what is required to meet these broader goals and as such economic development offers an improvement over mere viability.
microstate” economy), to economic development driven by high domestic production of wealth facilitated by the opportunities presented by benign protection (an “entrepreneurial microstate” economy). This point is of significance when it comes to the assessment of specific economic outcomes in various microstates.

I am inclined to accept the perspective of those who argue that the most desirable source of development is the “self-reliant” (Godfrey, 2008) or “community-driven” (Eversole, 1993) growth in the standard of living generated by domestic agents rather than an increase of consumption resulting from such sources as remittances or external subsidies59, especially as this appears to be the goal frequently stated (publicly or in the interviews conducted for this thesis) by the microstates’ leaders60.

Figure 5. Microstates’ developmental models and outcomes

In light of the broad and complex nature of economic development, my assessment of economic outcomes in the selected microstates includes not only an analysis of such quantitative indicators as Gross Domestic Product (GDP) per capita or the more comprehensive (and arguably closer to the adopted definition of economic development) Human Development Index (HDI) but also a more qualitative, in-depth analysis of the source and effects of the changes in these measurements and an examination of the broader characteristics of the microstates’ economies.

Methodology
This thesis seeks to understand how microstates safeguard their politico-economic viability and achieve economic development. It does so by utilising a theoretically-informed analytical framework which considers both the microstates’ own policies and their relationships with protecting powers. The aims of this project are thus

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59 It is important to note that this self-reliance is not meant to imply exclusive reliance on local raw materials or natural resources for the purpose of sustained increase in the standard of living. By their very definition, microstates suffer from severe geographic constraints and as such their quest to achieve high standards of living virtually inevitably comes with a requirement to draw their resources from the wider markets (Baldacchino, 2006b). Instead, the self-reliant or locally-driven growth signals a situation in which the local businesses and workers actively participate in the production of wealth, usually in the form of transforming resources from distant lands into final products or services consumed either locally or in other markets. By contrast, the subsidy-fuelled growth implies little active participation in the production process and instead it suggests a reliance on externally-provided welfare-type support. One could also argue that the third alternative to the above models is the more “deterretorialised” or migration-based developmental strategy based on using the wider, diasporic networks for the purpose of increasing standards of living (Connell & Corbett, 2016).

60 As the empirical chapters demonstrate, the microstates’ elites themselves often express the desire to make or keep their economies as economically self-reliant as possible.
to: explore the phenomenon of micro-statehood/benign protection; to identify successful practices and policies; and also to explain the potential differences in politico-economic performance between microstates. The novelty of the approach to conceptualising and isolating microstates from other units on the basis of not just quantitative, but primarily qualitative characteristics (as proposed in Chapter 2) and the thesis’ focus on analysing the complex phenomenon of benign protection mean that an in-depth qualitative and comparative analysis of a small number of cases represents an arguably more suitable and fruitful research avenue than a quantitative analysis.

Unlike the quantitative method, the qualitative approach accounts for the local conditions (context) and allows for the “analysis of hard-to-measure variables, identification of causal processes, and generation of new hypothesis” (Croke, 2011). When deployed in a comparative case studies it can thus permit an in-depth and context oriented investigation of the questions of “how” and “why” (Baxter & Jack, 2008; Yin, 2008) in the selected cases that share certain fundamental attributes (constants) and yet differ in other aspects (Lijphart, 1971). As such, this approach can be seen as well suited to the study of microstates’ unique arrangements with larger states and the policy determinants of politico-economic success in microstates.

Additionally, in light of the relative scarcity of comprehensive, qualitative analyses of microstates, by offering a detailed, in-depth qualitative analysis of microstates this thesis has the potential to fill the gap in the scholarly literature dedicated to the study of the impact of small size on the politico-economic well-being of states. The originality of the thesis’ approach to conceptualising micro-statehood means that it aims to become a pioneering, path-breaking and in-depth analysis of unique international arrangements created and managed by some of the world’s smallest political entities. The novel conceptual and theoretical approach to studying these political units and their politico-economic well-being means that this project has an exploratory character (Gerring, 2004, p. 349).

Case Analysis and Selection
While quantitative methods are particularly helpful with “the estimation of the causal effect”, case studies enjoy a comparative advantage when it comes to identification and analysis of causal mechanisms (Gerring, 2004, pp. 348–349). Well-constructed case research allows one to “to peer into the box of causality to the intermediate causes lying between some cause and its purported effect” (Gerring, 2004, p. 348). The process of elucidating causal mechanisms can be accomplished through case study research relying on both cross-case and within case analysis. This thesis examines and compares three microstates to determine both whether the proposed mechanism of establishing benign protection occurs across diverse cases and to highlight the different models of protection management and their potentially divergent outcomes. On the within-case level, the thesis offers an in-depth examination of the determinants of political survival

61 As noted by Koźbial (Koźbial, 2014a, p. 300), the comparative and qualitative method is particularly useful for studying the external relations of microstates with a long history of special relations with neighbouring states as this method allows for exploring the complex questions surrounding the diminutive states’ functioning in the international system.
and economic development of microstates understood as modern protected states, with a particular emphasis on the politico-economic effects of smallness.

In this context, the aim of the empirical chapters is therefore to observe: the factors and mechanisms that permitted the studied polities to establish and maintain their special relations with larger states; the process of managing these relationships for the purpose of political and economic advantages; domestic policies adopted by specific microstates; political and economic effects of smallness; other potential factors affecting the politico-economic well-being in studied microstates. These observations rely on my use of the process tracing method, which can be defined as the “the analysis of evidence on processes, sequences, and conjunctures of events within a case for the purposes of either developing or testing hypotheses about causal mechanisms that might causally explain the case” (Bennett & Checkel, 2014, p. 7). Process tracing can be seen as a method “akin to detective’s work” as it relies on employing “multiple types of evidence for the verification of a single inference” (Gerring, 2008, p. 173). The observations collected as part of the process tracing can provide a good overview of the causal processes and if such processes exist across the studied cases. The specific information about the data used in the process can be found in the next sub-section.

While the specific within-case studies provide a detailed analysis of the phenomenon of benign protection, as well as the process through which microstates attain politico-economic viability and economic development, a cross-case comparison is necessary to eliminate the possibility that the observed outcomes result from idiosyncratic, unique circumstances (Veenendaal, 2015, p. 60). In other words, the use of more than one case is necessary to establish whether the expected variables leading to the establishment and maintenance of benign protection as well as the proposed effects of benign protection can be observed across the cases. For this reason, this thesis looks at two different cases: one of a European microstate, the Principality of Liechtenstein, with a history of special arrangements with two different benign protectors (Austria and Switzerland) at two different periods of time, and the Cook Islands and Niue (with a primary focus on the former) that have been freely associated with the same benign protector. These states have been selected for a number of reasons:

1. The use of small-N analysis for the purpose establishment of the universal model of microstates’ functioning as protected states necessitates that the selected cases are typical microstates. The definition of microstates proposed in the previous chapter limits these entities to structurally similar states that share a number of not only quantitative but also qualitative characteristics. All of the selected microstates have very small territories and populations not exceeding 50,000. None of them possesses any substantial natural resources or has a strategic location. Each of the studied microstates has a benign protector and has functioned in this relationship for a substantial amount of time. As such each of these three states can be seen as a typical example of a microstate understood as modern protected state.
2. At the same time, the selection of the cases has been influenced by the desire to maximise the number of secondary background variables in order to eliminate them as explanatory factors, so that the explanatory value of the remaining variable(s) (...) is maximized” (Veenendaal, 2015, p. 60). While the Cook Islands and Niue share a number of background variables (which explains looking at them together), the Pacific microstates differ from the European one on a number of accounts that include distance from other population centres, geographical location, environmental challenges and opportunities, history, tradition, culture. The formation of qualitatively similar politico-economic arrangements despite these differences give a strong indication that the variables identified in the proposed mechanism behind the establishment of benign protection have a strong explanatory value. At the same time, the fact that the Pacific microstates have also differed from the European microstates when it comes to their adopted model of protection management and domestic policies gives hope that their in-depth analysis will reveal the moderating role played by these variables.

3. Both cases present opportunities for a particularly comprehensive analysis of the phenomenon of benign protection and the nature microstates’ politics, economy and place in the international system. Liechtenstein has the experience of being protected by two different states: first by Austria and then by Switzerland. The case of Liechtenstein provides therefore a unique opportunity to study the construction, deconstruction and re-construction of micro-statehood in diverse geopolitical configurations, as well as the effects of protected-statehood and lack thereof on the tiny state’s politico-economic well-being. The case of the Cook Islands and Niue involves two separate states sharing some (albeit not all) background variables, but that have both been freely associated with the same larger power (New Zealand). This fact offers justification for looking at these two units together. This joint analysis gives the possibility of a more in-depth-understanding of New Zealand’s free association agreements and the phenomenon of benign protection itself. Furthermore, it can provide a coherent contrast to the case of Liechtenstein that involved radically different historical and geopolitical circumstances. At the same time, the politico-economic differences between the Cook Islands and Niue will provide a fertile ground for the analysis of the moderating variables affecting the extent to which benign protection can support economic development and strengthening of the microstates’ position in the international arena.

The selected microstates can, therefore, be considered as a good sample of microstates offering “a useful variation on the dimensions of theoretical interest” (Seawright & Gerring, 2008). In addition to the above points, the selection of these specific cases was influenced by a number of practical considerations. Out

62 At this point it is worth noting that, in addition to its association arrangements with the Cook Islands and Niue, New Zealand has a rather unique relationship with Tokelau. Unlike the Cook Islands and Niue, Tokelau is an integral part of New Zealand, though its status within New Zealand has its own peculiar characteristics. A more detailed analysis of the case of Tokelau and how it compares to the cases of the Cook Islands and Niue is beyond the scope of this thesis, but it might be a fruitful avenue for further research.
of the Pacific microstates, Niue and the Cook Islands are by far the easiest to access from New Zealand and have the largest amount of data and literature dedicated to their history, politics and economy that can be obtained from and within New Zealand. Likewise, Liechtenstein proved to be most accessible of all European microstates, in terms of the availability of a rich scholarship dedicated to its history and current politico-economic situation. Furthermore, in all three microstates I could make use of dedicated research facilities and space generously provided by the University of the South Pacific (the Cook Islands and Niue) and the Liechtenstein Institute.

**Advantages of studying microstates**

There are several methodological advantages of studying microstates. First of all, unlike in the case of larger states, the relative simplicity and small size of microstates’ domestic political dynamics and bureaucracy can help me to resolve the common methodological problem of facing an immensely complex decision-making structure and numerous factors influencing policy behaviour (Hudson & Vore, 1995). Second, small size can often mean greater reliability of both quantitative and qualitative data and greater ease of assessing the effects of changes in policies or leadership.

**Data collection**

In practical terms, the most appropriate data-collection methodology for this project has proven to be a combination of: a) desk research and b) primary on-site research.

**a) Desk research:** the collection and review of relevant publications and audio-visual materials. Data exploited has included:

- Books and articles from peer-reviewed journals
- Published and unpublished reports
- Case studies
- Policy-relevant publications
- Materials produced by international organizations
- Conference abstracts and reports
- Economic reviews
- Information accessed through the Internet
- Newspaper articles and reports
- Audio-visual materials (such as reports, interviews and documentaries)
- Official records
- Archives (especially relevant to field work)
- Other authentic available sources of information

**b) Field research:** In order to advance the understanding of the motivations behind and effects of particular policies this project involved primary investigation through semi-structured interviews with relevant informants. While semi-structured interviews rely on a certain set of questions and predefined areas of interest, they nevertheless allow respondents greater freedom to touch upon themes they deem relevant or important (Hesse-Biber & Leavy, 2010; Wilkinson
& Birmingham, 2003). As such, they present a suitable tool learning about the various nuanced aspects of benign protection and economic development in microstates, particularly in light of the exploratory nature of this study.

Those interviewed were government officials, business leaders, Non-Governmental Organisations (NGOs) representatives, and scholars based in the selected microstates. The respondents were selected on the basis of their expertise and knowledge on various aspects of their microstates’ functioning that are of relevance to this study. The primary purpose of interviewing such respondents was to confirm information already gathered, obtain new insights and information on the themes relevant to this study. Interviews particularly focused on the relationship of their microstates with their respective protecting powers and the issues surrounding economic development. The proposed theoretical and conceptual models, as well as the hypotheses, served as the basic foundations for constructing the initial and broader questions, but the semi-structured nature of the interviews allowed me to also ask additional questions and explore alternative explanations and arguments. A list of the interviewees can be found in Appendix A of this thesis. The basic set of initial questions can be found in Appendix B.

All the interviews have been recorded using a voice recorder (with the respondents’ consent) and later transcribed and, where possible, sent for their approval. The interviews were mostly conducted in English (with one interviewee preferring to be interviewed in French).

In light of the fact that the interviews required the participation of human subjects, I have successfully applied for an appropriate ethics approval from the University of Auckland’s ethics committee. All the conducted interviews have met the standards required by the University.

On the basis of my ethics approval and on the request expressed by some of the interviewees their names are not disclosed. In instances where listing respondents’ profession or position can add a significant dimension to their statements, and when such statements are not of particularly sensitive nature, these are listed (with the respondents’ consent). In more sensitive cases and in light of the inherently low degree of anonymity in small polities (Veenendaal, 2015), some quotes are published without any reference to the respondents’ profession or position.

The accuracy of the information provided in the interviews has been triangulated with the data obtained through desk research.

**Challenges and Limitations**

On the practical level, this project has encountered a number of challenges with access to data and relevant information. As noted by one of the interviewees, microstates’ authorities often find it unnecessary and too expensive to gather and publish detailed statistical analyses of the various socio-economic issues in accordance with the same standards as larger economies (Interview L1). On the one hand, the small size means that the governments and the general public have
a good idea of what happens inside their country without having to rely on elaborate research (ibid.). On the other hand, the per-capita cost of maintaining a bureaucracy dedicated to data collection and analysis, just like the provision of public goods in general, is arguably much greater in microstates than in larger economies. Furthermore, the small size and remoteness of microstates mean that the scholarly literature dedicated to specific microstates is (perhaps unsurprisingly) relatively scarce. The above challenges have been addressed by field research and frequent communication with the respondents who have agreed to offer clarifications and to confirm or supplement the information gathered from published sources.

As this thesis does not analyse larger political units or small polities that cannot be classified as modern protected states, no definitive conclusions can be drawn about the differences between microstates and other types of political units of diverse size and political status. Furthermore, this project’s novel approach to the conceptualisation of microstates and their differentiation from other polities means that the thesis’ findings are difficult to compare with the existing scholarship focusing on small political units. However, despite these shortcoming, this thesis aims to offer new insights and a meaningful contribution to both the broader field of international relations and the narrower small states and territories by offering a detailed, exploratory analysis of the phenomenon of benign protection and the numerous issues concerning the effects of micro-statehood on politico-economic well-being, the nature of microstates’ politics and economies. The exploratory, path-breaking nature of the project means that it can potentially open new avenues for scholarly enquiry and provide new insights and perspectives on the role and position of some of the world’s smallest political units in the international system.

Conclusions
This thesis examines the functioning of microstates understood as modern protected states. In order to understand how these units establish their unique arrangements with larger powers and what the consequences of these arrangements are this chapter has proposed that a theoretical framework of managed protection. The managed protection framework seeks to explain how microstates establish, maintain and manage their relationships with their respective protecting powers and how they maximise their economic prosperity within the context of these special inter-state arrangements. As such, the managed protection framework is a modified version of the well-established managed dependency framework proposed by Godfrey Baldacchino that has guided scholars interested in analysing the process through which various diminutive polities turn their geographic, economic and political dependence on larger states to their economic advantage.

The managed protection framework proposes that while benign protection alone can ensure economic viability and political survival, microstates can maximise their economic opportunities, achieve high levels of development and increase their political power through successful management of their relationship with the benign protector. At the same time, the microstates can also mismanage their
protection and consequently deepen their economic and political dependence on the protecting power while still enjoying relative political and economic security. The empirical chapters of this thesis will demonstrate how selected microstates (the Cook Islands, Niue, and Liechtenstein) have managed or mismanaged their arrangements with their respective protecting powers.
Chapter 4: The Principality of Liechtenstein

Figure 1. Liechtenstein’s location and map (‘CIA World Fact Book’, 2016)

Photograph 1. The Principality of Liechtenstein (source: author’s collection)
Introduction

The previous chapters of this thesis have been concerned with conceptualising microstates as unique types of diminutive polities, as well as with proposing a theoretical model that could explain their political viability, continuous existence and economic success. Chapter 2 proposed that microstates can be credibly conceptualised as sovereign political entities that have been able unilaterally to delegate some of the attributes of their sovereignty to larger powers in exchange for benign protection of their political and economic viability against their geographic or demographic constraints. Chapter 3 sought to explain how certain tiny political entities have succeeded in instituting special arrangements with larger states. It was argued that small size and lack of perceived geopolitical significance combined with such factors as unique historical circumstances, leaders’ personalities or changing norms can create favourable conditions for the establishment of benign protection and micro-statehood. Furthermore, it was proposed that while benign protection alone can guarantee economic viability and political survival, the rate of economic development and level of prosperity in microstates largely depends on the management of their relations with the respective protecting powers. Through a combination of domestic policies and successful protection management, microstates can not only achieve prosperity but also increase their political power. At the same time, a mixture of mismanaged protection and domestic policies can result in fewer opportunities for domestically-driven development, worse economic outcomes and the deepening of political and economic dependence of microstates on their protecting powers without necessarily endangering basic politico-economic security.

This and the next two chapters will seek to answer the question of what determines the studied microstates’ political survival as sovereign states and levels of economic development within the framework of their relationships with protecting powers. They will also examine the different ways in which three different microstates have managed to become modern protected states and how this status has helped them to secure political and economic viability. In particular, the following chapters will look at how selected microstates of Europe and Oceania have used their relationships with protecting powers together with domestic policies for the purpose of economic development.

This chapter looks at the Principality of Liechtenstein, which has the longest history of micro-statehood among the three case studies examined in this thesis. Due to its location in the middle of the continent dominated by strong and much larger states, Liechtenstein has long been considered a geopolitical and economic oddity. Despite its extremely small size and lack of any substantial natural resources, for the last couple of centuries it has managed to maintain its sovereignty, unique political system and economic viability while most of the continent has undergone dramatic changes in result of wars, revolutions and depressions. Somewhat unsurprisingly, it is actually often considered as a peculiar Medieval “relic” that has curiously and perplexingly survived until the modern era (Anderson, 2006, p. 137; Hass, 2004; Łukaszewski, 2006, p. 74). Yet, despite its seemingly anachronistic nature, in the course of the last century Liechtenstein has experienced an unprecedented economic development that has transformed this
alpine monarchy from a poor land of farmers into one of the world’s richest countries per capita and one of Europe’s most technologically advanced and industrialised nations (Brunhart & Dumieński, 2015; Catudal, 1975; Stringer, 2006, 2013; Young, 2010).

The political survival and economic success of this peculiar principality will be the focus of this chapter. Liechtenstein’s story is a good illustration of both the process through which polities can become microstates understood as modern protected states and the successful management of benign protection for the purpose of economic development. It will be argued that far from being obstacles to politico-economic viability, Liechtenstein’s small size, lack of natural resources and perceived strategic insignificance have significantly contributed to its continuous survival as a sovereign state and the country’s economic success. On the one hand, the combination of Liechtenstein’s size and historical circumstances have led to the establishment of its advantageous arrangements first with Austria and then with Switzerland. On the other hand, its successful management of this benign protection has created conditions conducive to economic development. As such, the case of Liechtenstein illustrates and validates the arguments put forward in Chapter 3 about the formation of micro-statehood as well as the importance of pursuing an appropriate model of protection and related domestic economic policies in achieving a sustained and domestically-driven raise in the standard of living.

In addition to desk research this chapter is based on field research conducted in Liechtenstein and other European microstates in August, September and October 2013. The research involved conducting a number of semi-structured interviews with local respondents with a particular expertise and knowledge on Liechtenstein’s and other European microstates’ politics, history, economy and foreign relations. They included a member of the Princely House, leading local academic experts and diplomats. Due to generally recognised scarcity of literature, particularly in the field of comparative political research, on Liechtenstein and other microstates (Veenendaal, 2014, p. 2) such interviews can be not only useful in obtaining otherwise unpublished and inaccessible data but also a fruitful method of uncovering “some of the more informal or practical aspects of political systems” (ibid.), as well as learning about the perceptions and opinions of the people directly involved in the policy aspects of relevance to this thesis. The quotes from the interviewees are used to emphasise or illustrate this chapter’s more general arguments as well as to provide additional details and answers to the key questions related to Liechtenstein’s micro-statehood and economic development. In accordance with the University of Auckland’s Ethics Committee recommendations, the names of the interviewees are not disclosed. The accuracy of the information provided by the interviewees has been triangulated with evidence drawn from public records, newspaper articles and scholarly publications.

This chapter starts by offering a brief overview of Liechtenstein’s geography, demographic, political and general economic situation, followed by an account of its history beginning with an emphasis on its emergence as a sovereign state and its early participation in the international affairs. It then proceeds to a more
detailed analysis of relations between the Principality and its benign protectors. It first offers a detailed analysis of the formation and functioning of Liechtenstein’s association with Austria. Following that, it provides an overview of the process that led to the formation of the country’s current relations with Switzerland and examines their nature and implications. In both cases, the chapter exhibits a strong focus on the key factors that facilitated the formation of the arrangements that can convincingly be seen as examples of benign protection outlined in Chapter Three and the importance of these relations to Liechtenstein’s politico-economic viability. Finally, the chapter presents an assessment of Liechtenstein’s current management of benign protection as well as its related domestic economic policies in the context of pursuing economic development.

** Territory, Location and Population**

Liechtenstein’s total size of just 160 sq. kilometres makes it one of the world’s smallest sovereign states. To put this figure in a perspective, as is often practised by scholars and journalists writing about the Principality, it is “less than half the size of Rutland (England’s smallest county)” (Beattie, 2004, p. 1) and roughly the same size as the city of Brussels. Unlike Brussels, Liechtenstein is predominantly a mountainous country with flat lowlands on the right bank of the Upper Rhine occupying only one third of its territory. Settlement areas comprise around 10% of the Principality with the rest being covered with forests, farmlands and “non-productive areas” (Meier & Manz-Christ, 2009, p. 20; Office of Statistics, 2016). Despite its mountainous location (highest point and lowest points being 2,599m and 430m above sea level) Liechtenstein has a relatively mild, Alpine climate, with average annual temperatures of 10.6°C, moderate precipitation (1000-1100mm), 1500-1600 hours of sunshine and 150-160 days of rainfall per year (Meier & Manz-Christ, 2009, p. 21; Office of Statistics, 2016). The country has “virtually no natural resources apart from fertile agricultural land and some hydroelectric power” (Beattie, 2004, p. 2). Instead, it faces a number of natural hazards, including “disastrous floods”, avalanches and strong winds (ibid).

Along with Uzbekistan, Liechtenstein is one of the world’s only two double landlocked countries in the world (‘CIA World Fact Book’, 2016). As noted by Scelle (Raton, 1970, p. 9), it retains (together with Andorra) a certain “physical superiority” over two other well-known European microstates of Monaco and San Marino as “it has more than one neighbour, it is not an enclave”. To the West and South, it borders the Swiss cantons of St Gallen and Grisons and to the North and East the Austrian Federal Land of Vorarlberg. Despite being located alongside one of the more direct (albeit not one of the greatest) North-South transit routes of Europe, “Liechtenstein is not a crossroads” (Beattie, 2004, p. 3). While it doesn’t have its own airport and has only a rather limited train service, the relative proximity to both motorways and international airports in the neighbouring countries (the large Zürich Airport in Switzerland 120 km away, smaller Friedrichshafen Airport in Germany some 90 km away and the very small Altenrhein Airport in Switzerland just 53 km away), and availability of bus services providing connections to the larger rail networks mean the Principality is no longer particularly remote or hard to access, as was arguably the case in the past (Young, 2010, p. 286). Nevertheless, Liechtenstein’s location has never been considered
of any significant strategic importance (Beattie, 2004, p. 3). Paradoxically, the lack of valuable natural resources or strategic location is often identified as one of the key reasons behind the Principality’s survival as an independent state – it has simply been too small and too poor “for most predators to find it worth making a determined effort to seize it” (Beattie, 2004, p. 369).

As of 2015 Liechtenstein had a population of 37,624 (‘CIA World Fact Book’, 2016). Of those over 66% were Liechtensteiner and close to 34% were foreigners (ibid.) which makes Liechtenstein one of the countries with the highest percentage of resident foreigners in Europe (Koźbial, 2012, p. 36; Sochin D’Elia, 2013). In the context of Liechtenstein, the number of foreign residents includes only those settled in the country for 12 months or more and excludes asylum seekers, foreigners with shorter-term permits, seasonal workers and commuters (Beattie, 2004, p. 335). This last category is particularly significant as it is estimated that daily commuters from neighbouring countries constitute now approximately half of the workforce employed in the principality (Brunhart & Dumieński, 2015; Fehlmann et al., 2002; Frommelt & Gstöhl, 2011; Kocher, 2002; Meier & Manz-Christ, 2009). The high number of immigrants and foreign workers is a remarkable departure from the not so distant past as just a century ago Liechtenstein was known as a country suffering from repeated waves of emigration triggered by poor economic opportunities or even famines (Brunhart & Dumieński, 2015, p. 9; Stringer, 2006). The political and social impact of this situation has also been a subject of numerous debates, primarily focusing on the questions surrounding Liechtenstein’s cultural identity, political rights of its residents and the potential consequences of migration and commuting for the principality’s natural environment and infrastructure (Brunhart & Dumieński, 2015; Koźbial, 2012; Sochin D’Elia, 2013, 2014).

Political System
Liechtenstein has a unique political system combining elements of powerful, hereditary monarchy with both direct and representative democracy (Veenendaal, 2014, p. 5). Throughout much of its history the country was under the Prince’s rule. In response to the growing discontent with the monarch’s absolute power due to the influence of democratic model adopted in neighbouring Switzerland, the Principality adopted the 1921 constitution which, despite a number of revisions, still remains in force. The constitution of the Principality is based on the principle of “dualism” between the Prince and the people (Marxer, 2007, p. 1).

In practical terms, it establishes Liechtenstein as “constitutional hereditary monarchy on a democratic and parliamentary basis” with various mechanisms of direct democracy (Veenendaal, 2014, p. 5). The country’s constitution established

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63 The only time when Liechtenstein’s location was considered to be of military importance was briefly during World War 2 when the Swiss military perceived it as a potential weak link in their defence plans against a potential attack from Germany (Beattie 2004, 3; Interview L1).
64 The higher number of commuters is on the one hand a result of the restrictive immigration policy of the Principality (Frommelt & Gstöhl, 2011; Sochin D’Elia, 2013) and on the other hand a reflection of increasingly prohibitive cost of accommodation inside Liechtenstein (Brunhart & Dumieński, 2015).
65 In particular following the abolition of monarchy in Austria with which the Principality had been closely associated (Marxer, 2007, p. 1).
a system of “checks and balances between the powers of the Prince, the Government, the Landtag (Liechtenstein’s Parliament), the people and the judiciary (Duursma, 1996, p. 150). Effectively, as all of these main institutions can be seen as potential veto players, the political system of Liechtenstein generates strong pressure to reach compromises (Frommelt & Gstöhl, 2011, p. 10) and “is often interpreted as a stimulating force for consensual politics” (Veenendaal, 2014, p. 5). This constitutional construction, combined with the country’s generally conservative political attitudes (Veenendaal, 2014) 66, generates a political environment generally characterised by “strength, continuity and underlying stability” (Beattie, 2004, p. 177).

The Reigning Prince is the Head of the State and represents the Principality on the international arena. The government is elected by the 25-member unicameral Parliament (“Landtag”) and appointed by the Prince. The parliamentary elections take place every four years on the basis of proportional representation (Frommelt & Gstöhl, 2011, p. 9). Liechtenstein’s citizens may “exercise their right of legislative and constitutional initiative and their right of referendum to call a popular vote on bills adopted by Parliament” (Meier & Manz-Christ, 2009, p. 32). The most fundamental revision of the constitution took place in 2003 67 and resulted, among other things, in reaffirming and expanding the powers of the Prince “such as the role of the Prince in the appointment of judges, the Prince’s right to dismiss the entire government, the Prince’s right to rule by emergency decree, the Prince’s right to quash initiated investigations, but especially the confirmation of the Pr ince’s right to veto laws and in this sense overrule decisions of parliament and outcomes of referendums and popular initiatives” (Veenendaal, 2014, p. 6).

Even before these changes the Prince, with his active involvement in the country’s politics 68 and his power to veto laws 69 and call early election, had been considered as “Europe’s most powerful monarch” (Osborne, 2003). The reforms of 2003 reinforced such views and sparked concerns, both in Liechtenstein and in other countries, that the Principality moved away from some of the key democratic

66 As noted by Sutton and Payne (Sutton & Payne, 1993, p. 586), small countries “tend to be conservative”. And indeed, Liechtensteiners are often seen as conservative (Lyall, 2003; Veenendaal, 2014). Women were only allowed to vote in 1984, following a very long and controversial referendum that demonstrated not only conservative political and social views but also a conservative attitude towards immigration (Sochin D’Elia, 2013, p. 9).

67 The changes took place following a highly controversial referendum (Marxer, 2007, p. 2). While most Liechtensteiners did not appear to support giving more power to the Prince, they feared the abolition of monarchy following the Prince’s threats to leave the country should his proposal be rejected (Lyall, 2003; Osborne, 2003; Veenendaal, 2014).

68 As pointed out by Beattie (Beattie, 2004, pp. 224–225), while many of the Prince’s prerogatives resemble those of the British Monarchy, unlike in the case of the United Kingdom where they are “exercised on the advice of the Sovereign’s ministers” and where “the royal veto has not been used since the reign of Queen Anne (1702-1714), the Prince of Liechtenstein often directly intervenes in the country’s politics not just as a mediator but also as an independent and powerful actor. This view was also confirmed by the envoys of the Council of Europe, who noted that unlike in the case of other European monarchies with many monarchical prerogatives existing “only on paper” and not in the “constitutional practice”, this was not true for Liechtenstein (Hancock & Jurgens, 2004, p. 266).

69 It is rare for the Prince to use actually his veto powers, but this is not necessarily due to his restraint but because “the Prince can use his influence preventively” (Hancock & Jurgens, 2004).
principles (Hancock & Jurgens, 2004; Lyall, 2003; Osborne, 2003; The European Commission for Democracy Through Law, 2002).

However, while "the dominant role of the monarchy" and the character of at least some of the constitutional changes made in 2003 might be provoking debates on "the democratic nature of the Liechtenstein political system" (Veenendaal, 2014, p. 6) it would be a mistake to consider the Principality undemocratic. Since 1921 Liechtenstein’s political structure has had a solid democratic and parliamentary basis with a very good record of safeguarding civil liberties and the rule of law (Marxer, 2007, p. 12; Veenendaal, 2014, p. 6). Even though the 2003 changes confirmed and to a degree strengthened the role of the Prince, they have also given the voters “new direct democratic rights, especially the right to be the arbiters if there is dissent in the process of electing judges, or the right to abolish the monarchy by legal means, with no right of veto by the prince.(Marxer, 2007, p. 13).” These new rights complimented the already well-established and powerful mechanisms of direct democracy, such as the popular initiative and referendums (Koźbial, 2014b; Marxer, 2007).

While the tools of direct democracy are relatively rarely used, they can be seen as “a safety valve or an emergency brake which allows the electorate to accelerate or slow down policies” (Marxer, 2007, p. 13). A similar role is played by the rather remarkable article 4 of the Constitution according to which every commune of Liechtenstein has a right to secession from the Principality (‘Constitution of the Principality of Liechtenstein’, 1921). Furthermore, the existence of strong mechanisms of direct democracy results in a high interest in politics and existence of a vibrant civil society (Frommelt & Gstöhl, 2011, p. 9; Marxer, 2007, p. 13). It also reinforces the consensus-oriented nature of the political system (Marxer, 2007).

The political system of the Principality should not be assessed outside of the context of the country’s small size and peculiar history. It is clear that “in a very small community, which wishes to assert itself as a sovereign state, the role of the hereditary monarch is stronger than, say, in the United Kingdom or in the Netherlands” (Hancock & Jurgens, 2004, p. 268). On the one hand, the House of

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70 Even the rapporteurs of the Council of Europe, otherwise rather critical of Liechtenstein’s Constitution and the position of the Prince, admitted that “Liechtenstein must be commended for its very extensive form of direct democracy” (Hancock & Jurgens, 2004, p. 267).

71 Albeit still more often than in most other states. According to one scholar, “presently in terms of the number of referenda held [Liechtenstein] holds the second place, just after Switzerland” (Koźbial, 2014b, p. 131).

72 This option was envisaged and promoted by Hans-Adam II who, as a supporter and promoter of the concept and principle of self-determination, reportedly wanted to set and international example and provide another way of guaranteeing the right to self-determination for Liechtensteiner in the event of adverse geopolitical developments (Beattie, 2004, p. 181,263-264; Young, 2010, p. 284). Just like Article 1 of the constitution stating that “The purpose of the Principality of Liechtenstein is to enable the people living within its borders to live in freedom and peace with each other” the right to secession could perhaps be seen as a way of emphasising that “membership of the State is based on free will and that the State is not an end in itself” (Beattie, 2004, p. 176).

73 Some critics argue that such mechanisms (in particular the right to abolish the monarchy) are insufficient to guarantee a democratic character of the system, precisely because they are meant to apply to more extreme situations and not function as “an effective counterweight to the lack of balance in the distribution of powers.” (The European Commission for Democracy Through Law, 2002, p. 11).
Liechtenstein is widely perceived in the Principality to have played the key and largely positive role in the formation, survival and economic well-being of the country (Corbett, Veenendaal, & Ugyel, 2016, p. 12; Hass, 2004). On the other hand, as noted by Veendendal (Veenendaal, 2014, p. 15), “the absence of political anonymity, and the obvious danger of clientelism and patronage that are common to small settings create a situation in which many people consider neutral, impartial, and stable traditional leadership desirable”. At the same time, the country’s small size significantly reduces the distance between the citizens and the prince and likely makes the abuse of power less likely (Livingstone, 2010; Salter, Berry, & Hebert, 2014).

Liechtenstein’s system can therefore be perhaps be described as a unique case of a constitutional monarchy in which monarch “has retained real political power” that nonetheless remains constitutionally limited and accompanied by strong mechanisms of representative and direct democracy and “a separation of powers stronger even than that afforded by the U.S. Constitution” (Salter et al., 2014, pp. 13–15). What is of particular importance from the point of view of this chapter’s focus is the fact that the Prince of Liechtenstein has played the key role in the political developments inside the Principality as well in the country’s foreign policy (including the formation of its unique international arrangements), in particular prior to the adoption of the 1921 Constitution. Consequently, the below sections of the chapter will often refer to the Prince as the central figure in the key developments associated with Liechtenstein’s emergence, survival and success as a microstate.

History prior to Sovereign Statehood

Early History

Liechtenstein is small, but it does nevertheless have a rich and complex history marked by “grandeur and decadence, wars, revolts, and famines; periods of quiet and period of troubles; magnanimous princes and harsh tyrants” (Raton, 1970, p. 16). According to archaeological evidence, the area has been inhabited by farming communities since at least the Later Stone Age (Beattie, 2004, p. 2). In the ancient times the territory was occupied by the Celtic Raetians (Raton, 1970, p. 17) and fell under reign of the Roman Empire in 15 BC following a significant Roman invasion of Helvetia (pre-modern Switzerland) aimed “to push the Empire’s frontiers up to the Rhine and to a safer distance from the potentially weak spot of northern Italy” (Beattie, 2004, p. 2). Liechtenstein’s present territory became a part of the Roman province of Rhaetia (Duursma, 1996, p. 148) and remained under the Roman political control and cultural influence for nearly five centuries (Catudal, 1975, p. 189). Christianity established its presence in the area by the fifth century (Beattie, 2004, p. 3; Catudal, 1975, p. 189; Raton, 1970, p. 17), not

74 In addition to the diplomatic efforts described in the remaining sections of this chapter, it is worth noting that the Princely House imposes no direct financial burdens on the Principality (albeit it does benefit from not paying taxes) and indeed has often supported the country financially (in the form of gifts or interest-free loans) during both the periods of economic hardships (such as during the post-World War I in order to prevent famine) and for such purposes as covering some of the expenses associated with Liechtenstein’s foreign policy and membership in such international bodies as the United Nations (Beattie, 2004, p. 70,184-185).

75 The remainder of that past exists in Celtic names of such places as Eschen (Raton, 1970, p. 17)
long before the withdrawal of the Romans from Rhaetia and the invasions of the Germanic ancestors of modern Liechtensteiners.

Following a period of turmoil associated with the demise of the Western Roman Empire the territory became incorporated into Charlemagne’s empire and then (from the 10th century) it became part of the Holy Roman Empire. During this period, the lands were divided into numerous feudal inheritances (Beattie, 2004, pp. 3–4). The present-day Liechtenstein is composed of two of these entities, namely the county of Vaduz (“Oberland” or “Upper Country”) and the lordship of Schellenberg (“Unterland” or “Lower Country”). In 1396 the Holy Roman Emperor Wenzel of Luxembourg conferred the relatively rare right of immediacy to the county of Vaduz making it directly subordinate to the Emperor without the intermediary of a local overlord (Beattie, 2004, p. 17; Hass, 2004; Klieger, 2012, pp. 41–42; Raton, 1970). This decision proved to be of extreme importance as it gave the county of Vaduz (together with Schellenberg which was acquired by the ruler of Vaduz in 1434) a significant status that could place those owning it considerably higher in “the social hierarchy of the Empire” (Klieger, 2012, p. 43). As noted by Raton (Raton, 1970, p. 17), “the sovereignty of Liechtenstein is derived from this unilateral declaration”.

The next two centuries were a difficult period marked by frequent plagues, armed invasions, natural disasters and one of the worst cases of witch-hunting in Europe76 (Beattie, 2004, p. 5; Duursma, 1996, p. 148). By the late 17th century the lands of Vaduz and Schellenberg the Emperor, in response to petitions from the local victims of violence and mismanagement, divested the ruler of the lands of his functions and appointed an Imperial Administrator, the Prince-Abbot Rupert of Kempten (Duursma, 1996, p. 148; Raton, 1970, p. 19). The Administrator soon discovered not only the astonishing scale of abuses perpetrated by the former ruler but also that the two territories were bankrupt and unable of generating any substantial income (Beattie, 2004, pp. 5–6; Klieger, 2012, pp. 42–43). In consequence, he decided that “the problem could only be solved by finding a buyer who was rich enough not to need the revenues from the two territories” (Beattie, 2004, p. 6).

The Birth of the Principality of Liechtenstein as a Distinct Political Unit

At the same time, hundreds of kilometres away from Liechtenstein, Johann Adam I Andreas “The Rich”, the head of the wealthy and powerful Austria-based Liechtenstein family77 developed an ambition for the House of Liechtenstein to gain seat and voice at the Imperial Council of Princes. For that purpose he needed to acquire Free Imperial Territories, i.e. territories under the direct jurisdiction of Emperor and Reich. In consequence of the decision made in 1396, the greatly

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76 As noted by Beattie (Beattie, 2004, p. 5): “Out of a population of 3,000 some 300 men and women were tortured and executed” during this period as a result of the witch hunt.

77 The House of Liechtenstein is known as one of the oldest and wealthiest of the noble families in Europe (Klieger, 2012, p. 42). The family traces its roots back to the mid-12th century with much of their fortune and territorial base linked to Moravia and Bohemia (modern day Czech Republic), in particular following the Thirty Years War (1618-1648) during which the Liechtenstein family actively supported the victorious Hapsburgs and was consequently allowed to appropriate large estates confiscated from defeated rebels (Beattie, 2004, pp. 8–14; Raton, 1970, p. 20).
impoverished, small and remote lands of Vaduz and Schellenberg were such territories. More importantly, the Imperial Administrator was eager to sell them to the highest bidder to pay off the huge debts incurred by their former ruler. Johann Adam I Andreas managed to purchase both lands and in 1719 they were merged and given a new status of the Imperial Principality of Liechtenstein\(^78\) by Emperor Karl VI (Duursma, 1996, p. 149).

In can, therefore, be argued that Liechtenstein came into existence as a distinct and coherent political unit in rather unusual circumstances. Unlike most other states in Europe, it was not born through conquest, peaceful separation or unification. Likewise, “the wishes of the population did not enter into the picture at all” (Kohn, 1967, p. 550). Instead, Liechtenstein “was declared independent for the sake of its owners” to whom it was of importance (at least initially) only because it gave them “the rights of a German sovereign” (ibid.). In a way, one could argue that the House of Liechtenstein took the role of a non-state benign “protector” of the Principality’s independence (Corbett et al., 2016, p. 4). Just like its future state protectors, the Liechtenstein family, rich in far more lucrative and larger\(^79\) estates on the other side of the Empire and focused on the Imperial Court in Vienna for which it has provided many high ranking civil and military officers (Klieger, 2012, p. 43; Raton, 1970, p. 19), had little interest in exploiting the Principality’s meagre economic resources (Kohn, 1967, pp. 550–551) or even taking direct control over its administration\(^80\). Instead, the House of Liechtenstein protected their Principality’s independent status simply because of the political and legal opportunities associated with its possession and because it helped to advance the family’s political ambitions within the wider German-speaking world.

One can conclude that the territory of Liechtenstein owes its survival as a distinct political unit not only to its status within the Holy Roman Empire but also to its diminutive size and precarious economic situation that attracted a powerful (albeit non-state) protector in need of what could today be described as a feudal “flag of convenience”. It is highly probable that “no other solution would have secured the future of Liechtenstein as an independent entity” as “ecclesiastical ownership would have led to absorption into Switzerland” and “ownership by a local noble family would have ended in incorporation into Austria, as happened with so many other hereditary possessions in the area” (Beattie, 2004, p. 6). For the next centuries the Princely House played a crucial role in not just safeguarding the Principality’s independent political status but also to a degree protecting its economic viability (at least until the state-protectors’ role in this area became more prominent).\(^81\)

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\(^78\) One could argue that the name given to the Principality was a reflection of the prestige and importance of the House of Liechtenstein. As noted by Kohn (Kohn, 1967, p. 550), “it is not often that a reigning house lends its name to its land, instead of the other way around”.

\(^79\) As noted by Beattie (Beattie, 2004, p. 18): “In 1914 their land holdings in the Principality comprised only 0.02% of their total agricultural land and 0.12% of their forests”.

\(^80\) In fact, the first Sovereign Prince to visit his Principality was Alois II who did so in 1842 – over a century after his ancestors acquired the territory (Raton, 1970, p. 21)!

\(^81\) Not surprisingly until today the Princely House and the institution of monarchy enjoy a wide popular support in the Principality, which could be explained by Corbett et al.’s (Corbett et al., 2016, p. 4) argument that if “monarchs fulfil the role of national protectors, citizens may come to believe that the international survival of their state is inextricably linked to the monarchy.”
First Micro-statehood: Association with Austria

Sovereign Liechtenstein

Liechtenstein remained a member state of the Holy Roman Empire until 1806 when Napoleon dissolved the Empire and replaced it with his Rhine Confederation. Somewhat surprisingly, the tiny Principality was included as one of the formally sovereign and nominally equal states within the Confederation. This was most likely “a political gesture to Prince John I of Liechtenstein” (Hass, 2004) who reportedly earned Napoleon’s respect (and perhaps friendship) while serving as the Austrian emperor’s representative to the peace talks (Baumstark, 1985, p. xviii; Beattie, 2004, pp. 21–22; Duursma, 1996, p. 149; Kohn, 1967, p. 551; Raton, 1970, p. 25). The Prince found himself in a rather delicate position. As noted by Raton (1970, p. 25): “On the one hand he did not want to desert the Emperor of Austria, in whose army he had served as a general, and on the other hand he could not risk displeasing the powerful protector of the Confederation [of the Rhine]”. He managed to find a solution to this problem by formally abdicating the throne in favour of his infant son (for whom he maintained regency), while he “remained in the emperor’s service, fighting against Napoleon until his defeat in 1815” (Hass, 2004). Thanks to this manoeuvre, the Prince secured recognition for his country and the House of Liechtenstein without appearing disloyal to Austria (Baumstark, 1985, p. xviii). Prince Johann could regain his throne upon the collapse of the Confederation in 1813 (Beattie, 2004, p. 22; Raton, 1970, p. 25).

Liechtenstein’s sovereignty (at least in formal terms – see below) was recognised and reconfirmed by the Congress of Vienna (1815). The Principality became one of the 39 sovereign member states of the newly formed German Confederation, which “maintained much of Napoleon’s state structure from the Confederation of the Rhine” (Hass, 2004). Interestingly, the Principality is “the only part of the Napoleonic territorial system which has survived unchanged until the present time” (Raton, 1970, p. 25). This is admittedly a striking achievement. For most of the tiny polities, the disintegration of the Holy Roman Empire meant their own demise as distinct political units and absorption into larger states. Liechtenstein managed to escape this outcome, “to which it had seemed doomed by its small size” (Baumstark, 1985, p. xviii). A combination of its geopolitical and economic insignificance with extremely favourable political circumstances led to its recognition as one of the shrinking number of distinct states on the continent. However, regardless of the power of the House of Liechtenstein, the tiny size made it clear that the newly born state was “needful of protection” (ibid.). The challenge was to find a protector powerful enough to offer meaningful assistance and yet benign enough not threaten the preservation of the freshly acquired political distinctiveness. For this purpose the House of Liechtenstein turned its attention to Vienna.

Formation and Functioning of Benign Protection

The history of the Principality in the 19th century was a period of significant internal developments and the formation of close links to Austria. Even though Liechtenstein was now a sovereign state, its diminutive size, economic isolation and the family’s close ties to Vienna created a desire to form a close institutional and economic association with a larger state (Raton, 1970, p. 32). While some
inhabitants of Liechtenstein might have preferred to establish stronger links with Switzerland (Beattie, 2004, p. 26), the Liechtenstein family’s close ties to Vienna made Austria its “natural protector” (Raton, 1970, p. 30). A closer union with the Eastern neighbour also made more economic sense, as “Switzerland was then a relatively poor country, not to be compared as a market with the Danube Monarchy” (Beattie, 2004, p. 26). In 1852 the two states concluded a customs and tax agreement which meant a de facto integration of Liechtenstein into the Austrian economic system (Raton, 1970, p. 32). The achievement of formal sovereignty in 1806 meant that the two countries conducted their negotiations as apparent equals (see below for further debate on the question of Liechtenstein’s sovereignty), even though the Austrian material superiority meant that it was up Liechtenstein to adjust its fiscal and customs system to its neighbour and not the other way around (Raton, 1970, pp. 32–33).

