10 The security of the European micro-states

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> It is apparent that the token of success of the European micro-states has so far been their ability to neutralise the limitations stemming from their distinctive geographic, social and economic attributes, and to turn these potentially negative characteristics to their advantage in the international playing field.
>
> (Dózsa 2008: 95)

Introduction

The study of the European micro-states is unfamiliar to many scholars and students of international relations because the former are very small, have very little power, offer no significant threat to others and are often viewed as being somewhat anachronistic. The micro-states are usually seen as being insignificant members of the international community because of their diminutive size and are often overlooked as objects of serious study. However, upon a closer look they are quite fascinating and offer new insights into international politics. To illustrate this takes a few interesting facts: San Marino is the oldest Republic in the world with a history stretching back to 301 AD; the tiny Pyrenean state of Andorra has two heads of state, namely the President of France and the Bishop of Urgell; Monaco has the world's highest population density due to its urban setting; and the smallest state in the world is the Vatican City State, which coincidently, is also host to the world's biggest institution, the Roman Catholic Church, with between 1.3 and two billion followers. There is much to be gleaned by exploring the European micro-states and this chapter will highlight some of the security issues associated with these very small polities.

Using a simple population threshold of one million people allows 44 sovereign micro-states[1] to be identified in the international community and ten of these are in Europe. They are Andorra, Cyprus, Iceland, Liechtenstein, Luxembourg, Malta, Monaco, Montenegro, San Marino and the Vatican City State (sometimes also referred to as the Holy See). Each has a distinct security dilemma, unique history and engagement with international politics. As discussed in Chapter 1, using absolute criteria in defining states by their size is highly problematic and can be contested; there is no consensus concerning what constitutes a 'small state' or indeed a 'micro-state'. The European micro-states have *very little* power in the international system, have very narrow policy options, fewer interests, have little say in international politics and are consequently vulnerable to outside pressures. Additionally, the micro-states are *always* the weaker party in any asymmetric relationship with other states – with the possible exception of the Vatican, depending on the issue at hand. Nairn (1997) suggests that the small 'scale' of the micro-states undermines their capacity to act in international politics.

The European micro-states are a disparate collection of states, as some are islands, some are landlocked, some are former colonies, some have existed for centuries, many are democracies, while some are not true democracies. For all, however, their smallness in size permeates into all aspects of politics, both domestically and in terms of foreign policy and economic policy. The smallness of the micro-states limits them in terms of capabilities, restricts policy options, reduces diplomatic representation, increases their vulnerabilities especially economically, and places particular pressures on their national security.

This chapter will first address definitional issues, including some problems and criteria used in defining micro-states. It will then give brief descriptions of the European micro-states, in order to establish who they are. The main common characteristics and key features of micro-states will be identified, including the varying levels of democracy. The chapter will then run through some relevant issues relating to micro-state security, including military issues, other security topics and economic strategies.

Definitions

As stressed in Chapter 1, and as Maass writes, 'no consensus-definition of the small state has yet emerged, despite an abundance of characterizations, rationales and proposed definitions' (2009: 65). Aside from the many quantitative, qualitative and subjective features proposed by various authors, defining small states or micro-states inherently involves a relative dynamic: *State A* is small when compared to *State B*, as discussed in Chapter 1. This means that 'ultimately a judgmental element must creep into the exercise of categorising states by size' (Archer and Nugent, 2002: 5). Moreover, the question of definition is sometimes complicated by the language used. A number of terms including 'small states', 'small nations', 'weak states', 'small powers', 'minor powers' and 'small countries' are commonly found in literature and may be used interchangeably by scholars and decision-makers. Yet, these terms may have different connotations and clarity is important, not least when distinguishing small states from micro-states. Correctly expressed, micro-states are a sub-field of small state studies; they are, in simple terms, *very* small states.

Whilst there is no agreed consensus as to what constitutes a 'small state', there is a greater amount of agreement among scholars regarding the definition of 'micro-states'. The Scandinavian political scientist, Dag Anckar (1998, 2002, and 2004) argues that the usual criterion for defining micro-states is a population of less than one million people. Others who have used this yardstick include Harden (1985), Sutton and Payne (1993), Warrington (1994), Christopher (2002) and Simpson (2008). There are, however, other competing definitions including that of Ali Naseer Mohamed (2002), who suggests that 1.5 million people is the threshold; Plischke (1977), who suggests that micro-states have populations of under 100,000 or between 100,000 and 300,000; and Armstrong and Read (1995; 2003; also Armstrong *et al*., 1998), who define micro-states as having populations of three million or less. Plischke (1977) suggested that membership of the United Nations (UN) was also important in the definition of micro-states. When he wrote this, a number of European micro-states, specifically Andorra, San Marino and Monaco, were excluded from his list as they were not UN member states; but since the end of the Cold War all three have joined the UN. Wivel and Oest argue that micro-states are, 'permanently stuck as the weak party in asymmetric relationships internationally and therefore forced to adopt strategies that cope with the permanency of their weakness' (Wivel and Oest 2010: 434).

