Making the Most of Smallness: Economic Policy in Microstates and Subnational Island Jurisdictions

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Abstract: Recent research has shown how the economies of very small jurisdictions function differently than do the economies of larger jurisdictions. Due to the small populations and small economic size of microstates and SNIJs (subnational island jurisdictions), their governments function differently as well, tending to be disproportionately large relative to their populations. Although small economic size is often considered a disadvantage, microstates and SNIJs also possess competitive advantages in engaging in economic policy aimed at developing core competencies and nurturing economic diversity. This paper considers why such policies may be particularly effective in very small jurisdictions and explores examples (with special focus on Shetland, UK) of how island jurisdictions are using place branding initiatives to turn tourism marketing into a means of diversifying their economies and expanding their innovative capacities. The paper also considers how such policies may be problematic in terms of tenets of good governance and democratic responsiveness.

Keywords: Microstates, subnational island jurisdictions, SNIJs, islands, economic policy, small economic size, core competencies, Shetland, tourism policy, place branding, competitive advantage, innovative capacity.

I. Introduction

This paper considers how the special economic and political dynamics present in microstates and subnational island jurisdictions (SNIJs) mean that their economies function differently than do those of larger polities. Recognition of this difference prompts a re-evaluation of governance strategies in such jurisdictions: The same factors that reduce the international competitiveness of small jurisdictions also present their governments with special opportunities to promote economic development. Pursuing these opportunities, however, presents challenges of its own. Special attention will be paid to the case of Shetland, UK and to use of tourism policy and place branding as economic policy tools.

For the sake of this paper, *microstates* and *SNIJs* will refer exclusively to jurisdictions with maximum populations of around 500,000. Although there is no universally accepted definition for these terms (Raadschelders, 1992), this approximate population level limits us to considering jurisdictions that not only possess small economies but that also often host a close connection between their general populations and their structures of political authority. For the sake of simplicity, we will use the term *small jurisdictions* to refer exclusively to both *microstates* and *SNIJs*.

In recent years, research in the field of island studies has helped shed light not only on island communities but also on small jurisdictions in general, and a division has emerged between our newly acquired knowledge of the economics of small jurisdictions and established economic theory derived from larger economies. The experiences of island jurisdictions have challenged the uncritical application of "the convention of 'smallness equals weakness'" (Baldacchino and Milne, 2000: p. 3), a convention that can lead to the very real difficulties confronting small economies being approached from inapplicable large economy perspectives.

Godfrey Baldacchino has been at the forefront of stressing the importance of jurisdiction as a resource for microstates and subnational island jurisdictions (SNIJs). *Jurisdiction* here involves "the competence to pass laws, build effective administrative processes, facilitate inward capital flows, encourage education and support the development of a climate conducive to economic growth" (Baldacchino, 2002: 349). As highlighted by the strong role that the financial industry plays in many small states (for instance, Liechtenstein, the Bahamas, and Andorra) and certain subnational island jurisdictions (for instance, Guernsey, Hong Kong, and Bermuda), the capacity to formulate one's own regulatory structures has been used to compensate for the relative lack of access to natural resources that often results from small size (Hudson, 2000). Jurisdictional capacity, however, is an important resource for many sorts of small jurisdictions, not just those that have specialised in offshore finance.

II. The International Competitiveness of Small Jurisdictions

There are practical restrictions to the diplomatic influence that small jurisdictions can exert in their international relations (Crawford, 1989), despite the fact that the economic activities of small jurisdictions can, as illustrated by the example of offshore finance, have a major impact on the international political economy (Hudson, 2000). This lack of influence is most obviously true for SNIJs, both those possessing exceptional *de jure* jurisdictional capacity relative to their metropolitan powers (such as Greenland, Denmark and Guernsey, UK) and those with relatively typical autonomy (such as Bornholm, Denmark and Shetland, UK). This is also true, however, for both island and non-island microstates (such as Malta and Monaco): Regardless of their *de jure* jurisdictional capacity, the *de facto* sovereignty of microstates is constrained by structural disadvantages related to their small size (Panke, 2010).

