

deal in favor of political agreement among most of the parties or politicians, especially when issues of vital national interests or of external politics are concerned.<sup>117</sup>

#### *5.2.2.9.4 Other determinants of welfare*

As can be seen from Table 5.4, vulnerability indices are not available for most of the high-income VSC. It is not difficult to suppose that they are highly correlated with geographic location and that European VSC have clear advantages over Caribbean and Pacific VSC. Leaving aside the higher vulnerability of VSC due to their size, it should be more difficult to attain high levels of welfare for countries with high vulnerability indices than for less vulnerable countries. The successful economic strategy of the Bahamas is, in this respect, a bit surprising, but shows that problems associated with vulnerability like, e.g., disaster proneness can be partially overcome.

There is another possible explanation for the success stories of some VSC, although it is also a bit surprising at first sight. In any case, it is one of the standard arguments in economic geography which can easily be applied to VSC (see, for instance, Krugman 1996, p. 205ff).<sup>118</sup> Think of the development of a village or a small city (which can be compared to nearly all VSC with the very notable exception of Iceland). A successful village or city has, of course, a famous commodity that it produces or a well-known sight tourists can visit; in a word, it specializes in something. It is however typical for the development of a local economic unit that when the unit reaches high levels of welfare, the original product for which the unit may still be famous only contributes a relatively small

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<sup>117</sup> The extent of membership in regional, international and supranational organizations do not seem to play a role in determining welfare in VSC. Especially VSC have to bear high per capita costs to be represented in these organizations, and the countries chosen exhibit very diverse characteristics with regard to membership. On the one end of the possible scale we have Luxembourg, which is a full member in all relevant international and regional organizations; on the other end there are Monaco and San Marino, which are only minimally represented on the international level.

<sup>118</sup> Note that we can only dwell very briefly upon the subject of economic development here. Actually, it would fill another book if we applied growth theories and theories of economic geography on VSC. The few sentences on economic development should therefore be viewed as another argument concerning the determinants of wealth without being underpinned by theoretical considerations and without being tested rigorously in empirical terms.