

not differ on average from larger countries. However, it is nevertheless possible to detect three main sources of welfare in VSC: natural resources, tourism and financial services. Leaving aside Brunei and Iceland, which are very dependent on natural resources, the other six VSC are often dependent on both financial services and tourism.¹¹⁵

It is furthermore noteworthy that the specialization in financial services does not go hand in hand with illegal practices in those six high-income VSC with a considerable dependency on financial services and banking. Four of them are in fact on the OECD list of harmful tax practices (OECD, 2000), but they are not on the FATF-GAFI list (FATF-GAFI, 2001) for money laundering. Contrary to that, some low-income VSC which became famous for being tax havens are on both lists. An interpretation of this fact is a little speculative. It might be the case that a serious financial service sector which enjoys a high level of confidence and is highly reputed in other countries – such as Liechtenstein or Luxembourg – with a favorable institutional environment like low tax rates or a strictly interpreted confidentiality in banking is much more profitable than an approach based on nearly illegal or illegal practices. Due to the long time it takes to build reputation this finding is however of limited use as advice for less developed VSC which have been specializing in financial services.

Although openness and transport cost data in Table 5.4 are very scarce, we know from Table A.14 for example that openness is of considerable importance for VSC as a prerequisite of development. It has also been noted briefly in the theoretical discussion on the «inferiority» arguments concerning very small countries' private sectors that a high level of openness comes with higher dependency on neighboring countries and a higher risk of external shocks, on the one hand, but on the other hand, it offers the opportunity to overcome the limitations of the small home market, in terms of scale economies in production, research and development. In a stable international and especially regional political environment and in the absence of severe conflicts with adjacent coun-

¹¹⁵ Prerequisites for a successful economic strategy in these two branches are a liberalization of capital movements (which has been taking place since the 1970ies) and, besides the required conditions with regard to nature and landscape, good accessibility. The lack of the latter is one of the biggest disadvantages of Pacific VSC, of which most can be viewed as less developed. Remoteness seems to be one of the most important growth-hindering factors for them.