This is, in part, the result of a lack of economic leverage, which causes *de facto* difficulties for microstates seeking to exercise their sovereignty and for SNIJs that wish to make use of whatever jurisdictional capacity they possess. Small jurisdictions are confronted by such global competitiveness-reducing factors as high transport costs for goods and people, low skill differentiation, high levels of emigration, small economic size, and a relative surfeit of trade clout (Baldacchino and Pleijel, 2010: 89). Indeed, the litany of disadvantages faced by small jurisdictions has become something of a cliché in the literature (Baker, 1992). Additionally, the tendency for small economic size to translate into extreme economic specialisation means that small jurisdictions can be hit disproportionately hard by “vagaries of both demand and supply characteristics in any dominant area of the economy" (Baum *et al.*, 2000: 216).

Nevertheless, small jurisdictions are in some respects specially placed to nurture and exploit their jurisdictional capacities. Despite their lack of diplomatic prowess, small jurisdictions generally possess high degrees of *de facto* internal jurisdictional capacity relative to other jurisdictions with similar *de jure* distributions of authority. This stems in part from the tendency for their public sectors to be disproportionately large relative to their populations. In the cases of SNIJs, natural borders created by the sea are frequently replicated jurisdictionally in unitary local governments, which accentuates the fact that separation by the sea frequently occasions a degree of self-sufficiency on such issues as transport, education, healthcare, and energy (Grydehøj, 2011). Such relative self-sufficiency is also, of course, a necessity for both island and mainland microstates. These factors can grant SNIJs some of the *de facto* attributes of sovereignty (Karlsson, 2009), and they can grant the governments of microstates a firmer grasp on the levers of power than that to which most larger states could aspire. As a result, the governments of microstates and SNIJs find themselves in something of a jurisdictional limbo: They are at once internationally marginalised and internally inflated.

III. A Tendency toward Specialisation

There is a tendency toward economic specialisation in small jurisdictions. Specialisation to some extent mitigates problems with poor economies of scale, yet dependence on a limited number of economic activities heightens vulnerability to global market fluctuation. For example, North Atlantic island communities such as Iceland, Newfoundland, Shetland, and

Faroe were historically able to run export fisheries that were internationally competitive and highly segmented (in terms of species). However, over time, factors such as fish stock collapses, mainland economic recessions (and thus decreased demand), natural disasters, and the entrance of new competitors into the industry landed intermittent but devastating blows to these communities' social and economic lives. This has resulted in a partial transition from their specialised primary sector economies to specialised service sector economies (Raoulx, 1999). Although the primary sector – frequently itself adapting to new natural and market realities – often remains an important economic pillar, providing significant employment, it is no longer a key driver of growth. In terms of the economic activities that have taken over much of the primary sector's role, microstates and SNIJs generally remain internally specialised. For instance, from a very simplified perspective, we can say that Shetland was spared the pain of the fishery collapse by the advent of its oil-funded economy, Åland is dependent on shipping and tax-free sales, the British crown dependencies (Guernsey, Jersey, and the Isle of Man) are heavily dependent on the financial sector, and many Mediterranean islands now feature tourism economies. As the experience of Iceland – which until the recent economic recession was deeply invested in the financial sector – shows, specialisation poses real risks to small economies.

Specialisation in the post-primary sector economies of small jurisdictions is the case despite economic diversity's role as a catalyst for – and not just a result of – drives to increase jurisdictional capacity (Cartrite, 2010). The push toward specialisation is potentially especially strong in islands, where the lack of geographical continuity with other markets is a strong motivator for economic concentration, whereby various businesses seek to exploit competitive pre-existing economies of scale. This is potentially a vicious circle inasmuch as emphasis on improving economies of scale could directly discourage the nurturing of economic diversity. One difficulty is perhaps that economic diversity is a merit best appreciated from above, from a perspective that takes a jurisdiction's entire economy into account; assuming that sufficient demand exists, there is little incentive for individual entrepreneurs to decrease their personal competitiveness by investing in the diversification of the jurisdiction's economy as a whole.