One of the first changes was the move of the Austrian frontier posts from its border with the Principality to the right bank of the Rhine. While the new customs officials were subject of the local laws and “obliged to show obedience and loyalty to the Prince of Liechtenstein during their stay in the country”, they were nonetheless appointed and paid by the Austrian government (Raton, 1970, p. 33). The fact that Liechtenstein no longer needed to pay for its own border protection and customs administration was a great relief for the Principality’s tiny budget (Koźbial, 2010, p. 197), especially as the proceeds from the road and bridge tolls collected by the new Austrian officials were transferred to Liechtenstein. Furthermore, Austria agreed to divide the revenues from a number of other indirect taxes and monopolies (e.g. the tobacco monopoly) in proportion to the population of the Principality and the nearby Austrian province of Vorarlberg (Koźbial, 2010, p. 198; Raton, 1970, p. 34)82. The Treaty meant the abolition of virtually all obstacles to trade between the two countries. The de facto economic union was further facilitated by the adoption of the Austrian weights, measures and monetary system (with the agreement that Austrian paper money did not have to be accepted in the Principality) by Liechtenstein, as well as the mutual recognition of patents and the willingness of Austria to extend all of its future international trade agreements to the Principality. (Kohn, 1967, p. 552; Raton, 1970, pp. 33–34).

The Austro-Prussian war of 1866 led to the dissolution of the German Confederation (Carr, 2016). This meant that even though Liechtenstein lost its voice and place within a “wider Germanic body” (Beattie, 2004, p. 29), it was now freed of any obligations towards its members (Duursma, 1996, p. 149; Hass, 2004; Young, 2010, p. 279)83 and it attained, at least in theory, full freedom of

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82 In fact, in order “to save the Liechtenstein Government from a possible deficit” Government Austria agreed to guarantee an income of 2 guilders per inhabitant (Raton, 1970, p. 34).
83 For instance, as a member of the German Confederation Liechtenstein was obligated to maintain an army, which was a considerable expense for a tiny territory (and indeed, the army was financed by its Sovereign Prince). The country’s military participated in the 1866 war on the side of Austria when a contingent of 80 Liechtensteiner was sent to guard mountain passages on the Italian front (Kohn, 1967, p. 552). The soldiers saw “no action and, indeed, no enemy” (Beattie, 2004, p. 30) and in fact “the 80 men who had left, returned as 81” as they were joined up by an Austrian liaison officer (Raton, 1970, p. 46). Soon after the Confederation ceased to exist, Liechtenstein abolished its military (Raton, 1970, p. 46) and since then has remained neutral (Hass, 2004).
action in international affairs (Raton, 1970, p. 46). Some scholars, such as Veenendaal, therefore argue that the end of the Confederation resulted in Liechtenstein gaining “full sovereignty” (Veenendaal, 2014, p. 5).

This is a controversial perspective as during the formation and continuous existence of the Confederation its individual member states were already formally recognised and perceived as sovereign states operating within an “international association” (Grimm, 2011, p. 52; Merriam, 2000, pp. 95–96). In practical terms, the member states acted as sovereign states in some areas and were subordinate to the rules and decisions taken by the Confederation in others, which led to lively debates on the very meaning of sovereignty (Merriam, 2000, p. 96). I side with those writers who, in light of the emergence of the German Empire, argued that sovereignty implied a state’s internationally recognised and effective ability to self-determine the limits to its own power (Merriam, 2000, pp. 98–102).

As argued in Chapter 2, delegation of authority to other states or international associations of states in itself is not incompatible with the notion of sovereignty. Likewise, the concept of sovereignty does not imply autarky or independence from external circumstances, but the freedom to choose how to react to them. What matters is the internationally recognised right and ability to make this choice, or, as noted by Georg Meyer writing just two years after the dissolution of the Confederation, a sovereign state must be “able to determine its own jurisdiction” (Merriam, 2000, p. 98). Judged from this perspective, the member states of the German Confederation lacked full sovereignty, as their membership in the Confederation non-negotiable: secession from the association was strictly prohibited (Green, 2001, p. 5; Kann, 1974, p. 234; Koschut, 2016, p. 143).

I am therefore inclined to agree with Veenendaal that Liechtenstein attained full sovereignty in the eyes of the wide international community of states in 1866 when it was no longer constrained in determining its actions in foreign affairs and when it was finally free of any involuntary obligations towards other states. At the same time, it is worth highlighting that the 1806 recognition of formal sovereignty was far from meaningless as it laid the essential foundations for Liechtenstein’s future existence as a sovereign state. It is true that Liechtenstein was a member of an international association that deprived it of full freedom of action in international affairs. However, the fact that it was regarded as legally equal to other members of the circle of European sovereigns prior to the creation of the

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84 According some of earlier thinkers of the era who sought to address the question of sovereignty within the Confederation: “the sovereignty of the undivided States, though it may be limited in its range of action, is as perfect and complete within this range, as if without any restraint whatever in the field of its activity. The power is irresistible and supreme, as far as it goes.(…) The question is not how far does the power extend, if it is sovereign, but in what manner is it exercised within the given limits. The sovereign need not be very extensive, but it must be intensive” (Merriam, 2000, pp. 96–97). This approach perhaps rightly recognised the qualitative, rather than quantitative character of sovereignty. However, the serious limitation of this framework was the apparent lack of appreciation for the importance of the supreme ability to determine the boundaries of the spheres of sovereign power within given territories. In effect, it was seen as an argument that sovereignty could have a double character, or that one territory could have multiple sovereigns simply occupying different “spheres” of sovereign authority. In light of the consolidation of power in such federal entities as the German Empire or the United States of America, this idea lost much of its appeal as it was recognised that what matters is who has the recognised ability to mark out the limits for authority in all spheres of governance within a given jurisdiction (Merriam, 2000, p. 98).
Confederation meant that with its dissolution, it could find itself perceived in "equal station" (Merriam, 2000, p. 110) in the wider family of sovereign states. What is more, the fact that it was perceived as a sovereign state by Austria already in 1806 made the economic arrangement between the Principality and Austria a matter of inter-state agreement from the point of view of both Vaduz and Vienna.

Liechtenstein was now fully sovereign, but it was clear that safeguarding its independence and economic viability, in light of its tiny size and lack of any significant resources, required a closer partnership with its seemingly willing and benign protector (Beattie, 2004, p. 33; Raton, 1970, p. 47). The formation of a close but voluntary association between Liechtenstein and Austria fits well within the theoretical model of formation of benign protection proposed in Chapter 3: Liechtenstein’s tiny size and favourable historical circumstances created both a necessity and possibility of a favourable arrangement with its larger neighbour. On the one hand, Liechtenstein felt compelled to seek protection and assistance in order to maintain and protect its "statehood and independence" (Duursma, 1996, p. 166) and on the other hand, the Danubian monarchy was willing to continue supporting its tiny neighbour in part due to its strong links to the House of Liechtenstein (Koźbiał, 2010, p. 197) and in part due to the Principality's diminutive size and the perception that it would not constitute any burden on its protector (Interview L2).

Over the course of next decades, Liechtenstein managed to maintain existing economic links with and successfully “delegate” (Beattie, 2004, p. 33) additional attributes of sovereignty or administrative functions to its Eastern neighbour. In 1880 Austria formally agreed to represent the Principality’s interests abroad (Koźbiał, 2014b, p. 148; Łukaszewski, 2006, p. 76; Raton, 1970, pp. 47–48)85. International treaties signed by Austria on behalf of the Principality would now be binding on Liechtenstein, but this did not mean that Liechtenstein was under any obligation to abide by all treaties signed by its protector or that it could no longer conduct its own foreign policy. In fact, during the period of Liechtenstein’s association with Austria, the Principality concluded not only additional treaties with its Eastern protector but also formal agreements and treaties with Switzerland and other states (Beattie, 2004, p. 33; Koźbiał, 2010, p. 199; Raton, 1970, p. 48). For instance, without any involvement from Vienna, in 1874 Liechtenstein and Switzerland "agreed to allow each other’s citizens to settle in the other country, to earn a living and to acquire land there” and in 1886 the two countries agreed to permit medical professionals from each country to freely practice in both countries (Raton, 1970, p. 48). It is therefore clear that, despite being supported by Austria in conducting at least some of its foreign policy, Liechtenstein remained a sovereign actor both in its relations with Austria and other states.

In 1884 the two countries agreed that the Austrian law courts (in Innsbruck) were entitled in the last instance to overrule Liechtenstein’s courts, which was not seen as controversial or problematic because Liechtenstein had already accepted Austrian law as valid in its territory. Just as with the delegation of authority in conducting foreign policy, the outsourcing of some of the judiciary power was not

85 It therefore “formalised a practice that seems to have existed already”, at least since 1860 (Beattie, 2004, p. 33).

In addition to providing Liechtenstein with full legal access to its market, as well as integrating the country into some of the key Austrian economic institutions, Vienna was prepared to assist the Principality with becoming more physically connected to both its protector and the rest of the world. Since 1827 Liechtensteiners had had access to the Austrian Imperial Postal Service’s services throughout their country. While the Austrian authorities “had declared that this did not mean an infringement of the sovereign rights of the Prince of Liechtenstein”, the increasing postal traffic and potential gains from the growing philatelist market made Liechtenstein interested in reaching a clear, formal agreement with its neighbour (Raton, 1970, p. 49). Following long negotiations, it was agreed in 1911 that Austria would continue administering the postal services within the Principality, but it would also issue special stamps for the Principality, valid alongside the Austrian ones in Liechtenstein’s territory (Raton, 1970, p. 49). While being part of the larger postal system and delegating the management of the service to the larger neighbour was arguably economically beneficial to the Principality, the agreement meant that the trade in Liechtenstein’s stamps was to be “cornered by the Vienna stamp dealers” depriving the Principality of potential additional earnings (Beattie, 2004, p. 51).

Of perhaps even greater importance to reducing Liechtenstein’s relative isolation was Vienna’s agreement to build a rail connection between Austria and Switzerland across the Principality’s territory. By the middle of the 19th century the Principality’s neighbours had advanced in developing their own railway systems, which promised to connect their mountainous regions with the rest of the continent. Naturally, Liechtenstein was very interested in becoming connected to the new rail networks. However, the diminutive country was unable to afford building its own railway and hence the Head of Government and Prince Johann turned to Austria to negotiate extending the Austrian railway through the Principality’s territory and connecting it to the Swiss lines (Raton, 1970, p. 43). At first Austria was reluctant to agree as it preferred a more direct route to Switzerland that would have bypassed the Principality, but it was eventually persuaded to construct a line passing through the Lowlands part of Liechtenstein. The first train crossed Liechtenstein in 1872 and while the Principality’s capital failed to secure its own station, the line that became “part of the main east-west route across Europe” included stations in the municipalities just a few kilometres away from Vaduz (Beattie, 2004, p. 31)⁸⁶. In the context of their economic ties and the customs treaty of 1852, in addition to linking the Principality with both its Austrian market and the rest of the continent, the fact that trains travelling from the West were now entering the Austrian customs jurisdiction through Liechtenstein offered considerable financial benefits to the Principality. (Koźbiał, 2010, pp. 199–200).

⁸⁶ The Austrian Federal Railways still continue to operate the rail network within Liechtenstein despite the two countries severing many of their links in the aftermath of World War I (Kocher, 2002).
Economic development under Austria’s Benign Protection

Austria’s benign protection coupled with domestic reforms were the key drivers of the Principality’s considerable economic development from the middle of the 19th century until World War I. Association with Austria was instrumental to ending Liechtenstein’s economic and physical isolation. On the one hand, the economic agreements with Vienna abolished the formal barriers to entry to the large Austrian market and provided Liechtenstein with economic stability and opportunities for growth (Hass, 2004; Koźbial, 2014b, p. 128; Pate, 2009). On the other hand, Austria’s assistance with funding and operating the key communications and transportation infrastructure helped to eliminate many of the physical barriers that had historically separated Liechtenstein from the rest of the continent. The Principality not only succeeded in abolishing legal and institutional barriers separating it from one of the continent’s largest markets. It also managed to meaningfully “outsource” the responsibility for the key infrastructure and certain administrative functions, the maintenance of which would have been unfeasible for a tiny, resource-poor state facing significant economies of scale disadvantages (Kocher, 2002). In this case, the association with Austria was based on both the delegation of certain attributes of sovereignty, especially in the area of Liechtenstein’s presence in the international arena (such as the exercise of authority in the conduct of foreign policy), and the practical “international outsourcing” (Gantner & Eibl, 1999; Kocher, 2002) of the provision of certain key public goods and administrative functions. As such, the model of Austria’s protection could best be described as predominantly “passive” (as explained in Chapter 3), as its main features were the outsourcing of functions and operations with a simultaneous elimination of any protectionist barriers and a broad inclusion of the protected state in the protector’s economy.

While the association with Austria created opportunities for growth, making use of them also depended on the domestic policies within the Principality. The second half of the 19th century was marked by numerous reforms aimed at improving the economic conditions within Liechtenstein which were the key contributors towards the Principality’s successful utilisation of the possibilities offered by Austria’s benign protection. It is important to note that despite the changes implemented in the early 19th century87, at the time when Liechtenstein signed the customs treaty with Austria it was still a very poor country with nearly all of its population employed in low-productivity agriculture frequently negatively affected by recurring floods and other natural disasters (Brunhart & Dumieński, 2015, p. 9; Stringer, 2006). In fact, for another century one of the key characteristics of the country, which it shared with some of the other diminutive and remote states of Europe (Interview L4), was a very high rate of emigration (Jansen, 1998; Stringer, 2013). This is why despite economic reforms and advancements in medical care, the Principality’s population size remained stagnant until World War I. In addition to close to 10% of the population seeking temporary employment in the neighbouring countries each summer, many Liechtensteiners were choosing long

87 Most notably such reforms as the abolition of serfdom (1808) and church and landlord fiscal privileges (1807), as well as the introduction of Austrian legal code (1812) and freedom of movement and settlement between communes (1810) were seen as particularly beneficial, even though their implementation was met with some resistance (Beattie, 2004, p. 23).
term or permanent emigration to escape low wages, high costs of living and frequent disputes over access to limited natural resources (Beattie, 2004, pp. 31–32; Raton, 1970, p. 42).

In recognition of these issues, the first reforms undertaken after 1852 aimed at reducing fiscal and administrative burdens, as well as establishing better governance. Some of the most onerous taxes and obligations affecting workers were abolished in the 1860s and by 1867 the country had implemented a well-functioning property register system that put an end to frequent land disputes (Raton, 1970, p. 42). These changes were followed by new legislation that significantly improved cattle breeding, farming, forest management, skilled employment and business conditions. (Beattie, 2004, p. 31). Gradually, the threat of floods was reduced and their potential negative consequences were mitigated by the construction of high embankment along the river (financed primarily by an interest-free loan from Prince Johann II) aimed at preventing the floods and a compulsory fire-insurance scheme aimed at saving Liechtensteiners from “the consequences of frequent disastrous fires” due to the warm, dry winds known as the Föhn (Beattie, 2004, p. 31; Raton, 1970, p. 42). In 1861 the first savings bank was opened in the Principality, which allowed its citizens to both save and borrow funds in their own country (Meier & Manz-Christ, 2009, p. 18). The late 19th century also saw the first steps towards the establishment of a tourism industry in the Principality with some of the early infrastructure and attractions (such as Alpine foot-paths and renovated Vaduz citadel) largely financed by the Princely House (Raton, 1970, pp. 42–43).

The economic integration with Austria and the above reforms were important factors contributing towards growth. At the same time, Liechtenstein managed to use its sovereignty (most notably its agreements with Switzerland), small size (and the related non-protectionist policies) and location to position itself as a favourable venue and gateway for entrepreneurs interested in operating in the wider Austrian market. As noted by a prominent historian and expert on Liechtenstein’s relations with its neighbours:

There were many Swiss industrialists who came to Liechtenstein to establish textile factories here in order to export their products to the Austro-Hungarian Empire. In a way, the agreement with Austria made Liechtenstein a good entry point into a larger market, especially since at that time there were no restrictions on coming and settling in Liechtenstein. So, for Liechtenstein that was the beginning of industrialization (Interview L2).

By 1910 Liechtenstein had a growing textile industry, an increasing trade and growing banking activity both within its own territory and with its neighbours. While still far from wealthy, the country was experiencing a steady economic growth made possible by local policies, greater connections with the rest of the continent, new investments and a stable, beneficial partnership with the large Austrian Empire (Hass, 2004).
International Perception of Sovereignty
The Impact of Benign Protection on the International Perception of Statehood

The economic and institutional association with Austria provided Liechtenstein with much greater stability and opportunities for growth (Hass, 2004; Koźbiał, 2014b, p. 128; Pate, 2009). At the same time, together with the Princely House’s close links to the Habsburg dynasty, it contributed to the international perception that Liechtenstein was an integral part of Austrian Empire (Beattie, 2004, p. 33; Raton, 1970, p. 47). Indeed, the collaboration between the two countries was so close that even some of the Austrian observers regarded the Principality as “in many respects” a part the Danube Monarchy (Raton, 1970, p. 47). However, as noted earlier, despite the close links between the two countries and the delegation of certain attributes of sovereignty to Vienna, Liechtenstein remained undoubtedly independent and acted as a sovereign state in its relations with both Austria and other states. In addition to respecting and acknowledging the Principality’s sovereignty and right to withdraw its delegation of authority, Austria gave the Sovereign Prince of Liechtenstein both fiscal and legal immunity and granted his Viennese residence an “extra-territorial status” (Beattie, 2004, p. 34).

Nevertheless, the close association between the two states remained a source of some confusion internationally, mainly because few politicians or observers from other, often distant, countries seemingly found it necessary to carefully examine the country’s status or the nature of the relationship between Austria and its geopolitically and economically insignificant neighbour (Raton, 1970, pp. 49–50). As Austrian diplomats took care of the Principality’s affairs, the country was “practically unknown in the diplomatic world”, especially outside of the “German-speaking states” (Raton, 1970, pp. 53–55). From the perspective of Liechtenstein, while this widespread ignorance was not desirable, in times of it did not appear to present a direct threat to the country’s economic well-being and political viability as a sovereign state (Raton, 1970, p. 50). The Question of Neutrality during the First World War

The situation became dramatically different with the outbreak of the First World War in 1914. The Principality found itself in a very difficult position. While Liechtenstein swiftly declared neutrality in the conflict (Beattie, 2004, p. 38; Duursma, 1996, p. 149; Klieger, 2012, p. 48; Koźbiał, 2010, p. 202), it remained within “the economic sphere of Austria-Hungary” (Kohn, 1967, p. 552). The widespread ignorance about the country, coupled with the dominant perception of inseparability of the Principality from its protector, complicated matters even further. Despite Liechtenstein’s instance that it was neutral in the conflict and Austria’s explicit statements supporting Liechtenstein’s position88, the Principality

88 In response to enquiries from London, the Austro-Hungarian Ministry of Foreign Affairs states (through the US Ambassador in London) that “the Principality of Liechtenstein considers itself neutral in the present hostilities” (Beattie, 2004, p. 39). In the hope of avoiding further misunderstandings, at one point the Austrian Minister of Foreign Affairs suggested to Liechtenstein that the two countries should formally abolish their Customs Treaty in order to “document Liechtenstein’s neutrality”. When this proposal was met with concerns about Liechtenstein’s economic survival in the absence of full access to the Austrian market and the customs revenues it could obtain under the Treaty, the Austrians explained that they were even prepared to allow “Liechtenstein to “denounce it for external
found it impossible to avoid being treated as a hostile country when it came to
economic matters (Kohn, 1967, p. 552).

This was naturally largely a consequence of Liechtenstein’s integration with the
Austro-Hungarian economic and monetary system, as this meant that both
imports to and exports from the Principality, as well as the movement of citizens
of other states into Liechtenstein, were controlled by Vienna (Beattie, 2004, p.
41)\(^89\). Additionally, the perception of neutrality was weakened by the 1911 Postal
Treaty, as Liechtenstein was now a part of the Austrian postal system and consequently potentially (at least from the point of view of the Allied Powers) subject to Austrian war-time postal censorship (Beattie, 2004, p. 40).

In light of these circumstances, it did not matter that Liechtenstein insisted on
being neutral or that it had no army and that continued to offer asylum to
deserters from the Austro-Hungarian forces despite Vienna’s protests (Kohn,
1967, p. 552; Raton, 1970, p. 56). Apparently it did not even matter that in its
efforts to prove its neutrality the Principality did, in fact, impose (and enforced)
some restrictions on exports to Austria and that the Austrian censorship was not
allowed to apply in its territory (Beattie, 2004, p. 42; Foreign Office, 1916;
Raton, 1970, pp. 56–57). Liechtenstein’s official position within the Austrian economic
and postal systems, the history of close association between the two countries
and the general lack of knowledge about the Principality’s political status, made it
appear suspicious (Beattie, 2004, pp. 41–42), or at least suspicious enough in the
context of the military conflict (Raton, 1970, p. 58). In consequence Liechtenstein
became regarded by the Allies as “a state under enemy control, unable to defend
its neutrality” (Beattie, 2004, p. 40) and therefore as “a hostile territory from the
commercial and economic point of view” (Beattie, 2004, p. 40; Koźbial, 2010, p.
203). As noted by the British Foreign Office during the war: “We do not want to
declare war on Liechtenstein but we do not intend our consideration for its
neutrality to harm us” (Foreign Office, 1916).

The economic consequences of being regarded by the Allies as inseparable from
Austria were disastrous. The young textile industry was devastated by sanctions
and lack of access to raw materials (Beattie, 2004, p. 43; Duursma, 1996, p. 149;
108). In result, a large part of the workforce was left with no employment at home
and shrinking of opportunities for seasonal work or migration to other countries
(Beattie, 2004, p. 43). Furthermore, the suspension of much of the food imports
resulted in drastic price increases and shortages (Beattie, 2004, pp. 41–43;
Koźbial, 2010, pp. 203–204), with famine being avoided “only by Switzerland’s
generous help” (Raton, 1970, p. 103). Towards the end of the war, the “formerly

\(^{89}\) The Allies demanded that for Liechtenstein to be considered neutral, it would have had to
effectively end the very partnership that had been its main source of economic well-being. While the
Principality was prepared to do much to appease the Allied Powers it was not inclined to destroy its
relationship with the country’s “only supporter” (Beattie, 2004, p. 41; Raton, 1970, p. 53).
prosperous Austro-Hungarian economy broke down” and its currency virtually collapsed, destroying much of the Liechtensteiners’ life savings (Beattie, 2004, p. 43).

The End of Association with Austria
Growing Dissatisfaction with Liechtenstein’s Links to Austria
While at the beginning of the conflict the population of Liechtenstein might have been supportive of or at least had some sympathy for Austria and the Central Powers, as the economic situation continued to deteriorate an increasing number of people began to question the country’s association with its Eastern protector (Koźbial, 2010, pp. 201–204). These changing economic and political circumstances gave power to political forces inside the Principality that “opted very clearly for severing close relations with Vienna” (Kozbial, 2015, p. 128). At first, much of the dissatisfaction was limited to complaints about consequences of the Allied Powers’ economic blockade. However, gradually more people began to express discontent about the influence of the Austrian officials on the affairs in the Principality. Seemingly the decades of out-sourcing of authority “did not affect [Liechtenstein’s] national pride so long as the system proved advantageous; but when the situation began to deteriorate xenophobia developed, a phenomenon met with everywhere in the world” (Raton, 1970, p. 103).

Such sentiments grew even stronger in the immediate aftermath of the Great War. The end of the conflict in 1918 resulted in the defeat and subsequent dismembering of the large Austro-Hungarian Empire. Austria’s territory was significantly reduced to its German-speaking, largely alpine core and the country was now a republic afflicted by political and economic ruin and chaos (‘Modern Utopia: Country with No Army and Few Taxes’, 1920; Palan, Murphy, & Chavagneux, 2010; Raton, 1970). As argued by one scholar, the much smaller, politically unstable and impoverished Austria was no longer seen “as an attractive partner in far-reaching cooperation, even for a microstate” (Kozbial, 2015, p. 128). In Liechtenstein, the “discontents of the war years and the resentment of a neutral State suffering the ill consequences of another country’s defeat” as well as the loss of respect for the officials of the Principality’s defeated protector brought popularity to the newly founded Christian-Socialist People’s Party (usually shortened to People’s Party - Volkspartei) which demanded a separation from Austria and greater democratic accountability within Liechtenstein (Raton, 1970, pp. 102–104). At the same time, with the abdication of the House of Hapsburg, The House of Liechtenstein itself lost its political influence in Vienna and, as a result of the land reform in the newly formed Czechoslovakia, became deprived of “more than half of its landed estates, which before the collapse of the Danube Monarchy had comprised more than twelve times the area of the Principality” (O’Neill, 1985, p. xviii)\textsuperscript{90}. This naturally meant that The Princely House’s interest

\textsuperscript{90}The remaining properties in Czechoslovakia were confiscated after the Second World War when the new communist government applied the Beneš Decrees to the property of the nationals of Liechtenstein despite the fact that Liechtenstein remained neutral during the conflict. This decision has been a source of ongoing tensions between the House of Liechtenstein, the Principality of Liechtenstein, and the successor states of Czechoslovakia (Czech Republic and Slovakia). Apart from the loss of the Princely House’s private property, for the state of Liechtenstein “the improper extension of the Beneš Decrees means denying its sovereignty” and for this reason the dispute has
in maintaining exceptionally strong links to the Eastern neighbour became significantly diminished. A combination of the above circumstances created a fertile ground for a radical shift in foreign policy, a shift that was only possible because Liechtenstein had retained its sovereignty and freedom of action in international affairs.

Even though Liechtenstein suffered the consequences of being treated a hostile territory in economic matters, thanks to extraordinary diplomatic efforts the Principality narrowly avoided being “a hostile country for all purposes” (Beattie, 2004, p. 41) both during the war and, more importantly, in the war’s aftermath. Following long negotiations and enquiries into the country’s links to Austria and war-time neutrality, the victorious main powers recognised Liechtenstein as a state and reaffirmed the Principality’s full sovereignty (Mendelson, 1972, p. 614; Raton, 1970, pp. 54–55). The Treaty of St. Germain clearly stated that Austria’s borders with Liechtenstein and Switzerland were to remain unchanged (Almond & Lutz, 1935, p. 128) thereby recognising Liechtenstein as an undoubtedly separate and independent state (Beattie, 2004, p. 58). As noted by Kohn (Kohn, 1967, p. 552): “when an international peace treaty, terminating an armed conflict of major importance refers by name to Liechtenstein as bordering on one of the former belligerents, this becomes international recognition beyond any doubt”.

If Liechtenstein had not remained sovereign despite its close, albeit voluntary, links to Austria, it would have “risked disappearing from the map altogether except as an annex to the new Republic of Austria” (Raton, 1970, p. 54). This highlights that sovereignty is not merely “an artificial divide on the continuum between absolute independence of action for a political entity and absolute powerlessness” (Rendu, 2004, p. 17). In contrast to subnational political entities enjoying even the most advanced forms of domestic autonomy and/or those with potentially far greater resources, microstates (understood as protected states) can use their internationally recognised sovereignty to protect themselves from the fate or new, potentially damaging geopolitical choices of their patron states and to dramatically alter their foreign policy’s direction. This was precisely what Liechtenstein decided to do in the aftermath of the First World War.

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91 Article 27 of the treaty stated: “The frontiers of Austria should be fixed as follows: 1. With Switzerland and Lichtenstein (sic): The present frontier” (Almond & Lutz, 1935, p. 128).

92 International recognition is of importance to all entities claiming sovereign statehood. However, it is particularly important in the case of diminutive polities whose lack of “substantial” territory could (especially before the age of decolonisation)

93 For instance, in the immediate aftermath of the First World War a number of Austrian politicians proposed a unification of Austria and Germany. If Liechtenstein had not been sovereign it would have been drawn into an entirely new geopolitical entity regardless of its wishes, interests and priorities (Koźbial, 2010, pp. 205–206).

94 Following the collapse of the Austro-Hungarian Empire, the Austrian province of Vorarlberg (bordering Lichtenstein) attempted to separate itself from the new Austrian Republic. Despite an overwhelming support for secession among the local inhabitants, this move was swiftly blocked by both the Austrian government and the Allied Powers (Minahan, 2000, p. 733; Morgan, Cohen, & Flinn, 2005, p. 203; Silverman, 2012, p. 22).
The End of Austria’s Protection

In response to rising popular dissatisfaction with the existing arrangements and under the pressure from the People’s Party and its campaign aimed at highlighting the politico-economic crisis in Austria and diminishing commercial and political benefits of remaining associated with Vienna, the Principality moved in the direction of cutting its existing commercial and institutional ties to Austria (Duursma, 1996, p. 169; Raton, 1970, p. 68). On the 2nd of August 1919, Liechtenstein’s Parliament voted to cancel the 1852 Customs Treaty with Austria and end much of the out-sourcing of its authority to Vienna. Even though Austria warned Liechtenstein of the potential consequences of such a move (such as diminished trade, potential cancellation of the railway agreement or the end of administrative support), it accepted the denunciation of the Treaty on the 30th of August 1919 (Raton, 1970, p. 68). The following day Liechtenstein became a “foreign country” from the point of view of the Austrian customs authorities with the border guards now ordered to withdraw from the border between Switzerland and Austria (Raton, 1970, p. 69).

Following a period of uncertainty, Austria agreed to negotiate lifting or reducing the duties on Liechtenstein’s exports. In January 1920 the two countries signed a Commercial Treaty that was meant to at least temporarily facilitate transport and commercial exchanges between the two countries on a more “transitional” basis (Beattie, 2004, p. 51; Koźbial, 2010, p. 209; Raton, 1970, p. 69). Despite the new agreement, Liechtenstein was no longer an integral part of its neighbour’s economy. In addition to facing new regulations and fiscal barriers, the Principality was now no longer using the Austrian currency (Raton, 1970, p. 70). Furthermore, Liechtenstein established an independent postal administration and began directly issuing and selling its own stamps (Beattie, 2004, p. 51; Koźbial, 2010, p. 209; Raton, 1970, p. 71). On the political front Liechtenstein ceased to delegate to Austria the right to represent or safeguard its interests abroad (Raton, 1970, pp. 72–73). Even though Liechtenstein and Austria have continued to cooperate in such matters as education, judicial administration, transportation, education, double taxation and social security and to this day maintain friendly relations (Beattie, 2004, pp. 52–53; Duursma, 1996, p. 170) the early 1920s marked the end of the close political, economic and institutional association between the two countries that had made the Principality appear as indistinguishable from its benign protector. The two states became “completely separated” (Raton, 1970, p. 54).

In essence, Liechtenstein was seemingly on course to cease existing as a protected state (and as such, it was ceasing to exist as microstate as per the definition proposed in Chapter 2). From the legal point of view, Liechtenstein could manage all of its own affairs and function without delegating any attributes of sovereignty.

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95 Following a “discreet” (Beattie, 2004, p. 45) or “peaceful” (Raton, 1970, p. 105) revolution of 1918 the People’s Party’s founder, Dr Wilhelm Beck, became one of the three members of the provisional committee in charge of the country (Beattie, 2004, p. 46). Following the adoption of the new constitution of 1921 the People’s Party won a decisive victory in the 1922 election (Beattie, 2004, p. 70).
to or seeking close association with any other state. However, the Liechtensteiners were well aware of their country’s geography and the constraints imposed upon it by its size, demographics and location. To many local politicians it was clear that attempting to maintain political and economic viability, not to mention economic growth, completely independently of any larger established political and economic powers would have been quite unreasonable or even unfeasible (Koźbial, 2010, p. 209; Raton, 1970, p. 80). Liechtenstein was not interested in losing the benefits of protected micro-statehood. What it wanted was to find a new protecting power, this time to the West of its borders. The break with Austria was therefore not only an attempt to escape its post-war fate but also a necessary step towards realigning the country’s foreign policy with the hope of establishing a new partnership with an increasingly politically and economically attractive Switzerland.

A new of Micro-Statehood: Association with Switzerland

Early Relations between Switzerland and Liechtenstein

The history of official links between Switzerland and Liechtenstein dates back to at least the Middle Ages when the territory of present-day Liechtenstein became ecclesiastically subordinate to the Swiss diocese of Chur (Beattie, 2004, p. 3; Sandford, 1999, p. 375). Despite Liechtenstein’s clear pro-Austrian orientation, ever since it became a distinct political entity it was interested in establishing and maintaining friendly relations with its Western neighbour. Throughout the 19th century, Liechtenstein signed a number of agreements both with specific cantons and Switzerland as a whole. In 1821 and 1835 Liechtenstein and the neighbouring cantons (respectively Graubünden and St Gallen) agreed to allow each other’s citizens to reside freely across the border (Koźbial, 2010, p. 210). In 1837 Prince Alois II signed a treaty with the canton of St Gallen to jointly regulate the Rhine in order to mitigate the risk of disastrous floods affecting both sides of the river (Koźbial, 2010, p. 210; Raton, 1970, p. 28).

Due to popular pressure and practical necessity, the Principality did not abandon maintaining and even expanding links to its Western neighbour despite having chosen to associate itself with Austria. The two countries continued to collaborate on the joint management of the Rhine and construction of bridges across the river. In 1874 they signed a treaty regulating on residence of Liechtenstein’s and Swiss nationals in the other country (Koźbial, 2010, p. 210; Raton, 1970, p. 72) and in 1886 the before-mentioned agreement permitting doctors from each country to freely practice across the Rhine (Koźbial, 2010, p. 210; Raton, 1970, pp. 48, 72). These developments were regarded as positive and beneficial by the inhabitants of Liechtenstein and as such fuelled even more support for establishing stronger, more far-reaching arrangements with Switzerland (Kozbial, 2015, p. 129). However, as long as Liechtenstein functioned in a close association with its powerful Eastern protector, the relations between the Swiss Confederation and the Principality could not go much beyond those small-scale and essentially fragmented arrangements.

The framework of Liechtenstein’s links to Austria made it either very difficult or unnecessary for the Principality to seek delegation of authority or closer

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96 In 1997 John Paul II created a separate Archdiocese of Vaduz (Sandford, 1999, p. 375).
institutional links to yet another state. At the same time, the relatively small, poor and overwhelmingly rural (Anderson, 2006, p. 137; R. Studer, 2008) mid-19th century Switzerland was arguably a much less economically attractive partner than the large and prosperous Austrian Empire. The First World War and its aftermath brought a dramatic change to these circumstances. The “hunger and misery” experienced by the Liechtensteiners during and in the aftermath of the First World War appeared particularly striking in comparison with the relative well-being of the Swiss canton of St Gallen located across the Rhine, literally hundreds of meters away from the Principality’s capital (Raton, 1970, p. 57). While still not particularly wealthy, in contrast to Austria, Switzerland appeared as an increasingly prosperous, stable and internationally respected state (Koźbiel, 2010, p. 205). The growth of Switzerland’s political and economic attractiveness and Austria’s geopolitical and economic ruin, together with the domestic awareness of demographic and geographic constrains created a powerful rationale for a realignment of Liechtenstein’s foreign policy.

**Formation of micro-statehood**

In this context, severing ties with Austria was envisioned as just the first step towards a new association with Switzerland. At first it seemed that the realignment could be achieved without much controversy or difficulty. The winter of 1918/1919 was marked by an increasing difficulty to obtain sufficient amounts of food in the Principality. Because the situation was even more difficult in Austria and as Switzerland had been the Principality’s key source of food imports throughout the war (financed through a later cancelled loan provided by the Prince (Klieger, 2012, p. 48; Raton, 1970, p. 72)), Vaduz decided to formally request assistance from Bern in November 1918. In addition to requesting food supplies, Liechtenstein asked for assistance with protecting its Eastern border with Austrian Vorarlberg, thereby signalling a very drastic change in its policy towards Vienna. The Swiss were reluctant to send their troops, citing concerns about the international perception of their country’s neutrality. Initially they appeared disinclined to grant additional assistance, but eventually in January 1919 agreed to provide more food, which proved both economically and politically important as it not only eased the threat of famine or severe shortage but also reinforced the perception of Switzerland as a both desirable and reliable partner (Koźbiel, 2010, p. 211).

Later in the same year, Liechtenstein’s officials took the first step towards attempting to establish closer relations with their Western neighbour. A delegation from Liechtenstein formally asked the Swiss government to protect and represent the Principality’s interests and citizens in all the countries where the microstate lacked diplomatic representation. The request was motivated by both political and practical considerations. On the one hand, the Principality was interested in both departing from Austria’s sphere of influence and “securing its international interests through the diplomatic channels” of reputable Switzerland (Duursma, 1996, p. 161). On the other hand, the Principality’s government and Prince were aware that in the country could simply not afford (especially in the context of the

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97 According to Anderson (Anderson, 2006, p. 137) Switzerland remained a “poor country, with a standard of living half that of England’s” up until the Second World War.

98 This perception was further reinforced by the fact that Switzerland was Liechtenstein’s key supplier of food during the war (Raton, 1970, p. 72).
post-war economic situation) the costs associated with any broader diplomatic representation (ibid.). Liechtenstein’s delegation also expressed a wish to form a “close association of Liechtenstein with Switzerland by a system of treaties, as had been the association with Austria” (Raton, 1970, p. 73).

Switzerland responded favourably to the first request. In August 1919 Liechtenstein was permitted to open its Legation in Berne and by the end of the year Switzerland agreed to both represent and safeguard Liechtenstein’s interests abroad in countries where Liechtenstein lacked its own representation, and to provide diplomatic and consular services for Liechtenstein’s citizens (Beattie, 2004, p. 52; Duursma, 1996, p. 161; Frommelt & Gstöhl, 2011, p. 8; Łukaszewski, 2015, p. 180; Marias, 1956, p. 405; Meier & Manz-Chrest, 2009, p. 18; Mendelson, 1972, p. 614; Ministry of Foreign Affairs, 2013, p. 27; Raton, 1970, p. 73; Snyder, 2010, p. 34). As such, Switzerland replaced Austria in the role of the Principality’s spokesperson in the international arena and the protector of its citizens present in third countries. Just as in the case of the arrangement with Austria, this agreement has not been perceived by either party as a challenge to Liechtenstein’s sovereignty. The Principality has always been free to stop delegating its authority to Switzerland at any time and to establish its own diplomatic relations and conduct its own foreign policy (Beattie, 2004, p. 52; Raton, 1970, p. 74). In fact, throughout the last century Liechtenstein has represented itself at numerous occasions without any opposition from its neighbour (Ministry of Foreign Affairs, 2013; Raton, 1970, p. 75) and it has maintained not only its own Ministry of Foreign Affairs but also a number of diplomatic posts in the locations perceived as key from the point of view of state interests (Crawford, 2007, p. 290; Kozbial, 2015, pp. 129–130). Likewise, Liechtenstein has remained independent from Switzerland in consular matters. Any third country wishing to establish a consular presence in the Principality needs to seek an explicit permission from the government in Vaduz (Raton, 1970, p. 74). Furthermore, Switzerland interacts with third states on behalf of Liechtenstein only by the latter’s request and consent (Duursma, 1996, pp. 161–162; Snyder, 2010, p. 34). As explained by Prince Alois in an interview from 2015:

The state has to provide certain services to its citizens. However, for smaller states in particular (...) not all services must be provided by the state

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99 Prior to this, the relations between the two states were conducted via Vienna (Raton, 1970, p. 73). The newly opened legation was closed in 1933 due to financial reasons, but it was reopened in 1944 and converted into an embassy in 1969 (Ministry of Foreign Affairs, 2013, p. 27).
100 In an interesting twist, the Swiss cooperation with Austria has indirectly extended Liechtenstein’s outsourcing of authority in consular matters back to the Principality’s Eastern neighbour. Thanks to an agreement on mutual assistance in consular matters signed by Switzerland and Austria in 1979, Liechtenstein citizens can receive “consular assistance in states in which the Principality is not represented, first by Swiss representation, and in case Switzerland has no representation, by Austrian representations” (Pelkmans & Böhler, 2013, p. 19).
101 Naturally, Switzerland is also free to stop providing assistance to Liechtenstein or Liechtenstein’s citizens at any moment (Duursma, 1996, p. 162; Raton, 1970, p. 74). It is also worth noting that the assistance offered by Switzerland in the area of diplomatic and consular protection is not regulated by any formal treaty. Instead, it is done on the basis of an official "confirmation by the Swiss Federal Government" (Raton, 1970, p. 76).
102 As of late 2016 Liechtenstein maintained direct representation in: Berlin, Bern, Brussels (the European Union), Geneva (a number of organisation), New York (the UN), Strasbourg (the Council of Europe), Vienna and Washington (Ministry of Foreign Affairs, n.d.).
directly. These may be provided indirectly by either private part or by other states. (...) [W]e, for many years, have been using Swiss diplomatic services, in particular consular services. (...) [F]or very small countries it is a big challenge to keep very close relationships with many countries because we simply don’t have enough resources for that (Łukaszewski, 2015, pp. 180–181).

For Liechtenstein, the arrangement is a practical solution to the challenges posed by the country’s diminutive size and “there can be no doubt that it is entirely consistent with independence” (Crawford, 2007, p. 290). For Switzerland, the arrangement has been “a proof of long-standing friendship” (Beattie, 2004, p. 52), which has not been perceived as a particular burden due to the Principality’s small size and the relatively small number of Liechtensteiners that may require Swiss consular assistance and protection in third countries (Raton, 1970, p. 73).

Similar consideration led to the creation of a postal agreement between the two countries. While Liechtenstein understood it would have been too impractical and expensive to maintain an independent postal system, the government was now interested in creating links to its Western neighbour. One the one hand, remaining within the Austrian postal system and outsourcing administration and management of the postal and communications administration to Vienna it was no longer an attractive option in the context of war and the post-war chaos. On the other hand, Liechtenstein was in need of Swiss currency to finance its imports of food and it hoped “to be able to meet the demand by the sale of postage stamps as soon as their sale was placed on a franc basis” (Raton, 1970, p. 76). As such, Liechtenstein was interested in pursuing a more beneficial (or even preferential) agreement to the one it had had with its Eastern neighbour. While it sought to become integrated with the Swiss postal system, it wanted to issue its own stamps (to both ordinary users and collectors) and to prevent the sale or use of Swiss stamps within the Principality (Raton, 1970, p. 76).

At first the Swiss government seemed only interested in signing a treaty similar to the old agreement between Austria and Liechtenstein. However, following long negotiations, it agreed to most of the Principality’s requests. The two countries signed a formal postal treaty in 1920. Switzerland agreed to accept the responsibility for “the management of the postal, telegraph, and telephone services” as well as “postal checking accounts and postal savings bank services” in the Principality of Liechtenstein “by the Swiss Postal, Telegraph and Telephone Administration”. The post offices were to be administered by the Swiss authorities who appointed their local staff in general “on the basis of proposals from the Liechtenstein government”, but in accordance with the Swiss regulations (Raton, 1970, p. 77). The government of Liechtenstein was to issue its own stamps (at its own expense) and sell them either through the Swiss-administered post offices or

103 As Liechtenstein is today a relatively more populous and resourceful country, the question of the cost of offering consular protection to its citizens has been raised in the Swiss parliament, but as of late 2016 the Swiss government has seemingly considered the expenditure as negligible and acceptable and continues to provide assistance to its neighbour’s citizens (Interview L1).

104 One of the main points of contention was predictably the Liechtenstein’s demand for the Swiss stamps not to be valid for use within the Principality (in order to create a greater demand for Vaduz-issued stamps).
(for collectors) through its own agency. It also accepted the responsibility to adhere to the Swiss postal and related regulations (Beattie, 2004, p. 53). Liechtenstein’s government became entitled to profits from the postal operations conducted on its territory, but it also had to agree to cover any potential losses (Raton, 1970, p. 79). The principle of outsourcing administration of certain key postal and telecommunication functions has proven durable and yet flexible enough to be adjusted to new technological and political circumstances. The convention of 1920 was replaced by a treaty in 1978, which included “provisions on radio and television and which in turn has been amended and supplemented by a treaty and agreement of 2 November 1994, for the purpose of Liechtenstein’s entry into the EEA” (Duursma, 1996, p. 163). While the liberalisation of postal services both in Liechtenstein and the rest of Europe resulted in the creation of a market-oriented postal service in Liechtenstein (partly owned by Swiss Post) in 1999 (Liechtensteinische Post AG, n.d.), the Liechtenstein Postal Services have “worked together with their Swiss partner by way of contracts under private law” (Meier & Manz-Christ, 2009, p. 46) and the Principality has continued to function within the broader Swiss postal and telecommunications sphere (International Monetary Fund, 2008, p. 159).

Towards a Closer Association
Customs Union and Economic Integration
Successful delegation of authority in the area of foreign policy and postal communication were undoubtedly important, but Liechtenstein saw those as merely the first steps towards a closer integration with Switzerland. The ultimate aim of the post-war government was to establish a new comprehensive economic and political association that could replace the collapsed union with Austria. This is why already in 1919 Liechtenstein presented a petition to the Swiss government expressing a wish to form a “close association of Liechtenstein with Switzerland by a system of treaties, as had been the association with Austria” (Beattie, 2004, p. 52; Raton, 1970, p. 73). It appears that Liechtenstein’s government might have been overly optimistic in assuming that negotiating the creation of such a far-reaching arrangement could be as easy and uncontroversial as the creation of a postal agreement or delegation of authority in the area of foreign policy. As noted by one interviewee specialising in the history of relations between Switzerland and Liechtenstein:

It appears that the Liechtensteiners were rather naïve in their calculations at that time. They didn’t want to have the customs treaty with Austria in 1919, but when they cancelled the treaty, they still had not agreed on a new one with Switzerland. In result, Liechtenstein was on its own for four years. And negotiated with Switzerland for four years and existed without any customs treaty with any other state. I call it naïve, because (...) as a very small state Liechtenstein should not have rejected [its existing customs economic links] it so carelessly. (...) In my opinion, it was very naïve of Liechtenstein to end the treaty without having secured a new one first. Especially since inside Switzerland there certainly were politicians and groups that opposed any agreement with Liechtenstein (Interview L2).
Indeed, to Liechtensteiners’ surprise, their request for de facto benign protection was met with some opposition from across the Rhine (Beattie, 2004, p. 53; Raton, 1970, p. 79). The key opponents of forming a closer union with Liechtenstein were the inhabitants of the cantons neighbouring the Principality who feared losing the economic benefits of being the gateways to the Swiss market should the customs borders and their international railways station be to move eastwards (Raton, 1970, p. 79). Seemingly, from the point of view of small cantons bordering Liechtenstein, the Principality did not appear as diminutive or insignificant as from the perspective of the rest of Switzerland and its federal government:

[Those opposed to forming an association with Liechtenstein] feared that they would have to take responsibility for Liechtenstein, that it would be a burden. (...) Liechtenstein is now very prosperous, but back then it was a poor, agricultural country with significant debts. (...) So, the situation was very different. It is then not very surprising that some people in Switzerland were not happy to take responsibility for such a country (Interview L2).

