

Trade openness and individual freedom as well as democracy have proven to be a condition for VSC success. The only high-income VSC without a democratic system is Brunei<sup>129</sup>, where the lack of democracy is not so important in economic terms, because the extraction and refinement of oil and natural gas may also be organized and/or strictly controlled by the government or by government agencies. The climate of personal freedom is much more important when the service sector is concerned. High vulnerability and high transport costs are obviously detrimental to economic success in VSC. This finding is not surprising and establishes a natural disadvantage result for small island economies, especially in the Pacific region.

Another word on openness is in order. When we apply the term generally, it implies not only trade openness, but also compliance with the rules of international and regional organizations. It is obvious that VSC policies with regard to openness are ambiguous, meandering between a high level of trade openness to overcome the disadvantages of the small home market and some protectionist measures to support their niche strategies as firmly as possible. It is a revealing fact that very few VSC are full members of supranational organizations. Even though there are often comprehensive treaties with these organizations, full membership would probably endanger the VSC strategies to promote niche activities.

It is therefore a common misunderstanding that high-income VSC are very open. They try to abolish trade restrictions with adjacent countries, as long as their core industries are not concerned. With regard to this strategy they do not differ from many larger countries. As soon as a VSC's economic niches are concerned, protectionist measures are widely used and the necessary sovereignty is defended vigorously. Free movement of people and the right to establish enterprises without being a citizen is therefore often a problem for VSC.

Liechtenstein, e.g., had major objections to these freedoms in the EEA because the heart of its service sector was concerned, but exemptions and interim regulations led to the accession of Liechtenstein. Note that it has been shown meanwhile that the effects of the freedom of movement have not been detrimental to the Liechtenstein economy.

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<sup>129</sup> In Liechtenstein there is an ongoing constitutional debate on the political influence of the prince.