It is necessary, however, to recall that not only are small economies different than large economies but that the governing authorities of small jurisdictions also function differently than do their larger counterparts. The disproportionately large governments of microstates and SNIJs are often considered liabilities in terms of promoting competitiveness in the global market. In small jurisdictions, bureaucratic processes are often personalised (Baker, 1992), and this, combined with large governmental size, risks stifling internal competition, artificially propping up uncompetitive sectors, and encouraging cronyism (Armstrong and Read, 2000). Without wishing to downplay their negative impacts, it is also the case that some of the anticompetitive tendencies of small jurisdiction governance can increase the efficacy of projects that benefit from unity of vision, and small economic size can enhance the relative impact of individual investments.

Any analysis of best practice in small jurisdiction governance should take into account that, as long as the maintenance of high standards of living and services provision are regarded as a given, the public sectors of such jurisdictions are virtually compelled toward disproportionate size (relative to the per capita size of the public sectors of larger and/or mainland jurisdictions with similar standards of living).

Instead of debating whether large public sectors are a good thing or whether the benefits outweigh the disadvantages, it is necessary to ask how the reality of large public sectors can be exploited to competitive advantage. Thus, in a small jurisdiction context in which virtually any large-scale publicly funded project could have a major impact on economic diversity or concentration, traditional arguments against pursuing an interventionist economic policy are to some extent moot. Additionally, it could be argued that some governance strategies that would suggest a lack of democracy in larger jurisdictions may be less representationally problematic in small jurisdictions in which the unitary governing authority truly is close to the community (Baker, 1992). Economic intervention on the part of a microstate or SNIJ is difficult to avoid; the question is only what form this intervention should take.

Many microstates and SNIJs have, indeed, sought to make the most of their mixed blessing. The governments of small jurisdictions the world over are engaging in similar solutions that make use of their jurisdictional advantages, and a distinct conception of best practice in small economy policymaking is emerging.

IV. The Development of Core Competencies

Because most microstate and SNIJ economies are highly dependent on imports, they also have an even greater than usual need to earn foreign exchange by exporting goods and services. This heightens the sense in which the aggregate of businesses within a single industry in a small jurisdiction are competing as much against foreign providers as they are against one another. For instance, while there is certainly competition among hotels in a mass tourism island destination, such is the makeup of the local economy that no single hotel benefits from most of the other hotels on the island doing poorly. The key unit of competition in such cases is other destinations rather than individual businesses (Rebollo, 2001). This suggests that the interests of the community as a whole and the interests of individual businesses coincide far more than they do in most larger jurisdictions. As we shall see, however, when there is a desire for economic development rather than merely economic growth, the government’s long-term perspective may not favour businesses within the presently predominant industry.

A small jurisdiction in many ways resembles a corporate government, with its variety of interests and processes hopefully coalescing around a common aim and with a fluid but still relatively demarcated organisational boundary (*cf.* Santos and Eisenhardt, 2005). It is, however, important to bear in mind that corporations have a far greater ability to enforce their policies. Whereas an off-message or off-track employee can simply be let go, there is relatively little that a democratic government can do about a local business owner who is detrimental to the place brand or who is undermining government policy. Such stakeholders are nevertheless fundamental to the success of government initiatives (Jaffe and Nebenzhal, 2006: 140).

As in a corporation, possession of strong core competencies is central to the economic vitality and resiliency of a small jurisdiction. In the words of Prahalad and Hamel (1990: 82), “Core competencies are the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies”. Such competencies may help develop new business areas and diversify the organisation’s activities. Core competency is thus distinguished from economic specialisation inasmuch as the resource in question – the competence – is transferrable to a variety of technologies and branches.

