



Small States and Territories

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For most of the past three decades, multinational corporations viewed the United Nations with growing hostility. Recently, though, the UN Secretary General has invited corporations to become partners of the UN and some fifty giant firms have signed on. This article looks at recent policy shifts and considers how decisions and democracy at the world body will be affected.

The world's political map, dominated by large states, includes many lesser-known small states and territories (SSTs). Using the World Bank benchmark of 1.5 million population, there are 56 small states, as well as more than a hundred small territories under the sovereign control of others. A substantial majority of these small political units are islands or island federations, like Fiji in the Pacific or Barbados in the Caribbean. But others are located on the continental mainlands, sometimes as coastal enclaves, like Monaco or Brunei, and sometimes as landlocked (often mountainous) territories, like Swaziland or Liechtenstein.

A large number of the SSTs have emerged only recently from colonialism (or are still under foreign sovereign authority). East Timor, for example, gained independence from Indonesian occupation only in mid-1999, while Martinique remains uneasily under French rule. On the other hand a few SSTs have enjoyed a separate political identity for centuries. San Marino claims eleven centuries of independence, while the royal house of Grimaldi in Monaco counts 700 years of its princely rule.

The government of SSTs takes several forms. Some are fully sovereign states (though because of their small size they are likely to be under the influence of larger states, especially former colonial powers). Some are semi-sovereign – they govern their internal affairs, but important responsibilities like defense and foreign policy are left in the hands of larger states. Some are self-governing territories that can enjoy substantial autonomy, but are under the authority of a larger sovereign power. And some are colonial or non-self-governing territories, where the larger sovereign state has full local powers. SSTs can have very quirky political arrangements. Andorra has two co-princes, one of whom is a Spanish bishop while the other is the president of France. While some SSTs cherish their ties to a mother country, other colonial SSTs are seeking independence.

Economically, SSTs have been handicapped by very small domestic markets and many suffer from relatively backward economies. Some export agricultural products like bananas or sugar and others specialize in fishing. Historically, smuggling and piracy were economic mainstays for many SSTs. In the past forty years, thanks to international air travel, tourism has brought a limited prosperity to some fortunate places. Oil deposits have brought riches to a few others.

In the 1990s, developments in computers and advanced telecommunications laid the basis for a new way of life for a number of SSTs based on financial services. Increasingly, these tiny territories have become “offshore” banking centers -- havens for tax avoidance and money laundering. By offering a special legal environment with bank privacy guarantees, simplified corporate registry and no taxes, some SSTs have attracted billions of dollars in offshore funds. A task force headed by the Bank for International Settlements issued a list of offshore “noncooperative” states in 2000, of which nine out of thirteen were SSTs. Millions of dollars have flowed into local SST economies as a result of offshore banking, though this prosperity has been very unequally distributed. The lion's share often goes to expatriate bankers, lawyers and financiers.

Europe has twelve SSTs, five of which are islands or island groups. Monaco, a small urban enclave on the northern Mediterranean coast, is one of the most prosperous and best-known of all small states. With just 32,000 permanent residents (8,000 of whom are citizens) and 500 acres of territory, it is famous for its high-stakes casino and elegant hotels. In recent years, though, Monaco's prosperity has increasingly relied on its role as an offshore financial haven. While Monaco is a sovereign state, its independence is somewhat limited, since its big neighbor, France, manages its foreign relations, postal services and defense, while the French franc has served as its official currency. Monaco may be the only state in the world with a symphony orchestra that is larger than its military and police forces.

In addition to Monaco, the smaller European territories of this type are: the Principality of Liechtenstein (pop. 31,000), the semi-independent statelets of Andorra (pop. 64,000) and San Marino (pop. 24,000) and four British territories - the Isle of Man (pop. 70,000), the Channel Islands (pop. 150,000), the Faeroe Islands (pop. 45,000), and Gibraltar (pop. 29,000) – as well as Vatican City State. With just 700 residents and 109 acres, the Vatican may be the only state in the world with a diplomatic corps larger than its resident population. Europe also has three large SSTs -- the islands of Cyprus (pop. 737,000) and Malta (pop. 375,000) and the city-state of Luxembourg (pop. 378,000).

The smaller nine all fall within the geographical boundaries of the European Union and under the control or tutelage of EU states, but none is actually under EU jurisdiction. By escaping EU laws and regulations, they function more readily as offshore tax shelters and money-laundering havens. In every case but Vatican City, these European SSTs have enjoyed an explosion in the number of bank branches, bank deposits, legal offices and registered corporations. The little Channel Island of Jersey (pop. 90,000) reported bank deposits of no less than £60 billion in 1996.

The Caribbean area has a number of SSTs, the majority islands. According to our adjusted World Bank figures there are 14 states and 15 territories in this class in the Caribbean region, ranging in size from Montserrat (pop. 6,400) to Trinidad and Tobago (pop. 1,300,000). Belize (pop. 236,000), Suriname (pop. 431,000), French Guiana (pop. 168,000) and Guyana (pop. 705,000) are all located on the mainland. Some of the better-known islands include Aruba (pop. 80,000), Barbados (pop. 257,000), the Bahamas (pop. 284,000), Martinique (pop. 412,000), and Grenada (pop. 94,500). The Netherlands Antilles (pop. 208,000) are home of George Soros' famous Quantum hedge-fund, while Bermuda (pop. 63,000) has recently become an important center for the global insurance industry.