For the purpose of this chapter, three criteria will be used to define micro-states. The first is that they are sovereign: namely, they fulfil the criteria of legal statehood as established by the 1933 Montevideo Convention on the Rights and Duties of States. Article 1 of the Convention sets down four criteria:

> The state as a person of international law should possess the following qualifications: a) a permanent population; b) a defined territory; c) government; and d) capacity to enter into relations with the other states.
> (1933 Montevideo Convention of the Rights and Duties of States, Article 1)

There are a myriad of non-sovereign polities (or non-self-governing territories as the United Nations describes them) around the globe and in Europe, including Gibraltar, disputed territories such as Northern Cyprus or Transnistria, Mount Athos in Greece, and dependencies such as the Isle of Man or the Channel Islands. These territories are small but are not recognized widely as being sovereign states.

The second criterion follows from statehood: being a member of the United Nations. With South Sudan joining the UN in 2011, there are now 193 member states (United Nations 2012a). Membership of the UN codifies and reinforces the status of statehood and is also important in terms of being recognized by the international community. The Vatican City is the smallest sovereign state in the world, both in terms of population and territorial size, and it has 'observer status'[2] at the UN. Whilst this is not full membership per se, it does – for all practical purposes – denote membership, and allows the Vatican City to be included as a European micro-state throughout this chapter.

The third criterion relates to population. A micro-state is here defined as having a population of one million people or less, following the practice of Anckar (1998, 2002 and 2004), Warrington (1994) and Christopher (2002), among others. As noted, this relatively simple and arbitrary threshold produces 44 micro-states around the world in 2013, including the likes of the Bahamas, Cape Verde, Fiji, the Maldives and Swaziland,[3] and ten micro-states in Europe.

Who are the micro-states of Europe?

The ten European micro-states currently include two islands in the Mediterranean (Cyprus and Malta); two mountainous states (Andorra and Liechtenstein); one island state in the North Atlantic (Iceland); a founding member of the European Union (Luxembourg); one theocracy (Vatican City); one state in the Balkans (Montenegro); the world's oldest republic (San Marino); and one glamorous Principality (Monaco) famed for its casinos. Eccardt writes, 'few people know much about microstates, though millions visit them each year' (Eccardt, 2005: 1). Each micro-state has its own singular feature(s) that help attract tourism and distinguish them beside their larger neighbours.

Andorra lies in the Pyrenean Mountains between France and Spain and is a well-known destination for skiers, though it also has a small tobacco-growing industry. This tiny state has also become a tax haven in order to attract rich residents and tourists; it has been estimated that ten million people visit each year, partly for the duty-free goods available (BBC 2012). Nairn calls Andorra 'a glorified duty-free emporium at the bottom of a ski-slope' (Nairn 1997: 137). This democratic co-Principality has a parliament of 28 members, who are elected every four years. Given its small population of around 85,000 and geographic location, Andorra has chosen to establish economic ties to the European Union (EU), including use of the euro currency, though it is not a member state. During both the Spanish civil war and World War II, Andorra declared neutrality as a means of guaranteeing its own security. However, both France and Spain also have treaty obligations (Bartmann, 2002: 369–370) to support Andorran sovereignty and security.

Cyprus is an island state and former British colony in the Eastern Mediterranean, with a population almost reaching one million. In 1974, fearing a coup orchestrated in Athens, Turkey invaded and the island has been divided ever since. Northern Cyprus declared independence in 1983, but this was only recognized by Turkey. Since the invasion, UN peacekeepers have patrolled the disputed border and kept the peace. In 2004, Cyprus joined the EU and it was thought that this could provide a platform for unification; but following referendums in Cyprus and in the North, this has yet to happen. The Cyprus economy is largely based on agriculture, tourism, some industry (quarrying) and some service industries, including online gambling.