The identification of a core competency in a small jurisdiction requires an analysis of the jurisdiction's existing economic landscape. Once a competency that contributes to multiple branches and industries is identified, the government has the opportunity to single it out for nurturing. This kind of economic development strategy involves building upon pre-existing skills and expertise, which presents difficulties for jurisdictions that wish to build capacity in both new industries *and* new sectors. Core competencies exist whether or not they are identified and nurtured, and the switch from one set of competencies to another requires a corresponding development of human capital. This in part explains why many of Europe's island jurisdictions have transitioned from their traditional primary sector economies to tourism economies, which, although tertiary economies, likewise depend on primary resources (in the form of desirable environments) at the start of the industry's development in a community. As the services by which foreign exchange is earned become more sophisticated, so the primary character of the product being sold decreases. For example, Mediterranean islands that started as fishing and agriculture economies began attracting visitors who desired an idyll in beautiful natural surroundings. This economic transition led to new economic concentration around tourism, with a rapid expansion in the tertiary sector (hotels, bars, shops, *etc.*), so that many of the communities that initially attracted tourists on account of their scenery, climate, and beaches today do so as much, if not more, on account of the ancillary services themselves (McElroy, 2003 and Butler, 2011). Although skills developed in these service industries are perhaps more straightforwardly transferrable to other types of service industries than are skills developed in the primary sector, there are nevertheless limits to human capital that must be overcome before, for example, a tourism services-dominated economy can gain significant capacity for, say, manufacturing or skills-intensive services.

Karlsson (2009: 143) sees the strength of a core competency as determining a small jurisdiction's *innovative capacity* (its "pro-active and creative exploitation of various resources; the key resource being the core competency itself"):

> Innovative capacity is an essential element of gaining and maintaining competitive advantage. Small economies are, in this gaining and maintaining endeavour, critically dependent upon their differentiation skills (economies of scope). However, they rarely have the resources necessary to develop sophisticated research and development (R&D) systems. Instead, innovation by imitation is a much more preferred, and successful, strategy (*ibid.*). Being inspired by new ideas abroad, bringing them safely home and adapting them to the conditions of the local context is what the innovative behaviour of a small island society is often about.

Regardless of the core competencies in question, the governments of small jurisdictions are in some ways advantageously placed to pursue them. Small economic size grants each individual government initiative a greater impact, and closeness to the community has the potential to boost participatory democracy. This does not necessarily mean that all pursuits of core competencies make for good policy or, as we shall see, that all policies will be popular; rather, it is a recognition that island governments possess elevated efficacy in certain areas of policymaking, regardless of the wisdom or otherwise of these policies.

V. Tourism Policy and Place Branding as Instruments of Economic Policy

An example of this kind of attempt at nurturing core competencies is the use of tourism policy and place branding initiatives by the governments of island microstates and SNIJs. As noted above, tourism has come to play an important role in island communities worldwide. These include mass tourism destinations like Rhodes and the Bahamas as well as communities without a mass tourism industry but for which tourism is nevertheless a significant economic pillar, making possible otherwise-unsustainable infrastructural development in addition to disproportionately large service sectors and cultural industries, to the benefit of resident populations (Baum *et al.*, 2000).

Despite this, a core competency of beach holiday mass tourism (hereafter, *three-S tourism*, *i.e.* sun, sea, and sand tourism) is in some ways inimical to the increasing of innovative capacity as multinational charter tourism operators – and perhaps cost-conscious tourists themselves – have reasons to prefer undifferentiated tourism products (Ioannides, Apostolopoulos, and Sonmez, 2001 and Sastre and Benito, 2001). Considering these circumstances, it is difficult enough for an island jurisdiction to create a unique product, much less to create a unique skill set. In an attempt to come to grips with the problems associated with mass tourism, various island governments have turned to place branding as a means of encouraging upmarket cultural/nature tourism, which theoretically yields more profits with greater sensitivity to the human and natural environment (Rebollo, 2001) and which also holds out the possibility of expanding the applicability of truly unique local skills.