Fortunately for the Principality, the federal government was much less concerned about any potential problems that could result from forming a closer arrangement with its Eastern neighbour.

Unlike the small cantons, the Swiss government viewed Liechtenstein as “small enough not to be an impossible burden” (Beattie, 2004, p. 56). Furthermore, from the point of view of the whole country, formation of an association with Liechtenstein appeared particularly unproblematic in comparison with the prospect of potential connection with much larger Vorarlberg whose sheer size political-economic significance could cause international or domestic difficulties (Beattie, 2004, p. 56; Müller & Myllyntaus, 2007, p. 222). Consequently, following a rather long period of relative uncertainty, Switzerland agreed to a far-reaching customs treaty with the Principality.

The Customs Treaty was signed on the 29th of March 1923 and came into effect on the 1st of January 1924. Despite numerous developments that have taken place both within the two countries and globally since the 1920s, the treaty “still forms the basis for a close partnership”. In accordance with the treaty, the customs border between the Principality and Switzerland was abolished and Liechtenstein became “completely assimilated into Switzerland’s customs area”. The new customs border of Switzerland was moved to the Liechtenstein-Austria frontier and staffed by Swiss customs officers and border guards who were to be “appointed, paid and administered by the Swiss authorities only” (Beattie, 2004, p. 55). Liechtenstein was to provide and maintain customs facilities used by the

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105 Some opposition was also voiced within the Principality regarding concerns over the potential loss of sovereignty or control over the proposed shared economic zone. However, these objects were of much lesser importance than concerns about being left to function without any closer economic ties to either of the neighbours (Raton, 1970, p. 80).

106 Additionally it was argued that moving customs border to the East would generate much higher costs as Liechtenstein’s border with Austria was longer and more difficult to guard than the Rhine (Raton, 1970, p. 79).

107 With the exception of restrictions that could also apply to movement of goods between Swiss cantons (Raton, 1970, p. 80)
Swiss officials, which bore the symbols of both Switzerland and Liechtenstein and were called "the Swiss Customs Offices in the Principality of Liechtenstein" (Beattie, 2004, p. 55; Koźbial, 2010, p. 215; Raton, 1970, p. 82).

Furthermore, the agreement meant that all the Swiss laws and regulations concerning matters related to the customs union became valid on the territory of Liechtenstein regardless of whether they were “enacted before the conclusion of the Treaty or passed subsequently” (Raton, 1970, pp. 80–81). The Principality was obliged to “put into effect, on its territory, Swiss laws affecting commercial, literary and artistic property” and “acknowledge the authority of the Swiss Federal authorities based on these laws and on ordinances pertaining them” (Raton, 1970, p. 81). Additionally, a number of Swiss regulations concerning such matters as supervision of foreigners, forestry, public health, war materials, trade, industry, agriculture, hunting and fisheries were applied (Beattie, 2004, p. 55; Raton, 1970, pp. 82–83). In the legal areas within the scope of the Treaty Liechtenstein became judicially undistinguishable from the Swiss cantons (Koźbial, 2010, p. 215; Raton, 1970, p. 81). Furthermore, Liechtenstein delegated its treaty-making power in trade matters to the Western neighbour and agreed that all commercial and customs treaties signed by Switzerland would also apply to its own territory (Duursma, 1996, p. 164; Frommelt, 2016, p. 133)\(^\text{108}\). It also agreed not to conclude any separate commercial or customs agreements with third states (Raton, 1970, p. 81), a principle that was much later revised (with Switzerland’s consent) in light of Liechtenstein’s desire to join such bodies as the European Free Trade Area, World Trade Organisation and the European Economic Area (Frommelt, 2016, p. 134).

In addition to being granted full access to the Swiss market, the Principality was to receive an annual payment as its “share of the receipts from the customs and fees collected in Liechtenstein under the Swiss laws applicable there” (Raton, 1970, p. 83). Initially the sum was calculated on the basis of the number of inhabitants of Liechtenstein and their assumed purchasing power as well as the average amount paid a Swiss citizen in the course of one year (ibid.). In the first year of the functioning of the Treaty this amounted to 150,000 francs per year, which was a rather substantial sum considering that the entire annual income of the Principality in 1925 was 602,253 francs (Beattie, 2004, p. 55). The sum was regularly adjusted throughout the next couple of decades depending on such factors as the changing economic conditions or the adjustments in the formula used for its calculation (ibid.). Since 1947 the sum has been fixed at a certain percentage of the Swiss customs revenue (Raton, 1970, p. 83)\(^\text{109}\). With the growth of the Liechtenstein’s economy and increasing trade liberalisation between Switzerland and the rest of the world, the transfers from Switzerland, while larger in nominal terms than half a century ago, constitutes just 3.8% of the Principality’s revenue in 2000 (Beattie, 2004, p. 55).

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\(^{108}\) The only exception to this rule were potential treaties with Austria, in the case of which Liechtenstein was to be consulted (Beattie, 2004, p. 55; Raton, 1970, p. 81).

\(^{109}\) As noted by one of the interviewees “The shares’ computation varies across the different taxes and customs revenues” (Interview L1)
The Treaty was created for five years with either side being able to cancel it one year before its expiry. It was agreed that in case of no cancellation, the treaty would automatically remain in effect, subject to cancellation at one year’s notice by either side (Beattie, 2004, p. 55; Raton, 1970, p. 83). As such, the Treaty was clearly an international agreement between two sovereign and equal parties which are free to walk away from it at any time and without having to seek consent from the other party.

While this arrangement legally put Liechtenstein within the economic boundaries of Switzerland, other agreements were necessary in order to fully integrate the two economies. From the point of view of Liechtenstein, one of the most pressing matter was the adoption of the Swiss currency following the post-war collapse of the Austrian krone and the increasing importance of trade with and remittances from Switzerland (Beattie, 2004, p. 56; Duursma, 1996, p. 166; Koźbial, 2010, p. 212; Raton, 1970, p. 116). Even though there had been some more or less serious voices calling for the introduction of a local currency (Bächthold, Haenle, Kratz, & Winter, 1979, p. 15; Beattie, 2004, p. 56), the government and most of the population did not consider a local currency to be a realistic option due to the country’s size (Beattie, 2004, pp. 56–57; Koźbial, 2010, p. 212).

The Swiss currency was already both used and widely respected within the Principality and its adoption was a logical step in light of the planned economic and political association between the two countries. Consequently, Liechtenstein’s Parliament took a unilateral decision to adopt the Swiss franc as the legal tender in the Principality in 1924. Liechtenstein continued using the Swiss currency without any formal treaty for the next half a century, until the signing of the bilateral Currency Treaty of 1980 which made the Swiss legislation concerning money and credit applicable in Liechtenstein (Duursma, 1996, p. 166). The Currency Treaty can be cancelled by either country at half a year notice and just like the Customs Treaty, it does not affect Liechtenstein’s sovereignty (ibid.). Far from being seen as an assault on the country’s independence, the use of Swiss franc has been seen as not only necessary but very desirable by Liechtenstein’s government and population. According to a member of the Princely House

110 In the midst of the severe financial crisis experienced by Liechtenstein in the late 1920s (linked to the insolvency of its key bank and the floods of 1927) Liechtenstein asked for an advance on its customs revenue for which it offered to pay 4% interest. Switzerland agreed but demanded “an amending clause providing that notification of cancellation of the Customs Treaty could not be given until these debts were paid”. Liechtenstein agreed to the amendment, but this in itself did not mean any loss of sovereignty as any potential breach of the agreement, while certainly negative for future of the Swiss-Liechtenstein cooperation, would not have been of any consequence for the Liechtenstein’s independence (Raton, 1970, p. 84).

111 Including the somewhat outlandish proposal put forward by a rather mysterious organisation operating under the name of “Globcapital Association” who offered to launch a new gold and silver based currency out of its proposed exterritorial headquarters located within the Principality (Bächthold et al., 1979, p. 15; Raton, 1970, p. 120)

112 The conversion of the krone to francs was already approved in 1920 (Beattie, 2004, p. 57; Koźbial, 2010, p. 212).

113 Once again the small size of the Principality played an important role in the economic relations between the two states. During the first decades of the existence of the economic union between the two state, Liechtenstein was simply too small to be of any importance to the Swiss monetary system. The Treaty was deemed necessary due to the “upward pressure on the franc caused by the flow of foreign money into Switzerland and Liechtenstein and also because of weaknesses in the two countries’ financial systems” (Beattie, 2004, p. 57).
interviewed for this thesis the use of the Swiss currency was unequivocally the right decision:

[It is] helpful to (...) have a stable currency. I think it was the best solution that practically only has advantages. One could say that sometimes it is better for exporters to have a weak currency. But in my view, this is a very short-term view, because when you succeed in exports by having a weak currency you do not increase your productivity or competitiveness by improving your own products and instead you just rely on the weakening of the currency. So I think that having a weak currency might be a short-term advantage, but in the long term it is a curse. The Swiss national bank is very disciplined so we have been fortunate to be using a very strong and disciplined currency. (...) [T]his is an advantage, because we couldn’t use currency movements in order to improve our competitiveness (Interview L3).

Freedom of Movement

Predictably, the formation of a tight economic union between the two countries was accompanied and arguably necessitated a closer political cooperation and integration. Achieving the goal of open borders and full economic integration between the two countries required an agreement on the movement of people and control of foreigners entering either of the countries (Beattie, 2004, pp. 55–56; Koźbial, 2010, p. 215; Raton, 1970, pp. 84–85). Switzerland agreed to “relinquish police control at the Swiss-Liechtenstein border if and as long as the Principality observes Swiss regulations on the sojourn, settlement, etc. of foreigners” (Raton, 1970, p. 85). The Swiss Confederation reserved thus the right to reinstate controls at the border in case it considered Liechtenstein to be pursuing unacceptable (from the point of view of Switzerland) policies towards foreigners wishing to visit or reside in the Principality (Beattie, 2004, p. 56; Raton, 1970, p. 85). In practice, the agreement “gave the Swiss authorities the right to supervise the entry of all foreigners into Liechtenstein across the Austrian frontier” and the means to make sure that individuals expelled from Switzerland would not be able to reside or operate from Liechtenstein (Beattie, 2004, p. 56).114 Switzerland’s position was motivated by its belief that Liechtenstein could potentially be used as a “refuge” or a base for people who might want to benefit from Switzerland’s “economic and financial advantages without being resident there” (Raton, 1970, p. 85).

This concern that Liechtenstein might be used as a gateway to Switzerland by individuals or groups who would otherwise not qualify for to enter or reside there was not limited only to foreign citizens entering the Principality. A more controversial issue was the question of the Principality’s citizenship. Just like many other diminutive sovereignties pursuing economic viability (Drezner, 2001), Liechtenstein’s municipalities had for some been supplementing their meagre budgets with fees for granting local citizenship which was the prerequisite for obtaining Liechtenstein’s citizenship (Sochin D’Elia, 2013, pp. 4–5). In 1920 the central authorities of the Principality decided to tap into this seemingly lucrative

114 For its part, the Principality was given a right to demand that individuals expelled from its territory are not allowed to reside in the neighbouring cantons of St Gallen and the Grisons (Raton, 1970, p. 86).
market and began to charge a “citizenship tax” thereby giving birth “to a peculiar form of acquisition of citizenship in Liechtenstein – the so-called ‘Finanzeinbürgerung’ (bought citizenship)” (Sochin D’Elia, 2013, p. 5). This new instrument allowed wealthy foreigners to become Liechtenstein’s naturalised citizens without meeting virtually any preconditions, such as local residency, that are typically imposed upon candidates for naturalisation in other countries. In fact, lack of local residency in Liechtenstein was “explicitly desired” by both the local communities and the central government (Sochin D’Elia, 2013, p. 5).

Due to the country’s smallness, Liechtenstein has always seen permanent immigration as a potential challenge (Frommelt & Gstöhl, 2011, p. 36; Koźbiał, 2012) and therefore only, and with some domestic controversy, accepted “bought citizenship” practice as desirable for as long as it offered financial gains without any actual increase in the number of permanent residents (Sochin D’Elia, 2013, p. 5). At the same time, the wealthy foreigners themselves were rarely, if ever, interested in actually residing in the Principality. Instead, they perceived Liechtenstein’s citizenship as an “interim solution”, often the best way of securing their wealth or even survival. In particular, during the 1930s a significant number of Jews sought to obtain Liechtenstein citizenship in order to escape Nazi persecutions (Schwalbach, 2012; Sochin D’Elia, 2013, p. 5).

Perhaps not surprisingly, the practice of bought citizenships was met with strong criticism from Switzerland, particularly following the abolition of border controls between the two states. The criticism of Liechtenstein’s naturalisation policy grew especially strong in the context of the increasing influx of refugees interested in obtaining Liechtenstein’s citizens not only as a way of escaping Nazi Germany but also because of the consular protection provided to Liechtenstein’s citizens by Switzerland’s diplomatic posts (Beattie, 2004, p. 96). In response to pressure from across the Rhine, Liechtenstein agreed to allow Switzerland to have a say in the applications for bought citizenship (Sochin D’Elia, 2013, p. 5). The agreement was included in the new treaty between the two countries signed in 1941. In accordance with the Treaty the citizens of both countries115 live and work freely on either side of the Rhine (Raton, 1970, pp. 86–87; Sochin D’Elia, 2013, p. 5). During the Second World War, border controls were re-introduced, but a new agreement signed in 1948 meant a return of the open frontier and additionally resulted in the creation of a Liechtenstein’s own Aliens and Passport Office (Beattie, 2004, p. 55). Following further international pressure and the judgement of the International Court of Justice in the Nottebohm case of 1951 “which denied any duty for Guatemala to recognize the diplomatic protection in case Liechtenstein citizenship was given without living in Liechtenstein itself”, the Principality chose to abandon the practice of selling citizenship (Sochin D’Elia, 2013, p. 7). In 1960 Liechtenstein revised its Citizenship Law making residency in Liechtenstein a necessary prerequisite for obtaining the country’s residence (Schwalbach, 2012, p. 168,172).

115 “Only natural-born Liechtensteiners and those naturalised before January 1924, who have lived in the Principality or in Switzerland without any appreciable interruption for at least five years before applying for permission, may obtain Swiss residence permits with the right to work in Switzerland” (Raton, 1970, p. 63).
In 1963 Liechtenstein and Switzerland signed two new agreements confirming the equal rights of each country’s citizens when residing in the other’s country, as well as the applicability of the Swiss legislation regarding supervision of the citizens of third countries entering Liechtenstein (Raton, 1970, p. 87). This principle was suspended in 1981 “on the initiative of Liechtenstein which endeavoured to maintain a well-balanced relation between Liechtenstein nationals and aliens in Liechtenstein” (Duursma, 1996, p. 167). The post-war economic development of Liechtenstein meant that it became an attractive destination for Swiss migrants. While the Principality wanted to retain access to foreign workforce commuting across the Rhine, it was becoming increasingly concerned about the rising number of permanent residents within the Principality and consequently adopted a new approach to migrants from its Western partner (Brunkhart & Dumieński, 2015; Koźbial, 2012). It is important to note that the reciprocal suspension concerned only the right to residence, but did not affect the right to cross-border employment, study or access to public services and healthcare (Duursma, 1996, p. 167). Furthermore, the Swiss citizens have continued to receive preferential treatment for the purpose of granting residency in Liechtenstein in comparison with the citizens of other countries (Duursma, 1996, p. 167; Frommelt & Gstöhl, 2011).

**Other Agreements and Access to Vital Infrastructure**

In addition to the above broad arrangements, over the course of last decades Liechtenstein has concluded a number agreements which have not only created a closer union between the Principality and Switzerland but which have also allowed Liechtenstein to successfully outsource some of the costly administrative functions to its benign protector. In total, the two states have close to 60 bilateral treaties covering such areas as education, healthcare, transportation, insurance, banking, intellectual property and agriculture (Frommelt & Gstöhl, 2011, pp. 8–9; Ministry of Foreign Affairs, 2013, pp. 27–28; Pelkmans & Böhler, 2013, p. 20).

Switzerland does not formally guarantee military protection of Liechtenstein due to its traditional neutrality (Duursma, 1996, p. 169; Raton, 1970, p. 97). Likewise, due to its own policy of neutrality, Liechtenstein has not sought to sign a defence treaty with its Western partner (Duursma, 1996, p. 169). Therefore, the benign protection offered by Switzerland had a non-military, but nonetheless politically and economically vital character. However, in addition to preserving the country’s politico-economic viability the union between the two countries, together with its small size and lack of geopolitical significance, was arguably the key factor that saved the diminutive Principality from German annexation in 1938 or later during the war (Beattie, 2004, pp. 89, 95; Raton, 1970, p. 92). As noted by one of the interviewees: “Back then, our association with Switzerland was absolutely vital to our survival” (Interview L1).

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116 While the Swiss might have been inclined to include Liechtenstein into its armed neutrality during the late 1930s, the construction of perpetual fortifications and stationing of the Swiss army on the Principality’s territory was opposed by Germany and viewed with unease in Liechtenstein due to the concerns over the international perception of the country’s independence (Beattie, 2004, p. 95).

117 As noted by Beattie (Beattie, 2004, p. 101) “Hitler’s disdain for Liechtenstein’s insignificance, the existence of the Swiss connection and good luck helped the Principality to escape”. 
The association with Switzerland has provided Liechtenstein with access to essential infrastructure the founding or maintaining of which would have been unaffordable or impractical for such a small state.

As noted by one of the experts: “[Thanks to the association with Switzerland] Liechtenstein was given access to the infrastructure that it could not have possibly financed on its own. I mean the health services, higher education and others” (Interview L2).

**Association with Switzerland and the Implications for Sovereignty**

Just like in the case of Liechtenstein’s first association with Austria, the close union with and the delegation of certain attributes to Switzerland have made some observers inclined to perceive Liechtenstein as not entirely independent or sovereign. Some casual observers have viewed Liechtenstein as a “Swiss dependency” (Beattie, 2004, p. 58), a “political structure similar to a Canton”, or even a “Swiss principality” (as quoted by Raton 1970, 91). However, despite far-reaching implications of the arrangements with Switzerland for the Liechtenstein government’s practical exercise of power in economic matters, none of the above mentioned-agreements resulted in the erosion of the Principality’s sovereignty. In all of these cases, Liechtenstein exercised its sovereign right to delegate certain attributes of sovereignty and key state functions to the larger state for the purpose of security and politico-economic viability. The head of Liechtenstein’s government argued persuasively in 1950 that:

> [Switzerland] has no present desire and surely no future intention of curtailing our independence as a state. Even the most fearful mind must feel reassured when he realizes that the customs agreement may be discontinued at short notice by either side and that in this manner all Swiss laws now valid in Liechtenstein would be null and void. But nobody here is contemplating the termination of our agreement. (…) The customs union with Switzerland is one of the few questions on which there is one hundred percent agreement among our people (quoted in: Kohn 1967, 553).

As noted by Frommelt and Gstöhl, due to Liechtenstein’s diminutive size, its foreign policy “has to a large extent always been integration policy as well” and its government “has often taken the view that integration does not automatically mean a loss of sovereignty but may actually serve as a means to strengthen the sovereign statehood” (Frommelt & Gstöhl, 2011, p. 12). This view was recognised by the League of Nations. As noted in Chapter Two, while Liechtenstein’s application for membership was refused, the Admissions Committee of the League of Nations declared that:

> There can be no doubt that juridically the Principality of Liechtenstein is a sovereign State, but by reason of her limited area, small population, and her geographical position, she has chosen to depute to others some of the

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118 A similar sentiment regarding the impact of benign protection on the microstates’ was echoed by an interviewee from San Marino who argued that: “We are not completely independent. We simply cannot be independent with our geography. It is not only the fact that we are surrounded by Italy but also the fact that we are so small and have no resources, few people. We need to delegate some attributes of sovereignty to Italy in order to protect the rest of it from disappearing. We cannot exercise any sovereignty without securing Italy’s benign protection” (Interview L4).
attributes of sovereignty. (...) For the above reasons, we are of the opinion that the Principality of Liechtenstein could not discharge all the international obligations, which would be imposed on her by the Covenant. (quoted in: Schwebel, 1973, p. 108)

It is true that Liechtenstein has delegated many of its attributes of sovereignty to Switzerland. It has indeed “considerably limited the exercise of its powers, even in matters about which States are generally highly sensitive” (Raton, 1970, p. 95). In such areas as foreign, economic and monetary policy, diplomatic representation, judicial system it has often been much closer to a Swiss canton than a fully independent state (Raton, 1970, pp. 95–96)\(^{119}\). However, the key point was that it had always been clear to both Liechtenstein and its benign protector that it was Liechtenstein itself that made the choice about the delegation of power and that the Principality remained at the liberty to cancel its arrangements with Switzerland and resume the exercise of all of its powers (Kohn, 1967; Raton, 1970, p. 96).

**Membership in the United Nations**

Largely due to domestic opposition (Beattie, 2004, p. 159), the dynamics of the Cold War power politics (Snyder, 2010)\(^{120}\) and concerns of the leading powers that admitting too many diminutive states into the United Nations (UN) might condemn the organisation “to die of creeping irrelevance” (Anand, 1986, p. 171), Liechtenstein did not become a UN member in the first decades of the organisation’s existence. However, despite its lack of membership in this body, it enjoyed a widespread and official recognition of its sovereignty by both its neighbours and the great powers with whom it signed a number of treaties and agreements (Raton, 1970, pp. 97–98)\(^{121}\). Its sovereign statehood was acknowledged by the UN itself which not only has never listed it as a non-self-governing territory (Snyder, 2010)\(^{122}\) but also accepted its 1949 application to become a party to the Statue of the International Court of Justice (ICJ) the membership in which was officially reserved for independent and sovereign states (Beattie, 2004, pp. 137–138).

In addition to the ICJ, Liechtenstein was admitted as a member of a number of international organisations (such as the Council of Europe, International Telecommunications Union, the International Atomic Energy Agency or the United Nations International Children’s Emergency Fund) the membership in which was not in conflict with the Customs Treaty with Switzerland (Frommelt & Gstöhl, 2011, p. 12; Kohn, 1967, p. 554). It was therefore clear that lack of UN

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\(^{119}\) Unlike in the case of the benign protectors of some of the even smaller European microstates, for a period of time Switzerland did not even maintain a Minister or a Consul inside the Principality and instead allowed for “direct” correspondence with the Liechtenstein’s authorities “without using diplomatic channels” (Raton, 1970, p. 96).

\(^{120}\) The Soviet Union and Ukraine (!) opposed the membership of both Liechtenstein and San Marino in the International Court of Justice arguing that they are not sovereign states (Snyder, 2010).

\(^{121}\) As noted by Raton (Raton, 1970, p. 98), “most of the bilateral treaties concluded by Liechtenstein are signed by Liechtenstein plenipotentiaries, usually the Head of Government or the Ambassador in Berne”.

\(^{122}\) As noted by the UN’s Secretary-General U. Thant, the lack of UN membership did not translate to the lack of sovereignty or independence as these were separate issues (Anand, 1986, pp. 171–172).
membership did not imply lack of sovereignty. After all, Switzerland itself was for a long time (until 2002) not a UN member due to its citizens’ scepticism about the organisation and the country’s traditional commitment to neutrality (Carroll, 2002). The Swiss position on the UN membership was one of the key forces behind Liechtenstein’s domestic opposition to membership (Beattie, 2004, p. 159)\(^{123}\).

At the same time, the proponents of UN membership (including Prince Hans Adam) were gradually working towards changing public attitudes. They highlighted the difference between Liechtenstein and its Western partner. Unlike the Principality, Switzerland “had always defended its existence by armed neutrality and possessed an excellent diplomatic machine” (Beattie, 2004, p. 159). By contrast, as clearly demonstrated during and after the First World War, Liechtenstein’s political survival as a sovereign state depended not only on its partnership with a larger neighbour but also on clearly manifesting and defending its sovereign status and interests on the international arena (Beattie, 2004, pp. 159–160; Markham, 1989; Raton, 1970, pp. 53–57). As noted by the Crown Prince Hans-Adam (who even offered for the Princely House to cover some of the costs associated with the UN membership):

> We have found that anonymity that was once good for us, the idea that somewhere behind the mountains was little Liechtenstein, no longer worked for us. We only got into the headlines when there was some finance scandal that had nothing to do with us (quoted in Markham 1989).

By the late 1980s not only the Prince but also the Principality’s government and an increasing number of citizens became convinced that a UN membership was the best way of ensuring the widespread and continuous recognition of their country’s sovereignty and a safeguard against any potential negative changes to the Principality’s “treaty relationship with Switzerland” (Beattie, 2004, p. 160; Duursma, 1996, p. 160). Despite much controversy, the Parliament (following a closed session debate) voted unanimously in favour of applying for the UN membership. In light of the changed geopolitical circumstances and global attitudes towards small states’ membership in the organisation the Security Council “voted for it unanimously and the General Assembly accepted it by acclamation” (Beattie, 2004, p. 160). On the 18\(^{th}\) of September 1990 Liechtenstein became the 160\(^{th}\) (and that time the smallest) member of the UN (‘Principality of Liechtenstein Becomes 160th, and Smallest, Member of U.N.’, 1990).

For Liechtenstein, membership in the UN and other international bodies has not just been a means of promoting its own interests and manifesting its sovereignty. As a small and neutral state it has naturally been particularly interested in promoting the principles of international law, cooperation and equality of states. As stated by the Principality’s government:

> Liechtenstein is especially vulnerable to power politics, since it does not have any political, economic or military means to enforce its interests. It will therefore continue to advocate a strengthening of international law. Clear and universal legal rules guaranteeing the equality of all states are in

\(^{123}\) Interestingly, between 1990 and 2002 Liechtenstein could provide a voice for its protector at the international arena due to its membership in the UN (Interview L1).
the interest of Liechtenstein. Foreign policy will continue to advocate the safeguarding of Liechtenstein’s interests in the progressive development of international law (Ministry of Foreign Affairs, 2013, p. 78).

Liechtenstein’s EEA Membership and the Implications for The Association with Switzerland

Concerns about safeguarding its interests and position as a sovereign actor on the continent were also driving Liechtenstein’s increasing willingness to seek a proper voice in the newly forming European institutions. At the same time, as a small country in need of export markets, Liechtenstein was particularly keen to participate in the liberalisation of trade on the continent. When Switzerland, together with 6 other non-European Economic Community (EEC) members, decided to participate in the formation of the European Free Trade Association (EFTA) Liechtenstein was not admitted into its structures as an independent member (Frommelt & Gstöhl, 2011, p. 13). Instead, the Convention specified that the EFTA provisions applied to the Principality for as long as it remained the in customs union with its Western neighbour (‘Convention Establishing the European Free Trade Association’, 1960). The same principle applied to the application of the 1972 Free Trade Agreement between Switzerland and the European Community (EC) (Frommelt & Gstöhl, 2011, p. 13).

While Liechtenstein saw the benefits of the EC membership, it also believed that its small size and lack of resources would make a full membership in the organisation a “practical impossibility” (Beattie, 2004, p. 164). At the same time, there was a high degree of uncertainty about the implication of the potential Swiss membership in the newly proposed joint EC-EFTA European Economic Area (EEA) or even the actual EC on the existing “treaty relationship” between the Principality and Switzerland (Beattie, 2004, pp. 160–170). In light of the above concerns, Liechtenstein decided to continue “directly and independently” participate in the talks on the deepening European cooperation and creation of a broader European economic area. The problem was that the scope of proposed economic integration went “went well beyond the Swiss competences in the framework of the Customs Treaty” (Frommelt, 2016, p. 134). Together with the creation of the World Trade Organisation (WTO), the deepening European integration meant that there was a growing necessity for negotiating matters not covered by the delegation of treaty-making power to the Principality’s Western

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124 EFTA was envisioned as British-led organisational rival to the EEC. While it arguably failed to achieve the British political and economic goals, it was nonetheless of considerable benefit to its smaller members (such as Switzerland and naturally also Liechtenstein) as it granted them access to the otherwise “heavily protected big market of Britain” (Dedman, 2010, pp. 97–98).

125 To a large degree necessitated by the accession of the key EFTA members (including the United Kingdom) into the EC (Schwok, 1997, p. 29).

126 The EEA was proposed as a compromise solution for both some of the traditionally neutral and EC-sceptical states (such as Switzerland) and the Euro-enthusiastic EC members who feared that admitting more neutral states could potentially “neutralise the EC and block or wreck future developments of Common Foreign and Security Policy” (Dedman, 2010, p. 117). While the EEA promised a full economic integration with the EC, it “effectively confirmed a sort of secondary citizenship status on non-EC members by permitting economic integration, allowing states to be governed by rules they didn’t make while not exempting them from contributing funds to help other EC people poorer than themselves to conform to the rules” (Dedman, 2010, p. 118). This, together with the end of the Cold-War and the perceived need for neutrality, made a full EC (and later EU) membership appear preferable (Dedman, 2010, p. 118; Schwok, 1997, p. 30).
partner (Frommelt, 2016, p. 134). Consequently, Liechtenstein asked Switzerland for a permission to modify the terms of the Customs Treaty to allow the Principality to become (on the basis of separate agreements with Bern) an independent state party to those organisations to which Switzerland was already a contracting party. Switzerland accepted Liechtenstein’s request and in 1991 the Principality joined EFTA (Frommelt, 2016, p. 134; Ministry of Foreign Affairs, 2013, p. 27) and “participated in its own right in the EEA negotiations” (Frommelt & Gstöhl, 2011, p. 13).

The question of Liechtenstein’s membership in the EEA became one of the most contentious issues in the Principality’s modern history. On the one hand, the scope of the agreement was truly great. Far from being a simple agreement on tariffs, joining the EEA required accepting most of the Single Market’s principles of the free movement of people, services, goods and capital (and the associated measures), as well as the entire “acquis communautaire”, i.e. the existing body of EC’s legislation. The member states were also expected to contribute towards a “cohesion” fund aimed at assisting the EC’s poorest states (Dedman, 2010, p. 117). In exchange, Liechtenstein was offered full access to the largest free trade area in the world and the Principality’s most obvious market for exports and source of imports. As an industrialised country with a tiny domestic market, the Principality desperately needed to safeguard unrestricted access to the European market (Beattie, 2004, pp. 164–166; Buchel, 2003). At the same time, the membership in the EEA remained more limited in scope than a potential membership in the EC, when it comes to the scale of political integration, which was an important argument for a small and neutral state (Alphous, 1993; Beattie, 2004, pp. 164–7).

Additionally, for many Liechtensteiners, the key question was the implication of the EEA membership on the treaty relationship with Liechtenstein’s economic and political protector (Alphous, 1993; Frommelt, 2016, pp. 134–135; Stewart, 1996; M. Studer, 1993; Wicks, 1995). For this reason, as soon as the Parliament approved the EEA agreement and announced a national referendum, the Crown Prince (a strong supporter of joining) wanted the plebiscite to take place ahead of the popular vote in Switzerland. The government disagreed with the Prince and kept the later date, which sparked a political crisis and later contributed to the constitutional reform of 2003 (Frommelt & Gstöhl, 2011, pp. 13–14).

To many observers’ surprise the Swiss voters rejected the EEA agreement by a small margin (Riding, 1992) sparking concerns over the outcome of

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127 Additionally the membership in the EEA offered to provide increased employment, studying and research opportunities across the continent (Beattie, 2004, p. 163)

128 In March 1992 the option of holding a referendum on international treaties was included in the country’s constitution, in part due to the gravity of the proposed changes and in light of the recent move to join the UN without holding a referendum (Frommelt & Gstöhl, 2011, p. 13)

129 As noted by one of the interviewed experts it can also be argued that the EEA referendum conflict was to an extent a symptom of a larger dispute about the Prince’s power inside the country and less so about his views on the EEA membership (Interview L1).

130 Many voters cited concerns over the influx of foreigners, loss of democratic accountability as well as traditional neutrality and security (Riding, 1992).
Liechtenstein’s later vote. However, as noted by one of the experts interviewed for this thesis:

Fortunately for the supporters of the EEA membership, a member of the Swiss government made it clear before the referendum that Liechtenstein's membership in the EEA would not have any negative impacts on the existing agreements with Switzerland. This may well have been one of the main deciding arguments in favour of joining the EEA (Interview L1).

Despite these assurances, the Liechtensteiners’ decision not to follow their neighbours and instead to join the EEA was seen as surprising and it raised serious concerns over the future of the Swiss-Liechtenstein treaty relationship (Buchel, 2003; Frommelt & Gstöhl, 2011, p. 14; Wicks, 1995). Fortunately for Liechtenstein, the Swiss government, disappointed with the outcome of its own referendum, expressed readiness to discuss making adjustments the Customs Treaty, which offered hope for finding a solution that would permit Liechtenstein to become a EEA member without necessarily losing its association with Switzerland (Beattie, 2004, pp. 169–170; Frommelt & Gstöhl, 2011, p. 14).

The key challenge was naturally the apparent impossibility of functioning as a full member of a broad, harmonised, free trade zone while simultaneously maintaining open borders and full access to its non-member (Frommelt & Gstöhl, 2011, p. 14; Wicks, 1995). Once again, Liechtenstein’s small size and relative insignificance proved vital to its diplomatic success. Politically, both the EC and Switzerland were eager to reach a compromise. The former wanted to show its understanding for the interests and problems of even the smallest states (especially in light of the Dutch vote against the Maastricht Treaty) and the latter did not want to complicate its much larger and broader bilateral negations with the EC. It seemed obvious that Liechtenstein’s diminutive size would make an agreement both feasible and acceptable to all parties (Frommelt & Gstöhl, 2011, p. 14). And indeed, following long negotiations, the Swiss government and the European bodies agreed to a system in which Liechtenstein consented to take responsibility for enforcing the EEA requirements through its own Customs Office.

Through the principle of “parallel marketability” goods meeting either the EEA’s or Swiss standards are allowed circulate freely in the Principality (Duursma, 1996, p. 165; Frommelt & Gstöhl, 2011, p. 14; Pelkmans & Böhler, 2013, p. 21). At the same time, Liechtenstein had to ensure that “unauthorized goods did not flow into the EEA from Switzerland and vice-versa”, which was unlikely to be a big problem not only because of the country’s small size but also because the Swiss and EC’s standards and legislation were becoming increasingly harmonised (Beattie, 2004, p. 170). And indeed, this solution has “functioned with amazing ease” (Buchel, 2003, p. 28). While the simultaneous functioning within two economic areas has created some problems and might create some potential issues in the future Liechtenstein’s membership in the EEA within this framework has also largely been seen as a political and economic success (Ministry of Foreign Affairs, 2013, p. 39). On the one hand it has created new economic opportunities and a high degree of integration with complex European institutions at a relatively low administrative cost (Frommelt & Gstöhl, 2011, p. 17; Ministry of Foreign Affairs, 2013, p. 39) and on the other hand, increased the country’s position in
the European affairs (Buchel, 2003). A member of the Princely House interviewed for this thesis observed that:

We are now part of the bigger market and we have the necessary freedoms so it was a very important step. We simply do not have the size that would permit us to have a bilateral agreement with the Europeans, as it was the case with Switzerland. Of course it is very difficult to quantify the specific advantages and disadvantages, but I believe that the advantages have been largely higher than the disadvantages (Interview L3).

Interestingly, the Principality’s small size has also allowed Liechtenstein to secure a number of favourable concessions and “tailor-made arrangement” from the EC (Frommelt, 2016). Most importantly, Liechtenstein has managed to obtain rather extraordinary exceptions to the principle of freedom of movement (Buchel, 2003). Its peculiar geographic and demographic situation has been recognised by the EEA Council which stated that:

The EEA Council recognizes that Liechtenstein has a very small inhabitable area of rural character with an unusually high percentage of non-national residents and employees. Moreover, it acknowledges the vital interest of Liechtenstein to maintain its own national identity (‘Decision 1/95 of the EEA Council’, 1995).

Consequently, Liechtenstein has been permitted to continue imposing certain restrictions on the influx of new, permanent residents (Frommelt & Gstöhl, 2011, pp. 14–15; Kasper, 2013, p. 51; Pelkmans & Böhler, 2013, pp. 34–35). Initially, the “special solution” was constructed as a transitional measures. With time, it has acquired a “more or less permanent” character, in particular following the Eastern enlargement of the EU (Frommelt & Gstöhl, 2011, p. 36; Hornich & Marxer, 2013, p. 9). Under the current agreement, the EEA citizens, while permitted to work and commute to Liechtenstein without any permit, require a residence permit in order to obtain permanent residency in the Principality (European Commission, 2015). There is “a minimum number of permits to be issued to EEA citizens every year, constituting a yearly net increase in the residing EEA population of 1.75 % (for economically active people) and 0.5 % (for economically inactive people) respectively of their number in 1998” (European Commission, 2015), which “amounts to 56 permits for economically active and 16 permits for economically non-active persons” (Frommelt & Gstöhl, 2011, p. 36).

In order to ensure equal treatment of the EEA citizens, half of the permits are allocated by a lottery and the other half are granted directly by the government (Hornich & Marxer, 2013, p. 10). As noted by one of the interviewees:

As noted by one of the interviewees:

In general, Liechtenstein’s membership in the EEA has been a big advantage. Especially as the conditions of our membership are very favourable. One other example is that Liechtenstein has been given an

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131 It is worth noting that the residents’ families can also obtain the right to reside and work in the country. Furthermore, despite the seemingly restrictive nature of the agreement, Liechtenstein has a very high immigration rate (Interview L1).
exception to the freedom of movement of people. While normally the citizens of the EEA can travel and move freely between different member states, this is not the case with Liechtenstein. They can come to work here, but they cannot live here. We only have to accept a certain number of people per year (...) to live here. We say here in Liechtenstein that the Europeans must have been asleep when they granted us this exception because it is totally abnormal and irrational that they would give us this special treatment. I think you could argue that [the small size of Liechtenstein] was the reason (Interview L2).

It appears that in eyes of the other members of the EEA, Liechtenstein’s small size made it not only quantitatively but also qualitatively distinct and justified creating special solutions. While, in the wake of the 2016 Brexit vote in the United Kingdom, some British politicians referred to the Liechtenstein solution as a potential precedent for establishing the future relations between the United Kingdom and the EU (Asthana, 2016), it has been pointed out that:

Liechtenstein is not a precedent for the UK because they do not share the characteristics that allowed Liechtenstein to gain migration controls. The UK is much larger, has a population of approximately 65 million people, and in 2015 the UK had a much lower percentage of non-national residents (13%) compared to Liechtenstein (34%) (Stensrud, 2016).

**The Role of Liechtenstein’s Small Size in the Formation of Micro-Statehood**

As argued throughout this thesis, far from being an impossible obstacle, a country’s small size can prove beneficial when it comes to its relations with other states. One of the aims of this thesis is to examine the role of diminutive size not only in the formation of benign protection and establishment of micro-statehood. In line with the hypothesis put forward in Chapter Three, Liechtenstein’s tiny size and apparent economic helplessness were of key importance in persuading the Swiss to agree to integrate it into its economic system. Arguably for Switzerland, forming an association with Liechtenstein was akin to an affordable “rescue mission” (Beattie, 2004, p. 56; Raton, 1970, p. 91) undertaken to assist a neighbouring country overwhelmed by “a disorganised economy, large foreign debts, and a population weakened by privation” (Raton, 1970, p. 91). Naturally, it was in the interest of Switzerland not to have an impoverished neighbouring state, regardless of its size. Even a tiny but unstable country could pose problems as it could potentially “become a prey to adventurers” (Beattie, 2004, p. 57), terrorists, fraudsters (Hampton & Christensen, 2002) or even other, hostile states for whom it could act as a “buffer” zone (Amstrup, 1976; Bertram & Watters, 1984b; Catudal, 1975; Veenendaal, 2013a). Judged from this perspective, it is perhaps clear why Switzerland was willing to support its neighbour. However, the extent to which it was prepared to assist it appears closely linked to the perception of the Principality’s minuscule size.

As hinted by the case of Vorarlberg, Switzerland would have been more wary of accepting a far-reaching economic and political association with a much larger and more populous territory due to not only the much higher costs but most
importantly the potential for creating significant internal difficulties and geopolitical tension (Beattie, 2004, p. 56; 'The Proposed Enlargement of Switzerland', 1919). This sentiment was also expressed by all the experts interviewed for this thesis in whose opinion the small size of the Principality played a key role in the formation and maintenance of not only the customs union, but other arrangements which together can be seen as clear elements of benign protection and micro-statehood, as presented in Chapter Two and Chapter Three (Interviews L1, L2, L3). This view was also strongly echoed by the interviewees from other European microstates whose existence under benign protection of its neighbour is seen as closely linked to its diminutive size and perceived insignificance (Interviews L4, L5, L6, L7). In the case of Liechtenstein and other microstates, the combination of their small size, lack of geopolitical significance and the presence of favourable circumstances (historical events, changing norms or political expediency) resulted in the formation of extraordinarily favourable relations with their larger neighbour which in turn secured their political survival and created solid foundations for economic development.

Economic Development under Switzerland’s Benign Protection
Over the course of last century, the Principality has been transformed from one of the poorest and predominantly rural countries on the continent into one of the wealthiest (per capita) and most technologically advanced states in the world (Brunhart & Dumieński, 2015; Catudal, 1975; Farmer, 1995; Geiger, 2000; Kasper, 2013; Merki, 2007b; Ospelt, 1974; Quaderer-Vogt, 2014; Stringer, 2006, 2013; Young, 2010). In addition to a set of domestic policies and measures often necessitated by the country’s smallness (Brunhart & Dumieński, 2015, p. 8), the country’s successful use of the treaty relationship with Switzerland has been crucial to its economic success.

Economic Indicators and Current Situation
Due to the country’s small size, the overall Gross Domestic Product (GDP) in 2013 of 5.3 billion CHF (at 2016 prices) is relatively small, at least in comparison with its neighbours (Office of Statistics, 2016, p. 18). However, when calculated per

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132 According to one expert specialising in the history of San Marino: “Generally, Italy has traditionally found San Marino not to be a burden because of its size. By contrast, it was seen as potentially useful for either domestic of international reasons. (...) Paradoxically, the small size of San Marino has been a benefit when it comes to negotiations. It is easier to secure a good deal for a small state. We have always used it and always tried to be useful to our bigger protector. (...) Actually, the slogan of our country has been to know ourselves and each other and not be known by the outside world. In other words, we built our strength on internal unity and lack of too much of external attention. In particular, we didn’t want to annoy anyone” (Interview L4). When asked whether his country’s small size has played any role in its politico-economic survival, a high-ranking diplomat from San Marino replied: “Yes, certainly. That and the history. While the size played an important role, without a specific historical context San Marino would have probably ended up like the other small and very small Italian states. But, because it made a few good political choices (like its decision to help Garibaldi) and because it was relatively insignificant it was allowed to survive. I believe that if San Marino had been a big, strategic or otherwise important state, it would have not survived as an independent republic. But because of these two factors we have not only survived but also secured a very good relationship with Italy. Italy has guaranteed our security, it has offered us a lot of assistance and tolerated our economic policies” (Interview L5).
employed person\textsuperscript{133}, the figure was an impressive 172,800 CHF (2013). Interestingly, due to Liechtenstein’s rapid growth, its national income per capita reached Swiss levels by the 1960s and surpassed it by 100\% by the late 1980s. Since then, the two countries have been growing at a similar rate (Brunhart, 2012, pp. 38–39).

According to other, more comprehensive (and potentially more accurate) measurements of well-being, Liechtenstein’s citizens enjoy one of the highest standards of living in the world. For instance, it’s Human Development Index\textsuperscript{134} (HDI) for 2014 of 0.908 put the country in the very high human development category and positioned it at 13 out of 188 assessed countries and territories (UNPD, 2015). While slightly lower than that of Switzerland’s, its HDI is higher than that of its former protecting power Austria and the average for the European Union (UNPD, 2015)\textsuperscript{135}.

Due to the country’s size, it is not featured in some of the potentially more comprehensive measures of well-being (such as the Happy Planet Index, Satisfaction with Life Index or Where to Be Born Index). However, more qualitative assessments of the standard of living in the country present it as very high (Hornich & Marxer, 2013; Kocher, 2002; Pate, 2009; Schuessler et al., 2014; Stringer, 2013).

While it is difficult to obtain reliable data on wealth distribution and inequality within the Principality, there appears to be no absolute poverty in Liechtenstein (Beattie, 2004, p. 346; Brunhart & Dumienie\'ski, 2015; Pfeiffer, 2014, p. 20; United Nations, 2016, p. 13). While there are “pockets of relative poverty and other problems” (Beattie, 2004, p. 346)\textsuperscript{136}, the Principality has a well-developed welfare system\textsuperscript{137} which, together with generous private support networks (church groups, non-governmental associations and private individuals), provide a good

\textsuperscript{133} As noted earlier, Liechtenstein has an extremely high number of non-resident workers (inward cross-commuters constitute half of the Principality’s work force), which could lead to “misleading conclusions” when it comes to calculating GDP per capita. For this reason, the Statistics Office considers it more appropriate present GDP per employed person for the purpose of making comparisons with other countries (Office of Statistics, 2016, p. 18).

\textsuperscript{134} Which is presented as a “a summary measure for assessing long-term progress in three basic dimensions of human development: a long and healthy life, access to knowledge and a decent standard of living” (UNPD, 2015, p. 2).

\textsuperscript{135} It should be noted that the HDI criteria may sometimes be perceived as not entirely fair to microstates. For instance, Liechtenstein’s reported weakness lies in its lack of airports of highways, despite the fact that both are easily available (and frequently used) across the border with little discomfort to Liechtensteiner or visitors (Interview L1).

\textsuperscript{136} According to the definition of poverty adopted by the European Union, households with annual disposable income at a level lower than 60\% of the national median income are considered to be at risk of poverty (Eurostat, 2014, p. 32; Hornich & Marxer, 2013, p. 23). Using this measure, in 2008 11\% of the households in Liechtenstein could be classified as low income due to having less than 27,754 CHF of disposable income per year (Hornich & Marxer, 2013, p. 23). Despite this threshold being among the highest in Europe, the low-income household ratio is among the lowest on the continent (Eurostat, 2014, p. 33).

