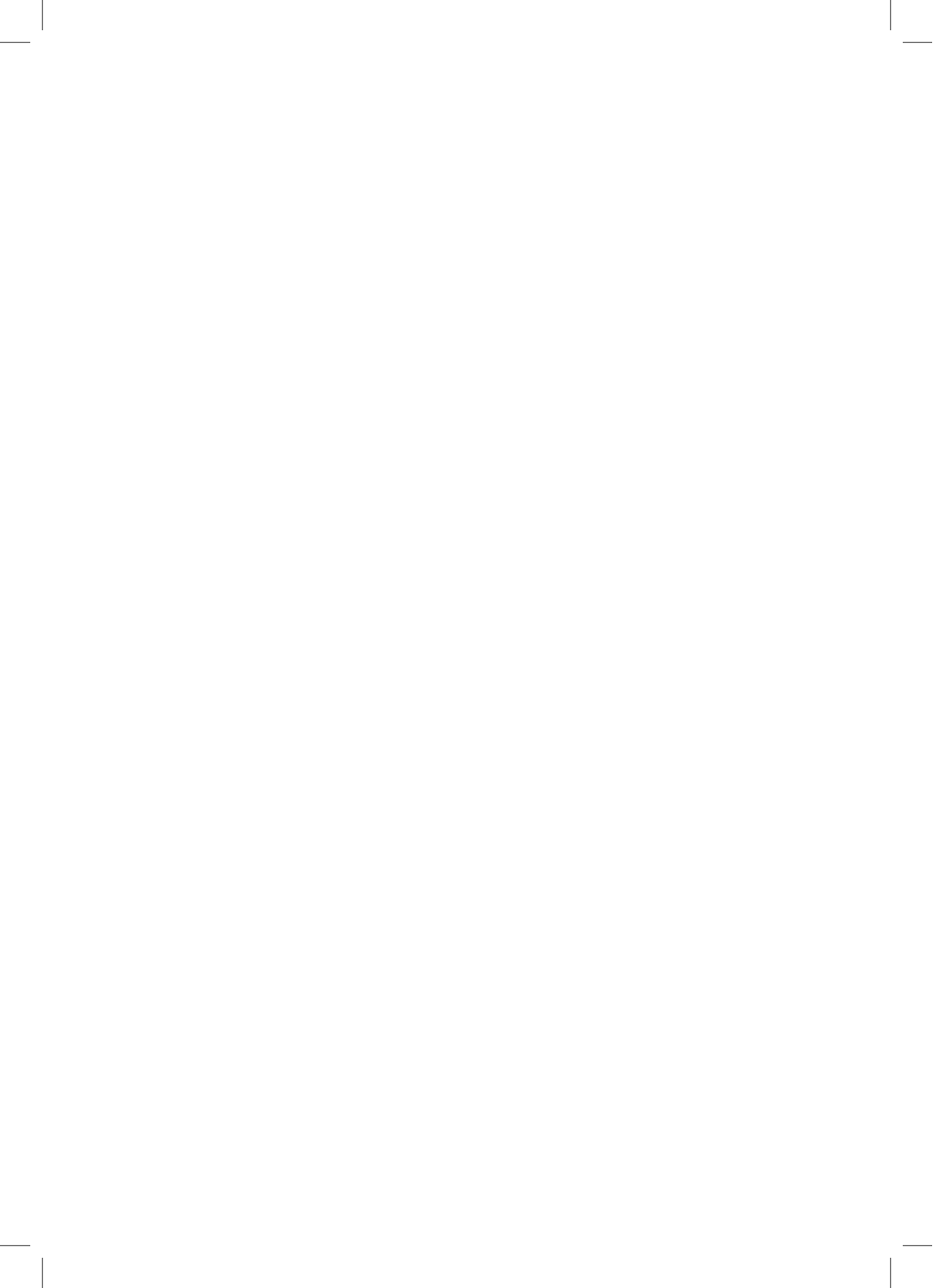


SOVEREIGN LIECHTENSTEIN:  
THE SOFT POWER PROJECTION  
OF A VERY SMALL STATE



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OF A VERY SMALL STATE

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**SOVEREIGN LIECHTENSTEIN:  
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Power projection is often considered solely the domain of large countries that can apply hard military or political force on a global basis. Yet the concept of power projection needs to be reconsidered both in terms of state size, and a wider view of power - one that includes the “softer” diplomatic, informational, cultural, and economic dimensions of state capabilities. The Principality of Liechtenstein, a country without an army, provides a relevant case for how a very small state projects soft power to maintain its sovereignty and international influence.

This paper first delineates the parameters of a very small country, and then defines the boundaries of soft power. Using a framework based upon the diplomatic, informational, cultural and economic instruments of statecraft (referred to as DICE), the paper examines Liechtenstein’s use of these intertwined elements of national power to achieve its foreign policy goals. Liechtenstein is special and instructional for this assessment since it cannot use military power in its international relations. The analysis and conclusion will endeavor

to draw out pertinent insights into Liechtenstein's approach to soft power projection which could be applicable for further study or wider application.

### **The Definitions and Characteristics of Very Small States / Microstates**

Small states can be defined in a number of ways, but there remains ambiguity and debate among academics and scholars over these arbitrary categorizations (Rapaport, Muteba and Therattil, 1971; Handel, 1981; Henrikson, 2001: 56; Mohamed, 2002; Rana, 2007; Maass, 2009). Thorhallsson (2000) defines small states as actors with limited capabilities and influence. Others use parameters such as population, geographical size, Gross National Product (GNP), Gross Domestic Product (GDP), and elements of national power to define this type of state (Vital, 1967). The main problem is where to draw the boundary between small states and their medium-sized, sovereign peers. Furthermore, situational elements relativize the characterization of smallness. Is Norway really a small state in relation to energy? Or Iceland in terms of fisheries? Or Luxembourg in the area of banking?