However, the burgeoning of the place branding profession and the growing sophistication of its scholarly and theoretical grounding has brought with it a number of difficulties. Over-reliance on exploitation strategies and unevidenced assumptions of best practice have led to the homogenisation of European island brands promoted for upmarket tourism: Thus, according to a prevalent perspective in marketing, the cultural/nature tourism market is hardly more differentiated than the three-S market (Grydehøj, 2008). Market-wide product standardisation guards against failure to an extent (Leseure, 2010), and it may even be in the interests of consumers, but no matter how much human and economic capital a community invests in such a brand, it will never become a market leader. It may well be that tourist boards and local governments believe that their tourism-related competencies are unique, but globalisation contradicts such a narrow view.

Nevertheless, as governments of island jurisdictions are increasingly realising, the potential positives of tourism development are not solely economic, and they defy simple economic cost-benefit analyses. For instance, as we shall see in the case of Shetland below, it is argued that the aforementioned boost that the tourism industry provides to local infrastructure, service sectors, and cultural industries can act as a draw for skilled immigrants and help retain young people who might otherwise choose to emigrate.

Due to the abstract and long-term nature of these benefits, however, they are not always of paramount interest to individual stakeholders. The effects that place brands and their associated marketing materials have on inward investment, community cohesion, and jurisdictional capacity are likewise elusively intangible. Tourism's cost-benefit analysis here veers from complex to incalculable, for the tourism policies of some island jurisdictions are now being driven by concerns that have only a minimal relationship to actual visitor numbers and visitor expenditure. Island jurisdictions increasingly use destination marketing – long a tool of paradiplomacy for marginalised states – as a carrier for either holistic brand messages or as targeted phantom marketing for ends other than tourism promotion (Ioannides *et al.*, 2001 and Bartmann, 2009). Even a relatively standardised tourism marketing strategy can, in conjunction with a wider place branding initiative, lead to a unique synthesis of competencies (*cf.* Galunic and Rodan, 1998).

The movement in island place branding efforts has been toward emphasising quality-of-life issues, juxtaposing the traditional "island allure" with "cutting edge" elements

(Baldacchino, 2010a). This standardisation of official island brands cuts across geographical and economic divides and has been used in such diverse locations as rural Shetland and densely populated Malta and the Channel Islands (Grydehøj, 2008). The emergence of this generic cultural/nature tourism brand is not *just* a matter of brand consultants and tourism boards taking the easy way out via exploitation strategies. It also has to do with the governments of island jurisdictions looking beyond the tourism market when designing their advertising materials. Shetland's case represents an attempt to convince prospective residents and investors, who already know about the archipelago's beautiful scenery, that the community is, in fact, forward-looking and not just an isolated scattering of farms stuck in the past (Lodge, 2003). The opposite logic applies in the Isle of Man and the Channel Islands, where fundamentally the same brand is used to convince outsiders that these SNIJs' reputations as unseemly tax havens are undeserved and that they are, rather, lovely communities in which one can accrue wealth in an atmosphere of sophisticated yet old-fashioned charm. The Malta Tourism Authority harnesses this same generic to combat its established three-S mass tourism brand, which is necessary when the organisation also attempts to promote Malta as a place in which to live and in which to take English language courses.

As the Malta example hints, simply printing brochures is insufficient for effective place branding; product development is necessary— For example, the creation of the facilities and appropriate environment for studying English. A comparable but more ambitious and far-reaching process is at work in the *de facto* Turkish Republic of Northern Cyprus, which uses its branded tourism materials to readjust its three-S mass tourism brand as well as to attempt a subtle de-politicisation of this most contentious of tourist destinations. These efforts go hand in hand with North Cyprus's growth as a sunny, night club-filled educational paradise for international university students. North Cyprus's higher education system is quite concretely both a source of income and a paradiplomatic lever. Education is also intimately connected to the jurisdiction's tourism policy since the appeal that North Cyprus holds for visiting students depends on its appeal as a destination brand. This explains the national tourism authority's balancing act between a three-S brand (targeted at young people) and an upmarket cultural/nature tourism brand (targeted at older tourists, investors, and policymakers). Such strategies of leveraging pre-existing tourism assets for the development of more skills-intensive industries is comparable to related diversification in a corporate context (*cf.* Markides and Williamson, 1994).