\textsuperscript{137} People in difficult financial situation due to such circumstances as poor health, disability, lack of employment can receive government-funded assistance in the form of such benefits as “premium reductions for their compulsory health insurance, rental subsidies, and supplemental benefits to their Old Age, Survivors’, and Disability Insurance pensions as well as direct financial assistance on a subsidiary basis. Independent of their income, residents also have a right to a child allowance” (United Nations, 2016, p. 13). As noted by scholars, “social assistance is legally defined as guaranteed basic income” (Hornich & Marxer, 2013, p. 24).

Liechtenstein’s economy is highly industrialised and surprisingly diversified with 40% of the GDP in 2013 generated by manufacturing, 28% by general services, 24% by financial services and 8% by households (primarily real estate) and agriculture (Office of Statistics, 2016). Despite the popular image of a tax heaven, it is (primarily high tech) manufacturing, and not banking or financial services, that generates most of the GDP and creates nearly 40% of the jobs (Office of Statistics, 2016). Liechtenstein is statistically one of the most industrialised countries in the world (Beattie, 2004, p. 274; Schuessler et al., 2014). Due to the minuscule size of the domestic market, nearly all of the country’s companies’ production is destined for export. The most important export destinations (other than Switzerland138) for products made in Liechtenstein are: Germany, the United States and Austria (Ministry of Foreign Affairs, 2015, p. 12; Office of Statistics, 2016, p. 32). Remarkably, as of 2015 Liechtenstein’s companies exported more good to the United States than to the neighbouring Austria (Ministry of Foreign Affairs, 2015, p. 12), which demonstrates both the diminishing importance of distance in the global economy, and the remarkable competitiveness of the local companies.

Despite some volatility generally characteristic for tiny states (Brunhart, 2015), Liechtenstein’s economy is generally characterised as very stable and remains debt-free (Schuessler et al., 2014, p. 109). There is, in fact, a strong political will to avoid debts. As noted by one of the interviewed experts:

Being dependent on making debts is never an option for a small state. That is something that all the parties here agree on. As a small state we would need to face higher interests, higher dependency, higher risks and higher exposure to blackmail, at least when compared with larger states (Interview L1).

In spite of its small size, Liechtenstein contributes funds towards humanitarian assistance and aid and accepts a small number of refugees (Ministry of Foreign Affairs, 2015; Office of Statistics, 2016).

The country’s official unemployment rate stood at 2.4% in 2014, which actually most likely exaggerates the number of people unable to find employment as due to statistical methodology used by the Principality’s government: “persons registered as unemployed that enter a longer term further education programme or that are on maternity leave are nonetheless counted as unemployed” (Office of Statistics, 2016, p. 27). In reality, despite high wages, for the last decades the country has effectively struggled with a significant shortage of workers and has had to rely on commuters from neighbouring states (Sochin D’Elia, 2013, p. 1).

138 While Switzerland is certainly “one of the most important trading partners of Liechtenstein”, due to the existence of the customs union and lack of border controls between Liechtenstein and Switzerland, trade between the two countries is difficult to estimate and the exact value of exports going to Switzerland “does not appear in the Liechtenstein export statistics” (Ministry of Foreign Affairs, 2015, p. 12).
The country’s economic prosperity is often seen as a source of high self-esteem of the local population (Fehlmann et al., 2002; Hass, 2004). Liechtensteiner's pride in the country’s economic achievement (and political survival) may even be perceived as one of the key elements strengthening their sense of national identity (Beattie, 2004, p. 370). For many Liechtensteiners, what matters is not just the per capita or overall level of income but also the perceived domestically-driven nature of the country’s development with such factors as: local entrepreneurship, domestic policies and institutions (especially low level of bureaucracy or corruption and ease of actively participating in the country’s government), and the good use of the advantages offered by the country’s smallness being seen as the key contributors to the country’s economic success (Passow, Fehlmann, & Grahlw, 2005).

The impact and type of benign protection

Early efforts and assistance

The current economic prosperity would have been difficult to imagine a century ago. As described above, following the collapse of Liechtenstein’s first protector and the war-time sanctions the country found itself in financial and economic ruin. When it approached Switzerland with its request for assistance and closer cooperation it was seen by the latter not as a potential business partner, but an economically ruined territory which could “regain its balance only with our [Swiss] aid” (Raton, 1970, p. 91). And indeed, the association between the two countries has proven instrumental not only as a “stable framework within which [the Principality] could strive to put itself back on its feet by its own efforts” (Beattie, 2004, p. 63), but as one of the key drivers of its remarkable economic growth with the Liechtensteiners’ profiting “from the union beyond all expectations” (Beattie, 2004, p. 62; Raton, 1970, p. 92).

At first the Swiss assistance had a more active or direct character, as demonstrated during the disastrous flood of 1927 which devastated the already impoverished Principality dealing with the insolvency and scandal affecting its first bank (Beattie, 2004, p. 81; Raton, 1970, pp. 84, 111). The Swiss authorities sent troops and granted Liechtenstein “an advance payment under the Customs Treaty” (Beattie, 2004, p. 83). Soon after the disaster the country went through the 1930s slump which, despite some improvements in infrastructure and industry, prolonged a period of poverty and instability (Beattie, 2004, pp. 84–85). Within this context, the relationship with Switzerland proved to be the key source of economic relief. In 1938 the Swiss partially opened their labour market to Liechtenstein’s workers, reduced the interested rate on the loans of 1928 and 1934. Additionally, before the end of the same year they gave a permission to designate Swiss goods exported from Liechtenstein as goods of Swiss origins and granted a significant loan to assist Liechtenstein’s government and banking sector with their liquidity problems (Beattie, 2004, p. 101). It is often argued that one of the advantages of large size is that it acts as a kind of “insurance policy” against tragic, but localised events or developments (Alesina, 2003, pp. 303–304). A part of a big country experiencing a recession or a natural disaster can count on the rest of the state to support it (ibid.). In the case of Liechtenstein, the association
with Switzerland proved to play a similar role from the very early years of its existence.

In light of the Liechtenstein’s population and key officials’ strong resistance to a Nazi plan to overthrow the government in order to integrate the country with the Reich in March 1939 (Catudal, 1975, p. 192; Kohn, 1967, p. 553; Raton, 1970, p. 142), Switzerland agreed to apply additional measures aimed at ameliorating the economic situation in the Principality (Beattie, 2004, p. 108). During the war Switzerland “guaranteed the supply of wartime provisions and included Liechtenstein in its food rationing system” and both countries worked to keep the Principality “in step with the Swiss wartime economic measures” (Beattie, 2004, p. 109). The 1941 opening of the Swiss labour market provided new opportunities for employment and accumulation of savings, especially in light of the shortages of labour experienced by Switzerland in consequence of its war-time mobilisation. A close union with neutral Switzerland also offered new opportunities for the development of a domestic industrial sector (Beattie, 2004, pp. 111–112). Largely due to the treaty relationship with its Western neighbour Liechtenstein emerged from the Second World War in much better economic condition than from the First.

Access to Markets, Stability and Passive Protection

Over the course of the next decades the character of Swiss’ benign protection model was much more “passive”. Being part of the Swiss economic system provided not only the necessary stability but also, in the context of the post-war economic boom in Western Europe, “opened wider dimensions to its economy” (Beattie, 2004, p. 139). The Principality could benefit from having a full access to the increasingly prosperous Swiss market, and also to the much wider, global markets to which access was provided via Switzerland. When asked about the key factors that determined the Liechtenstein’s post-war boom, a member of the Princely House replied:

> We have had this good relationship with Switzerland, we have had the customs union and we have had the Swiss franc. So this close relationship was very helpful. It was helpful to both have an access to a bigger market and to have a stable currency (Interview L3).

The economic union with Switzerland has dramatically increased the size of the market freely accessible to the Liechtenstein’s businesses. At the same time, the Principality could benefit from its neighbour’s good reputation and stability.

One of the arguments against small country size is that within larger political units poorer regions can benefit from the positive externalities generated by the economic success occurring in their neighbouring regions with which they form a singular economy (Alesina, 2003, p. 304). The treaty relationship between Switzerland and Liechtenstein has meant that the latter has benefited from the success of its larger neighbour without having to sacrifice its sovereignty and political distinctiveness. Furthermore, Liechtenstein has been able to use its relationship with Switzerland to outsource some of the most costly parts of its state apparatus to its strategic partner (Gantner, 2002; Gantner & Eibl, 1999; Kocher, 2002; Stringer, 2006). By doing so, the Liechtensteiners have gained
access to the services and infrastructure the provision of which would otherwise be either unaffordable or unpractical for a state the size of Liechtenstein.

Liechtenstein manages to either explicitly outsource to Switzerland the provision of such services as:

- consular protection and diplomatic representation;
- most of the secondary and tertiary education;
- some transportation;
- some of the tax collection administration;
- elements of the health care system;
- some of its penitentiary system;
- elements of internal and external security;
- adoption or creation of new complex regulations and legislation;

The Principality covers some of the costs associated with its citizens’ access to the above services and free-rides (with the Swiss consent) on others. In both cases, it avoids having to maintain its own expensive (and often seen as undesirable) physical infrastructure or specialised personnel (Gantner & Eibl, 1999; Kocher, 2002). As noted one scholar:

Important parts of its fiscal, social and legal system do not originate in the country. Liechtenstein leaves the production of public goods to its neighbours and restricts itself to guaranteeing provision through mostly advantageous contracts and treaties or simply free rides (Kocher, 2002).

The ability to delegate the provision of some of these key public goods to Switzerland has been praised as one of the key benefits of the treaty relationship between the two countries. As argued by Prince Alois, a country the size of Liechtenstein by itself cannot realistically provide many of the services (e.g. sophisticated healthcare) that determine the standard of living in the 21st century (Łukaszewski, 2015, p. 180). This is why the association of Switzerland is such importance to maintaining a high quality of life inside the Principality.

As argued by one of the interviewed experts:

[The Swiss] represent us in many organisations and negotiations. (...) Also, related to the customs union, they have their officers on our borders. Also, many taxes are collected by Switzerland for Liechtenstein. For instance, our VAT system is combined. So it is a common pool, which is then redistributed. This is the most important reason why we introduced the national accounting scheme a couple of years ago as we needed to have more precise data in order to determine the share Liechtenstein would be getting. This was requested by Switzerland, although they eventually regretted their decision as they ended up paying more as we had previously underestimated the size of our economy. (...) To Liechtenstein, [the relationship with Switzerland] is certainly very beneficial, as we can
outsource a lot of activities. We can perhaps even free ride to a certain extent (Interview L1).

This sentiment was also confirmed by another expert according to whom:

Generally speaking, Liechtenstein was very lucky to be able to enter this agreement. In my opinion, Switzerland didn’t really see how enormously important the whole move was for Liechtenstein. It was not just the customs treaty, but more generally, the closer relationship with Switzerland that was important. Liechtenstein was given access to the infrastructure that it could not have possibly financed on its own. (...) The Liechtensteiner can go to hospitals in Switzerland and our government pays for it. Also, we can go to the universities there. Our own university here is new, it was established only about 10 years ago, and many students have traditionally been going to Swiss universities and this has been paid for by our government. The Liechtensteiner can use all these services and Liechtenstein does not need to create its own infrastructure. It is much more cost effective. There is also the road connection, the highway right across the border. But that is of a relatively smaller importance than the rest of the infrastructure (Interview L2).

Large size is often thought of as beneficial to a country’s well-being precisely because large can countries can afford the provision of important public goods. Arguably, it is cheaper per capita to provide such public goods as a monetary or legal system, public health care or embassies in large countries than it is to provide the same goods in tiny states (Alesina, 2003, p. 303; Easterly & Kraay, 1999, p. 2). Due to its association with Switzerland, the Principality has not only been able to significantly mitigate the challenges created by the size of its market but also significantly reduce the problems associated with the provision of certain key public goods by diminutive states. As such, the model of utilizing benign protection for the purpose of maximising economic benefits pursued by Liechtenstein in the last decades can be best described as “passive” in accordance with the terminology introduced in Chapter 3. Following a short period of more direct, active assistance in the pre-war era, the key elements of the economic dimension of the treaty relationship with Switzerland have been concentrated on the outsourcing of important and costly state functions, and on eliminating barriers to the larger Swiss market.

**Domestic policies and the importance of smallness**

As noted in Chapter 3, there exists a rich body of literature dedicated to studying the advantages and the disadvantages of small size for economic development. Diminutive states are expected to suffer from the diseconomies of scale and greater vulnerability both external and internal shocks or changing circumstances (Armstrong & Read, 1995, p. 1230; Gantner, 2002, pp. 64–65). However, many of these challenges can be successfully mitigated by the ability to trade and increase the size of the market (Alesina, 2003; Alesina & Spolaore, 2003). Within the framework of the Swiss-Liechtenstein association, the Principality has been able to significantly reduce (and in some cases eliminate) the purported disadvantages of small size. At the same time, it could enjoy a number of advantages ascribed to smaller political units (Gantner, 2002).
Liechtenstein’s smallness, among other factors including its passive model of benign protection (namely the lack of any guaranteed, direct financial assistance from Switzerland), has made it imperative (and perhaps also possible) for the country to maintain a regime of low taxes on productive activities, good governance, little corruption, efficient decision and cooperation network in and between the public and private sector, and minimal bureaucracy (Armstrong & Read, 2003, p. 106,114; Kasper, 2013; Merki, 2007a, pp. 13–14, 2007b, p. 217).

As argued by a member of the Princely House:

Due to our size, we could only afford to have a small government. Also [small size has been an important as] it makes it possible to respond quickly to various economic necessities (Interview L3).

Even though large size offers a number of advantages, it comes at the price of increasing “heterogeneity of preferences” and associated socio-political tensions and administrative costs (Alesina, 2003). While Liechtenstein’s economy has a relatively “international” character, the small size of the country potentially creates a greater homogeneity of interests, which increases internal stability and ability to effectively respond to changing external circumstances (Alesina, 2003; Gantner, 2002). As noted by one of the interviewees regarding the benefits of smallness:

Liechtenstein is a very stable country. In particular, the tax legislation didn’t change for almost 70 years. It is also very transparent. Even ordinary people can easily understand the tax system. If you are very rich, then you may need professional help with the tax matters, but in general it is not hard at all to understand the system and to file the tax report. So, it is a very easy system that didn’t change for 70 years. It actually only changed 2 years ago and is now different (at least to some extent) but still easy to understand. In any case, our legal system is quite efficient. For example, after the leaks affair, the government and the prince basically decided that we would do all these automatic tax agreements. This wouldn’t have worked in another country, for sure. In Switzerland, they would surely have elections, referenda and it would take years to react to this. In fact, they are still arguing about it. This is a special thing in the microstates: everyone was convinced of the necessity to act fast, so we dealt with it in just a couple of weeks. On the other hand, there are many veto powers in our system, so a company doesn’t normally have to fear any sudden changes. It can say “OK, they have a liberal consensus in this country, everyone is convinced the taxes should be as low as possible”. And I must say it is a general convention. Perhaps as many as 90% of the people in Liechtenstein would support low taxes. And there are actually many veto powers. The prince cannot decide anything without the people and the parliament cannot decide anything without the prince and there is still the government which is actually doing the everyday work and there are still the people. So, if I don’t like the new law, I can collect 1000 signatures and soon we will have a vote about it. So, normally sudden changes are not very likely, with the exception of the [2008 tax affair] when it was decided that a quick action was absolutely necessary (Interview L1).
These features, alongside the country’s free access to larger markets and the availability of new transportation and communication technologies, have made it an attractive location for various enterprises, particularly those producing high-tech and high value goods (Kasper, 2013; Stringer, 2006, 2013).

Like many other diminutive states and sub-national jurisdictions, Liechtenstein has sought to “commercialise” its sovereignty or law-making ability. Due to their small size, diminutive policies can make substantial per capita gains from activities that would rarely appear as particularly attractive to larger states (Drezner, 2001; Palan, 2002, 2010). As a tiny but sovereign state, Liechtenstein has been able to benefit from such revenue-generating projects as selling stamps or citizenship (see above)\(^{139}\), as well as establishing a fiscally and legally attractive environment for countless European companies and wealthy individuals. This last strategy has proven not only profitable but also immensely controversial.

**Liechtenstein’s Financial Sector**

The combination of unique legal instruments, strong links to Switzerland (and later the membership in the EEA), the use of the Swiss franc, Liechtenstein’s political stability and neutrality, historically low level of taxes, a long-established and strong protection of privacy and the high quality of services have all contributed towards the establishment of a small, but successful financial centre within the Principality (Beattie, 2004, p. 294; Frommelt & Gstöhl, 2011, p. 32). At the same time, the development of a financial sector with a strong emphasis on private (and rather “discreet”) banking and wealth management has not just attracted wealthy customers but also the attention of foreign press, governments and ordinary observers who often perceive Liechtenstein as a “tax haven” (Fehlmann et al., 2002; Pate, 2009).

Liechtenstein’s reputation as a tax haven (Sharman, 2016a, p. 7) dates back to the country’s rather desperate quest for alternative sources of income following the collapse of the Principality’s first benign protector and the post-war economic disaster (Glos, 1984, p. 929). The end of the treaty association with Austria resulted, among other things, in Liechtenstein’s decision to adopt its own Civil Code and to create a new Company Law of 1926. The new legislation “adopted all the existing types of corporation known to European law” (Glos, 1984, p. 930) and additionally established a new and unique form of incorporation known as the Anstalt (Palan et al., 2010). Unlike other German-speaking countries where the term "Anstalt" has historically referred to “an institution of public character permanently dedicated to a public purpose, which is usually charitable, medical or education”\(^{140}\), Liechtenstein’s legislation provided for “a private law Anstalt” (Glos, 1984, pp. 929–930) which blended the German-Austrian Anstalt with the Anglo-Saxon concept of the trust (generally unknown outside of the English Common Law system), together with its secrecy (Blum, Levi, Naylor, & Williams, 1998;

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\(^{139}\) A more recent project of a rather unusual and primarily promotional nature was the “Liechtenstein rental scheme” under which wealthy individuals could temporarily “hire” the Principality for their events by obtaining customised street signs, temporary currency and impressive accommodation (Diener & Hagen, 2010, p. 148; Sinmaz, 2011).

\(^{140}\) Such institutions are “created by statute and are financed from public fund” (Glos, 1984, p. 929). These conventional Anstalts include hospitals, universities or homes for the elderly (Palan et al., 2010).
In practical terms, the Liechtenstein Anstalt was designed a type of “one-man corporation” endowed with a separate legal personality and all its advantages “for the apparent purpose of concealing the identity of its owner in the carrying out of business which he would not be likely to conduct openly under his name” (Glos, 1984, p. 954). As such, the Liechtenstein Anstalt (together with a number of other instruments) has arguably been used for the purpose of concealing wealth or income from various governments and organisations (Sharman, 2016a, p. 7).

Liechtenstein has undoubtedly derived considerable economic benefits from becoming a financial centre and arguably an attractive haven for the wealthy individuals interested in avoiding or minimising their tax liabilities or seeking to protect their wealth from pressures of a more political nature (Sharman, 2016a, p. 7). However, it is important to note that unlike in the case of many other sub-national jurisdictions, the financial sector has always played a secondary or even subordinate role to the other sectors of the country’s economy (Brunhart & Dumieński, 2015). While the financial sector accounts for close to 1/3 of the country’s GDP “the economy of Liechtenstein is – all in all – highly diversified and comparable those of larger European countries” (Kocher, 2002) The elites of Liechtenstein have always been aware of the importance of good reputation in financial services not just for the reputation and well-being their country’s manufacturing sector but also to the Principality’s overall standing in international affairs and global economy (Beattie, 2004, p. 300). They have understood that “a small country cannot shrug off as easily as a large one the damage done to its reputation by a financial scandal” (Beattie, 2004, p. 300).

Prominent Liechtensteiners have argued (perhaps not entirely convincingly) that the country’s financial centre’s aim is to cater to legitimate, but “conservative-minded clients averse to risk, who are concerned for safety and predictability” (Beattie, 2004, p. 300). Likewise, it’s been argued that the country’s financial sector’s success results from the Principality’s stability, predictability, international linkages, good reputation transparent fiscal system, lack of corruption as well as traditional commitment to privacy, and not solely from its low tax regime or from any efforts to harbour or actively attract criminal money (Beattie, 2004, p. 321; Paterson, 2008; Pfanner & Landler, 2008). While this may be true, it is also clear that the system has also also been used by the less legitimate actors and that the global perception of what constitutes legitimate banking activity in small jurisdictions has changed to Liechtenstein’s disfavour in the last decades (Beattie, 2004, pp. 300–321).

For much of the 20th century, Liechtenstein’s activities remained largely ignored by the bigger states, but the “allegorical” wars on crime, drugs and terror (Naylor, 2007) and the Global Financial Crisis of 2008 generated political pressure to take a firmer approach to offshore financial centres in general and “tax havens” located in diminutive states and sub-national jurisdictions in particular (Guthrie, 2009). As argued throughout this thesis, microstates (and other diminutive jurisdictions) can often succeed in safeguarding their prosperity and political distinctiveness.

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141 In 2008, the financial sector (including the so-called “discreet” financial services) accounted for close to 30% of the GDP and 14% of the employment (Paterson, 2008).
against all odds by virtue of their externally perceived insignificance. In this context, the increasingly hostile global attitude towards tax havens and growing portrayal of such microstates as Liechtenstein as “a shady and dirty location that attracts crooks and terrorists” presented a remarkable challenge not just to the Principality’s financial sector but to the country’s overall political and economic well-being (Hülße, 2009).

Not surprisingly, in response to increasing international demands for reforms and threats142 and in light of media scandals covering leaked financial data from the Principality, Liechtenstein agreed to implement required reforms (AMB, 2013; Kasper, 2013, p. 53; Sharman, 2016a) and decided to initiate “a professional image campaign” aimed at improving the country’s reputation (Stringer, 2013, p. 13). In general, it can be argued that Liechtenstein handled the crisis quite well: “not only was it able to end its bilateral conflict with the USA without its banks being the subject of criminal proceedings or massive penalties, it was also able to divert international attention to other offshore financial centres by making early and targeted concessions to the international community” (Eggenberger & Emmenegger, 2015, p. 494).

While some Liechtensteiners might have perceived the international demands as unfair or hypocritical, it was generally understood that as a tiny state, Liechtenstein had no choice but to comply and seek to improve its reputation. As noted by one of the interviewees:

Many of the Western European nations, perhaps with the exception of Germany, have their own tax havens. And they say they are willing to do something with tax havens, but of course at the back of their mind they know they themselves have their own jurisdictions. That is what the public in Switzerland is actually saying. They say that they shouldn’t negotiate with the UK as they have their own havens. Our strategy was [to privately admit] that while this perhaps was true, it didn’t matter. Everyone knows and nobody cares and that cannot be an official point or argument of a small state like Liechtenstein. We just have to deal with that. Full stop. We have no weight to press this argument. I mean, in the US it is the same. They are putting a lot of pressure on Switzerland and Liechtenstein. One bank, the oldest bank in Switzerland, even was smashed because of that whole attack. And yet, there are cities in the US where you don’t even have to put your name on the bank account and it is all tax free. But, they know quite well, that we cannot use this argument (Interview L1).

Liechtenstein’s small size once again appears to have played a role in shaping the country’s politico-economic decisions. In the case of Liechtenstein’s financial industry, the country’s smallness became “an asset” as it facilitated a relatively quick, “proactive” and effective response to the international pressure (Eggenberger & Emmenegger, 2015). As argued by researchers comparing the response of Switzerland and Liechtenstein to international criticism, the Principality handled the crisis in a more pragmatic and adaptable manner than its

142 Including the OECD’s threat to blacklist it or the United States’ threats to bankrupt the Principality’s largest banks (Eggenberger & Emmenegger, 2015, p. 494)
larger neighbour precisely because of its minuscule size. While the Swiss decision makers and the vast financial industry were "hopelessly divided over the question of how to confront the challenge" the "a more even distribution of the financial burden and the very close relationship between the financial services industry and the government allowed Liechtenstein to react swiftly and boldly" (Eggenberger & Emmenegger, 2015, p. 492).

**Liechtenstein’s Broader Economy**

While reforming the Principality’s financial sector might have reduced its size and importance (Sharman, 2016a, p. 7), unlike in the case of many other “offshore financial centres” The Principality’s economy is based on much more than its (fading) status of a tax haven. Liechtenstein has “a broadly diversified economic structure with significant emphasis on industrial production, with many Liechtenstein companies working in specialized, research intensive market niches, in which they are considered global market leaders” (Stringer, 2006, pp. 7–8). In addition to a number of smaller enterprises (which would seem to be of appropriate size for a microstate), the Principality hosts a number of large home-grown and foreign enterprises:

There are around 10 big players in our industrial sector. And if you take one of the biggest, e.g. Hilti, the screwdrivers’ producer, it was started by a local family. They still make a great portion of their products here and employ around 2000 people in their Liechtenstein factories. If you take other examples, like the ThyssenKrupp Presta plant, Liechtenstein entrepreneurs originally owned it, but it is now part of ThyssenKrupp from Germany. There are examples like Swarovski, which is the producer of crystals, they just started a production plant here. They found it was a good place to go with their production (Interview L1).

The success of the manufacturing sector in the Principality can, to a significant extent, be therefore attributed to the country’s smallness. The minuscule size of Liechtenstein’s economy and market, together with its openness to the Swiss market have meant not only that protectionism has never been seen as a viable option but also that local companies have always had to be internationally competitive in order to succeed (Stringer, 2006, p. 18; Young, 2010, p. 290). Since the very beginning nearly all of the local production has been meant for export to increasingly diverse markets (Beattie, 2004, p. 140). Arguably, the fact that local manufacturers have had to face fierce competition from an early stage of their development and that they have operated out of a country with scarce natural resources and labour, and under a government unable to provide them with any subsidies or assistance, have made them remarkably innovative and entrepreneurial (Beattie, 2004, p. 140; Stringer, 2006, p. 18). A local economist interviewed for this thesis explained that:

Well, if the labour cost were to be decisive we would have [failed] a long time ago. Also, for instance, the Swiss franc has been very strong recently and the Swiss exporters have been trying to lobby the central bank to take action. And yet, Liechtenstein companies were still doing quite well. In general, there is almost no company in Liechtenstein that would be doing a price strategy. I cannot even think of one. It is all about quality, so we are
not too vulnerable to price competition. In general, it is very hard to have a price strategy in a small country. There is no space for that (Interview L1).

The country’s smallness (both demographic and geographic) has also meant that entrepreneurs have never been able to rely on abundant manpower or land/natural resources. Despite substantial immigration and a high number of commuters the shortage of labour has been seen as a constant problem faced by the local entrepreneurs. In response to these challenges (and thanks to the availability of “a great deal of capital with low interest on borrowings”), “production automatically oriented itself toward capital-intensive processes which involved great investment in research and development” (D. Milne, 2000).

Moreover, Liechtenstein’s diminutive size has also had important cultural consequences. In a country the size of Liechtenstein, people are more careful about their personal reputation and place an emphasis on trust, honesty and predictability (Kasper, 2013). Consequently, Liechtenstein boasts an environment more conducive to peaceful cooperation than many of the large economies. Furthermore, it appears that in the case of Liechtenstein the economic openness and exposure to international competition might be mitigating the “divisive rent-seeking behaviour based upon family ties or clientelism” that are observed in small societies characterised by “close contacts between decision makers and constituents” without undermining the benefits of greater social cohesion (Armstrong & Read, 2003, p. 106). The cultural and political factors related to small size could be providing Liechtenstein with unique advantages within its broader economic sphere. As noted by one of the interviewees:

In general, people often list a great many reasons why companies invest here, but it is all a bit fuzzy. All the commonly listed factors (weather, culture, efficiency, etc) are also true for our neighbours. For some reasons, the industry has decided they would run a quality strategy and not a price one. It is difficult to tell if this would work for bigger countries. I mean, there are big countries that are less diversified than Liechtenstein. Perhaps it is a matter of political will. We are determined to follow this route. Perhaps this is the advantage of being a microstate. It is easier to pursue a coherent strategy and to be efficient and transparent (Interview L1).

**Economic challenges**

Since the end of the Second World War Liechtenstein has achieved a remarkable economic success. At the same time, the rapid economic development has raised concerns about the potential negative effects of growth and exposed some of the challenges facing Liechtenstein’s economy. Some scholars and observers suggest that the tiny size of the domestic market and the heavy reliance on exports mean that Liechtenstein’s economy is “highly vulnerable to changes and developments in the surrounding broader economic environment” (Schuessler et al., 2014, p. 143). In result, Liechtenstein has become home to both high-tech niche industries and to the more specialised, service and research-oriented branches of larger industrial enterprises. Over the last decades many of the local companies have established foreign branches for more labour and resource-intensive operations, but have retained their headquarters or research and development centres inside the Principality (D. Milne, 2000).
and that it might react to external shocks both more sensitively and earlier than larger economies (Brunhart, 2015). However, it is worth noting that the high level of sophistication of Liechtenstein’s manufacturing sectors makes its exports less likely to be affected by price fluctuations than it is the case with many other, often much larger, economies (Interview L1).

A more important source of vulnerability and potential challenges to Liechtenstein’s economic (as well as political) well-being is linked to geographic and environmental issues. The economic growth has turned Liechtenstein into an attractive destination for foreign workers who have significantly contributed towards the country’s prosperity. However, due to the country’s “small inhabitable area and the vital interest to maintain its own national identity”, the government has pursued “a very restrictive immigration policy” (Frommelt & Gstöhl, 2011, p. 37) which often clashes the needs of the local enterprises in need of skilled workers (Frommelt & Gstöhl, 2011, p. 38; Schuessler et al., 2014, p. 112).

So far the solution to the problem of skills’ shortages has been provided by the possibility of hiring trans-border commuters (Kasper, 2013, p. 51). As indicated earlier, trans-border commuters constitute now approximately half of the Principality’s workforce. The option of relying on foreign, but non-resident, workers has often been recognised as beneficial in light of the country’s limited space and resources with one of the interviewed experts observing that:

[Most workers] come to work here but live across the border. I always say it is quite a comfortable solution for Liechtenstein, because this way we do not have any negative social reactions but at the same time we get the workers. We have the full economic advantage of having these workers and yet we do not have the common and social economic disadvantages associated with immigration, such as providing them with any infrastructure, building houses for them (Interview L2).

At the same time, the situation also presents certain challenges. In addition to putting a strain on the country’s infrastructure and environment (Frommelt & Gstöhl, 2011, p. 38), the increasing number of commuters poses a challenge for the country’s finances. As noted by another expert interviewed for this thesis:

Many people come to work here from Switzerland so we are trying to impose a small tax on them as so many wages created here are not taxed here, so it is a big issue for us. But of course, all these municipalities across the Rhine would lose on this, so this won’t be changed (Interview L1).

More recently, Liechtenstein’s own citizens have started moving to the neighbouring countries and commuting to work back in the Principality (‘Bevölkerungswachstum in Liechtenstein – Siedlungsbrei und City-State’, 2012, ‘Landtagsprotokolle’, 2011, ‘Liechtensteiner ziehts über den Rhein’, 2012). In addition to posing challenges of a more political nature144, this phenomenon is also a sign of the wider issues related to land use and affordability in Liechtenstein.

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144 Only those with a permanent address within one of the Principality’s communes “have a right to vote and participate in the political life of their commune” (Brunhart & Dumieński, 2015, p. 12).
Prior to the post-war economic boom, much of the Principality’s economy was based on small-scale, unsophisticated agriculture that could only offer subsistence to a limited number of inhabitants. Those lacking sufficient access to land (either through its direct or collective ownership) often saw emigration as the only viable alternative to poverty or even starvation (Jansen, 1998; Stringer, 2006). As such “most of those who stayed in the country either owned the land on which they worked or co-owned it with other members of their communes via a system of village co-operatives” (Brunhart & Dumieński, 2015, p. 9), which meant that at the beginning of the 20th century land ownership in Liechtenstein was relatively widespread (Brunhart & Dumieński, 2015, pp. 9–10; Ospelt, 1974, pp. 147, 177–178). At the same time, the new economy became based on sophisticated manufacturing and services which required less physical space than agriculture (Merki, 2007b, p. 232). In the economic reality, even small plots of land became both productive and valuable. Due to the country’s small size (with no commune being far from the new opportunities), “the benefits of the rising land values came to most, if not all, families in the Principality” during the post-war boom (Brunhart & Dumieński, 2015, p. 10).

Despite some restrictions on land purchases by non-residents or for speculative purposes (Brunhart & Dumieński, 2015, p. 11; ‘Grundverkehrsgesetz vom 9. Dezember 1992’, 1993), the population growth, together lack of any substantial fiscal incentives for effective land use, have resulted in high rents and significant housing unaffordability with potential to generate poverty and “increase (…) and sharpen a social gap” (Frommelt & Gstöhl, 2011, p. 38). Furthermore, there are growing concerns about the unsustainability of the current tendencies in land use characterised by both “exhaustive (albeit usually not necessarily efficient) use of land in some, often sub-optimal, places and concurrent unproductive hoarding of highly valuable land in other locations” (Brunhart & Dumieński, 2015, pp. 11–12).

While many countries face the problems of unsustainable use of natural resources, urban sprawl and housing unaffordability, such land-related issues pose a particular challenge to microstates due to their obvious and often extreme geographic constraints. And indeed, the spatial issues have been identified by the Principality’s authorities as among the key problems facing Liechtenstein’s socio-economic well-being (‘Landtagsprotokolle’, 2011; Wytrzens, 1996, pp. 124–125). It has been noted that reforming the fiscal system so that it captures a higher proportion of the land values (in particular when they increase due to public investments in infrastructure or changes to zoning regulations) and introducing new rules on land use could potentially provide a meaningful solution (Broggi, 2006, pp. 23–25, 112; Brunhart & Dumieński, 2015; Walch, 2001, pp. 25–26; Wytrzens, 1996, p. 253). However, despite the rising awareness of the unsustainable nature of the current system, attempts to reform it have been met with obstacles and opposition. Much of the resistance to change has come primarily from the middle-class property owners supporting the reforms in principle but at the same time seeking exceptions for their personal property or

145 Either directly in the form of money obtained from sale/lease of land or indirectly in the form of the services financed from the leases of commune-owned land or the possibility of enjoying greater income and opportunities without having to face higher rents (Brunhart & Dumieński, 2015, p. 10).
commune\textsuperscript{146}, and larger lobby groups benefiting from the status quo (Brunhart & Dumieński, 2015, p. 15). In consequence, the questions of sustainable and equitable use of land and natural resources remain as some of the key challenges to the Principality’s economic well-being.

Liechtenstein has been able to turn its apparent demographic and geographic constraints into political and economic advantages, both at home and in its relations with other states. The above-identified issues do not negate the country’s economic success, but rather pose a question to what extent the Principality might be able to continue on the same trajectory. Throughout its history, Liechtenstein has demonstrated an impressive degree of adaptability to both external and internal challenges. The same degree of responsiveness will be required to manage the above challenges if the Principality is “to maintain its favourable lifestyle and wealth” (Schuessler et al., 2014, p. 13).

Summary

In sum, in recent decades Liechtenstein has been able to turn its seeming demographic and geographic constraints into political and economic advantages. Most importantly, due to a combination of its diminutive size and favourable historical circumstances, it has secured a close association with Switzerland. Throughout the post-war era the Principality has successfully managed this relationship to maximise its integration with the larger markets and to minimize the burdens associated with providing numerous public goods. At the same time, Liechtenstein’s leaders have used the advantages of small size to create an environment conducive of sustainable economic growth. In light of the above, it can be argued that Liechtenstein has pursued a passive model of protection management and its developmental outcomes can largely be classified as those of an “entrepreneurial microstate”, as proposed in Chapter 3.

Conclusion

The aim of this chapter has been to highlight and analyse the factors that have determined the politico-economic success of the microstate of Liechtenstein. As proposed in Chapter 2, microstates can be meaningfully conceptualised as diminutive sovereign states that unilaterally depute certain attributes of sovereignty to larger powers in exchange for benign protection. The real or perceived geographic and demographic limitations make microstates’ leaders determined to seek or accept external protection and institutional assistance even at the cost of losing some of their sovereign attributes. At the same time, the real or perceived geographic insignificance of microstates, coupled with certain historical, personal or strategic considerations, induces larger countries’ leaders to provide microstates with non-reciprocal, benign protection.

The case of Liechtenstein is an excellent example of this type of state and a good illustration of the mechanism behind the formation of micro-statehood. The Principality emerged as a distinct political entity in the most unusual circumstances

\textsuperscript{146} Another important factor fuelling opposition to reforming the status quo is the high cultural value attached to (preferably unconditional) land ownership in Liechtenstein that dates back to the times when agriculture was the main source of income for the vast majority of Liechtensteiners (Wytrzens, 1996, pp. 10–12).
when its remoteness, lack of economic importance and disproportionate to its size status within the Holy Roman Empire made it both affordable and politically desirable for the Austria-based House of Liechtenstein. This powerful family assumed the role of protectors of the country’s independence and economic viability not because of their desire to exploit its (largely non-existent) resources, but to advance their own political goals within the wider German-speaking world. The House of Liechtenstein also played the key role in bringing the country closer to powerful Austria. Austria recognised the Principality as a sovereign state with which it formed a treaty relationship that can be accurately described as a good example of benign protection described in Chapter 3. The close, but voluntary relationship between Liechtenstein and Austria was instrumental in ending Liechtenstein’s economic and physical isolation and laid foundations for the country’s future politico-economic development. While the association proved very costly to Liechtenstein during the First World War, the fact the Principality did not constitute an integral part of its protector and that its sovereignty was reaffirmed by the victories powers allowed it to avoid sharing Austria’s post-war fate. It also permitted Liechtenstein to reorient its foreign policy and successfully seek closer links with Switzerland. As demonstrated in the second part of the chapter, just like the previous relationship with Austria, the association with Switzerland was seen as both necessary and possible due to the Principality’s geographic and demographic constraints. Similarly, it has been firmly based on the mutual recognition of Liechtenstein’s sovereignty.

Throughout the last decades, the Principality has beneficially managed its relationship with Switzerland characterised by a largely passive model of benign protection. Unlike the microstates discussed in the next chapters, Liechtenstein has received little direct financial support from its partner. Instead, it has used its treaty association to outsource the provision of certain key public goods and administrative functions to Switzerland and to benefit from Switzerland’s reputation and access to wider markets. While Switzerland has remained one the Principality’s most important economic partners, Liechtenstein’s companies export their products to many other countries.

Liechtenstein’s economic development has benefited from the peculiar advantages offered by the country’s perceived lack of resources or geopolitical importance. On the one hand, in addition to being able to “commercialise” its sovereignty and make substantial per capita gains from activities that would rarely appear as particularly attractive to larger states, the Principality has succeeded in turning its smallness into an advantage in the country’s interactions with various other foreign actors (e.g. the European Union). On the other hand, the country’s smallness, lack of direct financial assistance or lucrative natural resources has made it imperative (and also perhaps possible) to consistently pursue innovative policies aimed at attracting and retaining productive enterprises. Importantly, the country’s lack of ability to pursue protectionist policies, exposure to direct completion from much larger economies and a tiny local market have made Liechtenstein companies remarkably competitive and innovative.

In result of the above factors, while not without facing some challenges, Liechtenstein enjoys greater economic security and prosperity than at any other
time in its long history. The Principality’s economic development has not just raised the local standard of living but also increased the country’s political strength by providing it with a greater material capacity to act in the international arena.

It can be therefore concluded that far from eroding the Principality’s sovereignty, association with Switzerland has provided appropriate conditions for not just safeguarding Liechtenstein’s politico-economic viability but also for substantial economic development and the increasingly independent role in international institutions and affairs (as demonstrated by the country’s membership in the EEA). The case of Liechtenstein and its model of association with Switzerland therefore suggest that micro-statehood and benign protection can provide a meaningful strategy for political survival and economic development of very small states. As such, it poses a challenge to the arguments postulating that full sovereignty must inevitably come at the price of politico-economic insecurity.

Undoubtedly, the economic success, politico-economic stability and security of various sub-national jurisdictions “remaining comfortably lodged within the purview of a larger, richer, metropolitan state[s]” (Baldacchino & Hepburn, 2012) can be seen by the leaders of diminutive communities as a strong argument against pursuing full sovereignty. The option of meaningful autonomy within a larger state might seem particularly attractive not just because of the difficulties associated with obtaining statehood (Österud, 1997), but even more so in light of apparent problems faced by numerous new, small states (Baldacchino, 2006a; Baldacchino & Hepburn, 2012) and the fact metropolitan states tend to permit their small autonomies to “safeguard national identity, local culture and the general exercise of power” (Baldacchino & Milne, 2008, p. 4).

However, the example of Liechtenstein suggests that sovereign statehood and close political affiliation or even unidirectional support and protection do not need to be mutually exclusive. It is also a reminder that full sovereignty offers a high degree of flexibility when it comes to both domestic and foreign policy. This is especially true for tiny states whose size, as argued in Chapter 2 and demonstrated in this Chapter, generates both a strong incentive and favourable conditions for establishing creative and unique international arrangements. As argued in this chapter, such arrangements can offer the benefits akin to those enjoyed by some of the most successful sub-national jurisdictions without the loss of sovereignty and the benefits that it offers both for domestic policy and, perhaps even more importantly, for relations with other states.

This chapter has demonstrated that benign protection can safeguard a microstate’s political survival as a sovereign state despite the delegation of attributes of sovereignty from the microstate to the protecting power. It has also demonstrated the mechanism behind the formation of benign protection which was confirmed to be heavily dependent on the real. Finally, it has demonstrated that the adoption of the management of benign protection, together with successful utilisation of advantages of small size can result in high levels of economic development and strengthening of the microstates’ political position in global affairs. The next chapter will examine whether the same holds true for two Pacific microstates.
Chapter 5: The Cook Islands and Niue

Figure 2. The Cook Islands’ location and map (‘CIA World Fact Book’, 2016)

Photograph 2. The Cook Islands’ Ministry of Justice (source: author’s collection)
Figure 3. Niue’s location and map (‘CIA World Fact Book’, 2016)

Photograph 3. The port of Alofi in Niue (source: author’s collection)
Introduction

The previous chapter looked at Liechtenstein, a land-locked microstate with a long history of active, even if relatively modest, participation in international affairs. This chapter examines the Cook Islands and Niue - two island microstates located at the opposite side of the globe that both have a shorter and even less conspicuous record of relations with other states. The two microstates differ from Liechtenstein not just because of their location in the middle of the Pacific Ocean, or their level of experience in international diplomacy but also with regard to their culture, institutions, history, and unique environmental opportunities as well as challenges. However, despite these differences, the Pacific microstates are similar to Liechtenstein when it comes to a number of variables of importance to this research project.

Similarly to the Principality both the Cook Islands and Niue are very small polities that face severe geographic and demographic constraints and that just do not possess strategically significant resources or location. As such, they can be seen as both small and geopolitically insignificant. Furthermore, not unlike Liechtenstein, the Pacific microstates have both formed a close, treaty association with a larger state (New Zealand) aimed at safeguarding their politico-economic viability against the challenges presented by their small size. The relationship between New Zealand and either of these two states fits into the definition of benign protection discussed in Chapter 2. As this chapter demonstrates, the agreements between New Zealand and its former colonies are consensual in character, assume a respect for the independence/sovereignty of the microstates, and can be characterised by the largely unconditional protection and assistance offered by New Zealand to its smaller partners, as well as delegation of certain attributes of sovereignty from the microstates to their larger partner.

The two island-microstates have based much of their efforts to achieve higher levels of prosperity on the successful use and management of their respective relationship with New Zealand. While the chapter below demonstrates the problematic nature of the Pacific microstates’ management of benign protection for the purpose of achieving politico-economic benefits, it can nonetheless be argued that the maintenance of these special arrangements has been instrumental to the attainment of relatively high levels of prosperity and security in both microstates.

While the previous chapter examined two distinct relations established by the Principality of Liechtenstein with two different larger states at different moments in time, this chapter looks at two distinct microstates establishing associations with the same larger state. The previous chapter’s analysis of two distinct arrangements involving the same microstate offered valuable insights into nature of microstates’ interactions with other actors in the international arena. In particular, the case of Liechtenstein offered a unique opportunity to examine two instances of benign protection formation, as well as one instance of the dissolution of protected statehood. Neither the Cook Islands nor Niue went through the process of establishing more than one “unequal alliance” with a larger state. Likewise, neither of them has undergone the process of completely dissolving its
existing arrangement with New Zealand in order to either cease to exist a modern protected state, or to potentially find another partner.

However, the case of the Cook Islands’ and Niue’s respective arrangements with New Zealand, in addition to offering an important possibility of comparison to the case of Liechtenstein and its relationships with larger states, presents its own, unique analytical advantages. The fact that both of these microstates have become associated with the same larger state offers a particularly good opportunity to explore how specific characteristics and policies of microstates affect the process of establishing, maintaining and managing benign protection. Furthermore, both of these Pacific microstates are former colonies, which means that the analysis of their post-independence politico-economic well-being within the context of benign protection can offer important lessons to non-sovereign diminutive polities pursuing independence and/or considering various scenarios for post-independence relations with larger powers.

This chapter will demonstrate that smallness and geopolitical insignificance of the both the Cook Islands and Niue played the key role in the establishment and continuous maintenance of their status as New Zealand’s modern protected state. The geo-demographic factors explain both the reluctance of the islanders to pursue non-protected statehood and New Zealand’s willingness to act as the islands’ benign protector. At the same time, it will be argued that the colonial history of the islands, the fact that they formed their special arrangement on the foundations of the already formed politico-economic linkages can, together with the microstates’ domestic policies, largely explain their adopted model of benign protection management and its politico-economic consequences. Specifically, this chapter proposes that that unlike Liechtenstein, the Pacific microstates have to a significant degree been using their relationship with New Zealand to pursue a strategy of “in-sourcing” the provision of various administrative and government functions and services that requires direct financial assistance from the protecting power and other international actors. While benign protection has been the key factor responsible for the economic development and increasingly high per capita standard of living on the islands, this passive model of protection management, together with protectionist domestic policies has entrenched a high degree of politico-economic dependence and potentially produced worse politico-economic outcomes that could be achieved through an alternative model of protection management.