Iceland is known as the *land of fire and ice* and was the second micro-state to join the UN in 1946. It lies in the North Atlantic and is on the boundary between the North American and Eurasian tectonic plates, which means earthquakes are common occurrences and the landscape is full of volcanoes. The Icelandic Parliament, or Alþingi (All-thing), has 63 members and dates back to AD 930, making it one of the oldest parliaments in Europe. In the late 1940s, Iceland joined the North Atlantic Treaty Organization (NATO) and adopted an Atlanticist outlook. Iceland is famed for its fishing, which accounted for much of its economic development and growth, though in the past two decades it has diversified into aluminium production, tourism, banking and green energy. With the financial collapse of 2008, Iceland was essentially made bankrupt due to the over-stretching of its banking sector. Since 2008, Iceland has seen the rise of new political parties, proposals for a new constitution have been drawn up and it has applied for EU membership.

The landlocked Principality of Liechtenstein is located in the mountain slopes of the Rhine Valley, between Switzerland and Austria. Its small size of 160 km^2 or 61.8 $miles^2$, and small population of around 35,000 people, encouraged it to become a tax haven in the post-war years, though there is some farming and some industry (dental products). The micro-state is officially neutral and uses Swiss francs as currency. Liechtenstein joined the UN in 1990. In recent times its banking sector has been criticized by the OECD for a lack of transparency; there are around 10–15 banks located in the Principality and many wealthy people from around the world have accounts based there. There are estimates that around 5,000 British citizens hold accounts worth billions of pounds in Liechtenstein bank accounts (www.guardian.co.uk/business/2009/aug/11/tax-havens-liechtenstein, accessed 25 November 2013). High levels of bank secrecy, coupled with low tax levels, have led to allegations of money-laundering by terrorists, criminals and those avoiding taxation, which are embarrassing for the Principality, especially as many of the banks are owned by the Royal family.

The Grand Duchy of Luxembourg is located in the heart of Western Europe and borders upon Belgium, France and Germany. With iron ore deposits found in the 1840s, Luxembourg quickly became a major steel producer throughout the Industrial Revolution, which created great wealth and prosperity. By 1913 the Grand Duchy was the sixth largest producer of pig iron and the world's fourth largest steel exporter (Strikwerda 1993: 1114–1115). Luxembourg is a founding member of many international organizations, including the UN, EU, NATO, WTO, IMF and World Bank. Some key institutions of the EU are located in Luxembourg, including the European Court of Justice, the Court of Auditors and the EU's Official Publications office (Hey 2003: 78). Like other micro-states in Europe, Luxembourg has a thriving banking sector and low-tax economy that attracts investments from around Europe. With its location, industrial history, banking industry and its hosting of EU institutions, Luxembourg is an exceptionally wealthy micro-state.

The island of Malta, like Cyprus, was a British colony and gained its independence in 1964. Malta has a long history going back to ancient times and has been occupied by the Phoenicians, Greeks, Romans, the Knights of St John and the British. Turnout in Maltese elections is usually very high and there is a strong two-party system in operation, involving the Labour Party and the Nationalist Party. Malta relies largely on tourism but also has a shipbuilding industry, and its location in the Eastern Mediterranean made it ideal as a trading nation. Malta joined the EU in 2004 and the Eurozone in 2008. Since joining the EU, there has been an influx of immigration, largely from North Africa, which has created some local problems. During the NATO intervention in Libya in 2011–2012, many Libyans sought refuge in Malta.

The Principality of Monaco is located on the French Riviera and is often portrayed as a playground for the rich and wealthy. Monaco is famed for its casinos, its annual Formula One race, banking secrecy, and for the ruling Grimaldi family. Monaco relies a great deal on the French for the collection of certain taxes (VAT or indirect sales tax), defence (Monaco has no army), provision of civil servants and judges and utilities such as water and rail networks. However, it has its own small National Council of 24 members, which can be dismissed by the Prince of Monaco; is a UN member; and uses the euro currency. It has a constitutional monarchy and the current Prince is Albert II. In the early 2000s, the French Parliament was highly critical of Monaco for its banking practices (see p. 179) and a long-standing bilateral treaty was consequently re-written. Under the provisions of the old treaty, Monaco would become French if there were no male heir; but under the new terms, the Monaco Royal family can now adopt a successor to maintain its sovereign independence. Of the 30,000 residents, only about 6,000 are Monacan citizens; the rest are wealthy residents.

Montenegro was part of the Former Republic of Yugoslavia (FRY), but is now Europe's newest micro-state. It joined Yugoslavia under the Treaty of Versailles in 1919 and became independent in 2006 by way of a referendum. Montenegro lies on the Adriatic, has borders with Bosnia and Herzegovina, Serbia and Kosovo, and has long-term aspirations to join the EU and NATO. Around one-third of the population are ethnic Serbs out of a population of around 632,000 and there are some underlying political tensions relating to national identity and the violent fragmentation of FRY in the 1990s. Montenegro has a unicameral parliament of 81 members, is a member of the UN and has a multi-party system. It is trying to encourage tourism and investment by presenting itself as 'the pearl of the Mediterranean' (www.visit-montenegro.com/, accessed 25 November 2013), but a key export is aluminium.