Equally, if the small power category shades into a gelatinous category of "middle powers" on the one hand, on the other hand it comes up against an equally viscous category of "micro-states." The literature on micro-states seems to congeal around issues of sovereignty and action capacity – on how dependence on other polities in formulating and conducting policy impinges on that policy (Reid, 1974; Plischke, 1977; Harden, 1985; Duursma, 1996). In line with this, some authors suggest thinking of microstates as those states whose claim to main-

tain effective sovereignty on a territory is in some degree questioned by other states, and who cannot maintain what larger states define as the minimum required presence in the international society of states (membership in international organizations, embassies in key capitals, etc.) because of a perceived lack of resources. For example, in 1920, Liechtenstein's application for membership in the League of Nations was rejected because it had "chosen to depute to others some of the attributes of sovereignty" and had no army (Gstöhl, 2001: 106). But as one diplomat noted, these theoretical parameters are really meaningless. He stated, "I firmly believe that it is not the land size or the number of citizens of a country that determines its relevance to world society, but that it is instead its contribution to honorable multilateral activities and achievements that determine that relevance" (Allen, 2010).

The United Nations (UN) has attempted to define small and very small states. A study produced by the United Nations Institute for Training and Research in 1971 quoted the UN Secretary-General's definition from 1966 which defined small states as "entities which are exceptionally small in area, population and human and economic resources." According to the UN definition, a microstate or very small state denotes a country with a population numbering one million or less (Rapaport, Muteba and Therattil, 1971). While this expression "microstate" might be perceived as a pejorative by the officials of countries so designated, in fact, for want of a better word, and given the growing body of academic research literature on this theme, the use of this term is a necessary evil. For this paper, the terms "microstate" and "very small state" will be used interchangeably and neutral-

ly, to connote a country with a population below 100,000 inhabitants. Liechtenstein belongs to this category.