The tiny British self-governing territory of Cayman Islands (pop. 23,000) has risen to special prominence (some would say, notoriety) in recent decades. Until the 1970's, these three small coral islands south of Cuba were an impoverished backwater, subsisting on third-rate tourism, fishing and smuggling. By the mid 1990's, the Caymans had metamorphosed into the world's fifth largest banking center as measured by deposits (after the United States, Japan, Britain and France). By that time, no less than 560 banks were registered in the territory, including 46 of the world's 50 largest (though only 70 banks actually maintained a physical presence on the islands). Many major accounting and law firms had also located branches in the Caymans. The islands reported foreign deposits of \$636 billion at the end of 1999. They succeeded, according to one source,

because they offered "tax efficient asset protection." There are virtually no taxes, no exchange controls and no threats to the "confidentiality" of depositors.

The Pacific Ocean region has two dozen island SSTs, ranging in size from Fiji (pop. 773,000) to tiny Tokelau, an atoll with just 1,700 residents. Some of the territories embrace hundreds of islands scattered over more than a thousand miles of ocean. The Indian Ocean is site of four large island groups, including the Maldives (pop. 245,000) and the Seychelles (pop. 79,000), as well as a number of other territories including the French island of Reunion (pop. 718,000). Among the smallest Pacific SSTs, Nauru (pop. 10,000) and Niue (2,100) have specialized in offshore finance, a field where newcomers can have an advantage. As international pressure forces older offshore centers in Europe and the Caribbean to introduce limited regulation, states in the Pacific region have been able to offer the most radically deregulated offshore financial havens.

Africa, too, has a number of SSTs – 12 states according to the World Bank count, including the islands of Cape Verde (pop. 416,000) and Sao Tome and Principe (pop. 142,000), coastal Djibouti (pop. 636,000) and continental Swaziland (pop. 969,000), as well as a number of territorial remnants of colonialism, like Ceuta (pop. 69,000) and Melilla (pop. 60,000), Spanish territories on Morocco's Mediterranean coast. Asia, by contrast, has relatively few SSTs, many of which are quite prosperous. The island of Bahrain (pop. 629,000), peninsular Qatar (pop. 724,000), and coastal Brunei (pop. 323,000) are all petroleum-rich monarchies.

The majority of SSTs differ from the few success stories based on top-level tourism, oil or offshore financial havens. Many suffer from serious economic problems, including remoteness from major markets and dependence on one or two primary products for export earnings. Reduced overseas development assistance has hurt many SSTs, which relied on grants from colonial or ex-colonial states to maintain their modest living standards.

The new free trade rules embodied in the World Trade Organization (WTO) have harmed many SSTs. One of the first big disputes submitted to WTO arbitration concerned a European Union (EU) tariff advantage for imports of bananas from Caribbean islands. The EU lost the case in 1999 and the Caribbean exporters lost their market, with devastating results for island economies. SSTs worldwide are very critical of the WTO and its efforts to further liberalize the world trading system.

Island SSTs face especially serious environmental issues such as pollution and shortages of freshwater. Runoff, sewage and waste disposal problems have negatively affected beaches, fishing and coral barrier reefs. Island and coastal

SSTs are especially exposed to catastrophic events such as hurricanes, typhoons and volcanic eruptions and they have been working on early-warning, preventive measures and special insurance schemes to deal with these calamities. Most threatening of all, global warming is likely to lead to the rising of sea levels which could increase storm exposure, result in territory loss or even cause some SSTs to sink entirely beneath the waves. SST authorities have been among the most vocal proponents of intergovernmental action to address global warming.

Because of their small size, SSTs have very limited resources for governmental activity and public services. As a result, they have increasingly sought strength in numbers through cooperation with other SSTs. They seek regional cooperation for joint services in education, tourism promotion and other fields, while they seek international cooperation to promote common goals and development strategies in international forums.

The Caribbean region has travelled farthest along the road of cooperation. A short-lived West Indies Federation fell apart in 1962 but today joint efforts are quite advanced, due to Caricom, the Caribbean Community and Common Market (founded 1973), a grouping of 15 mostly English-language states. Caricom states have developed a number of institutions, including the University of the West Indies, a common news agency, a common meteorological association, a common court of justice, and a free-trade zone.

The Caribbean has been a leader of international cooperation with other small states, particularly within the small island movement, which has produced AOSIS (founded 1991), the world-wide, 40-member Alliance of Small Island States. The South Pacific Forum, though originally founded in 1971 to promote regional dialogue, now has been strengthened to include its own university, tourism council, geoscience commission, and environmental program. An Indian Ocean Commission (created 1984), funded by the European Union, has followed a similar path. In addition to joint efforts in higher education, tourism, the environment, fishing and economic integration, it has programs to study fruit flies and an initiative against dumping or accidental loss of petroleum by ships in the surrounding seas.

In the 1990s, the big intergovernmental organizations began to respond. In 1990, UNESCO set up a special directorate for relations with small member states and for special small state policy concerns. In 1994, the United Nations held a world conference on The Sustainable Development of Small Island Developing States in Barbados, an event that focused international attention on SST problems and potential. Subsequently, a number of other conferences have taken place, including a five-year follow-up to the Barbados gathering in 1999 and a global conference on the Development Agenda for Small States, held in

London in February, 2000 under the auspices of the World Bank and the Commonwealth Secretariat. Both institutions issued an important joint paper shortly afterwards and international institutions are now implementing aid and development strategies that target SST issues.

As communication and transportation costs decline, SSTs will increasingly be able to join the mainstream of the global economic and political system. With a combined population some 5% of the global total and important natural resources, they will seek to take their rightful place among the world's larger nations. If they can avoid the worst effects of climate change and unsustainable development, their peoples will have new opportunities to realize a more ambitious future.

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