San Marino is located in the northeast of Italy, was established in AD 301 and has a singular political system. San Marino does not have a written constitution and formally became democratic in 1906 (Sundhaussen 2003: 214), when elections were first held. At *arringo* meetings held twice a year, the two Captains Regent are appointed. These are the Heads of State/Head of Government and hold power alongside the Grand and General Council, a 60-member parliament. Kohr writes, 'they choose two consuls every six months with the result that practically every citizen functions at some time during his life as his country's chief of state' (2001: 113). Bartmann writes, 'San Marino is responsible for its own security. A steadfast commitment to a policy of neutrality was maintained throughout the Second World War' (2002: 369). Today the micro-state has no formal military capabilities, but as it is totally surrounded by Italy, it might be argued that both Italy and, by extension, NATO help to defend it.

The Vatican City State was formally established in 1929 by the Lateran Treaty with Italy, though clearly its history dates back many centuries. Eccardt writes, '[the] Vatican city may be the most unusual country in the world' (Eccardt 2005: 299). The Vatican occupies an area of 0.44^2 km or 44 hectares (roughly 100 acres) and has a population of less than a thousand citizens.

However, there are about 4,000 people who live in Rome and work in the Vatican, which exempts them from Italian income tax. The Pope is Head of State and Head of Government and is leader of about 1.3 to two billion Roman Catholics globally, thus wielding enormous [soft] power and respect in world affairs. The Pope is elected for life[4] by a conclave, which is essentially all the Cardinals of the Catholic Church under the age of 80; this is the only form of democracy in the Vatican. As the Vatican (or Holy See) is host to the Roman Catholic religion, it adopts a neutral position in international politics with which full UN membership is seen as incompatible;[5] thus its UN status is that of an 'observer' (United Nations 2012c). While not an EU member state, the Vatican uses the euro as its official currency.

Characteristics of micro-states

The micro-states of Europe are very small, both in terms of territory and in terms of population. They thus have few natural resources (except in a few cases), smaller working populations, smaller domestic markets, small governments and small bureaucracies. Smallness permeates into all aspects of public life and politics. For example, unicameral parliaments are the norm for the European micro-states, with Andorra having 28 parliamentary representatives and Montenegro having 81 (see table 10.1). Governments are often also small, with Liechtenstein having a government of five members (plus the Prince) and Iceland ten members (plus the President).

The political and economic elites of the micro-states know each other well, as there are so few of them. In the Principalities of Liechtenstein and Monaco, this is particularly true. The Royal family in Liechtenstein owns many of the banks

Table 10.1 Size of micro-state parliaments in Europe

	Parliament (members)	*Type of government*
Andorra	28	Co-Principality/democratic
Cyprus	56	Republic/democratic
Iceland	63	Republic/democratic
Liechtenstein	25	Principality/semi-democratic
Luxembourg	60	Grand Duchy/democratic
Malta	65	Republic/democratic
Monaco	24	Principality/democratic
Montenegro	81	Republic/democratic
San Marino	60	Republic/democratic
Vatican City	–	Theocracy/non-democratic

Sources: Various, including BBC, *CIA World Factbook*, and national websites (all accessed in 2012).

Notes
Andorra has two heads of state; Liechtenstein underwent constitutional changes in 2002 giving the Prince wider powers to dismiss parliament and government; in Montenegro an MP shall be elected for every 6,000 voters; and the only voting in the Vatican is via a conclave to elect a new Pope.

that provide the Principality's main source of wealth and prosperity; and the Prince of Monaco owns much of Monaco. A small, ruling elite usually means improved communications, fewer political barriers and less bureaucratic wrangling. However, it may also lead towards incestuous and dysfunctional politics, as perhaps illustrated by the banking collapse in Iceland in 2008, in which bankers and politicians were too closely aligned. For Dag Anckar (2003), the smallness of the micro-states also contributes to a tendency towards democracy. However, it could also be said that many of the micro-states in Europe have anachronistic political institutions, such as San Marino with its selection of its two Captains Regent every six months; the dominance of the Prince in Liechtenstein politics; and the unique position – and indeed election – of the Pope in the Vatican City.