Regardless of the definition chosen, the nature of a state's "micro-ness" logically implies resource limits in its overall exercise of national power. Because of their diminutive size, microstates are generally characterized by limited natural resources and a small economy which constrains governmental activity and public services. They often have poorly diversified export markets and additional issues, related to being either an island or land-locked. These countries are therefore perceived as weak powers in international relations (East, 1973).

Maurice East postulated that a small power's foreign policy has five main features and differs from that of a larger power. A small power is characterized by its limited interaction with other states; becomes involved with great enthusiasm in international organizations; supports international laws; advocates minimum use of force; and finally, its foreign policy is often concentrated on regional matters. East concludes that small states tend toward reactivity in foreign affairs (Papadakis and Starr, 1987). East's view is particularly relevant for microstates in that very small states tend to join international organizations and coalitions with the prospect of promoting their national interests, while minimizing their overall costs of conducting foreign policy (Kassimeris, 2009: 95; Neumann and Gstöhl, 2004: 10). For example, very small states with limited resources find the United Nations headquarters an essential clearing house for their diplomatic, security, and economic needs (Beattie, 2004). Traditionally, microstates use diplomacy as their primary instrument of national power given their predilection for adherence to international law, and limits on their military, economic, and informational elements of power. Yet with globalization, the economic and cultural components of state-



craft become increasingly relevant and applicable in the execution of microstate foreign policy.

### Concepts for Soft Power

In international politics, power is the ability and capacity to influence the behavior of others to achieve a desired outcome. Countries must have both the possibilities and assets to influence other actors (Oguzlu, 2007). The seminal work of E.H. Carr provides a good starting point in discussing a categorization of power (Carr, 1964). Carr (1964: 108) divided political power in the international sphere into three categories: military power, economic power, and power over opinion, but he stated “power is an indivisible whole; one instrument cannot exist for long in the absence of the others.” Hence the mechanisms of power are often closely intertwined. Carr’s categories have evolved into hard and soft components. Hard power is the capacity to coerce, and its strategies focus on military intervention, coercive diplomacy, and economic sanctions to enforce national interests (Campbell and O’Hanlon, 2006; Cooper, 2004). In contrast to military power, soft power is more nuanced, and connotes the capacity to persuade others to do what one wants. This type of power derives often from economic, trade, or cultural sources.

The chief scholar of soft power, Joseph Nye, defined it as the ability to get what one wants through persuasion or attraction rather than coercion (Nye, 1990). For Nye, soft power is influence resulting from a state’s qualitative features such as its diplomatic skills, culture, multinational corporations, and reputation, rather than realist military and political hard power. According to Nye, “when ideals are an important

source of power, the classic distinction between *realpolitik* and liberalism becomes blurred (Nye, 1990: 170.)” A country’s soft power rests on its resources of culture, political values, and foreign policies. It is the ability to shape the preferences of others. In behavioral terms, soft power is attractive power using civilian, economic and normative instruments (Nye, 2004; Oguzlu, 2007; Nye 2008).

Ying Fan views soft power as an intangible form of power based on a country’s cultural resources, and closely linked to nation branding. Ying Fan goes so far as to say that compared with Nye’s notion of soft power through public diplomacy, nation branding actually provides a more focused, culturally unbiased and more useful approach to creating international influence in the world (Ying Fan, 2008). In a nutshell, as developed nations accelerate their transformation from industrial to post-industrial economies, power increasingly rests on a nation’s capacity to create, manipulate, and project knowledge and information. A country’s aptitude for creativity and innovation can trump possession of armored divisions or aircraft carriers (Wilson, 2008). Soft power can be a source of disproportionate clout for small states in a globalizing context, and derives from the enlargement of their political economy potential, models of good governance, and diplomatic mediation (Chong, 2007). This is the case for Liechtenstein, a country with no military, a small foreign affairs establishment, but a soft power strategy that enhances both its sovereignty and international voice.