VI. Case Study: Economic Policy in Shetland, UK

Small economic size does not merely mean that small jurisdictions are able to develop stronger specialised economies should they so desire. Small economic size also grants a disproportionately large government exceptional influence over local social and economic development. Consider, for example, Shetland, an SNIJ that possesses only very limited additional *de jure* jurisdiction compared with other Scottish municipal authorities. Economic clout grants the Shetland Islands Council (SIC) municipal authority jurisdiction beyond its legal remit. Not only does the Shetland Charitable Trust – with its £250 million in reserves derived from the oil industry – act as a proxy for the SIC, but the SIC itself is by far the largest municipal authority per capita in Scotland, employing about 9.5% of the archipelago's population and producing approximately 36% of the value of the Shetland economy. Decisions by the SIC on where and how to invest its money therefore have a tremendous impact locally (Grydehøj, 2008). Although the SIC's use of its funds is not beyond criticism, the SIC is undoubtedly testing the potential – and perhaps, the limits – of integrated brand, tourism, and heritage development.

Starting in 2002, the SIC has invested heavily in projects and initiatives aimed at reversing Shetland's depopulation trend and securing the islands' economic future in the post-oil era (Shetland Local Economic Forum, 2002). The development of the Shetland brand with the help of the Corporate Edge consultancy may have been the cornerstone to subsequent policy, but due to the official brand's failure to win popular approval locally, its influence has been hidden from view (Grydehøj, 2008). 2007, however, saw the opening of the new Shetland Museum & Archives at a then-cost of £11.6 million, of which £4.9 million was externally funded. This facility, owned by the Shetland Amenity Trust, represents a heavy investment for so small-sized a community (amounting to about £530 per Shetland resident). Also in 2007, the Shetland Amenity Trust committed itself to building the Mareel cinema and music venue, which will be located close to Shetland Museum & Archives. This £12.1 million venture – for which the SIC has allocated £5.2 million – is highly controversial on account of its cost. The purpose-built cinema (with accompanying bar sales) aspect of Mareel is being counted on to help the project pay its own operating costs in the long run. Mareel's 700-seat concert hall, which will be the first purpose-built music venue in the islands, is important as well and is seen by Mareel's supporters as an opportunity to boost and showcase Shetland's music professionals, hence the addition of on-site facilities for education and sound recording.

It is no coincidence that supporters of Mareel justify the project by casting a very wide cost-benefits net. For example, Sue Wilson (2008) writes:

> Reflecting the current policy climate, Mareel's promoters (chiefly the Shetland Arts Development Agency, which will run the venue) based their case primarily on an alternative bottom line, presenting the project as a crucial motor for developing Shetland's creative industries sector [...] and thereby generating new sources of employment as traditional industries decline.
>
> Education was another strong suit, with many of Mareel's facilities designed in conjunction with Shetland College, who plan to expand their range of music technology and media production courses, offering hands-on experience in a state-of-the-art working venue. Combined with the actual entertainment on offer, it's hoped that this will persuade more young Shetlanders to remain in the islands, as well as attracting newcomers from outside.

Similarly, there has been considerable local debate as to the best site and design for Shetland's new secondary school, Anderson High School, with many members of the SIC favouring the construction of an iconic, five-storey structure with large, curving glass windows overlooking – and overlooked by – the sea. One argument in support of this plan, rather than a more sober alternative, is that an impressive building will encourage immigration as visitors see the school and realise that Shetland is a good place in which to raise children (Riddell, 2009).

The overall attitude of the SIC reveals a complex economic development strategy. Shetland Museum & Archives, Mareel, and Anderson High School are being used as loss leaders, a corporate strategy closed to most mainland municipalities, with their small government size relative to population. Shetland Museum & Archives and Anderson High School represent directly unrecoverable expenses since neither of these will ever pay their way. Even if Mareel ends up supporting itself, it will not pay back its start-up capital, and in any case, the long-term perspective on the facility's sustainability represents a significant loss of liquidity. Instead, iconic structures and facilities are hoped to be made worthwhile by their indirect economic benefits. This kind of strategy would be impossible were it not for the disproportionately large size of the government and its desire to work toward a highly integrated local economy.