The arguments presented in this chapter are based on the data obtained through desk research and field research in both the Cook Islands and Niue conducted in late 2013 and early 2014. The body of literature dedicated to the study of the two island microstates has proven to be relatively smaller than in the case of Liechtenstein\(^\text{147}\), which led to the greater reliance on fieldwork to gather data and

\(^\text{147}\) This might be at least partially due to the fact that unlike Liechtenstein, neither the Cook Islands nor Niue has a dedicated research institution (such as the Liechtenstein Institute) with resources to fund research and regular publications of scholarly texts on the country’s history, politics, economy and society. Likewise, the media sector is much smaller and younger in the Cook Islands and Niue, which means that most news stories covering the events on the islands are produced by foreign (mainly New Zealand) media organisation, which strengthens the rationale for gathering data from local respondents.
formulate analysis. The field research involved conducting numerous semi-structured interviews with local respondents with a particular knowledge and expertise on their respective microstates’ history, politics, economic situation, and relations with New Zealand and other states. The individuals interviewed included government representatives, diplomats, lawyers, local businessmen, scholars and researchers. The quotes from the interviewees are used to emphasise or illustrate this chapter’s more general arguments as well as to provide additional details and answers to the key questions related to the Cook Islands’ and Niue’s microstatehood and economic development. In accordance with the University of Auckland’s Ethics Committee recommendations, the names of the interviewees are not disclosed. The accuracy of the information provided by the interviewees has been triangulated with evidence drawn from public records, newspaper articles and scholarly publications.

While the chapter looks at both the Cook Islands and Niue, the analysis is strongly focused on the Cook Islands. This choice is dictated by several considerations. Most importantly, it is because throughout the late 19th and the 20th century Niue followed (or was forced to follow) the arrangements worked out for or with the Cook Islands, both when it came to colonial administration and the formation of benign protection with New Zealand. As such, an overview of New Zealand’s position towards the Cook Islands, as well as a detailed analysis of the Cook Islands’ development as a modern protected state are in many respects applicable to Niue. Furthermore, the Cook Islands has a longer and arguably more complex history of functioning as a modern protected state and active participation in the international affairs and global political economy which requires a lengthier analysis. In the context of the above, the experience of Niue will be primarily presented for the purpose of comparing and contrasting it with the case of the Cook Islands.

The chapter begins by offering a brief overview of the Cook Islands’ geographic, demographic, political situation, followed by an account of the country’s history with a strong emphasis on the formation and the existence of the Cook Islands as a distinct political unit (including their peculiar position within New Zealand) and the period during which it emerged as sovereign microstate. While the chapter offers an overview of the key domestic political developments in the Cook Islands, it remains focused on the international dimension of the polity’s formation and existence in different forms. In particular, the chapter looks at the issue of the wider recognition of its sovereignty following the establishment of its statehood in free association with New Zealand. It then proceeds to examine the dynamics of the association with New Zealand with a strong emphasis on both the factors that have facilitated the establishment and maintenance of the special relationship between the Cook Islands and New Zealand, and the impact of benign protection on the politico-economic well-being of the former. Following the analysis of the Cook Islands a briefer overview of the case of Niue (including its geographic, political and economic situation) is offered, with a strong emphasis on comparing its experience with that of the Cook Islands. Throughout the chapter the examples from Cook Islands and Niue are also compared to the relevant phenomena and developments observed in the previous chapter.
The Cook Islands
Geography and Population
Location and Territory
Just like Liechtenstein, the Cook Islands were named after a foreigner, Captain James Cook, who sighted and visited some of the islands during his voyages across the Pacific (Webb, 2016). The country’s territory comprises 15 small islands spread across over 2 million square kilometres of the Pacific Ocean. The Cook Islands are located south of Kiribati, west of French Polynesia and east of Niue, Tonga and Samoa. The country’s capital of Avarua lies about 3000 kilometres north-east of Auckland and approximately 7500 kilometres south-west of Los Angeles.

The islands belong to two geographically distinct groups: The Northern Group consisting of sparsely populated coral atolls, and the much larger and more densely populated Southern Group of eight islands. The distance between the two groups is truly enormous. For instance, Avarua is located over 1350 kilometres away from the northernmost island of Penrhyn. This is the roughly the same distance as between Liechtenstein and Norway. The dispersal of this microstate’s tiny islands across the ocean gives it a certain macro dimension. While the total land area of the Cook Islands is approximately 240 square kilometres (i.e. roughly one third larger than that of Liechtenstein’s), thanks to the principles prescribed by the United Nations Convention on the Law of the Sea according to which states have special rights regarding the use and exploitation of marine resources within 200 nautical miles of their coastline, the country claims a vast maritime Exclusive Economic Zone (EEZ) of approximately 2 million square kilometres, i.e. comparable in size to Mexico or Greenland (A. L. Clark, Li, Icay, Morgan, & Igarashi, 1995; Hein et al., 2015).

The Cook Islands’ massive maritime area is a source of both challenges and opportunities. The ocean can be seen as a potential source of valuable living and non-living resources. In particular, over the last decades it has been discovered that the Cook Islands’ EEZ possesses significant amounts of mineral deposits "with nodules containing concentrations of cobalt, nickel, manganese, and other

148 Interestingly, James Cook himself called the sighted southern group islands "Hervey Islands". The name "Cook Islands" was first used by a Russian cartographer John von Krusenstern in the early 1830s (Sissons, 1999). In the early 1990s an initiative was launched to change the country’s name to "Avaiki i Nui". Despite the Prime Minister’s support, the proposal was rejected in a 1994 referendum with 69.8% Cook Islanders voting to retain "Cook Islands" (Webb, 2016). Respondents interviewed for this project speculated that the reluctance to change the country’s name might be linked, among other factors, to the concerns about the impact that such change might have on the country’s tourism market/international recognition, as well as the tragic crash of the short-lived Avaiki Airline in 1991 (M. Scott, 1991).
149 Prior to European colonisation/administration the two groups had never functioned as a single political unit (Smith, 2010, p. 175). The act of grouping the 15 islands under the single banner of “the Cook Islands” did not just result in arbitrarily banding together rather diverse island communities but also led to breaking some of the traditional links with other islands (e.g. part of the Austral group in French Polynesia) “that could possibly have been considered an integral part of one or more of the existing islands” within the modern Cook Islands (Jonassen, 2011).
150 Interestingly, Greenland’s massive land mass, harsh environment, relative isolation and tiny population have also led some scholars to perceive and analyse this large island-polity as a small or even micro political unit (Armstrong & Read, 2000; Becker, 2012; Bertram, 2004), with one academic calling it a “microstate with a hinterland” and a “micro-giant” (Nielsen, 2001).
valuable non-living marine resources” (A. L. Clark et al., 1995). A potential successful exploitation of these resources could earn the country “billions of dollars” (Neate, 2013) and as such it might one day lead to a significant politico-economic transformation of the Cook Islands, including changes to its form of statehood and association with New Zealand. However, despite encouraging reports and studies (Cardno, 2016; A. L. Clark et al., 1995; Hein et al., 2015), as of 2016 the Cook Islands is yet to derive any substantial benefits from seabed mining and the plans to exploit these resources are thwarted by high costs, potential risks, relatively small interest among potential investors (‘Cooks to take more direct approach to seabed mining’, 2016) and various environmental concerns (Samoglou, 2014; Smylie, 2014).

At the same time, the tremendous distance between the sparsely populated islands and the sheer size of the marine area under the Cook Islands’ jurisdictions pose such challenges as: significant cost of policing and surveillance of the EEZ, high transportation costs, economic isolation (particularly affecting the northern group islands), and logistical and financial difficulties associated with providing public services across the country (Asian Development Bank, 2008; Duval & Winchester, 2011; Fairbairn & Pearson, 1987; Hoffmann-Dumieński, 2016). The large size of the maritime area, especially in the context of small population size, can, perhaps paradoxically, be therefore be seen as a geographic constraint and source of geopolitical vulnerabilities. As such it also demonstrates the complex nature “smallness” in international politics and reinforces the arguments put forward in Chapter 2 regarding the need for a departure from relying solely on arbitrary quantitative thresholds for the purpose of identifying and analysing polities affected by geographic and demographic limitations.

The Cook Islands’ location also makes the country vulnerable to a number of natural hazards, most notably devastating tropical cyclones (Asian Development Bank, 2008; Cook Islands Government, 2015a; I. P. Ingram, 2004). The scarcely populated Northern Group islands are more exposed to this threat, but the Southern Group islands are also at risk. During the particularly bad 2005 cyclone season the southern group experienced five cyclones that caused considerable damage (Asian Development Bank, 2008, p. 31). Other potential hazards include rising sea levels (most notably in the case of flat and low-lying northern group islands), climate change, and environmental degradation of the key tourist spots (Reti, 2008; Syme-Buchanan, 2015).

Apart from the seabed mineral deposits, the Cook Islands’ key natural resources are limited to marine resources (fish and pearls), small areas with fertile land, as well as attractive beaches and lagoons, which, together with warm climate, create favourable conditions for developing a viable tourism industry, especially on the southern group islands of Rarotonga and Aitutaki (Cook Islands Government, 2015a).

Mountainous southern group island of Rarotonga is the country’s largest (67 square kilometres or 28.3% of the country’s land mass) and most populous (approximately 75% of the population) island (Cook Islands Government, 2015a). The Cook Islands’ small capital, as well as the vast majority of businesses, jobs and infrastructure are located on this island (Crocombe, Tongia, & Araitia, 2008)
known for its “remarkable physical beauty”, moderate tropical climate, sharp volcanic peaks, high quality (albeit small in size) farming land (Gilson, 1980). Not surprisingly, Rarotonga is not only the country’s primary settlement and tourist centre but also the most important transportation hub entry point for most foreign visitors and trade. Due to the above factors, most of the research undertaken for this chapter has taken place and focused on Rarotonga.

The Cook Islands’ main airport on Rarotonga provides direct connections to New Zealand (Auckland), French Polynesia (Tahiti), the United States (Los Angeles) and Australia (Sydney), as well as the other islands of the Cook Islands. The main road infrastructure (almost 300 km of roads of which 70% sealed) on Rarotonga is acceptable and sufficient as the island is only 32 km in circumference (Asian Development Bank, 2008; Cook Islands Government, 2015a). The country relies heavily on maritime transport for imports and exports, mainly to support its tourism sector. The Cook Islands’ key port and harbour on Rarotonga have been recently rehabilitated and upgraded to acceptable international maritime safety standard, which makes maritime transport into the main island relatively reliable, albeit certainly costly.

Both maritime and general infrastructure on the outer islands (especially in the Northern Group) remains very basic, with the notable exception of Aitutaki which attracts a significant number of tourists. Most of the outer islands lack sealed roads, but their unsealed roads provide reasonably easy access to most locations (Asian Development Bank, 2008). The provision of affordable and reliable power (historically a significant challenge to the country’s development) has improved in the recent years with a much greater reliance on renewable energy rather than imported diesel fuel. The Cook Islands is on course towards becoming powered entirely by renewable energy sources by 2020 (‘Cook Islands wants to be 100 percent powered by renewable energy by 2020’, 2013). The affordability and reliability of the internet connection on Rarotonga remain problematic but are likely to dramatically improve by 2019 with the completion of a new submarine cable system connecting the Cook Islands to Samoa and New Zealand with Hawaii.

The water infrastructure on Rarotonga is acceptable (albeit not without problems related to pollution caused by tourism grown) (Asian Development Bank, 2008, p. 156) and likely to significantly improve shortly with the completion of the Te Mato Vai Water Partnership project (Cook Islands Government, 2015a). The key infrastructure on the outer islands, especially in the Northern Group, is likely to remain significantly less developed than on Rarotonga.

Population
According to the 2011 census\(^1\), the Cook Islands has a total population of 17,794 out of which 2,282 were short term visitors (mainly tourists) (Ministry of Finance and Economic Management, 2013). Therefore, while the census data remains the best source of information about the current size of population (and provides a sufficiently accurate overview for the purpose of this project), significant fluctuations in numbers are possible on an annual or seasonal basis.

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\(^1\) It should be noted that the country’s association with New Zealand (most notably the fact that Cook Islanders are New Zealand citizens and as such can and do freely move between the two countries), and the relatively large numbers of short-term visitors (primarily tourist) make it “extremely difficult to keep track of the current size of the resident population” (Ministry of Finance and Economic Management, 2013). Therefore, while the census data remains the best source of information about the current size of population (and provides a sufficiently accurate overview for the purpose of this project), significant fluctuations in numbers are possible on an annual or seasonal basis.
and Economic Management, 2013). The Cook Islands, therefore, has a smaller population than Liechtenstein and the second smallest population size out of all microstates identified in Chapter 2.\footnote{At the same time, it is important to note that there are many more (by various estimates between 50,000 and 100,000) people of Cook Islands decent living overseas, (mainly in New Zealand and, to a lesser extent, in Australia) (Crocombe et al., 2008; Webb, 2016). The importance of the Cook Islands’ diaspora should not be underestimated as the overseas Cook Islanders retain not just cultural or family ties to their homeland but also strong politico-economic links that are less likely to become extinguished as generations pass than it is the case with many other diaspora communities (Bertram & Watters, 1984b, p. 131). This is primarily because of the country’s land tenure system. The native land of the country cannot be bought, sold or gifted, unless it is required the government for public purposes. At the same time, each Cook Islander, regardless of where they live, inherits “an equal share in all the lands of both parents, all four grandparents, all eight great-grandparents and so on” (Crocombe et al., 2008, pp. 157–158). In practical terms, it means that 2\textsuperscript{nd} or 3\textsuperscript{rd} generation Cook Islanders living in Auckland, Sydney or London continue to partially own plots of land back on the islands. While for many overseas Cook Islanders their ownership rights might have a largely symbolic importance, those with shares in the most desirable land in the touristic areas of Rarotonga and Aitutaki might be interested in actively or passively sharing the benefits of the growing tourism sector (Bertram, 2016, p. 20). The impact of the land tenure system on the Cook Islands’ economy are be explored further in the other sections of this chapter.}

The total population inside the country peaked at 21,322 in 1971 and has generally been in decline, especially when it comes to the number of residents (Cook Islands Government, 2015a; Ministry of Finance and Economic Management, 2013), largely due to emigration (Bertram & Watters, 1984b, p. 131; Crocombe et al., 2008), with a notable acceleration of the rate of emigration since 1996 following the economic reforms leading to reduced public sector employment. Over the same period, the total population of Rarotonga increased by 14\%, mainly due to internal immigration from the outer islands, as well as increasing numbers of tourists (ibid.). The outer islands (except touristy Aitutaki), have experienced a significant decline in population size.

The situation might appear to be particularly dramatic in the northern group. According to the 2011 census the entire northern group of islands had just over 1,100 people (Cook Islands Government, 2015a). The combination of depopulation, extremely small land area and remoteness of the northern group islands has been an ongoing concern for the Cook Islands’ government and public commentators. According to one of the officials interviewed for this project:

\begin{quote}
[O]ur outer islands are almost depopulated and have no opportunities for growth. (...) It seems to me that on some of our islands we have reached a critical mass of having so few people that no proper functioning, not to mention prosperity, is possible without an almost complete state support. You cannot sustain a society or an economy offering even basic modern standard of living (including such services as health care or education) with 50 people living on a remote island. In the past, we had this kind of informal socio-economic structure. People would be protected by their families, they would cooperate and live simple, but rather secure lives. Today we have the breakdown of the family structures with young people migrating in big numbers to both Rarotonga and to New Zealand, so we have tiny islands in the middle of nowhere with little left of the sort of informal, family based socio-economic structures and yet with relatively high expectations when it
\end{quote}
comes to having access to such things as health care and certain consumer goods, etc. (…) At the moment most of our economy is centred on Rarotonga and Aitutaki and the outer islands are basically dying societies. (Interview CI3).

Another respondent partially disagreed with the above view. In his opinion, while the challenges posed by depopulation and remoteness are real, the perception of the problem and related policies might be overly pessimistic:

The [economic development] blueprints that were imported here, were brought from large, industrial economies and they just said: ‘well, this worked for us so this is what you have to do’. And then for the people that bring these models copied from large Western states, everything seems so hard. They say: ‘Oh my God, how can you survive here, you are so remote, so small, too small to be viable!’ We get these kinds of strange perceptions often. People seem to be shocked that anyone is still alive here and I think they largely underestimate the capacity and creativity of the local people. But this attitude has to some extent been replicated by local elites. I think this is changing, but it is changing slowly.

(…) I am always surprised how little credit is given to the people here. We have islands with just a few hundred people that have lived there for centuries so obviously they are very, very adaptive. And yet they are perceived as helpless, even by our own people on the capital island of Rarotonga (Interview CI7).

Another local expert expressed an even more critical opinion according to whom the narrative focusing on the outer islands’ seemingly extreme challenges posed by depopulation, remoteness and/or natural phenomena might be of convenience to political elites on Rarotonga:

[A] problem with this ruling class is that they have an interest in making sure the Cook Islands doesn’t become too developed, at least in official rankings. If the Cook Islands were to be classed as a developed place then a lot of the aid would be gone. Fortunately they have the Outer Islands which remain very poor, at least from the statistical point of view. And Rarotonga gets its legitimacy from representing these seemingly poor islands. (…) I was actually telling the people here that we should allow the outer islands to work directly with aid donors, to be more independent. But the local elites wouldn’t have it as their jobs and lifestyles depend on their status as the managers of aid. Their positions would be directly undercut. It is amazing how people act in a gut way when their positions are threatened. Legally there is nothing to stop [the outer islands from approaching] directly foreign donors. But the central government would never want to allow this (Interview CI10).

The view that the outer islands might be at least partially hampered by their political status within the Cook Islands was echoed by another interviewee (working as a government official):
The Northern Group faces a lot of geographic, social and economic challenges. I think one solution for the Northern Group islands would be to trade and cooperate more with French Polynesia, American Samoa, etc., but at the moment it’s difficult due to the customs etc. Instead of trading directly with Tahiti (two days sail), they have to go through Rarotonga which is five days away sail. So, one problem for the Northern Group is that their natural economic opportunities are limited by the political boundaries (Interview CI1).

In a way then, despite the minuscule size of its resident population and landmass, the Cook Islands are not free from debates regarding the effects of their political structure on the politico-economic well-being of their various sub-national communities\textsuperscript{153}154.

**Political System**

Despite the significant cultural and geographic differences between the two countries, as well as over half of century of independence, “the systems of government in the Cook Islands still closely resemble the executive, legislative and judicial systems of New Zealand” (Webb, 2016). The specific institutional links between the two states are examined in the other sections of this chapter, but at this point, it is relevant to note that as per 1965 Constitution, the Cook Islands share a monarch with New Zealand with the Queen of New Zealand being also the Cook Islands’ head of state. Similarly to New Zealand, the Cook Islands “appoint a queen’s representative, by recommendation of the prime minister of the Cook Islands” (Webb, 2016).

The country can be best described as a constitutional monarchy with a parliamentary democracy largely modelled after New Zealand but also containing some traditional institutions and elements. In particular, the Cook Islands Constitution establishes the *House of Ariki* “comprising up to 14 Ariki (chiefs) appointed by the Queen’s representative (on advice from the prime minister)” (Webb, 2016) as an institution tasked with providing occasional advice and consultation to the Parliament (T. Ingram & Uhrle, 2004, p. 22). The 24 members\textsuperscript{155} of the Parliament are elected for 4-year terms\textsuperscript{156} by the “first-past-the-post” single vote electoral system based a system (Clarke, 1979; Jonassen, 2011). The Prime Minister heads the country’s government. The electoral system

\textsuperscript{153} Interestingly, unlike the constitution of the small and “compressed” Liechtenstein, the Cook Islands’ political system does not provide clear options for sub-national regions to pursue secession or change of their status within the country.

\textsuperscript{154} The Cook Islands as a whole have often been prevented from establishing closer logistical and economic (not to mention political) links to French Polynesia/Tahiti due to their colonisation by New Zealand. For instance, the early 20\textsuperscript{th} century French offer to connect Rarotonga to the wider telegraph network via Papeete (Tahiti) was rejected as “inadvisable” due to New Zealand’s official’s desire to make the Cook Islands a part of “the all-red route, the linking red patches on the map that depicted the British girdling of the globe” (D. Scott, 1991, pp. 116–117)

\textsuperscript{155} The original number was set at 22 in 1965. In 1981 the number was increased to 25 (with one seat reserved for the overseas Cook Islanders) and in 2003 it was reduced to 24 (with the removal of the overseas constituency) (Webb, 2016).

\textsuperscript{156} Just like the number of members of the Parliament, the length of the term has undergone some modifications: “The original three-year parliamentary term (as in New Zealand) was increased to four years in 1969 and five years (as in the UK) in 1981, until being brought back to four years in 2004” (Webb, 2016).
contains certain traditional elements with constituencies’ boundaries drafted along the traditional land divisions and in result “made up of people who are related by blood and land resources” (T. Ingram & Uhrle, 2004, p. 15). The practical consequence of this system is that voters might feel “feel compelled to vote for candidates who are their relatives to promote harmony with their neighbours, which comprises the concept of democracy and free choice” (T. Ingram & Uhrle, 2004, p. 15).

In general, it has been noted that “tribalism, religion, political party affiliation and, more recently, gender have become underlying sources of divergence in Cook Islands politics” (Jonassen, 2011). While the country has had a number of political parties since its independence (with the two main parties being the Cook Islands Party founded in 1965 by Albert Henry and the Democratic Party established in 1978 by Sir Thomas Davis), just like in the case of Liechtenstein (Veenendaal, 2014), there are no substantial ideological differences between the main parties and party support appears to be based primarily on family, religious and personal connections of specific candidates and leaders.

Partially due to the above features but also due to other factors (such as the country’s small size, legacy of colonialism and the impact of foreign aid) patronage and nepotism are seen as some of the biggest problems affecting the Cook Islands’ political system (Asian Development Bank, 2008; Crocombe, 1978, 1979a; I. P. Ingram, 2004). Numerous experts and officials interviewed for this project expressed agreement with this view.

Furthermore, the political system of the Cook Islands is affected by a high degree of voters’ apathy towards both the politicians and the political system (Jonassen, 2011, 2013). Many voters appear to be disillusioned by frequent scandals and political reshuffles, and a general perception of corruption (Jonassen, 2011). However, it is important to understand that the “thick crust of apathy” (Strickland, 1979) is likely the result of broader, more systemic factors rooted in the colonial history of the country. As discussed by Ron Crocombe (Crocombe, 1979a) the three key forces that shaped the post-independence political life of the Cook Islands were:

1. The colonial administration’s decision to abolish the Cook Islands Parliament and to deny ordinary Cook Islanders any voice in their domestic politics or any meaningful experience in their government.

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157 As there is no “Cook Islands citizenship”, everyone who has legally (which is determined by the Cook Islands’ government) resided in the Cook Islands for at least 12 months is allowed to vote (Webb, 2016).

158 While it is true that the lack of political anonymity resulting from the microstates’ small size might deter their citizens from voicing their opinion in public debates on some of the most sensitive issues (Veenendaal, 2014, p. 9), smallness is generally seen as a factor encouraging political participation, or at the very least a strong interest in politics (Veenendaal, 2013b, p. 214, 2014).

159 In addition to frequent (and unpopular) switches of political parties by specific MPs (Jonassen, 2011), the political system is characterised by conflicts between the parties leading to a considerable a degree of political chaos, as was the case on the 20th of June 2016 when the opposition used what they considered a convenient procedural error by the Speaker of parliament to unsuccessfully attempt to replace the Prime Minister Henry Puna (Kumar, 2016).

160 In a recent case (July 2016) a prominent Member of the Parliament and former Minister of the Crown, Teina Bishop was found guilty of corruption.
2. The dismantling of the traditional leadership system. While the system itself had an authoritarian character, it was nonetheless replaced by another form of authoritarianism exercised by the colonial government.

3. Reduction of the opportunities for higher education. The colonial administration largely eliminated higher education opportunities available to the Cook Islanders. In particular, the key institution of learning (the Tereora College established by the missionaries) was closed down in 1911. During much of the colonial period ordinary Cook Islanders were discouraged from studying and only a small number of them managed to obtain education at Maori Colleges in New Zealand or at the medical training facilities in Fiji.

These factors resulted “in a population of the Cook Islands that was passive, dependent, lacking in confidence and experience, and very easy to manage” (Crocombe, 1979a). Importantly, some of the above elements, in addition to new ones, have continued to affect the political life of the Cook Islands despite 50 years of independence. In particular, the increase in the amount of aid (which allowed the new government to consolidate power and largely reduce opposition to its rule); lack of any established, domestic political institution; depopulation (with a high percentage of migrants being young and innovative and/or dissatisfied with the state of the political system) have contributed towards sustaining the high degree of political apathy (Crocombe, 1978, 1979a).

The colonial influences on the design of the Cook Islands’ key institutions and policies are rather clear (and are discussed below). However, it is important to also highlight the less tangible or formal, but equally important, effects that the colonial period has had on the ways in which the Cook Islands’ society approaches and perceives political issues. A detailed examination of such sociological, psychological and cultural effects of colonialism in the Cook Islands and other Pacific islands is beyond the scope of this thesis, but it is nonetheless worth highlighting at least some of these influences that might be of relevance to the focus of this chapter.

While noting that the colonial administration of the Cook Islands had a relatively benign character (at least in comparison with the experience of many other parts of the world) one of the experts interviewed for this thesis argued that the effects of colonialism on the public attitudes to various ideas and institutions remain significant. In his view, the country’s colonial history can explain why the Cook Islanders (in his view) often exhibit a rather uncritical approach to foreign (mainly New Zealand’s) institutions and ideas, and at the same time remain sceptical of their own ideas and ability to create viable institutions:

You see, [many Cook Islanders have had] this colonial mentality since independence. It doesn’t seem to be improving. What comes with it is learning other people’s language and speaking it back to them. And learning all the economic formulas and repeating them back to the donors, foreigners, because it opens the floodgates and brings in big money. One example. We were trying to work out the 5 key priorities for village development in one village [on one of the outer islands]. And in the middle of our discussion on water, roads, health clinics etc. somebody who had just...
attended a workshop in Rarotonga said that our number one priority should be ‘mainstreaming gender equality’. This came out of nowhere and with no context. Those were just the right words to say in order to get the money. It’s a bit like voodoo. (...) Back [in the 19th century] people were in awe of the European technology and were ready to convert to a more productive god, if you know what I mean. So they were eager to recite formulas, repeat rituals etc. hoping it would bring them wealth and technology. And I think we are still doing the same thing. Consciously or unconsciously. (…)

I think that the leadership we have had has been people with colonised minds. When you actually go and ask them any questions they will revert back to the slogans, to the same mind-set from New Zealand. (...) They are not interested in developing local human capital. They are in awe to anything that comes from New Zealand. So, they are not thinking for themselves. (...) In this whole process of accepting uncritically views from outside they actually belittle themselves, they belittle their own thinkers. It is simply colonisation. People are not willing to think for themselves and they do not value their own wisdom. When [the University of the South Pacific] runs courses in indigenous knowledge the majority of people are deeply suspicious of valuing any sort of traditional knowledge as opposed to valuing, let’s say, Auckland University knowledge (Interview CI10).

This perspective was echoed by a high ranking government official:

There is no unique system of governance here. Everything is imported here; it’s all the heritage of colonialism. And goes beyond the institutions, I think it is called ‘colonisation of the mind’. We still bow down to foreign/white advice when it comes to governance. We ‘have’ to have a financial secretary from Australia as we ‘cannot’ trust our own people. (…) The power structure is such that we have white, foreign elites in business and politics or at least we have the Western models and solutions for everything here. (…) In the Cooks Islands, we try to be friendly and we avoid conflict, we avoid asking questions, we nod and smile and follow the [Asian Development Bank’s] instructions (Interview CI3).

While not without some shortcoming161, the above assessment of the impact of colonialism on the Cook Islands’ political elites’ perception and behaviour might be helpful in understanding the dynamics of the Cook Islands’ post-independence foreign and domestic policy. In particular, it provides a valuable perspective for exploring the Cook Islands’ model of benign protection management. While a detailed description of the colonial period of the Cook Islands’ history is beyond the scope of this thesis, the next section offers a brief description the pre-colonial and colonial history of the Cook Islands, as well as the key events that led to the country’s decolonisation the impact of these processes on the formation of the Cook Islands’ modern statehood and special arrangement with New Zealand.

161 For instance, it is perhaps overlooking the possibility (highlighted by the examples of adoption of various Swiss institutions by Liechtenstein, as described in the previous chapter) that small countries might generally tend to mimic the institutions of their larger, more powerful or prosperous neighbours (especially if the larger country happens to be their benign protector).
History Prior to Micro-Statehood

Early history

The early history of the Cook Islands is not well known, largely due to the absence of written records from the pre-colonial period (Gilson, 1980, p. 1). Nonetheless, it is widely recognised that prior to the colonial period the 15 islands did not exist as a unified political unit (Jonassen, 2011, p. 35) and that despite the fact that all Cook Islanders “belong to the Polynesian branch of the Oceanic peoples”, with the exception of the islands of Manihiki and Rakahanga, “no two islands shared the same cultural origins” (Gilson, 1980, p. 3). The largest island of Rarotonga itself had no centralised political authority and instead was divided into three distinct tribal districts (which were further divided into smaller, narrow, mountain-to-reef sub-districts known as tapere) with their own hierarchies of chiefs (with ariki being the most senior chiefly title in each district) (Gilson, 1955b, p. 268, 1980, p. 6; Whimp, 2008, p. 30). The pre-contact period on was thus characterised by divisions and conflicts often leading (on Rarotonga) to “extensive land disputes and warfare” (Gilson, 1980, p. 15).

The local economy was largely limited to subsistence agriculture and fishing with food production (and survival of the local population) often threatened by destructive storms, draughts and disputes (Gilson, 1980, pp. 15–16). The lack of nourishment, especially following natural disasters, together with overpopulation likely provided a strong incentive for leaving the islands and venturing into other parts of Oceania, most notably New Zealand (Rongo, Bush, & Van Woesik, 2009). It could be argued that during this period the material situation of the Cook Islanders was not too different to that of the inhabitants of Liechtenstein in the same period who too were often hopeless in the face of famines and natural disasters.

Missionary period

The history of the post-European contact period is better documented, even if some of the earlier records are also seen as “limited in scope and point of view” (Gilson, 1980, p. 1). The first European sighting of the islands comprising the modern Cook Islands likely took place in 1595 when a Spanish navigator, Alvaro de Mendana sighted the island of Pukapuka. Another Spanish explorer possibly visited Rakahanga in 1606. The remaining islands were sighted by other European explorers, including James Cook, during the late 18th and early 19th centuries. The first known landing on Rarotonga took place in 1814 when the crew of the

162 Many Cook Islanders view this period of history as “tuatau poiri (period of darkness, reflecting the mysterious past)” (Jonassen, 2011, p. 37)
163 Some of the islands were populated by migrants from Western Polynesia, while others by those travelling from Eastern Polynesia. According to traditional accounts, some of the ancestors of the people of Rarotonga came from Tahiti while others from Samoa, but those migrants came to live with the earlier migrants who had probably arrived from the Marquesas (modern day French Polynesia) (Gilson, 1980, p. 3). The Cook Islanders themselves (except those from Mangaia and Pukapapuka) believe their ancestors came from the mythical Avaiki runga (Jonassen, 2011, p. 37).
164 While the fish supply was not necessarily affected by the natural disasters affecting terrestrial resources, occasional algal blooms causing fish to become toxic (ciguatera) were making large reef fish “unusable as a food supply” (Rongo et al., 2009, p. 1424) and might have provided incentive for voyaging for the purpose of discovering new lands (Rongo et al., 2009).
165 It is believed that at least some of the early Maori settlers of New Zealand likely came from the Cook Islands (most likely Rarotonga) (Sharp, 1956; Walter, 2004).
Cumberland arrived on the island in the (unsuccessful) search of sandalwood (Gilson, 1980, p. 4)\textsuperscript{166}.

The Cook Islands’ remote location, lack of any valuable natural resources and tiny size meant that unlike other parts of Oceania the islands “escaped the colonising attentions” of the major political powers\textsuperscript{167} present in the region in the 19\textsuperscript{th} century (D. Scott, 1991, p. 30). Instead, for most of the century Christian missionaries of the London Missionary Society (LMS) were the key group of outsiders with a kcontinuous presence on the islands and significant influence over their society and politico-economic development.

The first missionaries, led by Reverend John Williams, arrived in the Cook Islands in the early 1820s following the LMS’ early missionary efforts centred on the Society Islands (modern-day French Polynesia)\textsuperscript{168}. In contrast with the problems encountered in other parts of the Pacific, the missionaries’ efforts to transform the Cook Islanders’ way of life were remarkably rapid and effective. Just three years after the establishment of the first mission on Rarotonga in 1827, most of the Cook Islanders were nominally Christian (Gilson, 1955b, p. 269). While in many cases conversion did not necessarily imply the acceptance of the new doctrine (Gilson, 1980, p. 23), it did nonetheless signal an impressively swift formal acceptance of the new religious leadership.

A number of factors contributed towards the rapid spread of Christianity (or at least the spread of formal pledges of allegiance to the Christian faith) in the Cook Islands. First of all, unlike in their previous endeavours, missionaries’ work in the Cook Islands was largely carried out by converted Polynesian teachers whose familiarity with the local language and customs greatly increased their acceptance among the Cook Islanders. Second, unlike in the other parts of Oceania where Western technology and goods were introduced by secular sailors and merchants, in the Cook Islands the missionaries managed to create an impression that acquiring these goods and skills necessitated a religious conversion (Gilson, 1980, pp. 22–23; Mangos & Utanga, 2011, pp. 26–27). Furthermore, perhaps most importantly, the LMS missionaries succeeded by working through, and not against, the indigenous authority structures (N. J. Stone, 1974, p. ii). From the very beginning the missionaries emphasised the strictly religious nature of their authority and interest in the islands’ affairs and refrained from challenging the

\textsuperscript{166} The encounter of the crew with the Rarotongans led to hostilities resulting in in deaths on both sides and the wife of the captain being eaten by the locals (Gilson, 1980, p. 4).
\textsuperscript{167} The British, the French, the Germans and the Americans.
\textsuperscript{168} Following his work in the Society Islands (on which the LMS had been present for twenty years) John Williams became convinced that the spread of Christianity to other islands would require recruiting and training new teachers from among the converted Polynesians. This could not only assist in addressing the problem of the insufficient numbers of missionaries but also potentially assist in the effectiveness of the missionary work as Williams considered the Polynesian missionaries to be able to potentially “establish contact with their own or related peoples quite easily” (Gilson, 1980, pp. 20–21). And indeed, one such Polynesian missionary sent to Rarotonga “accomplished more (…) in two years than the English missionaries in Tahiti had in twenty” (ibid.)
economic and political authority of the *ariki*\(^{169}{170}\). Furthermore, the *ariki* recognised the benefits of political stability brought by the new missionary legal codes and abolition of violence as a legitimate method of resolving tribal disputes. In the pre-contact era the *ariki’s* position relied on the loyalty of and the interactions with their respective warriors and lesser chiefs. The new rules prohibiting violence did not just create peace but also “froze” the existing social relations and distribution of power, and as such secured and strengthened the position of the *ariki* at the expense of the lesser chiefs and warriors (Gilson, 1955b, pp. 269–270, 1980, pp. 32–33; N. J. Stone, 1974, p. ii). Moreover, the missionary policies offered to strengthen not just the political but also the economic power of the *ariki*\(^{171}\). In this context, the paramount chiefs saw the presence of the missionaries as beneficial to their own interests and hence supported the missions and eagerly enforced the new laws promoted by the missionaries.

For the missionaries introducing and enforcing new rules of behaviour (known as the “Blue Laws”) were seen as imperative not because of their politico-economic effects, but rather as the necessary steps towards consolidation of the missionaries’ religious authority\(^{172}\) and a full, rather than just formal, acceptance of the new religion. The missionaries were under no illusion that a mere enforcement of strict (sometimes perhaps well-meaning\(^{173}\), but often rather cruel\(^{174}\) or even ludicrous\(^{175}\)) rules and prohibitions could “induce a change of heart”, but they nonetheless seemed to believe that “the full acceptance of the new religion required radical changes in social environment and patterns of behaviour” (Gilson, 1980, p. 30). In just a few years the local places of worship and traditional rituals were replaced with churches and Christian rituals. Anything that was perceived by the missionaries as pagan or immoral became prohibited. The new rules of behaviour were vigorously enforced by a large police force

\(^{169}\) In the rare instances when the missionaries wanted to express their position on secular matter, they nearly always did so through the *ariki* “thus preserving the mana {power, authority} of the high chiefs and accomplishing their own purpose at the same time” (Gilson, 1980, p. 32).

\(^{170}\) The missionaries were seen as “powerful white chiefs whose supply of valuable articles and fleet of ships seemed inexhaustible, but whose primary concern was that the people should observe certain special injunctions pronounced by the supreme Jehovah” (Gilson, 1980, p. 32).

\(^{171}\) Against the recommendations from the London headquarters, the LMS missionaries in the Cook Islands thought the islanders should not pursue self-sufficiency and instead should “produce a surplus of marketable goods” that could be exchanged for manufactured items (e.g. clothes and tools) to satisfy the needs of the missions and their new converts. However, in order to minimise the exposure of the Cook Islanders to the influence of secular European traders, trade was only permitted through *ariki*-controlled market houses with a portion of the proceeds going to the *ariki* (Gilson, 1955b, pp. 270–271).

\(^{172}\) Interestingly, as suggested by Gilson (Gilson, 1980, p. 29) it appears that “the missionaries in the Cook Islands did not use their influence for personal ends as did some of their counterparts elsewhere in the Pacific”.

\(^{173}\) Such as the prohibition of cannibalism and infanticide, as well as the active discouragement of inter-tribal warfare (Gilson, 1980, p. 27)

\(^{174}\) In at least one instance an islander found with a prohibited tattoo had it forcibly scraped off his skin using sharp coral (Mangos & Utanga, 2011, p. 59).

\(^{175}\) For instance, under the new rules “a man was fined if he was caught after dark with his arm around a woman’s waist, unless he was carrying a torch in the other hand” and “if a man wailed over the corpse of a dead woman to whom he was not related, it was taken for granted that he had been conducting an illicit affair with her, and he was fined accordingly” (Gilson, 1980, p. 29). Also, the new regulations prohibited “sensual dancing”, “wearing of flowers” or even “the use of coconut oil” or eating of raw fish (Gilson, 1980, p. 29).
recruited from among the newly converted islanders\textsuperscript{176} who were incentivised not just by their new religion and support from the political authorities but also by the promise of benefiting from the fines imposed on the offenders (Gilson, 1980, p. 29; Mangos & Utanga, 2011, p. 59). In result, within just a few years “almost every trace of local tradition or custom remotely connected with the pre-Christian religious practice” was erased (Mangos & Utanga, 2011, p. 27)\textsuperscript{177}. It can be argued that “for a culture founded on oral traditions” this represented a blow “akin to the burning of libraries in the Western culture” (Mangos & Utanga, 2011, p. 60).

This became particularly true after the transition to missionary-controlled written culture. In addition to policing behaviour, the missionaries undertook educational work on the islands and within a short period of time exposed the Cook Islanders to countless lectures, sermons and materials printed in the local language (Williams devised an alphabet and vocabulary for the Rarotongan language in the 1820s) (Gilson, 1980, pp. 25–30). By the middle of the 19\textsuperscript{th} century, most Rarotongans (and a small, but growing number of people on the other islands) were able to read the (predominantly religious) literature available to them (Gilson, 1980, p. 30). While this may seem like an impressive educational achievement, it is important to note that “the average islander received little more than a basic reading knowledge and a drilling in the catechism” with only a small number of local children being exposed to more general knowledge and an even smaller number receiving more in-depth training allowing them to become assistant teachers or pastors (Gilson, 1980, p. 30).

The new laws, educational activities, and the relatively harmonious and clearly symbiotic relationship gave rise to a peculiar, theocratic political system (Gilson, 1955b, p. 270; N. J. Stone, 1974, p. ii). Its rapid emergence and continuous existence would have been unlikely if it wasn’t not just for the missionaries’ work and tactics but also if the LMS had faced the presence of other missionary societies or larger numbers of secular Europeans (Gilson, 1955b, p. 270). Not surprisingly, as soon as the number of foreigners residing on the islands increased and the Cook Islanders become more exposed to the global economy, the system started facing significant challenges (G. Simpson, 1990).

Until the middle of the 19\textsuperscript{th} century the contact with secular Europeans was relatively rare and limited to missionary and \textit{ariki} controlled trade exchanges\textsuperscript{178}. However, by the 1860s the situation began to change with an increasing number of Europeans calling on the islands and/or interacting with the islanders (Gilson, 1955a, p. 62).

\textsuperscript{176} The exact numbers varied from time to time, but “the average seem to have been roughly one third of the adult male population” (Gilson, 1980, p. 29)

\textsuperscript{177} Some of the ancient Polynesian practices prohibited by the missionaries (such as the art and culture of tattooing) have experienced a degree of revival in the recent decades (Mangos & Utanga, 2011). Others have disappeared without almost any trace. For instance, the practice of drinking kava (a relaxing and medicinal plant consumed across Oceania) was eradicated so swiftly that apart from some clues found in the practices surrounding bush-beer drinking on Atiu, very little is known about the local traditions and customs surrounding its use (Aporosa, 2012, p. 85).

\textsuperscript{178} The missionaries made an effort to limit contacts between the islanders and secular Europeans to the barest minimum. During the early period of missionary presence on Rarotonga “Europeans who had no connection with or sanction from the mission were not permitted to reside on the island, even overnight, and the Maoris were prohibited from remaining on the vessels or from leaving aboard them” (Gilson, 1955a, p. 62).
One of the first consequences of the increased contacts between the islanders and the European merchants and sailors was the introduction of disastrous diseases against which the islanders had little immunity and no medical remedies. In the early 19th century Raratonga had an estimated population of around 6,000-7,000. The first of many epidemics struck the island in 1830 killing close to 1,000 people. Over the course of next decades, various diseases affected the island up to such degree throughout the remaining part of the century the number of deaths exceeded the number of births on the island (Gilson, 1980, pp. 37–38; D. Scott, 1991, p. 63). Furthermore, the increasing contact with foreign merchants and sailors provided an impetus and opportunities for significant emigration to not just other, larger islands (Samoa and Tahiti) but also as far away as Australia and California (Gilson, 1980, p. 39). Additionally, while some islander emigrated voluntarily, the second half of the century saw a rise of mass kidnappings and enslavement of the Cook Islanders (particularly from the Northern Group atolls) by Peruvian slave ships. In consequence of the above developments, the local population dramatically declined. Some of the Northern Group islands became almost completely depopulated and in 1867 the number of Rarotongans dropped to 1,872 (a 60% decrease in just 30 years!) (Gilson, 1980, p. 39). Not surprisingly, the missionaries began to believe that the Cook Islanders were a “dying race” and that “it was God’s will that they should simply be prepared for heaven” (D. Scott, 1991, p. 64).

While the number of native Cook Islanders was in decline, despite the opposition from the missionaries, the number of Europeans visiting or settling on the islands and their influence was on the rise. In 1845 the Rarotongan chiefs allowed some Europeans to temporarily reside on the island (but with no right to purchase land, no say in local government and no permission to marry islanders). By the 1860s (partly due to waning enthusiasm for the new religion, the increasing

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179 Most adult European remained unaffected by the disease due to their immunity. However, at that time the resistance of the missionaries to terrifying disease was interpreted as a sign of their mana and greatly increased their authority (Gilson, 1980, p. 38).

180 In addition to recurring epidemics of new diseases, the health of the Cook Islanders was likely negatively affected by such factors as new, damp and poorly ventilated housing conditions, new forms of clothing, new dietary regimes and the increasing use of alcohol (Gilson, 1980, p. 40).

181 Some of the islanders were recruited by the French to work on Tahitian plantations. While the decision to depart might have been voluntary, the term and conditions of the islanders employment in Tahiti were often unilaterally changed (with contracts being extended or islanders getting robbed of their earnings) (D. Scott, 1991, p. 30).

182 The impact of these ships on some of the islands has been described as “a genocidal disaster rivalling any holocaust of modern times” (D. Scott, 1991, p. 31). For instance, out of the 570 people inhabiting the island of Tongareva (Penhryn) 472 (virtually all working age people) were taken into slavery with only infants and the elderly left behind. Many of the islanders captured across the Cook Islands died on their way to South America. Those who survived were forced to work as servants or labourers on plantations. Following the public outrage in Peru, the local government stopped the trade and sent some of the victims back home. Most survivors died on their way back to the islands due to new disease and the few that survived were dumped on random islands (e.g. Rapa in modern-day French Polynesia whose two-third of population died from diseases brought by the "returned" former slaves). It is estimated that out of close to 1,000 Cook Islanders taken into slavery "not more than 15 saw their home again" (D. Scott, 1991, p. 32).

183 The missionaries were concerned about the influence of secular Europeans on their Christianisation efforts. They were suspicious of even those Europeans who were sponsored by the mission to support their teaching activities as some of them were choosing to stay and engage in commercial activities (Gilson, 1980, p. 41).
exposure of the Cook Islanders to secular Europeans and the introduction of cash employment), the missionaries were no longer able to prevent the arrival of European settlers and traders\(^{184}\) (Gilson, 1980, p. 43; Whimp, 2008, p. 33). The vast majority of the foreigners arriving to settle on the islands were British interested in buying or leasing land for the purpose of growing such crops as coffee, cotton or fruits. However, despite the fact that depopulation of the islands created a surplus of arable land, the chiefs refused to sell their land and only on rare occasions agreed to short-term leases of smaller plots. In consequence, much of the agricultural production remained in the hands of the native population while the British settlers focused their attention to business and developing commercial links with the outer world (primarily Auckland) (Gilson, 1955b, p. 271).

The growth of the number of European settlers and their efforts to expand commercial links between the islands (primarily Rarotonga\(^{185}\)) and the rest of the world brought an end to the era of missionary trading restrictions. At the same time, the increase in trade and continuous immigration of the Europeans and Polynesians from other islands resulted in the weakening of the mission’s and ariki’s authority and ability to control people’s behaviour\(^{186}\) (Gilson, 1980, pp. 42–43). The issue of growing lawlessness on Rarotonga alone could have perhaps been resolved by the ariki themselves if they had been “willing to create an all-island government to supplement or take the place of the three separate district administrations” (Gilson, 1955b, p. 272). However, these domestic developments were not the only sources of concern among the ariki. Gradually, they ariki became increasing aware and anxious about the potential external threats to the islands’ independence and well-being. In addition to the challenges posed by the Peruvian slave ships and foreign contract labour recruiters, new rumours emerged that France was planning to expand westwards from their base in Tahiti and potentially annex the Cook Islands\(^{187}\).

\(^{184}\) The first European trader to permanently reside on Rarotonga likely arrived in 1856 when the whaling industry went into decline and the demand for ship supplies was replaced by demand for tropical produce (Gilson, 1955a, p. 63).

\(^{185}\) The island’s size, opportunities for agricultural production and possession of the best anchorage made it the natural centre of economic activity and concentration of the European settlement. Following the easing of emigration restrictions imposed on the inhabitants of the outer islands and immigration restrictions on Rarotonga, the island began to attract growing numbers of Cook Islanders from the outer islands, as well as Polynesians from other parts of the Pacific (Gilson, 1955b, p. 271).

