

**LIECHTENSTEIN - A SMALL COUNTRY IN A  
GLOBALIZED WORLD**

**Address by**

**H.S.H. Prince Alois of Liechtenstein**

**to the World Affairs Council**

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Ladies and Gentlemen

Thank you very much for the invitation to speak to you this evening about Liechtenstein and what it means to be a small country in a globalized world.

Firstly, what kind of a country is Liechtenstein?

Liechtenstein is a tiny principality in the middle of Europe. It has 35'000 inhabitants on 160 square kilometers which equals 60 square miles, approx. the size of Washington DC. Around 34% of the inhabitants are foreigners.

Liechtenstein is a successful combination of monarchy and democracy. Article 2 of the constitution defines Liechtenstein as a constitutional hereditary monarchy on a parliamentary and democratic basis. This means that the Prince and the people govern together. So we have on one side a politically active monarch and on the other side the people who express their interests through parliament or directly through means of direct democracy like referendums.

The Principality of Liechtenstein was created in 1719 as one of the many fairly independent territories of the Holy Roman Empire. In 1806, the Holy Roman Empire was dissolved and Liechtenstein became member of the Rheinbund, a confederation of independent South German States. Then followed its membership in the German Bund between 1815 and the end of the German Bund in 1866. Between 1852 and 1919 Liechtenstein had a customs and currency union with the Austrian-Hungarian Empire. This was followed by a customs union with Switzerland in 1923 and a currency union in 1980, both of which are still in force. However, the Swiss Franc was already Liechtenstein's official currency

since 1921.

The two World Wars were critical times for the country, but Liechtenstein managed to stay neutral and survived both World Wars without harm.

In the last 30 years Liechtenstein became a member of several international organizations:

- the OSCE, the Organization for Security and Co-operation in Europe, in 1975,
- the Council of Europe in 1978,
- the United Nations in 1990,
- the EFTA, the European Free Trade Area, in 1991,
- the EEA, the European Economic Area, in 1995. This means Liechtenstein participates in the common European market without being a member of the EU, and
- the WTO also in 1995.

Liechtenstein is an economic success story. Although Liechtenstein is very small, it has a highly diversified economy. With a population of 35'000 Liechtenstein offers jobs to almost 30'000. This means that slightly less than half the work force commutes daily into the country. At the same time Liechtenstein companies also create jobs for over 24'000 people in subsidiaries around the world.

Liechtenstein's economic success came after World War II. Only 80 years ago, the country was poor. The people lived mostly of farming. This sudden success had several reasons:

- the neutrality during World War II and the close links to Switzerland which gave a good starting position after the war,

- the globalization as I will explain later in more detail,
- the stable political framework,
- a highly-qualified labor force,
- sound economic policies with low taxes, quick decision taking, business friendly regulations and authorities that are close to the people and their businesses, and
- finally the EEA membership in 1995 that gave the economy an additional boost as Liechtenstein offers now the advantages of two economic areas: the common European market as well as the customs union with Switzerland.

Liechtenstein is a highly industrialized country. Around 47% of the labor force are employed by the industry and manufacturing sector. Many of Liechtenstein's industrial companies work in research-intensive niches where they are considered market leaders and export products with innovative, cutting-edge technology.

In 2004, Liechtenstein's industry exported goods valued at 5.1 billion Swiss francs. 46% of the products go to the European Economic Area, 12% to Switzerland and 42% to other countries including the US. The export value of industrial products per capita is about ten times as high as in Germany which is often wrongly called the export champion. The export volume to the US is 642 million CHF and the Liechtenstein industry employs about 3400 people in the US at 13 different subsidiaries. The US is Liechtenstein's largest export partner before Germany and Switzerland.

There is a high possibility that you use a product that was developed in Liechtenstein. Any craftsman that has been working on this building will most certainly have used construction equipment by Hilti. It is also likely that this

microphone works thanks to Neutrik, the leading manufacturer of plug connectors for the professional audio and video industry. The car you drove to this event might have a steering system developed by Thyssen Krupp Presta. Any CD you listened to while driving was probably produced using machinery by Unaxis in Balzers, as 2 out of 3 CDs and DVDs worldwide are produced using Unaxis Data Storage systems. And you might even have a piece of Liechtenstein in your mouth – an artificial tooth or a filling by Ivoclar-Vivadent.

