

In connection with natural resources, we have to consider natural resources that are not quarried and not mined. Many VSC and especially island VSC have beautiful landscapes and, therefore, a flourishing tourism industry. Again, a word on sustainability is in order. Given its dependence on tourism, island VSC in the Caribbean run the risk of destroying their natural heritage if the number of tourists continues to increase. Tourism is a perfect source of welfare for VSC because it complies with the specific advantages of many VSC and it also creates jobs for less-educated citizens. Almost all VSC have a tourism sector of considerable size; some are even highly dependent on tourists. The Bahamas are a good example of this. Note however that there is no apparent difference with regard to the size of the tourism sector between high income and low-income VSC. Not unexpectedly, Pacific VSC seem to do worse despite of almost paradise-like landscapes. The problem of attracting enough tourists may, again, be attributed to their remoteness.

The service sector, and especially the financial service sector, has proven to be the single most important source of welfare for most VSC. In contrast to the exploitation of natural resources and to tourism – neither of require a great degree of autonomy – law-making authority and a considerable scope of sovereign action are prerequisites for a specialization in financial services. Hence, the promotion of the financial services sector seems to concern the core of relevant sovereignty for VSC. The interaction of size and specialization in financial services should make it possible to some conclusions on the necessary kind and extent of law-making authority, which will be at the heart of our examination in the following sections. In any case, financial services, banking and related services are a major source of revenue for almost all VSC. It cannot be a coincidence that so many VSC have specialized in these branches.

One reason for this fact might be that VSC can overcome disadvantages of remoteness and high transportation cost by specializing in services, which often only require data networks and means of telecommunication. No other possible economic activity is more independent of geographic distance than distinct services and, above all, financial services. Note that the internet has been opening up new possibilities for remote VSC by establishing quite a few branches which are also associated with low transport costs: internet services, internet retailing or software development are examples. There are some signs that VSC are aware of these new possibilities, but they have not proceeded far in terms of