\(^{186}\) This was, at least initially, mainly true when it came to controlling the behaviour of the Europeans and new Polynesian migrants. The ariki were still able to maintain their authority over their own people. Likewise, despite the decline of the ariki-controlled market houses, due to their control over the land, the ariki continued to maintain a privileged economic position and capture much of the economic gains due to trade and increased production. However, (Gilson, 1955b, p. 272)

\(^{187}\) The French priests arrived in Tahiti in 1837. Shortly afterwards they were followed by French settlers, merchants and navy. Within a few years rumours of French intervention in the affairs of the island and alleged atrocities committed by the French soldiers reached the Cook Islanders who by then had been lectured on the “horrors of Papism” by their LMS missionaries. Not surprisingly, the French annexation of Tahiti in 1843 caused a great amount of concern among the ariki. These concerns were heightened with the increase of commercial activity of the French in the Northern Group and the arrival of the French vessels recruiting Cook Islanders to work in Tahiti (Gilson, 1980, p. 43; D. Scott, 1991, pp. 29–31).
British Protected Non-Statehood

In response to these developments, in 1865 the *ariki* (supported by a small number of European settlers) reluctantly sent a petition to Governor Grey of New Zealand requesting British protection (Gilson, 1980, p. 43; N. J. Stone, 1974, p. iii). While Grey himself was supportive of a greater British presence in the Pacific (via New Zealand), the Colonial Office in London refused the petition. The British saw no economic or strategic benefits of becoming more involved in this part of the world, in particular as such involvement would require considerable expenses and would potentially be met with opposition from other colonial powers (Gilson, 1980, p. 57; D. Scott, 1991, pp. 30–36).

Despite calls from New Zealand, the Colonial Office remained firm in its position until 1881 when London agreed to appoint an (unpaid) consul on Raratonga selected from among fifteen European merchant-settlers (D. Scott, 1991, p. 37). In the very same year the French became more assertive in their approach to the Cook Islands with their warship calling on Rarotonga to demand that the island’s trade “should be solely with Tahiti” (D. Scott, 1991, p. 37). The request was met with strong opposition from both the European traders and the *ariki* who, under the leadership of Makea, made repeated appeals to the British (via New Zealand) for protection and closer association (Gilson, 1980, p. 58). Following initial objections (largely driven by concerns over adding further strain to the already difficult Anglo-French relations in the regions), the British suddenly changed their attitude in 1888. The shift in the British position was primarily motivated by concerns over the strategic implication of the proposed construction of the Panama Canal. The British realised that they lacked any coaling stations between their colonies in Australasia and Panama and that without having control over Rarotonga, the French would hold the dominant position on this potentially important route (D. Scott, 1991, pp. 42–43). In other words, the Cook Islands suddenly acquired a certain strategic significance to the Crown. It is in this context that the Foreign and Colonial Office accepted *ariki*’s petition for protection.

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188 As a British colony New Zealand could not annex any territories without London’s consent (Gilson, 1980, p. 33)

189 As noted by Ross (Ross, 1964, p. 299) “[The British government], even at the height of the upsurge of imperialism was not all-grabbing nor even particularly anxious to seize new territories in distant parts of the world (...) The British were discriminating and with a nice sense of priorities. Above all, they knew they had to live in a world in which the interests, real or imaginary, of their French and German neighbours could not be overlooked”.

190 Furthermore, the British officials had serious reservations about giving “free use of the British flag” to New Zealand in case any of its “enterprising colonist” was to drag the country into an unwanted war with any of the European powers present in the region (D. Scott, 1991, p. 35).

191 By the late 1870s the attempts to form a single government on Raratonga partially succeeded with Makea Takau (often referred to as “Queen Makea”) assumed limited leadership in areas that affected the well-being of the entire island (e.g. terms of trade, road infrastructure, prohibition). She had no power to impose regular taxes and her “executive authority” was limited to the area around Avarua (the most economically advanced part of the island). Makea’s ability to act relied on the support and collaboration of other chiefs. As such, the system of governance on Raratonga resembled a loose confederation than a strong unitary government (Gilson, 1980, p. 47).

192 Other factors included, among others, the French diplomatic gains in the Pacific that Britain previous had hoped to prevent by not adding a potential conflict over Raratonga to the negotiating table (Ross, 1964, p. 240).

193 At the very least it was seen as desirable to prevent France from taking control over the islands.
and agreed in 1888 to declare a "Protectorate over Rarotonga and the surrounding islands" (Gilson, 1980, p. 59).

It is important to emphasise that British decision did not establish the Cook Islands as a genuine protected state. Unlike in the case of relations between protected states and their benign protectors, the British protectorate over the Cook Islands (particular with respect to the outer islands) did not assume full respect for the latter’s sovereignty. While Britain ostensibly acted in response to the local appeals for assistance, the process of establishing their political presence on the islands was more akin to annexation than a creation of mutually consensual agreement between two sovereign states (Gilson, 1980, p. 60; D. Scott, 1991, p. 43). The very act of proclaiming British protectorate was from a legal perspective not different to that of annexation. The British captain performing this task did so by raising the Union Jack on all of the inhabited islands of the Southern Group and declaring that:

"The territory has become part of the British dominions. (...) remember that [you] now belong to that Great Country which has done so much for the advancement of civilization in all parts of the world" (quoted in D. Scott, 1991, p. 43).

It is possible that the wording of the above proclamation was a mistake. However, the British government decided that this "mistake" was "to Britain’s advantage and Cook Islanders were kept in ignorance of their true status under civilization’s laws” (D. Scott, 1991, p. 43). In fact, four months before the proclamation of protectorate over the Southern Group islands, the British officially annexed the island of Tongareva in the Northern Group (D. Scott, 1991, p. 43). Soon after the proclamation the other islands of the Northern group were also annexed. Two and a half years after their first proclamation the British made another announcement declaring that “for the present” the British authority would take a form of a protectorate on most of the Southern Group islands (except the island of Aitutaki). Aitutaki and the Northern group islands were to continue be treated as annexed territories due to their strategic importance to the British: the former’s lagoon was seen as potentially suitable for the development of a harbour, and the latter were seen as of potential use as cable stations for the envisioned trans-Pacific cable (Gilson, 1980, p. 61). What is more, the Colonial Office declared that the British government “reserved full liberty of action” when it came to deciding what form of government could be formed on the islands under its “protection” (Gilson, 1980, p. 62). The British-appointed Resident (nominated and paid for by New Zealand) was to formally act as an “advisor” to the chiefs in matters concerning legislation and administration. However, it was also decided that “all acts of the local legislatures were to be countersigned by the Resident in the name of the Governor of New Zealand, who was to have the right of disallowance” (ibid.).

It is therefore clear that the establishment of the British protectorate over the Cook Islands was substantially different to the processes behind the creation of genuine protected states. While the British demonstrated a degree of respect for the chiefs’ authority and ostensibly came to the islands in response to their appeals, it is clear that the Cook Islands (or even just Rarotonga) were not effectively perceived by the British (not to mention any other power) as a
sovereign state. Likewise, while Britain assured the *ariki* that it would respect their laws, customs and administration over their respective districts, the fact that it “reserved full liberty of action in respect of the type of government to be formed in the islands” (Gilson, 1980, p. 62) and the fact that it unilaterally determined the political status of specific islands imply that Britain became the sovereign power in control of the Cook Islands.

It can be argued that the case of British actions in the Cook Islands supports some of the observations made in Chapters 2 and 3 regarding the lack of importance when it comes to creation of genuine protected states. By the late 1880s the British no longer perceived the Cook Islands as geopolitically insignificant. The tiny islands were now seen as of some strategic importance and hence the British decided to act to assume ultimate control over their fate and position in the international system. Their offer to respect the chiefs’ authority in various domestic and customary affairs under the protectorate was in line with their general preference for informal over formal empire (Roberts, 1999, p. 529). As candidly stated in 1901 by Prime Minister Robert Salisbury:

> The condition of a protected dependency is more acceptable to half civilised races, and more suitable for them than direct dominion. It is cheaper, simpler, less wounding to their self-esteem, gives them more career as public officials, and spares of unnecessary contact with white men (quoted in Roberts, 1999, p. 529).

It can thus be argued that 1889 marks the date when the Cook Islands became Britain’s dependency, i.e. a non-sovereign polity with a degree of domestic autonomy, but whose ultimate destiny and position in the international system was to be determined by Britain.

**Towards New Zealand**

Throughout much of the nineteenth century Britain was determined not to become more involved in the part of the Pacific occupied by the Cook Islands. It was only the discovery of the islands’ potential strategic value in the context of the Panama Canal that made London reluctantly reconsider its position. However, for one part of the British Empire - New Zealand – the establishment of the British Protectorate over the islands was a long-desired outcome.

The notion of New Zealand being uniquely destined to become “the Britain of the South Seas” with its own Empire spanning across Oceania goes back to the very early states of European settlement in the country (Ross, 1964, p. 1; D. J. Stone, 1971, p. 1). It was supported and expressed by writers, leaders and even ordinary settlers\(^{194}\). Throughout the century it kept re-emerging in “an assortment of schemes for federation, control, protection, annexation, or even invasion” (Whimp, 2008, p. 23) of a great number of territories ranging from the New Zealand.

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\(^{194}\) This idea of New Zealand’s “imperial destiny” had a remarkable “social depth” (Whimp, 2008, p. 22). For instance, in 1861 over 1000 unemployed workers signed a petition describing a recent discovery of gold deposits as gift of God meant to attract “god-given magnet to attract ‘streams of the Anglo-Saxon race from the United Kingdom and the adjacent Colonies to people this fine Colony, develop its resources, and found an empire destined to exert healing influences over the remote and numerous isles that spangle the bosom of the South Pacific” (Whimp, 2008, pp. 22–23).
Hebrides (modern Vanuatu), through Fiji, all the way to Eastern Polynesia and even Hawaii (Brooking, 2014; Ross, 1964; Whimp, 2008, p. 23).

A detailed analysis of the cultural, philosophical, political, ideological and religious factors and arguments that underpinned New Zealand’s “sub-imperialism” is beyond the scope of this thesis. However, it is important to note that economic or strategic considerations do not appear to have been of particular significance to New Zealand’s aspirations (Sinclair, 1965; Whimp, 2008, p. 22). While the vision of “future profits” was certainly not absent from the rhetoric, it can be argued that New Zealand’s quest for a sub-empire was largely “product of a crisis of confidence” (Whimp, 2008, p. 23). It was driven by the young colony’s desire to assert itself as an important political entity not just within the British Empire but also on the world stage. New Zealand’s constant agitations and colonial adventures, however small and insignificant from the point of view of global affairs, offered hope to make the world’s leading powers perceive New Zealand as a “small Power” in the South Pacific even when it was still merely a “self-governing colony” (Ross, 1964, pp. 294–295). New Zealand’s perception of its lack of power and “the fear of remaining insignificant (...) fed the desire for aggrandisement” (Parnaby, 1966). From this point of view, the acquisition of distant islands was motivated by the symbolic value that their possession (irrespective of their value) could offer to New Zealand’s position in the world affairs. In a way then, it could be argued that New Zealand’s motive for acquiring colonies bore some similarity to the motives that drove the House of Liechtenstein to acquire the remote lands of Vaduz and Schellenberg: what mattered wasn’t the value of the territories themselves, but the status that they offered to the aristocratic family within both the Habsburg Empire and the wider world.

In this context it is perhaps unsurprising that New Zealand’s politicians (convinced that New Zealand should be “the agent and adviser of the Crown in matters of imperial interest in the Pacific”) had been firm supporters of an increased British presence in the Cook Islands and some of the strongest advocates for the establishment of the British Protectorate over the islands (Gilson, 1980, p. 58).

In order to further persuade London to act, the New Zealand Government volunteered to pay the salary of a British Resident on the islands, provided it could nominate him. Furthermore, it argued that the potential trade links between New Zealand and the Cook Islands were not of questionable economic or strategic importance, especially in comparison with such territories as Samoa which had always been seen as “much richer prize” (Ross, 1964, p. 235). However, in light of Britain’s continuous refusal to accommodate New Zealand’s greater aspirations in the Pacific, mainly because of the British arrangements with other major European powers, the fact that the remote and tiny Cook Islands were likely to generate much less tension with other European powers was seen a good reason for claiming them (ibid.).
Zealand and Rarotonga, New Zealand’s “experience in dealing with the Maori people” and finally the reported desire of “the Queen of Rarotonga” to “obtain a much closer bond of union” with New Zealand all meant that New Zealand was in the best position to act on Britain’s behalf on the islands (Ross, 1964, pp. 236–237). Eventually, in light of the changing geostrategic environmental described in the previous section, London decided to declare a Protectorate over the islands while agreeing that “the most satisfactory method of administering the Protectorate would be through New Zealand” (Ross, 1964, p. 242). Consequently, it was confirmed that New Zealand would be allowed to nominate and pay the British Resident on the islands.

In New Zealand the reactions to the British decision were enthusiastic and indicated that the public perceived the move as almost akin to acquisition of the islands for New Zealand (Ross, 1964, p. 241). While the newspapers noted that the islands were of questionable strategic or economic importance to New Zealand, they nonetheless highlighted the symbolic importance of this development (‘Editorial’, 1888).

After some deliberations, New Zealand’s authorities decided to nominate Frederick Joseph Moss as the British Resident in the British Protectorate. Moss’ role was also to act “for the Colony of New Zealand as Government Agent in all matters relating to trade” and as such he became “the first New Zealander appointed and paid by the New Zealand Government to participate in the direct administration of island affairs” (Ross, 1964, p. 244). The position of the Resident was rather “anomalous” (ibid.) and difficult due to the fact that he was nominated and paid for by New Zealand and yet formally accountable to the Colonial Office which retained responsibility for the islands’ administration. Nonetheless, despite the rather confusing nature of his office and the relatively short duration of his residency on the islands (1890–1898), Moss managed to bring significant changes to the Cook Islands. His most important political achievements included the re-organisation of the islands’ government (including the establishment of a federation for the entire group of islands and central governments for each

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200 From the very early contacts between New Zealand and Rarotonga (as well as other islands in the group) the shared heritage of their respective Maori peoples was acknowledged and highlighted by both sides. It was seen in not just the linguistic similarities but also in the “parallel political, social and economic traditions” (Jonassen, 1996, pp. 62–64). Not surprisingly, a New Zealand Maori was among the first New Zealanders to visit Rarotonga on a diplomatic, rather than commercial or religious mission (D. Scott, 1991, p. 29).

201 The Colonial Office specified that the New Zealand-nominated Resident would be required to communicate with the Office on all matters related to the Cook Islands and that he would abide by the principles adopted in British New Guinea (e.g. prohibition of land sales or deportations of islands to other islands) (Ross, 1964, p. 243).

202 Moss was a former Member of Parliament with significant experience in the South Pacific and other parts of the world. Born on Saint Helena, he spent several years in the armed forces and later as a cotton planter in Fiji, travelled extensively around the region and was known for idealism with regards to colonial affairs (Ross, 1964, p. 243; D. Scott, 1991, p. 43).

203 Of particular relevance to this thesis is the statement made by the Governor in a letter to Moss. In describing the Resident’s position and responsibilities in his role on the islands the Governor once again implicitly confirmed that the islands were now de facto under Britain’s sovereignty: “The objects to be kept in view are to leave the natives in the possession of their existing right of legislating for themselves, reserving to yourself a veto on all laws which may seem to interfere with the liberties of Her Majesty’s subjects resident in the group, or to have a tendency to corrupt the moral of the natives or destroy their race” (Onslow, 1889).
island) and the administration of new government functions (such as post of customs) (Gilson, 1955b, pp. 272–273). He has also attempted to implement, with a varying degree of success, some limited reforms in the socio-economic sphere, primarily in the sphere education and health care. Moss has generally been regarded as a benevolent, even enlightened, colonial administrator, if lacking in both tact and the power to enforce his reforms” (Whimp, 2008, p. 36). Eventually however, he was forced to resign primarily in result of him alienating both some of the European settlers (mainly due to their exclusion from the new legislature) and the ariki (primarily due to his poorly executed efforts to introduce a Federal Court) (Ross, 1964, p. 255; Whimp, 2008, p. 35).

Despite Moss’ failure to successfully implement all of his envisioned socio-economic reforms, the period of his residency is described by some writers as one that saw a more significant development of the local enterprise than any other time in the history of the Cook Islands’ existence under New Zealand’s administration (Bellam, 1981; Mills, 1962; G. Simpson, 1990). While the islands experienced problems due to volatile prices of the key export commodities, as well as the issues associated with the customary land tenure system (Gilson, 1980, pp. 82–83), during this period the Cook Islands saw some successful local initiatives with “native owned and operated schooners [trading] throughout the

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204 Upon his arrival to Rarotonga Moss quickly realised that the division of the islands’ administration into three separate district organisations and lack of any central governance were among the chief obstacles to the effective administration of the island (as well as the entire Protectorate) and its socio-economic development. While Moss lacked direct authority over the paramount chiefs, he managed to exploit their desire to emulate British institutions (which were believed to be behind Britain’s power and possession of vast material resources) to persuade them to adopt “measures which they did not fully understand” (Gilson, 1980, p. 65). For instance, “the jealously competitive queens of Rarotonga and the traditionally independent ariki of the outer islands had come to rare agreement to form a federal parliament because they saw their power enhanced by adopting the administrative tools that had made Queen Victoria so great” (D. Scott, 1991, p. 50).

205 One of the key reasons why Moss has been unsuccessful in his attempts to secure greater assistance from New Zealand was New Zealand’s Prime Minister’s strategy “to starve Moss of support so that the limitations of his office would provide an argument for annexation” (D. Scott, 1991, p. 58).

206 Moss thought that education was a necessary requirement for the economic and democratic development of the islands. Furthermore, he believed in extending the opportunities of education to all classes and islanders from across the two groups of islands. He argued that “to confine [education] to the sons of chiefs would be worse than not having any education at all. It would make too great a gulf between them and their people and make their powers unhealthily great” (D. Scott, 1991, p. 57) Consequently Moss argued for free and compulsory education in English (with a wide curriculum covering a full range of primary subjects) and expanding the scope of materials used in schools. His proposals were met with support from the chiefs. Missionary schools became reluctantly re-organised and a new boarding school was opened (Gilson, 1980, pp. 73–75; D. Scott, 1991, pp. 56–57). However, after a degree initial success, Moss’ reforms stalled due to the lack of qualified staff, insufficient funding and some opposition from the missions (Gilson, 1980, p. 76).

207 At the time when Moss arrived to Rarotonga, the island had “no doctors, no hospitals, no medical services of any kind” (D. Scott, 1991, p. 63). In light of the declining population and its overall poor health Moss attempted to implement some reforms and opened a temporary hospital, but was generally largely unsuccessful due to the lack of funding and lack of interest from the British or New Zealand officials (Gilson, 1980, p. 77; D. Scott, 1991, pp. 63–64).

208 Moss acted on instructions and with the approval of the Colonial Office and the Governor, but he failed to communicate this properly to the chiefs’ whom became persuaded that the Court was designed to increase Moss’ powers and that he would use it to their economic disadvantage (Ross, 1964, p. 255).
Group as well as up to Tahiti and down to New Zealand” (G. Simpson, 1990, p. 79).

In 1898 New Zealand nominated Walter Edward Gudgeon (a Judge of the Native Land Courts in New Zealand) as Moss’ replacement. He arrived to Rarotonga on board of warship the commander of which “deliver a proclamation from the Governor rebuking the Maoris for their treatment of Moss, warning them against a repetition of such action, and directing them to pass the Federal High Court Bill in order to regain the confidence of the Queen” (Gilson, 1955a, p. 70). This introduction heralded the beginning of a new type of administration. It also marked the beginning of an end of the confusing and “makeshift” Protectorate (Ross, 1964, p. 260).

Within a short period time Gudgeon reorganised courts (essentially making them subordinate to his will), purged the administration of Moss’ supporters and secured the passage of a number of new bills. In 1899 he succeeded in abolishing the Rarotongan government and made the Parliament the only law-making body within the Cook Islands (and as such took control over legislating for the whole federation) (Gilson, 1980, pp. 90–91). Additionally, he managed to establish the carefully designed Rarotonga Land Board with the purpose of potentially opening up some of the “idle” land for increased production without upsetting the ariki (Gilson, 1980, pp. 93–94). In the same year he succeeded in introducing new taxes and reducing the influence of the European residents and other “undesirables” whom he perceived as a potential source of opposition to his authority (Gilson, 1980, p. 91). While the above “reforms” could be seen as a radical shift towards authoritarianism, Gudgeon was careful not to upset the ariki. In fact, much of his re-organisation of the islands’ governance was being promoted to the ariki as an attempt to restore the powers they lost due to Moss’ reforms (D. Scott, 1991, p. 73).

The reason behind Gudgeon’s careful approach to the ariki was his desire to secure their approval for the second project he was tasked with: full formal annexation of the islands into New Zealand. Following the forced resignation of Moss and in response to New Zealand’s pressure to compensate it for the loss of Samoa, the British government eventually consented to making the Cook Islands an integral part of New Zealand on the condition that New Zealand secures a formal request

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209 The new Resident made a strong impression on the Cook Islanders. Queen Makea wrote to the Governor “assuring him of the ‘good-will of the inhabitants of the Cook Islands to support [Gudgeon] in carrying out good laws as becomes loyal subjects of Her Majesty Queen Victoria’” (N. J. Stone, 1974, p. 51).

210 The Governor of New Zealand at the time was opposed to making any concessions to “New Zealand imperialism, even though the islands were of little importance” (Gilson, 1980, p. 97). He believed that the acquisition of the Cook Islands would encourage New Zealand politicians to pursue further expansion. In reality, the opposite happened. As noted by Ross (Ross, 1964, p. 303): “the problems of acquiring islands in the Pacific had been succeeded by the even greater problems of administering them. So pressing and so difficult of solution were some of these latter problems in the Cook Islands and Niue that we are driven to conclude that, had the British Government seen fit at an earlier date to grant New Zealand control of some of the Pacific islands, the New Zealanders might have made much less noise”.

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for annexation from the *ariki*. Gudgeon’s task was to clear the way for making such a petition likely (D. Scott, 1991, pp. 71–75).

In 1900 the Prime Minister of New Zealand himself came to the islands to “create goodwill for New Zealand” (Gilson, 1980, p. 99). He started by denouncing the *ariki*-opposed petitions for annexation coming from a group of European residents. He himself referred to annexation only “obliquely”, focusing instead on promises of “lavish aid” (D. Scott, 1991, p. 81), including: improvements to Rarotonga’s harbour and medical services, the provision of a new schooner, the establishment of a bank, higher educational standards, “protection” from Chinese immigrants, and lowering of the cost of freight charges and passenger fares between the Cook Islands and New Zealand (Gilson, 1980, pp. 99–100; D. Scott, 1991, p. 81). At the same time, he carefully avoided discussing land reform or any significant political changes. Seddon’s “stress upon altruistic, virtually no-strings-attached offers of assistance” (N. J. Stone, 1974, p. 74) made a positive impression on the *ariki* who then reportedly “immediately” agreed to annexation (Gilson, 1980, p. 100).

Upon his return to New Zealand, Seddon informed the Colonial Office that the New Zealand Government was ready to annex the Cook Islands in light of the islanders apparent desire for such an outcome (N. J. Stone, 1974, p. 69). The Colonial Office agreed that “the time was now ripe to hand over the Cook Islands to New Zealand” (Ross, 1964, p. 263). In response to some inquiries regarding New Zealand’s plans for the preservation of native land ownership and parliamentary representation, the Seddon admitted that it intended to introduce a land reform and that the Cook Islanders might be given a seat in the parliament (Gilson, 1980, p. 100; Ross, 1964, pp. 263–264). The Colonial Office was satisfied with these replies and instructed Seddon to proceed with the annexation, “provided that the two houses of parliament in Wellington should first pass a resolution agreeing to accept responsibility for them” (Gilson, 1955a, p. 73).

However, shortly afterwards another petition came from the Cook Islands in which the *ariki* expressed the terms on which they would consent to their islands becoming annexed by New Zealand. They requested: guarantees that the Council of *Ariki* (under the Presidency of the British Resident) would replace the Federal Parliament; guarantees that their land rights would “not be vitiated by annexation” (and that all land-related conflicts should be referred to the High Court of the Cook Islands); annexation of the Northern Group islands (and Niue) into the Cook Islands; guarantees that New Zealand laws should not be applied to the Cook Islands without the approval from the Council of *Ariki*; guarantee that all

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211 Gudgeon himself was a strong supporter of annexation because he perceived the protectorate as an “utter farce”, primarily due to his contempt for the islanders’ abilities and “hybrid forms of government” (N. J. Stone, 1974, p. 58).

212 Seddon told the Cook Islanders that Chinese migration to the islands would be “worse than the plague” and that the only hope for the islands lied in finding a way of effectively “restraining” them (N. J. Stone, 1974, p. 65).

213 He states that New Zealand would “(1) admit Maori ownership of the land; (2) that a tribunal similar to the New Zealand Native Land Court would determine the ownership of the land and its subdivision and partition; (3) that the land would then be Crown-granted on inalienable freehold; (4) that the rights to the present lessees and occupants of the land would be preserved” (Gilson, 1955a, p. 73).
appointments and dismissals of public servants would require an approval by the Council of Ariki (Gilson, 1955a, pp. 74–75; N. J. Stone, 1974, p. 71). It could thus be argued what the ariki actually desired was for their islands to acquire a status akin to that of genuine protected states. They were appealing for New Zealand’s protection, but wanted to retain sovereignty and ultimate authority over their islands (N. J. Stone, 1974, pp. 73–74). This, of course was at odds with New Zealand’s designs.

The fact that the wording of the ariki’s petition conflicted with Seddon’s ideas did not stop him from going forward with the annexation, especially since it had already been authorised by the Colonial Office. He swiftly presented a resolution to annex the islands to the Parliament without giving anyone much time to consider the matter (Gilson, 1980, p. 102; Ross, 1964, p. 266). In order to persuade the members of parliament to support his resolution, Seddon argued that the annexation would be of financial, economic and political benefits to New Zealand. When it came to discussing the specific terms of annexation, the Prime Minister began by reading his own proposal first. The second proposal from the ariki was then quickly read by the Clerk of the House after which Seddon stated that “the Maoris might keep their ‘local government’ and most of the laws” (Gilson, 1955a, p. 75). Despite some voices from the opposition claiming that the islands were “worthless” and that their possession would mean a constant financial and administrative burden (Gilson, 1980, p. 103; Ross, 1964, p. 289) the House voted (thirty-seven to four) in favour of the resolution. Two days later the Governor left to annex the islands. Upon his arrival he reassured the people that their land rights would be respected and that “administration and laws would not be disturbed ‘for the time being’” (Gilson, 1980, p. 103).

Following the completion of the necessary formalities, the extension of New Zealand’s boundaries was finally ceremoniously proclaimed in Auckland on 11 June 1901, thus cementing the loss of Cook Islands’ sovereignty for the next six decades.

Under Static Neglect
Following a brief period of “business as usual” the political system of the islands underwent a significant transformation. The changes were largely driven Gudgeon who was now appointed the Resident Commissioner. Gudgeon had always believed that the power of the chiefs was the key obstacle to the development of the islands and the establishment of an “efficient” (N. J. Stone, 1974, p. 145) or even “democratic” (Crocombe, 1979a, p. 1) government. Following the annexation, he was no longer required to tread as carefully as he did as the British Resident and hence set out to break the power of the ariki. Soon after his appointment as the Resident Commissioner, he took control of the key government functions, including the police, public service and funds. District government were abolished and the Resident became the chief judge of the High Court. While the Federal Council could still pass laws (often under much pressure from the Resident),

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214 According to some writers, the exact terms of the annexation or detailed plans for the post-annexation reforms were not clearly communicated to the ariki, and that they “did not seem to understand the nature of annexation” (N. J. Stone, 1974, p. 85).

215 The 1901 Cook and Other Islands Government Act stipulated that Cook Islands’ laws and customs not contravened by the act would remain in power. The Cook Islands’ courts were maintained with the New Zealand Supreme Court and Court of Appeal now available for appeals from the High Court.
carrying them out was entirely dependent on the Resident’s goodwill and cooperation. Just 10 months after annexation he established a Land Court (with himself as the Chief Judge) (Gilson, 1980; D. Scott, 1991; Wilson, 1969b). It can thus be argued that within just a few years Gudgeon succeeded in removing the power of the ariki\textsuperscript{216}. However, instead of transferring it to any kind of democratic leadership, he “vested it largely in himself” (Crocombe, 1979a, p. 1).

It is undeniable that the “mission-favoured ariki” gravely abused their power as “avaricious landlords and capricious district judges” (D. Scott, 1991, p. 100). However, their replacement by the all-powerful Resident Commissioner did not mean that the power would now be deployed for the common good. Under Gudgeon’s rule the modest education and health-services suffered a further decline\textsuperscript{217}. Gudgeon’s campaign to reduce the power of the ariki over land and production, and his reform the land tenure system\textsuperscript{218} failed\textsuperscript{219} to bring the expected improvements in productivity. In fact, once the chiefs were “stripped of their powers to organise production, and their marketing functions were annulled or subjected to the control of local New Zealand administrators (...) production along family lines ceased, as the operation of indigenously owned trading schooners” (Fairbairn & Pearson, 1987).

\textsuperscript{215} It also offered provisions for a land tribunal. The new office of the Resident Commissioner was to have the same powers as the British Resident (at least “for the present”). Federal Parliament, now renamed as the Federal Council was retained “and its ordinances made subject to the Governor’s approval”. The Governor was given power to “extend to the islands such New Zealand laws as were, in his opinion, ‘expedient for the peace order, good government and welfare of the islands” (N. J. Stone, 1974, pp. 93–94).

\textsuperscript{216} Not surprisingly, Gudgeon quickly “became disliked by the paramount chiefs” (Gilson, 1980, p. 124). In fact, it is remarkable that the ariki did put up more opposition to his actions. It can be argued that the key factors that facilitated his success were: the support from the New Zealand government and Parliament; his own qualities as a leader; and his ability to exploit conflicts between different groups, primarily through siding with the “oppressed” lower chiefs (Gilson, 1980, pp. 124–125).

\textsuperscript{217} The decline in health service was most certainly at least in part due to Gudgeon’s belief that the Cook Islanders were a “dying race” (Wilson, 1969b) and the decline in educational standards due to his general contempt for the Islanders’ abilities and intelligence (D. Scott, 1991, pp. 101–102).

\textsuperscript{218} Gudgeon firmly believed that the indigenous land tenure system was the chief obstacle to the islands’ economic development. He therefore believed that granting cultivators a secure holding of the land they used would induce greater productivity. He aimed to achieve this goal through Land Court’s guarantee of security to “true owners”. However, establishing who the “true owners” required navigating through the hierarchy of rights attached by different people to different plots of land, and then trying to cancel out those were deemed as “secondary”. In majority of cases this meant greater security not for the current user/ cultivator, but for the title holders. At the same time, the power of the custom was so entrenched that it “difficult to encourage those most affected to assert their claims before the Court” (N. J. Stone, 1974, p. 148). Gudgeon tried to resolve these problems by awarding specific plots of land to “families”, but these efforts also created their own sets of problems. The land reform also resulted in a problematic method of awarding succession which led to both an increasing number of “owners” of the same plot of land lacking any organised leadership and an increasing number of people having rights to land in “several widely dispersed pieces of land” (N. J. Stone, 1974, p. 151). Furthermore, once the land reform stripped the ariki of the power to repossess and re-allocate land, the system lost not just the abuses associated with the power of the ariki but also the important aspect of flexibility (ibid.).

\textsuperscript{219} In some cases the failure of his schemes was due to the opposition from New Zealand. For instance, in 1902 Gudgeon suggested that an efficient land use and leasing to the Europeans could be encouraged under the existing land tenure system by a tax on unimproved land values. However, this plan was not approved by New (Gilson, 1980, p. 149). When a small tax on unimproved land was eventually implemented in 1905, it could not be enforced (Gilson, 1980, p. 154).
As noted by Stone, in addition to succeeding in surveying and defining land titles\(^{220}\) Gudgeon’s “major accomplishment had been to deprive the Cook Islanders of control over their own affairs” (N. J. Stone, 1974, p. 145). The new, rather non-democratic system created by Gudgeon survived his departure. It is beyond the scope of this thesis to examine in greater detail the key political developments during the post-Gudgeon period of New Zealand’s colonial administration of the islands. However, it can be argued that despite being formally an integral part of democratic New Zealand, for most of its duration the political system of the islands remained largely autocratic (albeit not necessarily particularly repressive) in nature.

In many ways, the Cook Islands occupied a peculiar position within New Zealand\(^{221}\). While officially the islands were an integral part of the country, they were “outside the ambit of the New Zealand taxation and social security systems and New Zealand wage rates did not apply” (Quentin-Baxter, 2000, p. 430)\(^{222}\). Indeed, “no New Zealand Act (...) ever operated in the Cook Islands unless it included a statement to that effect; and the term ‘New Zealand’ in any Act did not include the Cook Islands unless a contrary intention appeared” (D. J. Stone, 1965, p. 371). Furthermore, the islands had no representative in the New Zealand Parliament (D. J. Stone, 1971, p. 4)\(^{224}\) and New Zealand citizens “not belonging to [the Cook Islands]” had no automatic right to live on the islands (Quentin-Baxter, 2000, p. 430). The peculiar status of the Cook Islands and their political system was partly due to historical circumstances (D. J. Stone, 1971, p. 4) and partly due to the mainland New Zealand’s public opinion and politicians’ ignorance and lack of in the islands’ affairs (D. Scott, 1991, p. 1). Following the decline of New Zealand’s imperial aspirations (likely related to the country’s departure from a status of a mere colony in need of asserting its place in global politics), the country’s politicians no longer paid much attention to the islands perceived as remote and of no political or economic significance. In consequence, “neglect and vague benevolence have been the hallmarks of [New Zealand’s] rule” over the islands (D. Scott, 1991, p. 7). New Zealand lacked the will or even the opportunities (due to the islands’ negligible economic potential) to play the role of an “exploitative colonial power” in the Cook Islands and instead, it has treated the islands with "benign neglect" (Quentin-Baxter, 2000, p. 430). One consequence of this

\(^{220}\) An achievement of an arguably questionable value in light of the islands’ poor state of infrastructure, declining quality of their health and education services and empty budget (N. J. Stone, 1974, p. 145).

\(^{221}\) One author has compared the position of the Cook Islanders within New Zealand to that of “the Maori people of the mainland, with distinct ethnic identities, cultures, lands and land rights, and histories” (Bertram, 1987, p. 24).

\(^{222}\) One of the arguments used by the opponents of annexation in New Zealand was that it would mean that all New Zealand laws would have to be extended to the islands, which could be either impractical or even “contrary to the best interests of the islands” (Gilson, 1980, pp. 110–11). However, “the [New Zealand] Constitution Act did allow for the separate administrate of ‘native areas’, and on this basis the Act was sanctioned by the Colonial Office” (Gilson, 1980, p. 111).

\(^{224}\) The New Zealand Land and Income Tax Amendment Act 1939 theoretically made the Cook Islanders “liable to pay the same tax as [other] New Zealanders”. However, due to logistical and political issues collection was never properly enforced (D. Scott, 1991, p. 278).

\(^{223}\) Initially New Zealand’s government indicated that the Cook Islanders should have a right to elect their representative to the New Zealand Parliament. However, this was opposed by the ariki “because it would have compromised what they believed to be their continuing right to legislate for their people” (D. J. Stone, 1971, p. 4).
approach was the situation in which the colonial administrators could act with minimal accountability or scrutiny from mainland New Zealand. As noted by one journalist visiting the islands in the 1950s:

For 50 years successive Administrations have been running the islands without being subject to the daily scrutiny that is exercised on Government departments at home, not only by journalists but also by ordinary people writing letters to the Press, or telling their members of Parliament. And in Parliament itself the Opposition possesses and exercises important powers of scrutiny. In Rarotonga there is nothing of this. The officials have become so accustomed to its absence that an attitude of mind has developed which is passed on, even to men who have come from New Zealand comparatively recently (Antony Alpers quoted in D. Scott, 1991, p. 281)

Until the end of the Second World War the political system remained firmly controlled by the Resident Commissioners and Governor-Generals with the Councils acting as little more than “sounding boards for islands opinion” (Wilson, 1969b). As observed by Beaglehole (Beaglehole, 1948), the pre-1945 era of New Zealand’s governance of the islands was “marked by constitutional changes at the beginning, (...) by slow grappling on the part of New Zealand with the health and educational needs of the Islands, by confused attempts to improve economic conditions, and by a world war that brought some of the islands temporarily into intimate contact with a new way of life and thus left a stirring and dissatisfaction”.

During this period, the islands’ economy became gradually dominated by fruit export industry which brought in some economic development, but was nonetheless constantly hampered by problems due to irregular, poorly managed and inadequately funded shipping, disease, pests (and their poor management) land issues, labour and skills shortages, incompetence of the managers and officials, political influences, competition from larger producers on other islands.

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225 In total, 500 Cook Islanders (i.e. 5.8% of the population – in comparison to New Zealand’s 4.5%) joined up to serve during the First World War. In light of significant losses, the Cook Islanders were not actively recruited for the Second World War. However, the arrival of the Americans (together with their “democratic ways” of behaviour) to Aitutaki had a significant impact on the Cook Islanders’ sentiments (D. Scott, 1991, pp. 141, 231–232).

226 The lack of commitment of New Zealand to finance the provision of a reliable shipping link to Rarotonga can be seen as perhaps the largest error of the colonial administration. One of the key arguments for the integration with larger states is the possibility of using or accessing infrastructure the provision of which is normally unaffordable for tiny polities. In the case of the Cook Islands, the provision of a stable, well-managed link to New Zealand would have likely greatly facilities the socio-economic development of the islands (Wilson, 1969b). This is especially true in the context of the reality that despite all of the problems with agriculture, the islanders “almost consistently produced more than they could export” (Gilson, 1980, p. 156) and “one-third to one-half of the total marketable fruit crop was usually left to rot” due to the persistent problems with shipping (Gilson, 1980, p. 159).

227 An interesting phenomenon was observed on Rarotonga in the first decade of the 20th century. The increased number of growers caused a labour shortage. This resulted in a wage increase, but in light of continuous shortages the administration began to consider devising a scheme aimed at bringing workers from the outer islands. However, “the establishment of four cinemas in Rarotonga in 1911 made this unnecessary” because the “moving pictures proved so popular that many idle immigrants sought employment to earn a cash income” (Gilson, 1980, p. 164).

228 Officials in New Zealand often determined what should and what should not be produced on the islands, often without fully understanding the potential difficulties and local complexities. For
and in Australia and large price fluctuations (Gilson, 1980; Mills, 1962; Wilson, 1969b). Until 1912, in adherence to the promises attached to Seddon’s annexation policy, the Cook Islands received little financial assistance from Wellington (Wilson, 1969b). Up to the 1920s the vast majority of the costs associated with the local infrastructure were met with the revenue obtained domestically (Gilson, 1980; Wilson, 1969b). The next decades saw a significant increase in financial contributions from Wellington (most of which were spent on salaries). By the 1920s “government spending was well above the level that could have been sustained on the basis of local revenue alone” (Bertram & Watters, 1984b, p. 134). However, during much of this period the state of the health and educational services remained poor, though with some improvements of the former from the late 1920s onwards (Wilson, 1969b).

The end of the Second World War brought some change in the islanders’ attitudes. The war-time decline in trade, neglect of plantations and encounters with the American soldiers (who not only paid high wages to islanders on Aitutaki but also actively criticised the political conditions on the islands) led to the growing dissatisfaction with the local administration and increased emigration to New Zealand (Gilson, 1980, pp. 191–192; Hooper, 1961; Jonassen, 2011, p. 38; D. Scott, 1991, p. 227; Wilson, 1969a, p. 79).

At the same time, New Zealand’s attitude towards the islands also started changing. Wellington began to gradually and unilaterally treat the Cook Islands “as if they were not after all part of New Zealand, but had the status of non-self-governing territories over which New Zealand held a form of trusteeship” (Bertram, 1987, p. 26). This remarkable change in attitude likely resulted to a degree out of the perceived conflict between the islands’ seemingly anomalous status and the centralist direction took by New Zealand’s government. The strongly centralised New Zealand state saw no room for accommodating politically autonomous communities within the framework of the New Zealand state (Bertram, 1987, pp. 21–22). More importantly, by the end of the World War II the global sentiment turned against colonial powers. New Zealand, which itself was a former colony, was naturally inclined to support the right to self-determination and was eager to present itself as the champion for small states (Quentin-Baxter, 2000, p. 429). Like the annexation of the Cook Islands in the late 19th century, in the post-war world “decolonising” the islands was seen by New Zealand’s politicians as a way of gaining international prestige (Bertram & Watters, 1984b, p. 5; McKinnon, 2013).

In line with this new policy of decolonisation (and partly in response to the growing dissatisfaction with the quality of the New Zealand’s administration on the islands), the government started taking steps towards granting more self-government to the Cook Islands. In 1947 the Labour Government set up the Legislative Council with limited some legislative powers in the areas of taxation,
administration and public order (Gilson, 1980, p. 200). Furthermore, New Zealand’s politicians began to significantly increase the amount of financial transfers to the islands. The chief rationale behind the increased expenditure was to not just improve the standard of living, but above all to, as it was hoped, generate adequate conditions for self-government, economic self-reliance and separation from New Zealand (Gilson, 1980, p. 202). Relatively large grants were offered for public works and various infrastructural projects, including the Rarotonga airstrip and new healthcare, wireless and electric power facilities (Gilson, 1980, pp. 211–212). The expenditure on education, social services and administration was also increased, in particular in the 1950s (D. J. Stone, 1971, p. 5).

Furthermore, government funds were made available for a number of economic projects, including new food processing plants, most of which have had at best mixed results (Wilson, 1969a, pp. 90–95). The efforts to ignite economic growth via direct economic assistance and subsidies might have seemed progressive and well-meaning, but their top-down, centrally-planned nature was in line with the paternalistic style of governance (sometimes referred to as “paternalistic welferism”) that had dominated the Cook Islands since the beginning of the New Zealand’s rule (Bellam, 1981, p. 26). As noted in one report produced in the mid-1950s: “Government [in the Cook Islands] (...) is regarded as something apart to be protested against, or an orange to be sucked for unrequited handouts, rather than an agency with which the people co-operate for their own benefit” (Belshaw & Stace, 1955, p. 2).

In this context, it is perhaps not surprising that throughout much of the colonial period “indigenous entrepreneurship remained dormant and unfulfilled” (Fairbairn & Pearson, 1987). Instead, the economy remained largely dominated by the government-managed (and often mis-managed) citrus production (Bellam, 1981, p. 27). The few bigger (and at times quasi-monopolistic) businesses (mainly in the food processing sector) that established their presence on the islands (often with the backing of the central government in Wellington) were owned by mainland New Zealanders and other non-Cook Islanders (Bellam, 1981, pp. 28–29; Fairbairn & Pearson, 1987, p. 8). Unlike in the case of the enterprises established in Liechtenstein after World War Two, the businesses established in post-war colonial Rarotonga could count on generous protection and financial support offered by mainland New Zealand’s taxpayers, so it is difficult to evaluate their record. While exports of fruits increased, much of production depended on the assistance, subsidies, grants and loans from the New Zealand government (Wilson, 1969a, pp. 92–94). According to Tom Davis (the Cook Islands’ Prime

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229 The report offered a comprehensive (and often highly critical) overview of the socio-economic conditions on the islands. It argued that the best solution to the islands’ problems would be, in the words of Dick Scott (D. Scott, 1991, p. 279) “in reversal of 55 years of history (...) to place the ordering of Cook Islands lives more and more in Cook Islands hands”.

230 The canning factory established in Rarotonga was given “monopoly over processing rights” with exclusive access to fresh fruits from the islands of Atiu and Mauke, despite the opposition of the local growers for whom this new situation meant lower prices and incomes (Bellam, 1981, p. 29).

231 Between 1955 and 1965 there was also some development when it came to the creation of local co-operative enterprises, such as village credit and thrift societies, processing and marketing groups and youth clubs (Wilson, 1969a, p. 99).
Minister 1978-1987), the top-down decision to make citrus exports as the basis of the Cook Islands economy was misguided and doomed to fail in the absence of perpetual support, not just because of the high transportation costs or administrative mismanagement, but primarily because of the islands’ size that made them unlikely to be competitive in this field against any of the larger countries with a substantial agricultural hinterland (Davis, 1992, pp. 272–275).

The paternalistic, Wellington-directed style of economic management of the Cook Islands was perhaps not surprising in the context of the islands’ status within New Zealand and half a century of limited opportunities for domestic control over the Cook Islands’ administration. However, this feature of New Zealand’s policy towards the Cook Islands proved to extend beyond the islands’ economy and domestic administration: it became the driving force behind the efforts to separate the islands from the New Zealand state.

**Micro-Statehood**

**Towards Micro-Statehood**

In many other parts of the world, the term decolonisation became associated with the response of the colonial/metropolitan government to the anti-colonial forces and demands emanating out of the colonised territory (Bertram & Watters, 1984b, p. 33). In the case of the relations between the Cook Islands and New Zealand, the process of constitutionally separating the islands from mainland New Zealand was “designed” and encouraged more by the latter (with the support from the United Nations) than the former (Bertram, 1987)\(^\text{233}\). This does not mean that the Cook Islanders were fully satisfied with their political system or that they did not actively participate in the events that eventually led to their country’s independence\(^\text{234}\), but that the “local initiative” was not “the dominant, driving force in the process” (Bertram, 1987, p. 16).

\(^{232}\) Despite increasing amounts of aid, shipping services (the long-identified key obstacle to growth) remained unreliable and prohibitively expensive during the post-war colonial era (Bellam, 1981, p. 28).

\(^{233}\) It could thus perhaps be best described as an example of “upside down decolonisation” (Baldacchino, 2010; Blocker & Gulati, 2017).