The smallness of micro-states usually means greater homogeneity in terms of national identity and ethnicity. While citizenship in the Vatican is uniquely based on profession rather than national identity and some micro-states such as Andorra and Monaco have more non-citizens than citizens in residence, national identity in the micro-states is important both in terms of societal security and in affirming democracy. The only problematic micro-state in this regard is Cyprus. Since the 1970s, the island has been divided, with Turkish Cypriots in the northern third of the island and Greek Cypriots in the rest. The Cyprus problem is a long-standing issue in European politics, and has not been solved by the Republic of Cyprus' EU membership, for which the UN has sought various solutions over decades, including the Annan Plan (UN 2004). As Sepos writes, this plan:

> ... foresaw the evolution of the Cyprus Republic into the United Republic of Cyprus, with a different name, flag, and national anthem. Borrowing heavily from the Swiss and Belgian federal models, it proposed the construction of a common state with a single sovereignty, consisting of Greek-Cypriot and Turkish-Cypriot component states, with their own legislative and executive powers.
>
> (Sepos 2008: 30)

While there has been a greater political dialogue between Cyprus and northern Cyprus since the start of the millennium, the prospect of unifying the island remains problematic.

The European micro-states have very little power globally or even within Europe, with the Vatican City providing a certain exception to the rule. They do occasionally become the subject of international debate and concern,[6] as in Cyprus' case, but for the most part the micro-states remain largely insignificant actors. Sometimes, they make material contributions to international developments such as Luxembourg's role in shaping the EU from its foundation onwards. As another example, in the late 1960s, the Maltese UN Ambassador, Arvid Pardo, played a crucial role in introducing concepts and policies designating the seas and seabed as part of the 'common heritage of mankind', which were incorporated into international law by 1982. Thus while limited in terms of power and influence, as sovereign actors the micro-states have some ability to affect international relations, often through membership of international organizations.

Many of the European micro-states are wealthy, but they also rely on neighbouring states for various forms of economic sustenance, such as imports of foods and fuels and utilities like water and electricity. Thorhallsson (2011; see also Alesina and Spolaore 2005) argues that small states need political and economic 'shelter' from larger states and/or institutions in order to survive in the globalized world, and this may be particularly true for micro-states.

Since the financial crash of 2008, some micro-states have suffered serious economic worries highlighting their vulnerability when combined with risky policy choices – most notably, Cyprus and Iceland. Some others, such as Andorra, Liechtenstein, Luxembourg and Monaco, have become tax havens or offshore financial centres to encourage both investments and wealthy residents. These micro-states have many banks and financial services that attract billions of dollars worth of investments (on which more below). The Vatican has enormous wealth, much of it coming from donations by people across the world, but also from property and banking. As the Vatican does not publish economic data, there is much speculation about its wealth. One British newspaper, the *Daily Telegraph*, reports that the Vatican has property investments worth up to €700 billion (*Daily Telegraph* 2011) and in addition, it has priceless artefacts and works of art.

Luxembourg as a capital city of the EU in the heart of Western Europe, has gained a high level of economic stability and wealth. As seen in Table 10.2, it is noticeable that only Iceland maintains its own national currency, and debates there since 2008 on EU membership have largely focused on whether to join the

Table 10.2 Selected economic data of the European micro-states

	Unit of currency	*GDP per capita (ppp) US$/£ 2011 estimates*	*Exports estimates, US$/£ (year)*
Andorra	Euro	$37,200	$70 million (2011)
Cyprus	Euro	$26,290	$7.716 billion (2012)
Iceland	Krona	$38,700	$5.1 billion (2012)
Liechtenstein	Swiss Francs	$89,000 (2012 data)	£3.325 billion (2010)
Luxembourg	Euro	$81,900	$15.5 billion (2012)
Malta	Euro	$26,000	$3.67 billion (2012)
Monaco	Euro	$63,000 (2009 data)	$711 million (2010)
Montenegro	Euro	$11,700	$640 million (2011)
San Marino	Euro	£36,200 (2009 data)	$2.576 billion (2010)
Vatican City	Euro	–	–

Source: CIA World Factbook (www.cia.gov/library/publications/the-world-factbook/wfbExt/region_eur.html, accessed 15 October 2012).