Liechtenstein is also one of the most attractive financial centers in Europe with its private banking, insurance and investment fund sectors that look after 182 billion CHF of assets. The strength of the financial center is the quality of the services provided and the attractive regulatory environment. Liechtenstein's legislation is friendly to investors with a strict banking secrecy and strong protection of private property, but at the same time offers highest international standards for accepting and managing assets.

As a result, we are a strong partner of the US in the areas of combating money laundering and terrorist financing. After September 11, financing of terrorism quickly became the focus of the international debate. We have worked both, bilaterally, and on the multilateral level, especially within the framework of the relevant resolutions of the United Nations Security Council, to suppress the financing of terrorist activities. Liechtenstein has all the necessary instruments in place. Of particular importance is the ability to freeze terrorist assets immediately and effectively.

Private banking is the oldest and largest sector of the financial center. It offers very efficient and reliable banking services, good investment performance and unique asset structuring opportunities, including Liechtenstein trusts and foundations.

With its membership in the European Economic Area in 1995, began the start of the Liechtenstein insurance business. As a particular attraction Liechtenstein insurances based on EU standards are the only ones to have free access to the European and the Swiss insurance market. At the same time they benefit from a strong insurance secrecy and a location with good investment know-how.

The investment fund sector developed strongly in recent years. Again thanks to the membership in the European Economic Area investment companies can take advantage of the access to the European market without any discrimination. Investor protection has been given a high priority. As a most recent attraction a new investment fund law has been passed last year implementing the latest European directives in an innovative, investor-friendly manner and offering such unique products as investment funds for qualified investors. Those allow high net worth investors with reduced protection requirements to set up their own investment funds.

What does globalization mean for a small country?

For a small country like Liechtenstein globalization is a great benefit. The reduction of trade barriers and good worldwide links are essential requirements for a small country's economy to be able to compete on equal terms and be successful. Especially the reduction of trade barriers is vital. Without the possibility to export freely, our industrial sector could not have grown. A company like Hilti would have to close its doors immediately if its only market would be Liechtenstein.

However, in a globalized world there is not only competition between

businesses, but also between states for sound economic policies. Particularly, a small country that cannot influence the international agenda has to ensure that it always stays competitive, fast and flexible, so that it takes its chances when they occur. This means that Liechtenstein has to be well organized with the state restricted to those tasks that it does better than the private sector or the local communities. In a small country this is also important for another reason: the cost of the bureaucracy has to be shouldered by a relatively small number of tax payers. Those tasks that remain with the state have to be executed well. Good and efficient regulations are not only a basic requirement for countries to prosper, they can also be a differentiation factor in a competitive globalized world.

Luckily, very small states tend to do better in those respects. Sound economic policies including a small bureaucracy and no state intervention into the economy come naturally to small states as they simply cannot afford such luxuries. With the exception of agriculture, Liechtenstein neither gives any subsidies to businesses nor any export guarantees or other export aides. In addition, the decision-making by the politicians tends to be closer to the people and their businesses. In Liechtenstein this aspect is enhanced by strong elements of direct democracy that ensure that people's money is not used against people's interests.

Although Liechtenstein is doing well in the globalized world we cannot relax and stand still. As we have been very successful, our salaries have increased. This means the low value added work becomes increasingly too expensive and is shifted to other cheaper countries. Therefore, we have to improve our position by reforms in education, tax and social security to have an even better educated workforce in an even more attractive regulatory environment.

Finally, the rule of law on an international level is of great interest to a small country in a globalized world. Liechtenstein has no economic or military power to defend its interests. Therefore, we highly value international organizations such as the United Nations despite their deficiencies. However, we wish that international regulation would be kept simple and concentrate on what is really necessary. Simple international regulation is difficult because it is usually the result of long and tough negotiations between many parties. In addition, international treaty negotiations are used by NGOs to assert their special interests which they could not achieve on a national level. So, as a small country, Liechtenstein has to think hard about joining international organizations or treaties because we have to judge carefully whether they bring more benefits than bureaucracy.

Ladies and Gentlemen

Liechtenstein is in a good position to master the challenges of the globalized world. We appreciate what globalization brings. But we try to do our best to keep that good position by implementing reforms to make us fitter for any bigger challenges to come.