\(^{234}\) Anti-colonial attitudes had some presence on the islands, to a degree in response to poor management or perceived corruption but also as a result of contacts between the Cook Islands diaspora in New Zealand and the students or immigrants from colonial or post-colonial societies. As noted by one of the experts interviewed for this thesis: “I’ve always been surprised by the extent to which colonialism here, which was fairly benign, has traumatised people. And I am not sure if it was an invention of the 1960s. As you know, everybody was decolonizing and reading French philosophers so the Cook Islanders also became radical after coming back from the universities in New Zealand. So they would come back here and become angry after having been excluded from a garden party or a tennis club. But I don’t really think that the New Zealand colonialism was excluding anyone. It was rather benign. There was also this assumption that people would die off here. Then in the 1960s when the USP was founded and people were coming to study colonialism, it seemed appropriate to kind of ‘invent’ a history of colonial oppression. For instance, there is this rather popular idea that people were forced to stop speaking the Maori language. But if you do some research you find out that it was the parents of the children who asked that their children be instructed in English in order for them to get better jobs. So it wasn’t colonialism. In fact, the missionaries taught exclusively in the vernacular and were making efforts to preserve it. But the parents resisted that and they insisted that their children learn English. Parents thought English education was better. You know, it is very critical to understand that the Cook Islanders didn’t choose to be independent. They chose being self-governing, but with a link to New Zealand” (Interview CI10).
Despite the fact that the islands were officially an integral part of New Zealand, and as such were not described as a colony, in 1946 the Government decided to present them to the United Nations as a non-self-governing territory and consequently commit itself to facilitating their self-determination (Quentin-Baxter, 2000, p. 429). In practical terms, as mainland New Zealander “were unwilling to embark upon the adjustments that would be required of them if the aspirations of Pacific Island New Zealanders were to be accommodated as part of a programme of political integration” (Bertram, 1987, p. 25) this move signalled New Zealand’s desire to induce the Cook Islands to favour secession.

While the 1940s and the 1950s were a period of gradual political reforms and attempts to build some kind of economic foundations for self-government, the 1960s saw a sharp acceleration of the (predominantly mainland New Zealand-driven) process aimed at constitutionally separating the islands from New Zealand (Wilson, 1969a, pp. 103–105). In December 1960 the New Zealand Government backed the United Nations Declaration on the Granting of Independence to Colonial Countries and People, which proclaimed that:

Immediate steps shall be taken, in trust and non-self-governing territories, without any conditions or reservations, in accordance with their freely expressed will and desire, without any distinction as to race, creed or colour, in order to enable them to enjoy complete independence and freedom (United Nations, 1960a).

Soon after, the General Assembly approved Resolution 1541 which defined what requirements necessary for the achievement of full self-determination. It stated that:

A Non-Self-Governing Territory can be said to have reached a full measure of self-government by:

a) Emergence as a sovereign independent State;

b) Free association with an independent State; or

c) Integration with an independent State (United Nations, 1960b).

According to Bertram and Watters (Bertram & Watters, 1984b, p. 35) the second option, i.e. the institution "free association" appears to have been "tailor-made for cases such as the small island territories of the Pacific, where links (...) to the metropolitan countries were highly valued, and where the pre conditions for viable sovereign nationhood seemed to be lacking". In other words, it was recognised that some polities, due to their demographic or geographic constraints, might

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235 One author has criticised the New Zealand Government’s decision to present the Cook Islands as non-integral parts of the New Zealand’s territory by arguing that New Zealand should have followed the lead of France which declared its remaining overseas territories as part of metropolitan France (Northey, 1965, p. 113). However, another writer (D. J. Stone, 1965) pointed out that unlike the French overseas territories, the Cook Islands had no democratic representation within the New Zealand’s parliament.

236 Interestingly, the Resolution 1514 was based on the assumption that a colonial people would not wish to retain their status quo (Bertram & Watters, 1984b, p. 35).

237 See Clark (R. S. Clark, 1980) for an overview of the evolution of the concept within the United Nations.
struggle to attain politico-economic viability and as remedy might pursue to secure a closer association with a larger state. The free association was understood as a voluntary arrangement sought by the weaker party, to which the stronger party merely agreed to while respecting the weaker party’s sovereignty. As such it was “designed to provide positive discrimination in favour of the small and the weak, enabling them to benefit if they wished from the benevolence of their former colonial power, without incurring any binding reciprocal obligation” (Bertram & Watters, 1984b, p. 35). It is worth noting that this language is not substantially different to that used to describe the old idea of protected statehood, as analysed in Chapter Two.  

Out of the three options, the second one appeared to be the best, at least from the point of view of New Zealand’s government. Full integration was seen as unacceptable, or at least very difficult, from the political point of view. On the one hand, the Cook Islanders would have likely been opposed to becoming fully integrated into the New Zealand fiscal and legal system (as illustrated, among other things, by the local reactions to New Zealand’s attempts to enforce some of the income tax legislation on the islands) while at the same time risking losing their unique social or political institutions. On the other hand, New Zealand’s government was firmly unwilling to seriously consider proposing any integration model that would allow for the Cook Islands to retain a degree of local autonomy (Bertram & Watters, 1984b, pp. 40–48). Likewise, independence without any special arrangement with New Zealand seemed unacceptable primarily because of the concerns of the islanders’ about the politico-economic viability of their polities.

238 Indeed, two authors have even called the idea of free association a “re-invention of the nineteenth-century concept of the ‘protected state’” (McGrew & Brook, 1998, p. 212). However, such arguments appear to have been largely absent from the discussions that took place in the 1960s. Similarly, it appears that no scholars or politicians linked the proposed options of free association to the status of the protected states (e.g. Liechtenstein) that already existed (though admittedly perhaps seldom identified as such) in that period. Finally, there appears to have been little discussion about the implications of size on the process of formation of freely associated or protected statehood. One of the aims of this thesis is to bring these two concepts together, as well as to close the gap between the non-colonial protected states and the states that became freely associated/protected in the process of decolonisation.

239 One author (Michal, 1993) argued that the term “protected state” could be used as a better way to describe, some, albeit perhaps not all, of the freely associated states. His analysis is somewhat inconsistent. On the one hand, he argues that voluntary delegation of certain attributes of sovereignty to another state is both a feature of protected statehood and a condition that is not inconsistent with the protected state’s sovereignty. On the other hand, he proposes that Federated States of Micronesia and the Republic of the Marshall Islands are better examples of protected states than Niue or the Cook Islands because the latter delegate more of their sovereign authority to New Zealand than the former do to the United States. If all four entities can be considered to sovereign (and as quoted in Michal’s paper, there are “no half measures in this sphere”), then the specific degree to which they choose to voluntarily “restrict the exercise of [their] sovereign rights in a certain area” (James, 1986, pp. 100–101) and allow other countries to act on their behalf (while retaining the option to withdraw their delegation of authority), should not determine their status as sovereign, albeit protected, states.

240 Bertram and Watters (Bertram & Watters, 1984b, p. 43) argue that this was largely due to the strongly centralised nature of the New Zealand’s state in the 1960s. At that time, “the concept and institutions of regional autonomy were foreign to New Zealand minds. (…) The absence of a vital tradition of local and regional autonomy in New Zealand that rendered unacceptable a constitutional arrangement which would have conceded internal self-government to the Island territories while binding them explicitly into the New Zealand nation.” See Bertram and Watters (Bertram & Watters, 1984b, pp. 40–48) for an excellent discussion over the rationale behind New Zealand’s position on the question of integration and the attitude to this position on the islands.
in the absence of support from New Zealand (Bertram & Watters, 1984b, pp. 48–58).

In this context, the option of independence with free association was seen as a good compromise. For many Cook Islanders it represented an acceptable and safe option. For New Zealand’s political elites it offered an acceptable opportunity “to emerge [out of the decolonisation process] with a good reputation both internationally and at home” (Bertram, 1987, p. 22).

Arguably, beyond the political arguments against either full integration or non-associated stated, the Cook Islands’ demo-geographic constraints can explain why protected/freely associated statehood seemed acceptable, or even desirable. On the one hand, the Cook Islanders were aware of the limitations imposed upon them by their tiny size, lack of substantial natural resources and geographic isolation. As such they were anxious to retain not just the assistance of a larger state for the purpose of preserving their polity’s viability but also the socioeconomic opportunities offered by having access to the larger state’s market and institutions (including freedom to migrate) (Bertram & Watters, 1984b, p. 56). The free association offered the real possibility of overcoming the limitations of geography and demographics while at the same entering the exclusive club of sovereign states (see below), and not only retaining control over domestic policy or the shape of the country’s political system and future but also gaining voice and identity in the international arena. Not surprisingly, with time the free association solution, initially seen mainly as the safe, “conservative” option (Bertram & Watters, 1984b, p. 47), eventually became more often perceived as “the best of both worlds” (Jonassen, 1996, p. 55; Quentin-Baxter, 2009, p. 629). On the other hand, a similar perception of the islands’ geo-demographic constrains was present among the New Zealand’s (and foreign) policymakers who, in light of these challenges, saw the idea of the Cook Islands’ independence without any special arrangement with a larger state as “nonsense” (Wilson, 1969a, p. 104). This was particularly true in the context of the apparent problems experienced by Western Samoa, a “non-associated” state that faced “formidable problems in constructing an independent nation” (Bertram, 1987, p. 25) despite being many times larger, more populous and richer in natural resources than the Cook Islands.

241 According to one of the interviewees, this was particularly true for the Cook Islands’ elites: “The people that became the new elite here were purely pursuing their self-interest. I don’t think they wanted independence. They wanted to become governors, they wanted to become powerful, but they wanted to be constantly backed up by New Zealand. So what we had here was a group of people that simply wanted more power and that were not concerned too much about grand ideas of decolonisation” (Interview CI10).

242 Throughout the process of decolonisation “The key feature of New Zealand policy (…) was an almost obsessive fear of being seen to do anything that might be construed internationally as constraining the freedom of the Island territories to opt for full independence at any time they might choose” (Bertram & Watters, 1984b, pp. 48–49).

243 At the time of Western Samoa’s transition into independence, the idea of a country with 100,000 people was also seen by some as “reductio ad absurdum” (McIntyre, 1999, p. 208). Interestingly, following its independence Western Samoa delegated some of its authority to New Zealand (primarily when it came to the conduct of foreign affairs and consular assistance), which led to some arguments that Western Samoa was a “protected” or “associated” state (Quentin-Baxter, 1987, p. 361). However, in that case the delegation of authority was practically limited to just one area of government activity (and over the last decade the state has become a more direct and active participants in the international affairs). Importantly, there is no freedom of movement between
that the Cook Islands’ smallness was the “the key thing” (Interview CI6) that made the associated statehood both desirable and possible was shared by all the experts interviewed for this thesis.

In this context, it is therefore perhaps not surprising that when, following the move to grant financial autonomy to the Cook Islands’ Legislative Assembly (Wilson, 1969a, p. 107) in 1962, the New Zealand government asked the Assembly to choose between “(1) complete independence from New Zealand, as Western Samoa had recently selected; (2) complete integration with New Zealand; (3) full internal self-government; or (4) eventual integration into an as-yet non-existent Polynesian or Pacific federation” the Assembly chose the third option, in line with the New Zealand government’s recommendation (Smith, 2010, p. 179)\(^\text{244}\). Two years later, and after consultation with the Cook Islands’ Legislative Assembly, the New Zealand Parliament enacted the Cook Islands Constitution Act 1964. The Act was set to come into effect “on a date requested by the Legislative Assembly after a general election was held in the islands” (Smith, 2010, p. 180). The election took place in 1965, under the United Nations supervision. Despite the bad weather, official results showed a 95% turnout with the majority of votes going to the pro-free association Cook Islands Party (D. Scott, 1991, p. 299; Smith, 2010, p. 181). After the New Zealand Parliament made some changes to the act in response to the requests from the newly elected Assembly, the Assembly voted to approve the new constitution. The new constitution entered into force on 4 August 1965, thereby establishing the Cook Islands as a Freely Associated State.

**Micro-Statehood**

The Cook Islands’ status as a Freely Associated state has been a source of significant confusion, both within the Cook Islands and in the rest of the world (including New Zealand) (Quentin-Baxter, 2009, p. 611). To many people, superficially the country appeared to “to occupy the ill-defined no-mans-land between colony and independent statehood” (Smith, 2010, p. 170). On the one hand, the Cook Islands was declared to have attained “full government” and established numerous institutions normally associated with sovereign states. On the other hand, the Cook Islanders retained their New Zealand citizenship, full access to the New Zealand labour market and socio-economic infrastructure, and delegated a number of attributes of sovereignty to their former metropolitan power. Furthermore, while it belongs to a number of international bodies, it has not become a member of the United Nations. In other words, on the surface there is a considerable amount of confusion regarding the question of whether or not the Cook Islands is a sovereign state. As demonstrated in the previous chapter,
similar vagueness surrounded the question of Liechtenstein’s status as a sovereign state, especially in the early decades of its existence on the international arena. Just like in the case of Liechtenstein, the source of the confusion lies in the external perception of the peculiar arrangement between the Cook Islands and a larger state. And just like in the case of Liechtenstein, a more careful analysis of this arrangement demonstrates that it is not inconsistent with the concept of sovereign statehood.

The Cook Islands’ Constitution and arrangements with New Zealand have retained certain legal and symbolic ties between the two countries. First of all, the Cook Islands has chosen to recognise “Her Majesty the Queen in right of New Zealand” as its Head of State. Second, the two countries have frequently emphasised their “commitment to shared values” (Quentin-Baxter, 2009, pp. 613–617). Third, the Cook Islands legal system and administration of justice remains to a degree linked to that of New Zealand’s. Furthermore, the New Zealand Government has also expressed official commitment to giving (vaguely specified) continual financial and other support to the Cook Islands (Quentin-Baxter, 2009, pp. 613–617). While the above features of the relationship between the two countries might be contributing to the confusion of the Cook Islands’ status, they are not significantly different to those present in many other Commonwealth countries and relations between them.

What matters from the point of view of sovereign statehood is the fact that the Cook Islands is free to unilaterally end its relationship with New Zealand (Neemia, 1995, p. 127; Quentin-Baxter, 1999, p. 590; Smith, 2010, pp. 204–205) and

245 The Cook Islands Constitution (together with its subsequent amendments) and the New Zealand statute that enacted it do not explicitly define the concept of “free association”. As such, its nature has to be “deducted” from these documents’ provisions, as well as from the “solemn assurances and practice of partner governments” (Quentin-Baxter, 2009, pp. 612–613).

246 As noted by Smith (Smith, 2010, p. 183): “Although there is only one individual who is the Queen, it has been widely recognised since the 1950s that the Crown - meaning the Sovereign - is a legal entity that is distinct from the personage of the Queen and is therefore divisible among separate jurisdictions.”

247 The 1965 constitution did not make a provision for the establishment of the appellate court in the Cook Islands. Instead, the appeals from the High Court of the Cook Islands were to be heard by the High Court of New Zealand. Likewise, all the public funds and accounts of the Cook Islands’ government were to be audited by the Audit Office of New Zealand (Smith, 2010, p. 184). Later amendments established a Court of Appeal of the Cook Islands and “the court of final appeal for the Cook Islands has shifted from the High Court of New Zealand to the Judicial Committee of the Privy Council in London” (Smith, 2010, p. 189). Furthermore, the Audit Office of the Cook Islands has been created and assumed the responsibilities previously given to the Audit Office of New Zealand. While “some significant ties remain between the legal systems of the two countries, there is no doubt that today the Cook Islands’ judicial system bears close resemblance to the systems that currently exist in some of the smaller independent states of the Pacific and the Caribbean” (Smith, 2010, p. 189). The primary links between the two systems exist largely due to the Cook Islands’ small size (which would make it difficult to find unbiased judges). The Cook Islands’ governments appoint High Court Judges from New Zealand and they tend to be highly experienced, senior or retired Judges of the High Court and Court of Appeal of New Zealand. These external judges are perceived as independent and appointed on merit. By contrast, the local Justices of Peace are appointed on the basis of more questionable qualifications. Nevertheless, the country’s judiciary is widely regarded as independent, strong, highly skilled and certainly among the best in the South Pacific.

248 Smith even explicitly likened the Cook Islands to Liechtenstein by highlighting that the Cook Islands “the same unilateral sovereign right as Liechtenstein to initiate or terminate any agreement to cooperate with New Zealand or any other State in external affairs” (Smith, 2010, pp. 204–205).
that New Zealand recognises the Cook Islands’ Parliament’s (which replaced the Legislative Assembly) exclusive and full powers to unilaterally make and execute its own laws. Significantly, the constitution explicitly states\textsuperscript{249} that no laws or decisions made by the New Zealand parliament are applicable to the Cook Islands, without latter’s consent (Bertram & Watters, 1984b, p. 56; Cook Islands Parliament, 2004; Quentin-Baxter, 2009, p. 611; Smith, 2010, p. 181).

However, the degree of external ambiguity surrounding the Cook Islands’ status is primarily related to two other elements of its association with New Zealand: the exercise of sovereign rights in the area of foreign affairs and defence, and the question of the Cook Islanders’ citizenship. Regarding the first one, much of the controversy was largely generated by the 1964 New Zealand statute containing Section 5 that stated the following:

External affairs and defence - Nothing in this Act or in the Constitution shall affect the responsibilities of Her Majesty the Queen in Right of New Zealand for the external affairs and defence of the Cook Islands, those responsibilities to be discharged after consultation by the Prime Minister of New Zealand with the Prime Minister of the Cook Islands. (New Zealand Parliament, 1964).

This section, that became known as “the Riddiford clause” after the chairman of the Island Territories Committee, for some time added significantly to the confusion surrounding the Cook Islands’ status in the international affairs, as it was initially understood to mean that the Government of New Zealand retained exclusive power of the Cook Islands’ external affairs and defence (Smith, 2010, p. 184). However, this understanding was at odds with the official statement provided by the New Zealand’s government to the United Nations in 1965 according to which:

\[\text{[In] the matter of external affairs and defence (...) note also these two more fundamental conditions; first, New Zealand has no unilateral power within the Cook Islands to pass laws or make regulations on external affairs or defence or anything else; therefore nothing New Zealand does on behalf of the Cook Islands in these fields can have practical effect there unless the Cook Islands Government takes whatever legislative, executive or administrative action is required. Secondly, New Zealand can discharge these responsibilities only so long as the Cook Islanders so desire; the Cook Islanders have the power, under Article 41 of their Constitution, to change the free association arrangement and discharge these responsibilities for themselves (Frame, 1987, p. 144).}\]

Indeed, over time “the dominant interpretation” and understanding of the clause has shifted considerably (Smith, 2010, p. 184) and by the 1980s (especially after the Cook Islands’ decision to transform its informal External Affairs Division into a formal Ministry of Foreign Affairs) the constitutional convention recognising the

\textsuperscript{249}“Except as provided by Act of the Parliament of the Cook Islands, no Act, and no provision of any Act, of the Parliament of New Zealand passed after the commencement of this Article shall extend or be deemed to extend to the Cook Islands as part of the law of the Cook Islands” (Cook Islands Parliament, 2004).
Cook Islands’ ultimate decision making-power in these areas had clearly been established (Frame, 1987; Smith, 2010, p. 191). This was further and confirmed by the two countries’ governments in their 2001 Joint Centenary Declaration, which stated the following:

In the conduct of its foreign affairs, the Cook Islands interacts with the international community as a sovereign and independent state [emphasis added]. The responsibility of international law rests with the Cook Islands in terms of its actions and the exercise of its international rights and fulfilment of its international obligations (...) Any action taken by New Zealand in respect of its constitutional responsibilities for the foreign affairs of the Cook Islands will be taken on the delegated authority, and as an agent or facilitator at the specific request of the Cook Islands. Section 5 of the Cook Islands Constitution Act 1964 thus records a responsibility to assist the Cook Islands and not a qualification of Cook Islands’ statehood (‘Joint Centenary Declaration of the Principles of the Relationship between the Cook Islands and New Zealand’, 2001).

New Zealand’s recognition of the Cook Islands’ sovereignty is naturally of great significance to any debate on the country’s status. However, what matters even more from the point of view of the Cook Islands’ position in the international system is the fact that other states have also recognised it as a state in international law (Quentin-Baxter, 2009, p. 618). Since 1965 the Cook Islands have established diplomatic relations with 40 states (including Australia, People’s Republic of China, France and a number of Pacific island-states), has become a signatory of over 100 multilateral conventions (including the UN Convention on the Law of the Sea, the Framework Convention on Climate Change and the Geneva Convention) and has become a member of some of the key international organisations (including the World Health Organisation, the Educational, Scientific and Cultural Organisation, the International Maritime Organisation), many of which are explicitly only open to “states” (Smith, 2010, pp. 194–196).

Of particular importance was the signing of the bilateral friendship and maritime border Treaty between the United States of America and the Cook Islands. Initially, the United States’ officials were unsure whether or not the Cook Islands was a sovereign state capable of signing such a treaty. Upon receiving confirmation from the New Zealand government that the Cook Islands were indeed capable of entering into treaty relationships with other states, the Treaty between the Cook Islands and the United States was signed (Smith, 2010, p. 193; ‘Treaty between the United States of America and the Cook Islands on friendship and delimitation of the maritime boundary between the United States of America and the Cook Islands’, 1980). The treaty itself does not mention New Zealand and clearly recognises both the treaty-making ability of the Cook Islands and its sovereignty over the islands covered by the Treaty.

According to a representative of the Cook Islands’ Ministry of Foreign Affairs and Immigration interviewed for this thesis, much of the confusion surrounding the Cook Islands’ status in the international arena has historically been likely linked to the existence of many island-polities the size of the Cook Islands that have remained non-sovereign and indeed quite opposed to the idea of becoming
sovereign states (Interview CI5). Due to the Cook Islands’ isolation and relatively low-profile participation in the international affairs, some countries might have assumed that they were akin to one of the equally small, but non-sovereign sub-national jurisdictions (Interview CI5). Nonetheless, over the last decades the Cook Islands have gained a wide recognition across the globe, and it is clear that it has the capacity to enter into relations with other states.

Finally, and perhaps most controversially, the Cook Islanders have retained New Zealand citizenship. The Constitution Act confirmed that:

Nothing in this Act or in the Constitution shall affect the status of any person as a British subject or New Zealand citizen by virtue of the British Nationality and New Zealand Citizenship Act 1948 (New Zealand Parliament, 1964).

Likewise, the New Zealand Citizenship Act of 1977 and the Citizenship Amendment Act of 2005 recognise the Cook Islands as part of New Zealand for the purpose of obtaining New Zealand citizenship by birth\(^\text{250}\). Retaining New Zealand citizenship has always been seen by the Cook Islanders as one of the key benefits of their country’s special relationship with New Zealand, and its guarantee in the Constitution Act was one of the main reasons why the option of associated statehood was considered to be attractive (Bertram, 1987, p. 26; Bertram & Watters, 1984b, p. 49). In practical terms, the New Zealand citizenship has been seen as important “mainly because it carries with it the right to live, work and study in New Zealand” (Quentin-Baxter, 2009, p. 614). In other words, the New Zealand citizenship is a guarantee of the access to the New Zealand’s market and infrastructure (including education and healthcare services). From this practical point of view, it is arguably akin to the rights enjoyed by the citizens of the Principality Liechtenstein in Switzerland by virtue of their various arrangements. However, in the absence of such flexible and liberal arrangements between New Zealand and other Pacific nations (or any credible proposals to create such arrangements for the Cook Islands), it is not surprising that the New Zealand citizenship appears as the only guarantee of continual access to New Zealand. It can also be seen as the simple “window” through which the Cook Islands can “outsource” the provision of some of the key public goods (e.g. sophisticated medical care, high-level education, some elements of welfare and consular assistance) to New Zealand. Furthermore, the fact that Cook Islanders are New Zealand citizens is seen as a factor that strengthens New Zealand’s commitment to maintaining the special relationship with the islands. As noted by one of the local experts:

\(^{250}\) New Zealand citizenship can be obtained by birth, grant or descent. Following the changes made in 2005 only those born in New Zealand to at least one parent with the right to reside in New Zealand indefinitely (in practical terms a resident class visa holder or any kind of citizen) can become New Zealand citizens by birth. Citizenship by descent can be obtained by those born outside of New Zealand to at least one parent who is a New Zealand citizen by birth or grant (New Zealand Parliament, 1977, 2005). It is therefore of crucial importance to the Cook Islands to be considered as part of New Zealand for the purpose of obtaining New Zealand citizenship, as otherwise the Cook Islanders born on the islands (or in any country other than New Zealand) would lose the right to pass their New Zealand citizenship to their children also born in the Cook Islands.
New Zealand is in a difficult position because they need to be responsible for their citizens and hence they feel responsible for the Cook Islands (Interview CI10).

Why did New Zealand agree to allow the Cook Islanders to retain its citizenship and why has no government considered removing it? According to a legal and political expert based in the Cook Islands (Interview C6), the answer to both questions lies largely in the Cook Islands’ small size. Allowing a tiny population of Cook Islanders to remain New Zealand citizens after independence was never seen as particularly problematic or controversial. At the same time, it was clear that without the offer of citizenship, the transition to independence would have encountered much more resistance among the islanders concerned about their future in the new, potentially economically non-viable state (Bertram & Watters, 1984b, p. 49). In theory, the New Zealand Parliament could remove the right to obtaining New Zealand citizenship by birth on the Cook Islands, or even deprive the Cook Islanders of their New Zealand citizenship (D. J. Stone, 1971, pp. 193–194). However, such a move would certainly be legally difficult and it would require a tremendous amount of political support to pass, particularly in light of the fact that approximately 90% of the ethnic Cook Islanders (many of whom are of mixed ancestry and have lived outside the islands for two or three generations) currently reside in New Zealand or Australia (Crocombe et al., 2008, p. 156). Should New Zealand want to effectively deprive all “Cook Islanders” of their New Zealand citizenship, it would need to not only come up with a sensible way of determining whom it considers to be a “Cook Islander” but also face the fact that such a move could potentially make tens of thousands of residents of New Zealand stateless, which would be problematic from the point of view of the international law (Blocker & Gulati, 2017; Sawyer, 2013). It is perhaps more plausible that New Zealand might one day decide to stop treating the Cook Islands as part of New Zealand for the purpose of obtaining citizenship by birth, but according to the expert interviewed for this thesis this move alone would not make much of a difference, other than to encourage more Cook Islanders to move to New Zealand. The expert noted that:

[New Zealand] cannot [easily] withdraw its nationality, without at least a court order. And [without changing the legislation] it can only do so for the reason of treason and this is not the case. So, the people here, New Zealanders, would not be affected, in terms of their citizenship, even if the free association agreement was to disappear. What about their kids [in case New Zealand changed the law and declared that the Cook Islands are no longer considered as part of New Zealand for the purpose of obtaining citizenship by birth]? They are born here, but still, to New Zealand parents, so they are still New Zealanders [by descent]. And it is the same if they were born in Switzerland, France or China. They are still New Zealanders because of their parents. It’s [hard to imagine] that New Zealand would declare the Cook Islands as the only place on Earth where a child born to New Zealanders is not a New Zealand [citizen by descent]. But then somebody might ask about another generation and claim that their children would have to be born in New Zealand. Well, if that’s the case, then all the people from here could just simply fly to New Zealand to give birth and then
their children would remain New Zealand citizens. There is no end to it (Interview CI6).

In other words, the Cook Islands’ population is so small, that the Cook Islanders’ right to New Zealand citizenship is largely seen as non-problematic\(^{251}\), regardless of the other arrangements under the framework of free association. It could, therefore, be argued that shared citizenship is one just one of the most interesting but also durable features of the peculiar relations between the Cook Islands and New Zealand. It is the “most tightly protected dimension of free association”, as put by one Cook Islander writer (Marsters, 2017).

At the same time, the issue of shared citizenship is sometimes presented as inconsistent with the idea that the Cook Islands’ is a sovereign state. In particular, it has been (rather casually) argued that due to the fact that the Cook Islanders lack their own citizenship, their country might be ineligible to become a member of the United Nations, or that its membership in the organisation would result in a loss of New Zealand citizenship (Andrews, 2001a; Small & Day, 2015). This concern\(^{252}\) has been the key reason why the Cook Islands’ government has been reluctant to apply for membership in the organisation\(^{253}\). However, it is not clear why the lack of separate citizenship or the fact that the Cook Islanders are entitled to New Zealand citizenship, should be at odds with the country’s eligibility for the United Nations membership. As argued by the Cook Islands’ government officials: “there’s nothing about having your own and separate citizenship in the criteria for joining the UN” and that they do not believe that the question of the Cook Islands’ shared citizenship, should “form part of the discussion” ('Cooks citizenship shouldn’t be part of UN membership discussion’, 2015)\(^{254}\).

The membership is open to “all other peace-loving States which accept the obligations contained in the present Charter and, in the judgment of the Organization, are able and willing to carry out these obligations” (United Nations, 1945). As persuasively argued by Smith (Smith, 2010), the Cook Islands meets all of the above requirements. While there is no official United Nations definition of “states”, the Cook Islands not only meets the criteria described in the 1933 Montevideo Convention on the Rights and Duties of States, but its statehood has also “been implicitly acknowledged by most other UN members through their permitting the Cook Islands to become a member of international organisations

\(^{251}\) Even if all of the Cook Islanders currently living on the islands were to decide to immediately move to New Zealand\(^{251}\), this would mean just 15,000 new residents, which even for a relatively small New Zealand (4.7 million inhabitants) is a tiny number.

\(^{252}\) Or rather the voters’ perception of this risk (Bertram & Watters, 1984b, p. 48)

\(^{253}\) The main rationale for applying for the UN membership is to increase the recognition and strengthen the position of the country in the international arena. After all “the smaller the nation the higher the proportion of decisions relating to it made outside it” (Crocombe & Crocombe, 1990, p. 36) and hence it often makes sense for small polities to try to have at least voice in the international arena. A UN membership could also be a more affordable way of maintaining contacts with other states as “belonging to a universal forum allows [states] to maintain contacts to many States at a small fraction of what it would cost to maintain a worldwide diplomatic apparatus” (Smith, 2010, p. 214).

\(^{254}\) Interestingly, New Zealand itself became a founding member of the United Nations 1945 when its people were still classified as British subjects (Webb, 2015).
that are open only to States” (Smith, 2010, p. 201). As noted by the Cook Islands expert on international interviewed for this thesis:

The Cook Islands is very different to all sorts of autonomies and dependencies. If you go by the Montevideo criteria for statehood, it meets all of them. From the legal point of view, the Cook Islands has been sovereign since 1965. (...) The other requirement for UN membership is financial ability to meet UN responsibilities. And it’s not a huge burden so the Cook Islands is certainly able to do it (Interview CI6).

In this context it is unclear why New Zealand politicians seem to consider it necessary to potentially discuss amending the citizenship rules should the Cook Islands choose to become a UN member state255256. One explanation257, consistent with the arguments put forward in Chapters 2 and 3, was hinted at by some of the interviewees (Interviews CI10, CI2, CI1) according to whom New Zealand is willing to offer unique privileges the Cook Islands only for as long as it perceives it as small and vulnerable, but not necessarily if the Cook Islands were to become a more prominent state in the international arena. As noted by Smith, some Cook Islanders believe that for New Zealand, their country’s UN membership could be seen as a sign that Zealand “is no longer needed by its former ‘colony’, and that New Zealand therefore would use the event as a justification for unilaterally terminating the relationship of free association with the Cook Islands” (Smith, 2010, p. 214). One of the interviewed experts agrees that New Zealand might less willing to offer economic or political assistance to the Cook Islands should the country be seen as more prosperous or politically viable, but in the experts’ opinion any change to shared citizenship is unlikely, regardless of whether the Cook Islands joins the United Nations:

New Zealand is kind of stuck with Cook Islanders being its citizens. They know that. They have [90%] of the Cook Islands’ population in NZ and Australia and they know that they would have to deal with internal turmoil, opposition if they were to come up with any decision that was to affect negatively the relations between the Cook Islands and NZ. And I don’t feel that they would want that. (...) It’s just not in New Zealand’s interest to make a big deal about that, because from the legal point of view they cannot do much and because politically it doesn’t make any sense or would be very difficult. And you know, the Cook Islands are so small! It’s not a big problem. To the contrary, being understanding would be great for New

\[255\] This might be seen as particularly confusing in light of New Zealand’s lack of similar stance when it comes to the Cook Islands’ membership in other international bodies, as well as in the context of New Zealand’s own history of membership in the United Nations – at the time when New Zealand was the organisation’s founding member, New Zealanders did not have their own separate citizenship and were instead considered as British subjects.

\[256\] Potential changes might not necessarily require stripping the Cook Islanders currently holding New Zealand citizenship of their citizenship, but perhaps removing the right of the Cook Islanders born on the islands to acquire New Zealand citizenship by birth (Andrews, 2001b)

\[257\] According to another proposed explanation, New Zealand wants to keep “control” over the islands and tries to prevent taking steps that could “allow the entry of hostile countries or countries with very different political ideologies such as China and Russia” (Rasmussen, 2017). However, it is worth noting that New Zealand has historically been supportive of the Cook Islands’ membership in many other international organisations (Webb, 2015) and that it has in fact actively cooperated with China on developmental projects in the Cook Islands (Dornan & Brant, 2014).
Zealand, for its image. If they wanted to negotiate, for example, that the Cook Islanders have dual citizenships, then why not? It doesn’t harm NZ in any way and yet it puts in a positive light and they can make history. Everybody would be looking at NZ and seeing it as a great country. They would be a positive example of decolonization. It would actually be a very interesting process (Interview CI6).

In sum, the Cook Islands is an example of a microstate understood as a modern protected state. A combination of its small size, geostrategic insignificance, together with specific historical circumstances has led to its formation as New Zealand’s protected state. In order to overcome the constraints imposed on it by its geography and demographics, it has voluntarily delegated the exercise of certain basic authority to New Zealand in exchange for benign protection of its political and economic viability. The formation of the Cook Islands’ statehood can thus be explained by the model proposed in Chapter 3. The following section also demonstrates that the Cook Islands has been able to use its benign protection for the purpose of economic growth.

Economic Development under New Zealand’s benign protection

Economic Indicators and Current Situation

According to most economic indicators, the Cook Islands has one of the strongest and most developed economies among all sovereign island-states of Oceania (Asian Development Bank, 2008, p. xi; Bertram, 2016, pp. 52–53; Brown, 2015, p. 31)\(^{258}\). The Cook Islands’ real GDP per capita (as of 2015) of $16,834 USD (Ministry of Finance and Economic Management, 2017) might not look impressive in comparison with that of Liechtenstein, but it is nonetheless among the highest in the Pacific. More importantly, broader socio-economic conditions, wages and the living standards are considered to be high\(^{259}\) (Asian Development Bank, 2008; Cook Islands Government, 2015b; World Health Organization, 2012). According to the latest data, the Cook Islands has the highest Human Development Index among “the region’s independent nations” (Asian Development Bank, 2008, p. 2).

However, it is important to note that the local population “compares their expectations of income, public services and opportunities to those on offer in...”

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\(^{258}\)Bertram (Bertram, 2016, pp. 52–53) notes that such comparisons “provide an incomplete picture” because they exclude the region’s non-sovereign island jurisdictions (e.g. French Polynesia, New Caledonia, Wallis and Futuna, American Samoa, Hawai‘i). This observation is of particular importance for debates on the economic consequences of non-sovereignty/dependence. As noted in Chapter 2, the high levels of prosperity found in many dependencies and other sub-national jurisdictions demonstrate some of the benefits of non-sovereignty (Armstrong & Read, 2000; Baldacchino, 2006a; Baldacchino & Milne, 2008; J. McElroy, 2006). However, one of the points made in this thesis is that for at least some of the tiny states, sovereignty does have to mean giving up some of the benefits associated with remaining integrated (albeit autonomous) within a larger state structure. Indeed, while the Cook Islands have lower income levels than some of the non-sovereign island territories in the Pacific (namely New Caledonia, Hawaii, Guam and to a degree French Polynesia), it appears, according to some of the standard indicators, to be more economically successful than not just all sovereign states in the region (except New Zealand), but even some of the sub-national jurisdictions belonging to far richer states (e.g. American Samoa and Wallis and Futuna) (Bertram, 2016, p. 53).

\(^{259}\)there are significant differences in levels of prosperity between Rarotonga and the outer islands (except Aitutaki), with former exhibiting living standards much higher than the latter (Bertram, 2016, p. 16).
Australia and New Zealand”, rather than any of the other states or territories in the region (Cook Islands Government, 2015b, p. 6). This is naturally one of the consequences of free association with New Zealand and the related freedom of movement (to both New Zealand and Australia) and good familiarity with the living standards in both New Zealand and Australia (Asian Development Bank, 2008, p. 2). This reality creates some problems for the local economy, according to a high-ranking government official interviewed for his thesis. In his opinion:

The wages are already relatively high here. The thing is that they cannot go much higher with the current productivity of our industries as this would make our industries unprofitable. (…) In general, we have two choices if we want to grow any further. We can either improve productivity or import more labour. The problem is that when we improve our labour’s productivity through education, etc. our workers become competitive in the New Zealand labour market and they move there for higher wages and higher standards of living. In effect, we go back to the situation of insufficient workforce despite increasing productivity (Interview CI1).

This issue is partly related to the Cook Islands’ economy’s’ heavy reliance on tourism260. Tourism accounts for around 60% of the country’s economy and “the vast majority of services exports” (Cook Islands Government, 2015b, p. 6). While tourism has brought “exceptional economic development” to the islands, it has also made the economy vulnerable to external price shocks (particularly the price of fuel). The vast majority (around 70%) of tourists arrive from New Zealand (Brown, 2015, p. 43). The tourism boom has significantly transformed the country’s balance of payments generating significant surpluses (37% of the GDP for 2014 and 41.3% of the GDP projected for 2017) (Bertram, 2017, p. 7).

The Cook Islands’ marine sector (predominantly made up of tuna fisheries) is responsible for nearly all (96%) of the country’s goods exports. Most of the revenues from this sector come in the form of licensing fees paid by overseas fishing companies (Brown, 2015, pp. 47–48). Other exports include pearls and small amounts of agricultural products. As noted earlier, there is some potential for undersea mining that might significantly affect the structure of the country’s export (and the wider economy) in the future.

The Cook Islands government plays a significant role in the economy. Its total expenditure has been close to 40% of the GDP in the recent decade. Much of it remains funded through foreign aid, grants and some borrowing (Bertram, 2017).

The impact and type of benign protection
The current tourism boom and the rather significant role played by the private sector (tourism) in the economy represent a significant departure from the post-

260 In other industries productivity can be increased by using better capital and technologies. However, technological advancements have little impact on productivity in the tourism sector in the Cook Islands. As argued by the interviewed official: “when it comes to tourism, productivity does largely depend on the skills and education of our workforce. Yes, we can have higher productivity with better technology, better buildings, etc., but at the end of the day it’s a service industry and the best way to make it more productive is to use better educated and higher skilled labour. Any increases in productivity would come from better administration, marketing, managements but also from the provision of new, more sophisticated services” (Interview CI1).
war years and the early decades of the Cook Islands’ independence. In preparation for self-government New Zealand government spent considerable sums on creating large administrative and welfare structures, which were supposed to underpin the socio-economic “self-reliance” of the new state (Bertram, 1987, p. 26). It was hoped that the establishment of a “full-blown colonial welfare state” would “be legitimated at a later stage by the emergence of a locally-produced economic surplus capable of sustaining that state” (Bertram, 1987, p. 26). In other words, the Cook Islands emerged as a sovereign (albeit freely associated/protected) state with relatively large bureaucratic structures (creating both services and employment) “constructed to New Zealand specifications”, and high expectations regarding standard of living based on services financed by grants from New Zealand (Bertram & Watters, 1984a, p. 134).

New Zealand’s continuous commitment to funding the structures it had designed, led to the emergence of a peculiar type of economy described by Bertram and Watters as MIRAB (an acronym for Migration, Remittances, Aid and Bureaucracy) (Bertram & Watters, 1984a, p. 133). MIRAB refers to a relatively steady and seemingly sustainable economic system (and relatively high standards of living) underpinned by aid-financed domestic public service employment remittances sent from the continuous outflow of migrants (Bertram, 2006, p. 2; Bertram & Watters, 1985; Marsters, Lewis, & Friesen, 2006, p. 33). Baldachino (Baldacchino, 2006b, p. 48) noted that in some ways, the MIRAB model describes the international version of a tactic commonly deployed within states for the purpose of “developing” or merely supporting “peripheral” regions. This is a valuable observation. However, as noted by McNicoll (McNicoll, 1989) in her study on the different approaches adopted by New Zealand government towards (sovereign, but freely associated) Niue and (fully integrated into New Zealand) Chatham Islands, the latter’s peripheral status within New Zealand has proven to be less advantageous from the point of view of resource transfers than the former’s status outside New Zealand. It appears that New Zealand’s policy towards the Cook Islands went beyond mere support for the residents of a peripheral region, but was indeed an attempt not just to support lifestyles or a local economy, but to offer economic protection for the state structures that appeared to be threatened by geographic and demographic challenges. This approach could be described as a good example of the active type of benign protection presented in Chapter 3.

In practical terms, New Zealand’s assistance to the Cook Islands in the first decades after independence was the key guarantee of the country’s economic viability and, to a degree, economic development. Due to the support from New Zealand and opportunities to access its market and welfare infrastructures, the Cook Islands “leapfrogged the textbook stages of development” and relatively rapidly achieved “a situation which has elements of the so-called mass consumption” (Bertram & Watters, 1984a, p. 134). Unlike many other states that achieved independence after the World War Two, the Cook Islands never exhibited “underdevelopment”, high unemployment or any significant economic tensions (Bertram & Watters, 1984a, pp. 134–135). On the one hand, stability was provided by the New Zealand-funded public service employment opportunities inside the Cook Islands. On the other hand, any kind of economic problems at home was resolved through emigration to New Zealand.
While this policy created economic stability and some growth in the standard of living (Gilson, 1980, p. 219), it also led to cementing of the key socio-economic structures and institutions and contributed to the rise of corruption, nepotism and political apathy (Crocombe, 1978). This was particularly true during the premiership of Albert Henry (1965-1978), whose government, according to some observers, demonstrated “little understanding of economics” and failed to strengthen or support local entrepreneurship (Crocombe, 1979b; The European Commission, 2003). The system created by Henry has been described as “family and party dominance” backed by “a complex pattern of patronage, privilege and intimidation” which included “promotions, loans, grants, appointments, travel opportunities, scholarships and so on” (Crocombe, 1978, p. 170).

Some observers have seen the development of such structures in the Cook Islands as evidence that smallness does not necessarily produce healthier democracies (Corbett, 2013, p. 14). However, putting the debates on the impact of small size on democracy aside, any evaluation of the developments in the Cook Islands after independence must take into consideration the impact of New Zealand’s active protection. The money that the Cook Islands’ political elites could use (via employment opportunities and various government schemes) to buy influence and support across the country came from overseas and was detached from both the local tax-base 261 and the geo-demographic conditions of the country. In the presence of such conditions, it is perhaps unfair to expect small size alone to prevent the “rot” from setting in (Crocombe, 1979a, p. 5). In fact, some scholars have argued that it was due to the Cook Islands’ small size (and the related lack of any significant security forces as well as the outsourcing of some of the judicial functions to foreigners) that the country’s political system did not slip into a more authoritarian form (Crocombe, 1979a, p. 5).

In any case, it can be concluded that the first 15 years of independence were marked by the decline in domestic production and private enterprise coupled with an increase in domestic incomes funded primarily through aid and remittances (Bertram & Watters, 1984b, p. 143).

Following Albert Henry’s removal from Parliament by the High Court (over allegations of electoral fraud) in 1978, successive Cook Islands’ new governments made some efforts to restructure the economy 262. In particular, attempts were made to pursue some of the “sovereignty rents” (Marsters et al., 2006, p. 34), that appeared particularly attractive in light of the country’s small size. As argued by Ron Crocombe and Marjorie Tuainekore Crocombe:

Smallness is generally advantageous for the acquisition of foreign aid (...) and the feasibility of industries in which the marketing of sovereignty is a critical factor. The last include tax havens (...), flags of convenience, philately and numismatics, and—less directly—the influence on aid levels of votes in international agencies. To illustrate the point of aid, the Cook

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261 It can be argued that the small size of the Cook Islands and the islands’ remoteness also meant that New Zealand’s expenditures on the islands were under much less public scrutiny than it would have been the case if the funds had been spent within mainland New Zealand.

262 At the same time, without any serious attempts to address such issues as the land tenure system or the mass public sector employment schemes (Interview CI1).
Islands derives many times the aid per capita for education than the Solomon Islands. If the Solomon Islands were 20 separate nations each the size of the Cook Islands, many of the donor governments and international agencies would feel obliged to give some scholarships, some technical assistance and other contributions, to each of these separate nations. The people of what is now one country called the Solomon Islands would thus in total derive much more than they do at present (Crocombe & Crocombe, 1993, p. 308).

Apart from successfully finding new aid-donors, the Cook Islands’ government’s new development schemes (such as direct involvement in hotel and airline projects) had, at best, mixed results (Neemia, 1995, pp. 172–173). In particular, the establishment of an offshore financial centre/tax haven on the islands nearly ended up destroying the country’s relationship with New Zealand and significantly harmed the country’s reputation in the region (Pigman, 2012, p. 22; The International Consortium of Investigative Journalists, 2013, pp. 33–36; Wishart, 2011).

Eventually, the growing budgetary deficits and foreign debt levels, mismanagement of the financial assistance from New Zealand and loss of confidence in the country’s short-lived currency (the Cook Islands dollar), led to a financial and economic crisis of 1994 (Burdekin, 2008). The Cook Islands’ government felt obliged to seek assistance and a new arrangement with its creditors and New Zealand. In exchange for a bailout, it accepted a plan to reform its administration, which led to the rapid disappearance of at least half of the jobs in the public sector (Jonassen, 2011, p. 39; Marsters et al., 2006, p. 35) and resulted in a new wave of mass emigration to New Zealand. The mid 1990s reform also resulted in an expansion of the private sector and a reduction of government’s direct involvement in the economy (Asian Development Bank, 2008, p. 73). In particular, the second half of the 1990s saw the beginning of the boom in the tourism sector. To many observers, the large growth of the tourism industry has resulted in a transition of the Cook Islands’ economy out of the MIRAB

263 The fairly reformist government of Tom Davis lasted for 9 years after which it was replaced by a new government of Geoffrey Henry (cousin of Albert Henry) who largely went back to the pre-1978 practices (The European Commission, 2003). 264 In the 1980s the Cook Islands and New Zealand came to an agreement regarding the establishment of an offshore financial centre on the islands. New Zealand was willing to support the scheme provided “it had no negative tax consequences for the New Zealand tax base” (Pigman, 2012, p. 22). The Cook Islands’ government quickly ignored this condition and permitted the establishment of a system through which New Zealand-based companies could use the Cook Islands to avoid payment of New Zealand taxes (The International Consortium of Investigative Journalists, 2013, pp. 33–36; Wishart, 2011). This practice (brought to light in 1994) caused an understandable outburst of outrage in New Zealand whose taxpayers (revealed to be “robbed” by the Cook Islands’ offshore financial centre) had been funding subsidies for the islands (Field, 2016). Since then the Cook Islands have largely moved re-oriented its offshore financial center towards assets management (Interview C9).