Notes

GDP Per capita (ppp) indicates total GDP on a purchasing power parity basis, divided by population as of' 1 July for the given year.

euro or not. During the twentieth century, Iceland benefited from fish, clean energy and (at least before 2008) very low levels of unemployment. The micro-states also rely heavily upon tourism to generate income. Each with its own unique landscape, traditions and history, they are able to sell themselves as idyllic locations for vacations. Andorra has skiing and attracts around ten million visitors each year, many taking advantage of duty-free products, and many on day trips from neighbouring Spain. Monaco presents itself as a glamorous locale with casinos; Cyprus and Malta compete for tourists seeking Mediterranean sunshine; Iceland has epic scenery, many outdoor pursuits and volcanoes; and if you have $70,000 you can hire Liechtenstein for a night (Sinmaz 2011). Thus the different micro-states have adopted different economic strategies for survival, while striving – within the constraints of smallness – to diversify the economic base as much as possible. The evolution of the internet and online enterprises has helped, with online casinos and banks being based in many of the micro-states including Malta, Iceland, Liechtenstein and Luxembourg.[7]

Military issues and solutions

The smallness of the micro-states makes them inherently weak and vulnerable, especially in military terms. Indeed many of the micro-states in Europe do not have military capabilities and have special arrangements to safeguard their security. Barry Bartmann suggests that Andorra, Iceland, Liechtenstein, Monaco and San Marino are, 'constabulary microstates with police and coastguard units but no formal military establishment' (Bartmann 2002: 369). The Vatican City has the 'Swiss Guard', but has adopted a policy of neutrality and, given its location, essentially relies on Italian defence forces. Bailes and Gylfason write, 'Iceland has never created its own armed forces and is likely never to create them' (Bailes and Gylfason 2009: 149). Iceland and Luxembourg are, however, members of NATO, which guarantees their military security, while Liechtenstein is a neutral state surrounded by two other neutral states, namely Switzerland and Austria. Andorra and Monaco have security guarantees from their larger neighbouring states; France is responsible for the defence of Monaco; while both France and Spain are responsible for the defence of Andorra.[8] These are historic arrangements that evolved because of the size, location and vulnerability of the micro-states. The irrelevance of any (military) threat from such states towards their neighbours helps explain their lack of armed forces, as it disposes of most reasons for their larger neighbour(s) to threaten them either. Since the end of World War II and the creation of the UN, the consolidation of international law and the ideals of collective security also offer some guarantees for micro-states.

Some micro-states in Europe do have armed forces: the Republic of Cyprus had a military budget of around US$550 million in 2010, with an army consisting of 10,000 national guard and a further 50,000 reservists, plus a maritime wing of 300 personnel (European Defence Information 2012). The Cyprus problem is a sufficient explanation of why the Republic has armed forces;

further, UN peacekeepers remain deployed there and there are two British military bases on the island. Malta has modest armed forces numbering around 2,000, including maritime personnel (Armed Forces of Malta 2012); and Montenegro is applying to join NATO via the Membership Action Plan (MAP) process.[9] The Balkan micro-state has less than 10,000 military personnel and abolished conscription in 2006.

Security issues and solutions

While offering no real threat in themselves, micro-states may possess strategic value by virtue of location. During the Cold War, Iceland was of great strategic importance for NATO due to its position in the North Atlantic GIUK (Greenland, Iceland, United Kingdom) gap, where Soviet naval activities were closely monitored. Since the end of the Cold War, this has become less important. Luxembourg's central location meant that the Germans invaded in 1914[10] and in 1940, on the way to attack France and the other Low Countries. After 1945, Luxembourg entered NATO partly to avoid its geographical position leading to further conquest, and as part of the general dynamics of post-war security architecture (see Table 10.3). Both Cyprus and Malta, as Mediterranean islands, were important to the British Empire and, as noted, the UK still has bases in the former. The examples of Andorra, Liechtenstein[11] and perhaps San Marino, with their less than strategic locations, prove the rule as they have not been involved in any serious wars since the nineteenth century.

Just as for 'small' states, membership of international organizations like the UN, NATO and the EU can play a crucial part in multi-functional security solutions for the European micro-states. Supremely exposed as they are to external

Table 10.3 Membership of international organizations (with date of first membership)

	UN	*EU*	*NATO*	*OSCE*	*CoE (Council of Europe)*
Andorra	1993	–	–	Yes	1994
Cyprus	1960	2005	–	Yes	1961
Iceland	1946	–	1949	Yes	1950
Liechtenstein	1990	–	–	Yes	1978
Luxembourg	1945	1956	1949	Yes	1949
Malta	1964	2005	–	Yes	1965
Monaco	1993	–	–	Yes	2004
Montenegro	2006	–	–	Yes	2007
San Marino	1992	–	–	Yes	1988
Vatican City	observer	–	–	Yes	–

Sources: www.un.org; www.nato.int; http://europa.eu/about-eu/countries/index_en.htm; www.osce.org/who/83; http://hub.coe.int/web/coe-portal (data correct as of November 2012).