Loss leaders, of course, need not be monumental and therefore hugely expensive. For example, in August 2007, the SIC's Economic Development Unit produced the "Heritage Tourism Investment Programme: 2007-2012", which was revised in 2008. This document makes clear the extent to which general local policy formulations integrate tourism planning even though tourism is far from being Shetland's primary industry. The Heritage Tourism Investment Programme (HTIP) document notes that "Shetland's creative industries [...] are being developed as an economic sector and tourism sub product in their own right" and states that HTIP will "contribute to Shetland's wider aims for developing culture and heritage, such as improving quality of life, physical regeneration, and attracting people to live and work in Shetland". More concretely, "Shetland's heritage is a major economic asset in a wider sense, since it is a tool for strengthening the islands' reputation for distinctiveness and high quality among those who may wish to buy our products, move here or invest here." This all relates to what the HTIP document calls the "Shetland culture and heritage brand" (Economic Development Unit, 2008).

VII. Good for the Jurisdiction but Bad for the Stakeholders?

Shetland's case is in many ways exceptional, but it is nevertheless comparable to the branding and development processes being undertaken in other small jurisdictions. This interventionist economic policy is not without difficulties, however, in that the strategy complicates attempts to quantify the impacts of individual initiatives. Although a more holistic economic analysis may be possible, stakeholders (*i.e.,* the jurisdiction's residents in general and the actors in its business community in particular) are not guaranteed to accept the validity of such an analysis.

Similarly, although these kinds of integrated economic policies, which are rarely presented to the public in their entirety, may well be intended to serve the public good, they are not always uniformly in agreement with community sentiment. For example, the Shetland community's prevalent local identity concept, which champions cultural independence and disparages Scottish interference, opposes the use of tourism as a magnet for immigrants. By the same token, the emphasis that this identity places on mutual interdependence within the community and on the social ills occasioned by immigrant loners is difficult to reconcile with the SIC's attempts to bolster the islands' digital economy and thereby attract self-employed individuals to the islands (Grydehøj, 2011). Even the apparently straightforward attempt to affect a transition from mass tourism to cultural/nature tourism can bring its own conflicts within host communities, which may prefer to limit the extent to which three-S tourists leave resort towns and impact the daily lives of residents year round (Selänniemi, 2001). Such concerns though presuppose the success of the policy initiatives and speak more to the general desirability or otherwise of increased tourism, immigration, *etc.* If a consensus exists on the ground regarding such desirability, the advantages of the government intervening to guide economic development are quite clear.

The economy may be global, and the nation-state may be in decline, but its fragmentation is still very much geographic, following jurisdictional boundaries (Watts, 2009): Although the activities of actors in the tourism industry, manufacturing, IT, and so on may take place on an international plane, they are nevertheless determined in part by the attributes of their locality. Local competition – for example, between various hotels and attractions at a single tourism destination or between multiple crafts producers in one community – cannot be ignored. In small jurisdictions possessing relatively large municipal authorities, government involvement in any aspect of the economy may display anticompetitive tendencies, supporting ventures that are not necessarily a good fit for a joined-up approach to development (Baum *et al.*, 2000). For instance, in the case of Shetland's Mareel cinema and music venue, the SIC decided not to permit extended opening hours for the facility's bar in part due to fear of competing with existing privately owned drinking establishments in town (Thomason, 2011). This is despite the centrality of bar sales to the project's financial plan and despite concerns over how the perceived low quality of the town's existing drinking establishments affect visitor judgments of Shetland. Similar concerns were aired regarding the café at the Shetland Museum & Archives.