265 It is estimated that the country’s resident population declined by around 25% between 1996 and 2001, largely due to out-migration (Marsters et al., 2006, p. 34).

266 One of the interviewees noted that the ease of emigration was one of the factors that allowed the government to implement such a radical change. In his view, the Cook Islands “would have had Greece-style riots if people had not had the option of leaving. And they would have had very nasty fights over land, which are anyway quite nasty even with the few people that have stayed (Interview CI10).”
model (Bertram & Poirine, 2007, pp. 334–335). The Cook Islands are now sometimes classified as an example of a PROFIT-SITE267 economy (Oberst, 2007), i.e. one relying on a significant tourism industry, flexible domestic policy and use of international arrangements for the purpose of obtaining economic benefits. From the point of view of benign protection management (as described in Chapter 3), the Cook Islands has moved slightly closer towards passive protection type. While direct financial assistance from New Zealand constituted around 40% of the country’s GDP in the 1970s, this ratio dropped to just 5-10% in the last two decades (Bertram, 2017, p. 6)

However, despite this change, direct aid from New Zealand remains considered as the key element for the country’s institutions and administration (Bertram, 2017). This is partly due to the much of the income generated by the tourism industry remaining untaxed and/or partially subsidised by the government due to political factors268269, and partly because of the very nature of the institutions and services that require funding in the Cook Islands. As discussed earlier, many the Cook Islands’ institutions and government activities and functions have been imported from or designed by New Zealand, with little input from the local community or regard for the local conditions. Not surprisingly, their maintenance has never appeared to be possible out of the local resources. As noted by one of the high-ranking government officials interviewed for this thesis:

The entire infrastructure here has been set up by New Zealand. Our school system has been built by New Zealand, our government institutions were constructed by New Zealand, etc. In other words, we have had NZ taxpayers completely funding all the school, road, transportation, communications, water, health etc. infrastructure in the Cook Islands. So, now we have this problem. Once you take away this tax base, then it’s a real struggle to keep up with the same size and standard of infrastructure. All our infrastructure was constructed with little or no regard to our domestic ability to generate wealth, pay taxes and, simply put, maintain it with our own means. It was also set up in accordance with the goals and priorities of the New Zealand taxpayers. So we are now in a trap as we depend on New Zealand’s aid to maintain a system unfit for our own capacity. This dependency is also corrosive to our political system. Instead of having the best of the worlds: i.e. independence and also opportunities

267 PROFIT (People, Resources, Overseas management, FInance and Transport) model, proposed by Baldacchino (Baldacchino, 2006b), can be characterised by reduced reliance on aid/remittances and a greater role played by the private sector coupled with a more flexible and innovative policy-making. SITE (Small, Island Tourism Economy) model, proposed by McElroy (J. L. McElroy, 2006), can perhaps be seen as “one of many sub-species of the PROFIT cluster” (Oberst, 2007, p. 164) refers to the existence of specialised island tourism economies.

268 The rules imposed on the Cook Islands’ following the 1990s crisis mean that the tax revenue must be held below the threshold of 25% of the GDP (Bertram, 2016, 2017). Furthermore, the key beneficiaries of the tourism boom are the (often absentee) landlords and the issue of taxing land or reforming the current land tenure system in extremely sensitive (as I noted during numerous conversations with the Cook Islands’ officials and members of the public).

269 The Cook Islands’ government funds an annual subsidy to New Zealand in order to maintain flights to America and Australia. The subsidies are “a very substantial de facto subsidy to tourism operators” (Bertram, 2016, p. 38) and arguably to the landlords whose land values and rents depend on the number of visitors.
of being associated with NZ, we have actually become dependent on a relationship which does little more than simply allowing us to maintain the infrastructure, system and institutions that themselves were entirely created by New Zealand. (...) We stay in this trap where we insist on maintaining copies of NZ institutions (such as the very similar school system) with no appropriate tax base (especially when we simply copy the tax solutions from New Zealand) or even no reflection on whether these institutions are actually the best for our needs and circumstances (Interview CI3).

This view was supported by another interviewee according to whom, many of the problems found in the Cook Islands’ are related to the country’s decision to establish copies of the same institutions that can be found in larger states:

We try to mimic, copy the political structures and institutions of larger states. (...) The Ministry of Education has something like 300 people, this is absurd. Most of the people employed in these government structures just hold the jobs for income and are not actually productive. So we have political institutions as staffed and as ambitious as if it was a big country, but actual services are poor and we say it is because we are so small (Interview CI10).

The active type of protection by New Zealand therefore appears as necessary at least in part due to the Cook Islands’ reluctance to transform the country’s key institutions and practices that have been inherited from or modelled after those in New Zealand. At the same time, continuous flows of aid (and migration of those who might not agree with the system) reduce the pressure on the government in the Cook Islands to implement any fundamental reform to the country’s core politico-economic institutions. Some of the politicians in Wellington have criticised New Zealand’s active type of protection offered to the islands, largely due to the above issues270. However, due to the Cook Islands’ minuscule size, there is appears to be little political pressure to make any changes on either side of the Ocean.

**Niue**

A detailed analysis of the case of Niue and its history of interactions with New Zealand271 is beyond the scope of the thesis. This is especially true in light of the many historical parallels between Niue and the Cook Islands, as well as the fact that Niue was subject to the many of pressures experienced by the Cook Islands (and described above). Furthermore, in the last century, it has largely adopted (or been forced to adopt) the policies and arrangements originally designed for and

270 For instance, following a parliamentary inquiry into the Cook Islands’ free association with New Zealand, one member of the New Zealand Parliament called the model a failure. He noted that “the model has, for various reasons, not delivered services to the level expected by island communities (...) [and] also resulted in the disproportionate growth of the public sector at the expense of the private sector” (Hayes, 2010, p. 27). He argued that a more effective method of providing public goods for the islands’ population could be to outsource their provision to the relevant New Zealand-based agencies (Hayes, 2010). However, despite some media coverage given to these views, the approach of New Zealand’s government has largely remained unchanged.

271 An excellent overview of Niue’s pre-independence history is offered by Margaret Pointer (Pointer, 2015).
tested in the Cook Islands (also described above). However, the fact that Niue and the Cook Islands have both functioned as separate freely associated states under the benign protection of the same large state provides a good opportunity for obtaining further insights into the nature and dynamics of benign protection, as well as to the impact of local conditions and policies on the existence of protected statehood and benign protection management.

**Geography, Population and Political System**

Unlike the Cook Islands, Niue consists of one single, largely flat island, a large uplifted coral atoll with an area of 260 sq km. While Niue’s landmass is larger than that the Cook Islands, the concentration of its landmass means that the country enjoys a much smaller (albeit still quite significant – 390,000 sq km) Exclusive Economic Zone than the Cook Islands. The island consists mainly of limestone, has no river of lakes (as rainwater can easily soak through the porous rock) and the entire coastline is dominated by 30-meter cliffs broken by chasms and caves. Marine access is difficult due to the lack of natural harbours or beaches (Connell, 2007, p. 2). The lack of large sandy beaches makes it a challenge to develop the island as a “traditional” Pacific destination (S. Milne, 1992, p. 566).

Soil, while fertile, is sparse, thinly distributed and “nestled in shallow pockets between coral rocks, a terrain that makes cultivation difficult” (Barker, 2000, p. 195). 30-40% of the island can be considered as “unsuitable for agriculture” (McNicoll, 1989, p. 15).

Due to its location just on the edge of the so-called “hurricane belt” island has frequently suffered from extreme weather systems capable of devastating the islands’ agriculture and key infrastructure and posing a challenge to the island’s economic viability (Barker, 2000, p. 196). The island lacks any important mineral resources, and its location (600km southeast of Samoa, 1000km northwest of Rarotonga and 2500km northeast of Auckland) is not considered to be of any strategic importance “for either military or commercial purposes” (Barker, 2000, p. 195).

The country’s population of approximately 1,600 people makes it the smallest sovereign country in the world. The Niueans are Polynesians (the island was likely settled by Tongans and Samoans), but have traditionally had much more egalitarian social structures than most of the other Polynesian societies (Connell, 2007, p. 2; Talagi, 2013, p. 16). Niuean society is also characterised as rather “republican” with “weak nationalism” and strong family loyalties (Talagi, 2013, p. 16).

Niue’s political system is based on the Westminster system of government. Niue’s Assembly consists of 20 members, 6 of whom are elected from the common roll and 14 of whom are elected by the constituents in each of the 14 villages.

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272 As explained in Chapter 2, the Vatican and the Sovereign Military Order of Malta do not meet the common criteria of statehood.
273 The number of ethnic Niueans living on the island used to be much higher (5,000 in the mid-1960s), but due to emigration, the vast majority of ethnic Niueans live today in New Zealand, Australia and elsewhere.
(Government of Niue, 2017). With approximately 1 Member of Parliament per 80 citizens, Niue has arguably one of the most representative parliaments in the world.

Micro-Statehood
Just like the Cook Islands, Niue became Christianised by the members of the London Missionary Society who established a quasi-theocratic society (along the local political structures) on the island around the 1850s and the 1860s (Pointer, 2015, pp. 50–72). Following the encouragement from the missionaries, the Niueans sought British protection from the perceived threat posed to the island by the Peruvian slave ships and foreign traders (Pointer, 2015, pp. 131–146). After initial reluctance (due to similar considerations as in the case of the Cook Islands), Britain agreed to form a colonial protectorate over the islands in 1900, in part in order to pass them under New Zealand’s administration in response to the latter’s aspirations described in the above sections. The following year the islands were formally annexed to New Zealand as part of its annexation of the Cook Islands. In response to the Niueans’ pleas, New Zealand agreed to establish a separate administration and a separate Resident Commissioner for Niue (Tafatu & Tukuitoga, 1982, p. 126).

Soon, it became clear that the islands did not represent any significant strategic or economic benefits to New Zealand. Consequently, once the New Zealand administration became more or less constituted, the islands became “all but forgotten for forty years” (Parsons, 1968, pp. 243–244). The situation changed in 1953 when the Resident Commissioner was murdered (Parsons, 1968, p. 244; D. Scott, 1993). The killing shook the government in Wellington and prompted a series of reforms aimed at improving administration and the socio-economic situation on the island. This task appeared as particularly timely in light of the planned “decolonisation” of New Zealand’s island territories and desires to retain good reputation in the international arena.

Niue proved even more reluctant to pursue independence than the Cook Islands (McNicoll, 1989, pp. 44–45). This reluctance was dictated primarily by the widespread perception that the island faces even more serious geographic and demographic constraints than the Cook Islands. In light of these constraints, the Niueans “could not feel that, unaided, they were viable as a country” (Quentin-Baxter, 1999, p. 594). New Zealand government recognised Niue’s conditions and agreed to add an additional phrase (not present in the Cook Islands Constitution Act 1965) to the Niue Constitution act: “It shall be a continuing responsibility of

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274 Niueans were “blissfully unaware” of the British decision to give the island to New Zealand and the latter’s decision to place Niue under the Cook Islands’ administration (Tafatu & Tukuitoga, 1982, p. 126).

275 As observed by Niue’s former prime minister and one of his colleagues: “If New Zealand had thought she was going to make money out of her new ‘Empire’, she was sadly mistaken. (…) New Zealand had clearly taken on herself an economic liability which is a position that never really changed” (Rex & Vivian, 1982, p. 128)

276 The government took a more active role in the Niuean economy with the aim of creating a “colonial welfare state” (Barker, 2000, p. 197). Much of the assistance came in response to the damages done by the hurricanes (Barker, 2000, pp. 98–99). On top of such assistance, New Zealand provided funds for a number of large scale infrastructural projects. The largest one of these was the construction of an airport in the 1960s (completed in 1970) that was aimed at removing what has long been seen as a “major barrier to economic development” (Pointer, 2015, pp. 306–308)
the Government of New Zealand to provide necessary economic and administrative assistance to Niue” (New Zealand Parliament, 1974).277

Therefore, the very beginning of Niue’s micro-statehood was marked by the recognition of its precarious geo-demographic circumstances both in Niue and in New Zealand. This paved the way for not only the successful formation of protected statehood but also, intensified the active character of benign protection offered by New Zealand. The analysis of the case of the Cook Islands demonstrated that New Zealand was generally open to providing direct assistance and funding of the relatively large administrative structure it had designed, in order to assist its protected states to overcome the perceived limitations imposed upon them by the smallness and other geo-demographic factors. It is therefore not surprising that when a decade after the Cook Islands’ move to independence, the same process took place on an island perceived to be even more geographically constrained and vulnerable, Niue’s leaders were anxious to secure and the New Zealand’s government willing to provide an even stronger commitment to active type of benign protection of the island’s politico-economic viability.

Politically, Niue meets all the common criteria for statehood described above. Just like the Cook Islands, it is free to unilaterally break (via a referendum) its relationship with New Zealand at any time and since its independence it has gradually established its presence in the international arena (Gillard, 2012, p. 126). It maintains diplomatic relations with a number of larger states including China, India, France, Italy, Brazil, Japan, Turkey and Australia. It is also a member of some of the key international organisations, such as the World Health Organization, Food and Agriculture Organization and United Nations Educational, Scientific and Cultural Organization.

When it comes to economic development, over the last 4 decades Niue has seen a steady rise in the standards of living, coupled with a decline in population size (largely due to migration). The country’s GDP per capita is roughly the same as that of the Cook Islands’ (Bertram, 2016, p. 53). There is virtually no absolute poverty, unemployment or crime on the island (Connell, 2008, pp. 1028–1030; Statistics Niue, 2017). In addition to local schools and a hospital, the Niueans have access to New Zealand-based medical and educational facilities as part of the opportunities offered by their shared citizenship. As described by one of the interviewees (and echoed by virtually all people interviewed for this thesis):

277 As noted by a former New Zealand government official interviewed for this thesis, the Niuean public often assumes this phrase to mean support for the current standards of living and structures. However, in his view: “When I talk to them they think that New Zealand will always be there, but I tell them that it won’t. In a sense that it doesn’t have to be there to the same extent. (...). There is no fixed number, amount of dollars that we have to send here, this is just a political decision. So you know, they must understand this. At the of the day, New Zealand shouldn’t be paying for all this, it’s unfair for the people here to expect New Zealand to pay for all their wages, etc. We don’t do that in any part of New Zealand, we don’t just give money to people. In New Zealand when you are on social welfare, you must show you are looking for job, etc. And here we have a pretty much unconditional welfare system. We give their government money to pay wages, to create random jobs. After all, you really don’t need 450 people running government here!” (Interview N1).
There is no poverty here, no classes, hardly any crime, it’s naturally democratic. There are no big changes and the lifestyle is very good (Interview N7).

At the same time, much of the growth in consumption has not been associated with the increase in private enterprise or any significant profitable production on the island. Instead, Niue became gradually known as a “government island” with nearly the entire labour force being employed in the public sector financed by a steady stream of grants and subsidies from New Zealand (Connell, 2008, p. 1028). Just like in the Cook Islands, part of the rationale for the development of a huge public service, has been the perceived need to adopt many of the institutions and administrative functions directly from New Zealand. At the same time, the development of a large bureaucracy has also been to a degree perceived as a welfare project in light of the failure of the numerous development schemes undertaken after World War Two. In light of those failures, government jobs were seen, both during the colonial and post-independence periods as both prestigious and secure. As such, those who became government employees (i.e. the vast majority of adult Niueans) became suspicious of any attempts to develop private enterprise, as they have perceived such moves as a potential indication of reduced subsidies from New Zealand and/or reduced size of the public sector. As noted by one of the interviewees:

[Back in the 1970s] there were massive obstacles to business even though the Premier himself was a businessman. This was due to the years of colonialism which impressed on the culture that working in an office was the highest aspiration. Bureaucracy is inherently non-productive in terms of creating an economy, its function being mainly to administer a country’s infrastructure. When a culture elevates non-production to its highest position of status those people will naturally try to undermine anything that threatens them. To have an economy you need production. Private sector by its own definition is productive and this is why the powers that be, the politicians and the bureaucrats tried at every level to undermine anyone who wanted to be in business. It is because of this that Niue has never had a true economy. Niueans were always producers in their gardens, in the bush and from the sea. Colonialism created and self-government perpetuated an artificial elite called bureaucrats who after several

278 The relatively small role played by remittances in the Niuean economy, has prompted some of the authors to argue that Niue could be classified as a “MIAB” economy, i.e. one based purely on Migration, Aid and Bureaucracy, where “many of those who remain may be no less affluent or needy than those who have migrated” (Connell, 2008, p. 1030)

279 One example of such a failed project was the plan to develop a passionfruit industry on the island on the basis of subsidies and protectionist measures undertaken by the government of New Zealand against other passionfruit producers. An increase in demand for passionfruit in New Zealand in the 1970s, coupled with New Zealand-imposed import restrictions on passionfruit coming from other markets than Niue resulted in “an explosion” of the demand for Niuean passionfruit. The boom induced more Niueans to become involved with the industry, despite the widespread warnings that Niue lacked comparative advantage in the production of the fruit. Indeed, as soon as New Zealand decided to remove the protectionist barriers imposed against imports from other markets, the demand for Niuean passionfruit collapsed and the fact that the country’s insufficient manpower and high transportation costs meant that the scheme had never been viable became clear (Bertram & Watters, 1984b, pp. 187–189).
generations created a dependent culture because the notion of production was undervalued and producers were regarded as peasants socially. These social values were alien to Niue culture which is relatively egalitarian. Ironically, aid initiatives aimed at raising the standard of living in the 60s and 70's such as banana, kumara, lime and passion fruit production did result in a better income for the farmers but that income was used to escape this social inequality and migrate to perceived better pastures. So it was the producers that left the country thus exacerbating the problem of dependency (Interview N5).

This sentiment was echoed by a government official from New Zealand who had spent a considerable amount of time on Niue:

One of the main challenges to this development in Niue in general is the culture of entitlement from New Zealand – there is a quality of life here that is very comfortable and many of the older people here wonder why they should bother to try to develop an economy when New Zealand is there and can pay for everything, so what is the issue. One other challenge here is the employment. More than half of the working population here is employed by the government. People struggle to leave the government because government offers good working conditions. People get sick leave, holidays. The private sector has none of those, there are no labour laws. And the government has also superannuation. So the people tend to enjoy staying with the government jobs. It is a big challenge to try to get them to go into the private sector or to come up with their own business initiatives (Interview N1).

When asked about the rationale for continuous expenditure, the official noted:

There is no strategic reason. There is no reason why we would send so much money here. I think we’ve sent over 300 million dollars here since the 1970s. And where has it gone? Can you see it anywhere here? It has gone mostly for wages here, for consumption. It’s like a social benefit scheme. It doesn’t make any sense at all (Interview N1).

In response to a question what New Zealand’s rationale for continuing to support the island actively, the official noted that in addition to historical circumstances, the small size of the island means that few people ever discuss New Zealand’s action or expenditures in Niue. Furthermore, in the context of the potential political difficulties at home associated with any changes to the relationship, the sums are perceived as trivial.

In this context, much hope is associated with the current (New Zealand-funded) projects to develop a more viable tourism industry in Niue and new incentives to reduce employment within the public sector. So far, the latter have had rather mixed results. For instance, the scheme to encourage government employees to go into the private sector by offering them a year’s salary has resulted in them “taking payments to leave their government jobs” only to become “rehired as consultants” (‘Niue MP Says Public Service Cuts Failed’, 2013). The former has also been criticised by some of the interviewees who view such projects as another example of development driven and designed away from the local needs and
considerations. While they recognise the need for investment, they believe that
the future of Niue as both a tourist destination and a more self-reliant economy
lies in reforming the largely unsuitable administrative, fiscal and politico-economic
structures, and in providing incentives for the local entrepreneurs, rather than
in constructing large resorts. In the view of most of the interviewees, beyond the
benefits offered by shared citizenship, New Zealand’s protection should be focused
on some of the vital infrastructure, including a reliable and affordable transport
links, the provision of which might be impossible out of local resources.

In sum, Niue has largely followed the Cook Islands in its pathway towards micro-
statehood. Like the Cook Islands, Niue can be classified as a sovereign state that
has voluntarily delegate some of the attributes of sovereignty to a larger state in
order to safeguard its politico-economic viability in the face of geographic and
demographic constraints. Due to the perceived severity of these constraints, from
the very beginning of Niue’s existence as microstate, the benign protection offered
by New Zealand has had a more active character than in the case of the Cook
Islands. While it has created relatively high living standards on the islands and
possibilities for the islands to access wider markets and opportunities in New
Zealand and beyond, it has also resulted in the erosion of local entrepreneurship
and the cementing of the numerous political and administrative structures that
have been copied or inherited from New Zealand.

Additional Challenges
In addition to the problems identified throughout this chapter, land tenure systems
in both countries can be identified as the key challenge to not just their
respective economic development but also wider socio-economic well-being. In
both countries, local land tenure systems evolved when the population was fairly
stable, most of the people were dependent on subsistence agriculture, and the
land was not traded (Crocombe et al., 2008, p. 156; Levi & Boydell, 2003). In the
traditional system, a landholder’s right was “was primarily not to the land, but to
membership of a descent group. This descent group held the main rights to the
land and allocated the rights among its members” (Crocombe et al., 2008, p.
157). Colonial administrators of the islands, partly in response to local demands,
transformed this system by mixing the concept of freehold ownership with the
idea that native land on the islands should not be sold or traded (in order to

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280 As noted by one of the interviewees: “There are many problems, obstacles to development. You
know, when you want to start a business in NZ, you get the money and then just buy the stuff you
need at a nearby store. Here, you need to import from NZ or from elsewhere. And the government
imposes duties, taxes, etc on imports, making it much harder than it already is. Even before you
start your business you need to pay massive taxes, deal with formalities etc. We’ve got to lower
these [administrative barriers and costs]. What I see in Niue is that we copy everything from New
Zealand. You know, New Zealand is not a bad model. But remember, cost of importing things here
is many times bigger than importing things to New Zealand. So having customs all these taxes is
absurd” (Interview N2).

281 There are a few significant differences between the two countries’ land tenure systems. However,
for the purpose of this thesis I adopt a simplified view focused on the general similarities.

282 As summarised by Ingram (I. P. Ingram, 2004, p. 2): “In essence, it was a feudal system with a
hierarchy of chiefs, and a complex system of obligations, upwards and downwards. Villagers were
expected to take part in community work, and to give offerings (atinga) at harvest time, or labour.
In return, the chiefs were expected to look after the long-term welfare of their clan or village, do all
they could to maintain its mana (power and prestige) and to lead by example. In other words, they
were to act in the best interests of the community, to many of which they were linked by blood”
prevent it from becoming quickly bought by foreigners). The idea was to leave the formal ownership in the hands of the Cook Islanders and Niueans but also to allow them to lease the land to Europeans or others interested in its development for productive purposes (Crocombe et al., 2008, pp. 157–158; Levi & Boydell, 2003, p. 6). In theory, this could have provided material security for the islanders without undermining the possibilities for dynamic growth and effective use of local natural resources. However, in addition to securing the ownership of land with specific family groups, it was also decided, contrary to local custom, that “all children inherit equally in all registered native lands of all ancestors (...) [which] meant that every person would inherit an equal share in all the lands of both parents, all four grandparents, all eight great-grandparents and so on” (Crocombe et al., 2008, p. 158).

This principle, in combination with mass emigration from the islands, led to the development of a substantial (and rapidly growing) class of absentee landowners and the situation in which each plot of land on the islands is theoretically owned by hundreds, or even thousands of owners spread across the globe. As the consent of each owner (or their representative) is required for the purpose of using land and as many absentee owners do not want to see their ancestral land being developed, the system has degenerated into one of the key obstacles to growth (Crocombe et al., 2008). In the context of the Cook Islands’ tourism sector development, the land tenure system has also been not just an obstacle to effective land use but also the leading source of inequality. Due to the fact that families with rights to land by the sea can get much higher rents and other benefits than families whose land lies farther away from the sea, or on one of the outer islands. The last group of islanders find themselves in a particularly difficult position as they are not only unable to collect rents from hotel operators but also face the necessity to compete against expats and tourists for accommodation on Rarotonga, should they choose to move and work there. This has been one of the main reasons why more outer islanders have been leaving the Cook Islands than Rarotongans (Crocombe et al., 2008, p. 165). In the context of Niue, the difference in land values is not as substantial as in the Cook Islands. However, there are still differences between those holding rights to land by the sea and/or close to the capital village and those with land rights in the bush or in one of the northern villages (Levi & Boydell, 2003).

Reforming the land tenure system on the islands is, therefore, both timely and needed. However, this does not mean that the islands should necessarily copy the land tenure system adopted in most of the Western cultures. Instead, it might be a good idea to look into developing a new, local system capable of safeguarding the ownership of the land (and benefits from its use) in the hands of the islands’ residents, without undermining the incentives for effective land use.

Another challenge or opportunity for the two countries could be to consider developing stronger links between their islands. Despite the fact that the two microstates have a similar political status and links to the same benign protector, they are not in close contact. While “relations between them have always been cordial (...) there is very little movement of people or products between the two” (Crocombe & Crocombe, 1990, p. 38). As pointed out by one of the interviewees.
in Niue (Interview N5), a flight connection between the two countries could open up new economic opportunities and channels for communication. It could also perhaps stimulate the creation of new, interesting arrangements. After all, there is no reason why two microstates could not collaborate on the provision of some of the public goods, with or without the assistance of their shared benign protector.

Summary and Conclusion
This chapter has demonstrated that, despite the confusion surrounding their status, both the Cook Islands and Niue can be classified as good examples of microstates understood as modern protected states. Not unlike Liechtenstein, they came into existence as distinct units in the international system largely due to the actions of foreign actors. Following the change in international circumstances, they have been given the opportunity to pursue sovereign statehood. However, due to their geographic and demographic constraints, both countries have constructed their statehood on the basis of their respective close association arrangements with New Zealand. New Zealand’s benign protection has safeguarded their political and economic viability. Furthermore, it has resulted in the economic development and raising of the living standards not just in both countries but also, more broadly for the people of the Cook Islands and Niue, many of whom have used the relationship between their countries and New Zealand to seek new opportunities in New Zealand or other countries.

However, the active type of protection has also resulted in the cementing of externally-designed structures, reduced local entrepreneurship and sustained dependence on New Zealand. This has been particularly true in the case of Niue and less so in the case of the Cook Islands, especially in light of the Cook Islands’ recent tourism boom. Both countries have used their benign protection to strengthen their international position and more firmly establish themselves in the international arena. However, sustained perceived dependence on direct assistance from New Zealand (reduced in the case of the Cook Islands) and lack of any clear vision for an alternative way of managing the relationship between their countries and New Zealand have been the key obstacles to their further politico-economic development.
Chapter 6: Summary and Conclusion

Summary

In the quest to understand how some of the world’s smallest political units achieve and retain politico-economic viability, I have identified a peculiar category of states: while sovereign, they have chosen to delegate some of the key attributes of their sovereignty to bigger states who have agreed to act as benign protectors for their smaller partners against their severe geographic and demographic constraints. The existence of such peculiar arrangements, together with these polities’ minuscule size and relative obscurity has led to some confusion regarding their political status and place within the international system. Much of the puzzlement owes to the fact that such polities have rarely, if ever, been studied together as a separate analytical category within the broader small states and territories scholarship.

Research on small political units has always suffered from the problem of finding an appropriate definition for its own subject matter – the small state (or the small territory) – and how to meaningfully separate them from other analytical units. While the existence of small polities, as well as the qualitative effects of their diminutive size, have never been in much doubt, the difficulty of studying such entities lies primarily in the conceptual challenges presented by the seemingly vague nature of smallness. Likewise, the debate on some of the smallest units in the international system has been hampered by the confusion surrounding the concepts of sovereignty, statehood, independence and autonomy. Nowhere are the above challenges more clearly visible than in the vaguely defined category of particularly diminutive political units known as the “microstates”. Presumably, microstates are polities distinctive enough (by virtue of their size and its political effects) to merit being studied as distinct from both the “normal” and the “small states”. As such, one would expect them not to be just quantitatively but also qualitatively different to the other types of states. After all, political scientists and economists are not merely interested in cold geographic data or demographic statistics, but rather in the consequences of the political units’ geo-demographic conditions on its institutions and place on the international arena. Therefore, any viable definition or concept of microstates must facilitate a clear identification of qualitatively distinct political units whose peculiarity derives from certain geographic and demographic constraints.

Unfortunately, such a definition is missing from the broader scholarship on small political units. Instead, microstates are commonly vaguely defined merely as “very small states” (or territories) and identified on the basis of weakly justified and inconsistent quantitative cut-off points applied to collections of polities often representing an entire spectrum of political statuses ranging from Special Economic Zones, through autonomous regions, to United Nations member states. Consequently, the microstate scholarship, not unlike the wider research on small states and territories, suffers from the problems of inconsistency and the lack of “terminological clarity and theoretical coherence” (Sieber, 1983, p. 108). Most importantly, while extant scholarship signals and identifies the important problems and consequences of geo-demographic challenges to small polities, it fails to
provide useful tools for a meaningful identification of states qualitatively distinct due to their inherent quantitative characteristics.

In order to mitigate this failure, as well as to gain a better understanding of the peculiar arrangements between some of the smallest political units and larger states, I proposed a novel, but historically justified, definition of microstates in Chapter 2. After highlighting the key issues related to the current conceptual approaches to small and micro states, I explored some of the historical policy approaches attitudes to some of the world’s smallest states. In particular, I looked at the approach of the League of Nations and contemporary scholars to the “problem” posed by the so-called Lilliputian States’ application to join the League. I then explored some of the key arguments surrounding the nature of their statehood and postulated that their peculiarity lay not just in their small size but also the fact that they delegated the exercise of certain basic sovereign rights to other states, which appeared to be an unusual and ultimately problematic situation from the point of view of the membership in the League.

Far from being a novelty in international relations, in earlier centuries it was accepted that “states which were unable to maintain their sovereignty unaided could have their internal autonomy underwritten if a willing major power came forward to protect them” (Herr, 1988). The relationship between the benign protector and the protected states was thought of as entirely consistent with the sovereignty/independence of the latter. The European “Lilliputian States” were therefore not pioneers of a new type of statehood, but rather the last surviving examples of sovereign states existing in special, voluntary and largely benevolent relationships with larger states due to the severe constraints imposed upon them by their limited size, lack of resources or remoteness.

On this basis, I argued that the currently existing microstates can credibly be conceptualised as modern protected states, i.e. sovereign states that have been able unilaterally to delegate some of the attributes of their sovereignty to larger powers in exchange for benign protection of their politico-economic viability in the face of their geographic and demographic constraints. I have argued that the combination of quantitative conditions along with the phenomenon of benign protection is what truly differentiates the microstates from both small and other states. Seen from this perspective, micro-statehood indicates not just small size but also deeper and more complex political consequences. Micro-states are not merely very small states, but unique sovereign actors in the international system, whose peculiarity lies both in their diminutive size and its consequences for their institutions and relations with larger states. In this sense, micro-statehood implies not merely a physical characteristic but also a geopolitical variation of statehood.

In the context of this approach to conceptualising microstates, and in regard to the overreaching research puzzle, the key research question of this thesis was:

“What determines microstates’ political survival and economic development as modern protected states?”

It was supplemented by the following sub-questions:

“How do certain entities become microstates/protected states?”

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“How do these entities maintain and use their special relationships with larger states?”

“What are the effects of different ways of managing benign protection?”

In order to find the answer to these questions, in Chapter 3 I proposed a theoretical framework aimed at explaining the process behind the formation and continuous existence of microstates and their special relations (labelled as benign protection) with larger powers, as well as the ways in which the microstates derive economic benefits from these arrangements. I argued that smallness and perceived lack of significance are the necessary conditions for creating and sustaining benign protection. The geo-demographic constraints generate both the need for and the possibility of seeking and securing favourable arrangements with larger states. The process of establishing such relations is facilitated and mediated by a number factors including changing norms; personalities of the leaders; important historical events/precedents that interplay with the microstates’ smallness and geopolitical position; or concerns about the potential costs of political alternatives to protection. Once established, benign protection is sustained for as long as the microstate remains perceived as small, insignificant and no new development (e.g. change of leadership or ideology) occurs that could threaten the existence of the relationship.

I also argued that the establishment of benign protection can be seen as one of the intervening variables between smallness/lack of significance and economic development observable in microstates. In this context I noted that while the establishment of benign protection of any kind in itself guarantees politico-economic survival, the type and rate of economic development is also affected by other intervening variables including the adoption of a particular type of benign protection, domestic policies of the microstates, and specific geographic and historical circumstances. The two broad types of benign protection adopted by microstates were described as:

1) Passive
2) Active

The passive type is largely limited to granting the microstate the opportunity to use the larger state’s infrastructure, access its market and benefit from its position in the international system. One of the key features of passive protection is the microstates’ successful “outsourcing” of the provision of the key public goods to its larger partner. The active type is based on a more direct assistance coming from the benign protector to the protected state. It involves direct subsidies and can be characterised by the “in-sourcing” of various functions and institutions financed directly by the protecting power, protection of the microstates' market or direct support to its developmental projects.

The two empirical chapters (Chapter 4 and Chapter 5) looked at two case studies in order to verify the proposed theoretical model and accompanying expectations on the basis of qualitative and quantitative data and methods described in Chapter 3.
Chapter 4 examined the history of the Principality of Liechtenstein’s establishment as a micro/protected state and the ways in which it has managed and benefited from its close associations with two separate benign protectors: Austria and Switzerland. The case of Liechtenstein confirmed the arguments put forward in Chapters 2 and 3. The country came into existence as a coherent political unit largely due to the combination of its remoteness, small size and disproportionate to its size status within the Holy Roman Empire. These factors made it both affordable and politically desirable for the Austria-based House of Liechtenstein seeking to obtain the territory not for the purpose of its economic exploitation, but in order to advance their broader political goals within the German-speaking world. With time, the family facilitated not the formation of a close association between the tiny Principality and Austria on the basis of international agreements between two sovereign states. The special relationship between Liechtenstein and Austria, sustained by the continuous perception of the former’s smallness, was instrumental to ending Liechtenstein’s economic and physical isolation and laid foundations for the country’s future politico-economic development. At the same time, Austria’s benevolent attitude towards its small neighbour, the fact that Liechtenstein remained sovereign, allowed it to avoid its protector’s fate following the defeat of the Entente in World War 1. It permitted Liechtenstein to re-reorient its foreign policy and successfully seek closer links with Switzerland. Once again, Liechtenstein’s minuscule size and poverty were the key factors that affected the Swiss decision to agree to form a close and treaty-based relationship with its Eastern neighbour.

The Swiss type of benign protection could best be described as benevolent, but largely passive. Throughout the last decades, the Principality has beneficially managed its relationship with Switzerland based predominantly on passive protection. In particular, it has used its treaty association to outsource the provision of certain key public goods and administrative functions to Switzerland and to benefit from Switzerland’s reputation and access to wider markets. While Switzerland has remained one the Principality’s most important economic partners, Liechtenstein’s companies export their products to many other countries. Liechtenstein’s economic development has also benefited from the often surprising benefits of small size, including the ability to make substantial per capita gains from the “commercialisation” of sovereignty, using smallness in negotiations with other foreign actors and responding to the geo-demographic limitations by innovative domestic policy and export-focused business strategies. In particular, the country’s lack of ability to pursue protectionist policies, exposure to direct completion from much larger economies and a tiny local market have made Liechtenstein companies remarkably competitive and innovative. The Chapter 4 demonstrated that far from threatening the Principality’s political survival, the association with Switzerland has provided appropriate conditions not just for safeguarding Liechtenstein’s politico-economic viability but also for substantial economic development and an increasingly independent role in the international system. Not surprisingly (and in line with Chapter 3’s arguments) the strengthening of Liechtenstein’s economy and political position has resulted in the weakening of some of the institutional links between the two countries and lessened the need for some aspects of benign protection. However, the
relationship between Liechtenstein and Switzerland remains qualitatively distinct from those between larger states and it continues to demonstrate the intriguing nature of the phenomenon of benign protection.

In order to eliminate the possibility that the outcomes observed in Liechtenstein result from idiosyncratic, unique circumstances, in Chapter 5 I looked at the case of the Cook Islands and, to a significantly lesser degree, Niue. Despite the significant differences between the land-locked Principality of Liechtenstein and the two postcolonial island microstates, the analysis of these cases also confirmed my proposed theoretical model and accompanying expectations. For much of the 19th century the Cook Islands remained ignored by the major powers active in the region due to the islands’ tiny size, remoteness and lack of any substantial natural resources. However, when the islands became perceived as strategically or symbolically important, they attracted the attention of the United Kingdom interested in securing the route between Sydney and the Panama Canal and colonial New Zealand, seeking to increase its importance in the international arena. Following a brief period as a colonial Protectorate, the islands were annexed by New Zealand. In time, due to the changing international norms and political priorities in New Zealand, the Cook Islands were encouraged to seek independence. However, due to the widespread concerns about their minuscule size, lack of resources and associated vulnerability, the terms of the proposed independence included the offer of benign protection (presented under the term “free association”) by New Zealand. Under the terms of New Zealand’s benign protection, the Cook Islanders have retained New Zealand citizenship (as well as access to the country’s infrastructure and market) and New Zealand has remained committed to supplying the country with generous amounts of financial assistance.

These features of the relationship between New Zealand and the Cook Islands, as well as the latter’s reluctance to apply for United Nations membership, have generated a degree of confusion regarding the country’s political status. However, as I demonstrated in Chapter 5, the Cook Islands can be considered as another example of a microstate understood as a modern protected state. The country’s geographic and demographic constraints, combined with changing norms and historical events, generated the possibility (and necessity) for it to become and remain sovereign while at the same time closely and benignly supported by New Zealand. While the process of establishing the Cook Islands as a sovereign, protected state was largely influenced by the wider political developments, the country’s small size has undoubtedly played the key role in shaping the form of its post-independence relations with New Zealand. Likewise, the country’s smallness and geographic vulnerabilities have been the key factors sustaining New Zealand’s benign protection for the last 50 years.

Unlike in the case of Liechtenstein-Swiss relations, the benign protection offered by New Zealand to the Cook Islands has largely had an active character. In addition to some passive elements (mainly related to the shared citizenship and the related free access to New Zealand’s market and key public services) New Zealand’s protection has involved substantial financial transfers to the Cook Islands, as well as “in-sourcing” of the key administrative functions and institutions to the islands the maintenance of which has been largely reliant upon
continuous transfers from New Zealand (particularly in the first 3 decades of independence). Nonetheless, despite a long history of failed management and significant economic challenges (many of which caused by political and institutional factors), the half a century of protected statehood has increased the Cook Islands’ political standing in the world affairs and has resulted in a degree of economic development. The economic progress has benefited not just those who reside on the islands but also the wider Cook Islands diaspora connected to the islands through various socio-cultural and economic links. Over the last two decades the Cook Islands has managed to develop a successful tourism sector that reduced the reliance on direct assistance from New Zealand and that has resulted in the partial transformation of the character of the relationship between the Cook Islands and its benign protector.

Chapter 5 also looked briefly at Niue and its status as a microstate. Niue has largely followed the path of the Cook Islands, both during the colonial period and during its subsequent road to independent, albeit protected, statehood. However, the country represents an arguably more extreme example of active benign protection. While its position in the international affairs and the socio-economic conditions on the island are arguably greater today than at any time during its post-independence history, it remains heavily dependent on direct financial assistance from New Zealand and hampered by the lack of vision surrounding any alternative ways of managing the relationship between the countries.

One of the key differences between Liechtenstein, the Cook Islands and Niue lies in the fact that unlike the Pacific microstates, Liechtenstein has developed its domestic institutions and policies largely in response to the unique conditions created not just by its history but also geography and demographics. For instance, its quest to “out-source” many government functions and provision of public goods has been dictated by its political leaders’ awareness of the limitations imposed on the country by its small size. Likewise, the activities and strategies of the country’s businesses have been shaped by the size of the local market, exposure to larger markets via Switzerland and the requirement to remain competitive in the absence of abundant manpower, natural resources or government-provided assistance. By contrast, an important feature of the Cook Islands’ and Niue’s politico-economic development has been the two countries’ heavy reliance on importing or sustaining policies and institutions copied or inherited from other countries and the reluctance to develop their own, unique solutions. To a large degree this is a legacy of colonialism, but possibly also the result of the limited exposure to systems, solutions and ways of thinking other than those of New Zealand. Unlike Liechtenstein, the Cook Islands and Niue have limited contacts with their neighbours and their benign protector remains their key economic, political and cultural partner and point of reference. This situation, in combination with New Zealand’s perceived importance as a protector, generates conditions in which the local leaders and entrepreneurs are reluctant to seek alternative solutions and unique strategies or to upset the status quo.

Contributions, Limitations and Further Research
This thesis has offered a largely exploratory analysis of the phenomenon of benign protection and the numerous issues concerning the effects of micro-statehood on
politico-economic well-being and the nature of microstates’ politics and economies. As such this thesis attempts to make a significant contribution to the micro/small states scholarship and the wider international relations and international political economy literature. In particular, it addresses the gap in the literature by offering a credible new way of conceptualising, defining and identifying microstates. Through its use of the novel theoretical framework focus on the microstates’ relations with larger states, it offers new insights on not just the politico-economic consequences of smallness but also the phenomenon of benign protection and its various forms. It not only explains how some of the world’s smallest states have managed to survive or even thrive but also addresses some of the key sources of confusion surrounding these states’ political status and place in the international system.

One of the limitations of this project is that it was focused on just three (with the main attention paid to two) microstates. It has mentioned, but not systematically analysed the remaining microstates. It is expected that the findings regarding the impact of smallness on the formation and sustenance of micro/protected states can also be observed in the other cases, but their more detailed analysis could offer further insights on the importance of intervening variables, as well as the impact of the politico-economic system of the benign protector on the benign protection dynamics and outcomes.

Likewise, this project has primarily focused on the protected states, rather than benign protectors. While efforts have been made to present the rationale, position and interests of the benign protectors, the bulk of the analysis and most of the field research has been undertaken in the protected state.

Furthermore, this project is that it has focused on microstates, without offering any detailed comparison them with other types of states of sub-national units. This is partially a result of the decision to focus on the question of political survival in the face of extreme geo-demographic constraints. By the very definition, entities that are not sovereign states have either failed to survive as such or have never managed to achieve statehood. However, a comparative analysis of the economic conditions across the different types of political units or an analysis of the effects of the choice of political future on the population and local institutions could offer further insights on both the phenomenon of benign protection and the relationship between sovereignty and socio-economic well-being.

The above limitations result from the strategic decisions I made at the outset of my research projects and I believe that they are acceptable within the scope of the aims of my project. However, it logically follows that there is potential for further research to be undertaken to address the above limitations, as well as to explore other, related phenomena.

In particular, I believe that a more detailed analysis of protected statehood as an alternative to other options (e.g. dependency or non-associated statehood) could benefit the ongoing debates on the political future of various territories.

Furthermore, a more comprehensive analysis of the entire category of microstates could offer useful insights not just when it comes to benign protection or micro-statehood but also of many other aspects of their functioning. Much of the research
on the effects of smallness on policy and institutions has been hampered by the lack of clear definitions and criteria for including case studies. The proposed conception of microstates as modern protected states offer a clear category of the otherwise diverse state that nonetheless share certain common features when it comes to their place in the international system. They could thus be analysed for better understanding the difference between them in areas other than their political status.

Finally, this research has demonstrated that management of land and other limited resources remains, perhaps unsurprisingly, the key challenge faced by microstates. All three microstates examined in this thesis have encountered problems with finding ways of effective, equitable and sustainable use and management of their land and other limited natural resources. While this thesis has primarily focused on the ways in which microstates manage their relationships with other states in order to overcome their significant geographic and demographic constraints, a more comprehensive analysis of the domestic approaches to managing land and other resources in the context of small size.

**Conclusion**

The desire to understand how some of the world’s tiniest polities survive or even flourish has brought my attention to a group of sovereign states who have managed to turn their geo-demographic constraints and lack of importance into geopolitical and economic assets. I hope the findings of my research on these entities will be useful by to only those scholars interested in the study of smallness but also those interested in the exploration of the more unusual forms of inter-state relations and strategies for political survival and success in a world dominated by great powers.
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Appendix 1: List of Interviees

Interview L1: Scholar and expert on Liechtenstein’s economic development, relations with other states and domestic policy

Interview L2: Scholar specialising in Liechtenstein’s external relations (particularly with Switzerland)

Interview L3: Member of the Princely House of Liechtenstein

Interview L4: Scholar specialising in the history of San Marino and its external relations

Interview L5: Former diplomat

Interview L6: A high ranking-government official specialising in San Marino’s foreign affairs

Interview L7: Scholar and expert on the politico-economic development of European microstates

Interview CI1: High-ranking government official with expertise in the field of economic policy

Interview CI2: Legal expert with knowledge on the Cook Islands’ legal system and domestic policy

Interview CI3: High ranking government official specialising in matters related to the country’s economic development

Interview CI4: High-ranking government official with expertise in the field of economics and finance

Interview CI5: High-ranking government official specialising in matters related to the Cook Islands’ foreign policy

Interview CI6: Scholar and expert on international law and the Cook Islands’ political status

Interview CI7: Government official and expert on economic issues in the Cook Islands

Interview CI8: Local Business Leader

Interview CI9: High-ranking government official with expertise in finance and trade

Interview CI10: Scholar and expert on the Cook Islands’ political and economic issues

Interview CI11: Local business leader with expertise in the tourism sector

Interview N1: Former New Zealand government official with expertise on Niue’s politics and economy

Interview N2: Local business leader
Interview N3 Community leader with expertise on the private sector and tourism

Interview N4 High-ranking government official with expertise in economics and administration

Interview N5 Local expert and business leader with expertise on matters related to Niue’s economic and cultural development

Interview N6 Member of Parliament

Interview N7 Local business leader

Interview N8 Government official with expertise on tourism
Appendix 2: List of Questions

Due to the semi-structured nature of the interviews conducted for this thesis, the below question were used to signal predefined areas of interest. At the same time, in each interview, the respondents were free to touch upon themes they deem relevant or important, which often led to the formulation of new questions and lines of inquiry. Likewise, the set of questions was modified depending on the expertise and position of the interviewee.

1. What is your perception of your country’s political status and place in the world?
2. How do you view the relations between your country and New Zealand/Switzerland/Other Countries?
3. What factors have, in your view, determined the shape of your country’s relations with New Zealand/Switzerland/Other Countries?
4. What do you think about the economic situation of your country?
5. What factors have, in your view, determined the economic situation of your country?
6. What has been the impact of your country’s geographic and demographic circumstances on its political life and economy?
7. What do you think about your country’s key political and economic institutions?
8. What are the biggest politico-economic opportunities and challenges that your country faces?