Notes
Andorra, Monaco, San Marino and the Vatican City are part of the Eurozone; Iceland applied for EU membership in 2009 and is part of the Schengen Agreement and the European Economic Area (EEA). Montenegro is currently an applicant state for EU membership.

pressures, changes in global economic trends, environmental challenges and cultural influences as well as domestic disruption, these very small entities may be interpreted as using organizations for 'shelter' (Thorhallsson 2011) and/or for bandwaggoning (see Reiter in Ingebritsen *et al*. 2006: 239–240). Membership of international organizations offers them new channels of diplomacy, greater security guarantees under international law and closer relations with other states in Europe or beyond; while, in the case of NATO membership, Article 5 places them under the protection of the US nuclear umbrella. Since the end of the Cold War in the late 1980s, the security architecture of Europe has evolved towards an even denser network of multilateral organizations in Europe, whether economic, political or military, which reinforce the idea of collective security and active security cooperation.

While the European micro-states are not necessarily members of all European regional and sub-regional organizations, all of them belong to at least one organization providing a certain level of security or, at least, a forum to raise their security concerns. Besides the institutions in Table 10.3, other groupings such as the Nordic Council, Benelux, the British Commonwealth, EFTA and the Council of Baltic Sea States include various numbers of these states.

The non-military security issues facing micro-states are shared with most other states: for instance climate change, societal issues due to patterns of migration and demographic changes, trends in global markets, international crime and the threat of pandemics. Consequently, good governance becomes an essential element in developing resilience, fostering economic stability, encouraging national identity and developing good relations with other, larger neighbours. This does not always occur, as illustrated by the economic crisis in Iceland or the division of Cyprus since the early 1970s. For most micro-states in Europe, the important security issue lies in developing resilience in governance and in economic development.

Economic strategies

The inherent economic vulnerabilities of the micro-states in Europe have encouraged various economic strategies. There are some benefits in smallness for the micro-states, including the ability to be flexible in building a market share in niche areas like banking, communications or tourism. Yet there is always some dependence on neighbouring states for key economic inputs, especially for the island micro-states, while all micro-states are limited in natural resources. As already seen, EU membership has been particularly important for some of them as a way to encourage investment, gain access to larger markets and benefit from policies such as the Common Agricultural Policy (CAP) and regional funds. As a founding member of the European Community in 1956 and member of the European Coal and Steel Community since 1951–1952, Luxembourg has gained great economic benefit, building on steel and its central location to achieve the EU's highest GDP per capita. The two other micro-state members of the EU, Cyprus and Malta, both joined for largely economic reasons. The free movement of people, goods, capital and services within the EU allows them to attract new investments, encourage further tourism and gain assistance on issues like water quality and management. The EU has reportedly invested €151.5 million in the Maltese road system since 2004 (Camilleri 2011), a significant amount for a small island. For Cyprus, EU funds are important but membership might also ease the long-term prospect of unity with the North.

Andorra, Monaco, San Marino and the Vatican[12] all use the euro despite not being EU members. This is partly for historical reasons: before the euro both San Marino and the Vatican used the Italian lira, while Monaco used the French franc, and Andorra used both the French currency and the Spanish peseta. However, it is also a practical device since having a separate currency is quite an expensive aspect of economics. By participating in a currency union with other – and stronger, larger – economies, the micro-states can free-ride and gain economic protection as well as benefits. Liechtenstein uses the Swiss franc for similar reasons.

As already seen, several micro-states have adopted the more controversial economic strategy of becoming 'offshore' financial centres – also known as tax havens. For Drezner (2001) the micro-states have 'sold' their sovereignty by making this choice, and states like Andorra, Liechtenstein and Monaco have been heavily criticized for it by the OECD. Certain EU member states, like Malta and Luxembourg, have also adopted tax haven status in order to attract investment. Palan writes,

> In one form or another, practically every country in the world offers some sort of haven from taxation and regulation for residents … what distinguishes tax havens … is that they explicitly aim to take advantage of a competitive position by offering reduced regulation or capital tax.
>
> (Palan and Abbot 1999: 169)

In essence, these micro-states adopt low levels of taxation, low levels of financial regulation and high levels of secrecy over financial matters. On the one hand, this can be viewed as a clear and successful economic strategy to attract inward investment. It could also be argued that the size of the micro-states deprives them of options like mass manufacturing or agricultural production, while tax haven status needs no special resources. However, tax havens – especially if weakly regulated – can help tax evaders, criminals and (possibly) terrorists, in hiding their finances. Large multinational corporations often open accounts in states like Luxembourg or Monaco in order to offset profits and thus pay less taxation in the states, where their profits are made. In an era of instantaneous capital transfers through the use of computers and the internet, moving money to offshore financial centres becomes increasingly easier and more efficient, but also more subject to abuse.[13]