Regardless of how such conflicts are overcome, governments of small jurisdictions have a strong incentive to coordinate the activities of local actors in the global economy – whether public, private, or charitable – in order to enhance competitiveness *vis-à-vis* actors in other jurisdictions. At its most basic level, this justifies the marketing activities of local, regional, and national tourism boards. A heightened degree of government involvement might result in official branding processes and product development in the form of publicly owned amenities (museums, leisure centres, music venues, bars and restaurants, public art, heritage sites, *etc.*). However, since a government's integration of its economic policy and its diplomacy/paradiplomacy confounds analysis of the relationship between investment and return, a trade-off sometimes exists between the amount of attention that a particular industry receives from its jurisdictional authority and the focus that the relevant public bodies have on actually increasing revenue from this industry. For instance, in island destinations that already possess sizeable three-S tourism industries, strategic shifts in focus toward upmarket culture/nature tourism can result in governing authorities accepting real drops in overall tourism revenues in return for other benefits, such as increased attractiveness to skilled immigrants, improved ability to retain residents, and expanded *de facto* jurisdictional capacity. Along these lines, Christensen and Hampton show that Jersey's financial sector is crowding out and pricing out its tourism sector (Christensen and Hampton, 2005), yet Jersey's official tourism promotion materials are nevertheless crafted to stress the quality of life elements that are seen as appealing particularly to potential immigrants and investors. By the same token, the prominence that knitwear holds in the SIC's place branding strategy (Lodge, 2003) does not translate to a strong government desire to boost knitwear manufacturing; in reality, knitwear is being used as a symbol of Shetland quality.

VIII. The Role of Government in Small Jurisdictions

Although skilled governance in small jurisdictions has the potential to increase the contribution that certain economic activities make to the community as a whole, such government intervention is not, as shown above, necessarily an unmitigated boon for individual economic actors. From the perspective of a small jurisdiction's government, coincidences of interest may be preferable, but they may not be of primary importance. However, when government initiatives such as place branding are used as stalking horses for wider economic policy, the public may feel misled, provoking a backlash from stakeholders. This process is evident in Shetland, where much of the community is simultaneously supportive of strong and even strident local government yet highly critical of the policies by which this government exercises its authority.

Small jurisdictional size may personalise governance (Baker, 1992), but it may also increase the risk of technocratic governance that is unresponsive to the concerns of community members. This is particularly the case in SNIJs, which, due to their lack of *de jure* sovereignty, may correspondingly lack structures for democratic governance that are sufficient to meet the needs of wide-ranging paradiplomatic activity and economic management. For instance, Shetland's government wields immense influence yet is structured no differently than the relatively weak local authorities elsewhere in Scotland. Because the SIC's policies do not meet with universal support (which is, of course, the case with government policies everywhere), parts of the community are seeking to increase the local government's democratic responsiveness, for instance by making the governance of the Shetland Charitable Trust truly (rather than just legally) distinctive from that of the SIC (for example, Robertson, 2011). This may be an effort to reduce partiality and conflicts of interest, in accordance with accepted standards of good governance, yet it may also highlight the practical limitations of governing a place like Shetland on a local level. To what extent is an archipelago with 22,000 residents capable of generating the skills necessary to fill two distinct and democratically responsive governance structures? The Shetland government's ability to use paradiplomacy to feign aspects of sovereignty may only be possible if people do not consequently insist that it plays by the established rules of good governance for sovereign states. This is not just a problem for ambitious SNIJs: Microstates also often lack the human capacity to govern in accordance with bureaucratic and political models derived from large democratic jurisdictions (Baker, 1992).

Governments of small jurisdictions must address these concerns by balancing the scope of their public services and the public's expectations of responsible governance. There are, as we have discussed, good reasons for the governments of small jurisdictions to make the most of their smallness by pursuing a strong economic policy. If small economies are different than large economies, might it not make sense for the governance of small economies to be different as well? Small jurisdictions are excellently placed to foster the development of core competencies and hence innovative capacity and resiliency-bolstering economic diversity. If economic policy has the potential to build capacity within a community by promoting local expertise, supporting innovative ancillary services, and attracting new skills and investment, then such policy should not be ruled out simply because it is not identical to best practice in large jurisdictions.

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