Palan (2002: 155) identifies a number of European micro-states and other small territories as offshore financial centres: Andorra, Cyprus, Liechtenstein, Luxembourg, Malta and Monaco; and Gibraltar, Guernsey, Sark, Isle of Man, Jersey and Madeira. The low-tax regime in many micro-states attracts wealthy residents – many people who live in Monaco and Andorra are multimillionaires – which brings other, knock-on economic advantages. States like Andorra, Monaco, Liechtenstein and Luxembourg, that have followed such strategies, have been able to attract billions of dollars, pounds and euros into their economies in consequence. Palan (2002) reports that, according to some estimates, 'more than half of the world's stock of money passes through these tax havens[14] … it is estimated that about 20 per cent of total private wealth … are invested offshore' (Palan 2002: 156).

Conclusion

The inherent smallness of the European micro-states makes them vulnerable to outside pressures. However, they have developed a series of strategies to ensure that they are economically viable and have the minimal capabilities of statehood. For some micro-states, this means becoming offshore financial centres; for others it means participation in European integration; but all rely on an open economy to trade with the world and encourage inward investments. The development of international law throughout the twentieth century and international organizations such as the United Nations, European Union and NATO, coupled with friendly relations with neighbours, have guaranteed the survival of these Lilliputian states. Smallness also contributes to micro-state security by making them less threatening to others, by limiting the resources that others might want to take from them and by making them strategically insignificant. By being good neighbours to larger states, micro-states usually manage to avoid conflict – though with notable exceptions such as the Cod Wars between Iceland and Britain, as well as Cyprus' fate. Domestic factors such as democracy, national identity, good governance and economic viability are also essential elements in the security of the European micro-states. In the end, economics is probably the central security issue for these entities as it underpins their viability as states, contributes to government capabilities and ensures domestic economic security for their people.

Notes

1 A dictionary definition of 'micro' means 'extremely small', 'minute in scope or capability' and it also means importantly, 'a millionth' (http://dictionary.reference.com/browse/micro?s=t, accessed 25 November 2013).

2 Palestine was granted 'non-member Observer status' at the United Nations in November 2012 through a vote of the General Assembly (United Nations 2012b).

3 The microstates are, in alphabetical order, Andorra, Antigua and Barbuda, Bahamas, Bahrain, Barbados, Belize, Brunei, Cape Verde, Comoros, Cook Islands, Cyprus, Djibouti, Dominica, East Timor, Equatorial Guinea, Fiji, Grenada, Guyana, Iceland, Kiribati, Liechtenstein, Luxembourg, Maldives, Malta, Marshall Islands, Micronesia, Monaco, Montenegro, Nauru, Qatar, St Kitts and St Nevis, St Lucia, St Vincent, Samoa, San Marino, Sao Tome and Principe, Seychelles, Solomon Islands, Surinam, Swaziland, Tonga, Tuvalu, Vanuatu and Vatican City State. The Cook Islands are represented in the UN by New Zealand and the Vatican City has 'observer status' at the UN.

4 In February 2013, Pope Benedict XVI announced his intention to resign: an action unprecedented in modern history since Pope Gregory XII resigned in 1415.
5 This has been contested on occasions due to the outlook and attitude of the Vatican on issues such as contraception, women's rights, religious freedom, and various health issues such as HIV/AIDS.
6 See (Quester 1983) for more on this.
7 On post-modern economic options for small spaces, see Chapter 14 in this volume.
8 Andorra was neutral during both World Wars and throughout the Spanish civil war of the 1930s.
9 In 1999, NATO launched the MAP scheme to assist countries wishing to join the Alliance in their preparations by providing advice, assistance and practical support on all membership requirements.
10 In 1914, Luxembourg was occupied by the Germans in violation of its neutral position.
11 Throughout both World Wars, Liechtenstein adopted a neutral position. However, it was bombed by Allied forces during World War II, partly because of its geographic position next to Austria and partly because the Allies did not fully accept its neutrality. After the war, around 500 Soviet troops defected to Liechtenstein from Austria and were granted asylum. Many, around 300, returned to the Soviet Union later.
12 The Vatican's use of the euro makes this the first time since the dissolution of the Holy Roman Empire in 1806 (Bobbit 2002: 559) that coins with an image of the Pope have been in circulation in continental Europe.
13 In 2000, French parliamentarians published reports into various tax havens in Europe, including Monaco, alleging that the authorities in Monaco were complicit in aiding criminals, terrorists and tax evaders. While France collects VAT for the Principality, amounting to around £170 million per annum, the MPs claimed that Monegasque banking secrecy helped to hide 'hot money' (Assemblée Nationale 2000).
14 This includes other global tax havens outside Europe.

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