### **Origins of the DICE Framework**

In order to illustrate Liechtenstein’s use of soft power, this paper will use a framework for analysis. Governments often seek structures or

descriptors for action channels, or mechanisms, that can be applied to categorize and focus the objectives of state. During the Cold War, the US government developed the acronym DIME as a common shorthand for the diplomatic, informational, military, and economic instruments of national power around which modern US national security strategy revolves (Department of Defense, 2012).

Originally, President Ronald Reagan's National Security Council (1982), following previous security documents, addressed national "diplomatic, political, economic and information efforts" and "military strategy" in *National Security Decision Directive 32, US National Security Strategy*. These presidential directives resulted in an agreed construct for discussing the key elements of national power. The Bill Clinton and George H.W. Bush presidencies followed this start, and under these two administrations, the Department of Defense (2000) refined the concept, resulting in the 2000 *Joint Staff Officer's Guide* definition of "National Security Strategy":

The US National Security Strategy is a strategy of active engagement throughout the world. US engagement abroad is carried out through the four elements of national power: diplomatic, informational, military and economic (DIME).

This DIME formula became a standard means of formulating or discussing government planning to fulfil national objectives. With this historical background, this paper modifies the original DIME methodology for national strategy into DICE, which stands for the diplomatic, informational, cultural, and economic elements of statecraft. These four components are more pertinent for analyzing Liechtenstein given its lack of national military capabilities, and the increasing importance of culture as an integral part of soft power. This DICE con-

cept will be used in the following sections as a framework for analysis when examining Liechtenstein's activities in soft power projection.

## **Overview Liechtenstein**

Liechtenstein is a unique, but little known, microstate success story in modern Europe. The Principality of Liechtenstein is a constitutional hereditary monarchy based on a democratic and parliamentary system. The Princes of Liechtenstein acquired the Lordship of Schellenberg in 1699 and the County of Vaduz in 1712 (Government Spokesperson's Office, 2009: 10). The Principality survives as the sole remaining political entity of the Holy Roman Empire, having been created out of these counties of Vaduz and Schellenberg on January 23, 1719 as a sovereign fief for the wealthy Austrian House of Liechtenstein, and the 343rd state of the Holy Roman Empire. This act commenced its political and diplomatic history as a member of the international community (Rogatnick, 1976).

The nation's earlier legacy goes back to 1379, when medieval Vaduz was raised to the status of "imperial immediacy" by King Wenceslas, making it directly subordinate to the Holy Roman Emperor alone and no longer subject to an intermediate overlord. Owing to its geographical position between Switzerland and the Austrian Empire, Liechtenstein was not swallowed up during the massive reorganization of Germany following the French Revolution, and established independence from the Holy Roman Empire as a member of the Confederation of the Rhine on July 12, 1806. At the Congress of Vienna in 1815, the sovereignty of the German princes was recognized. The newly created Ger-

man Confederation encompassed 39 autonomous states, including the Principality of Liechtenstein, which continued to maintain its sovereignty in this new German Confederation. It avoided incorporation into the German Empire later in the 19th century, and maintained its sovereignty through both World Wars into the 21<sup>st</sup> century. Economically, its longstanding customs union with the Austro-Hungarian Empire collapsed in 1919, and on January 1, 1924, a common economic and currency area with Switzerland replaced this earlier arrangement. Already in 1919, an agreement on diplomatic and consular representation abroad was concluded with Switzerland, and the Postal Treaty followed in 1920. The inclusion of Liechtenstein in the Swiss economic area was followed in 1924 by the introduction of the Swiss franc as the official currency in Liechtenstein. Today, the Principality maintains the Swiss franc as its official national currency, and it participates in the European Economic Area (EEA) (Beattie, 2004; Eccardt, 2005; Government Spokesperson's Office, 2009; US Department of State, 2012).

Achieving full international sovereignty in 1806, Liechtenstein is one of Europe's senior states with no natural resources beyond a hard-working and entrepreneurial population. As a poor, agrarian country, well into the 20<sup>th</sup> century, Liechtenstein struggled to feed a population of only about 8,000 inhabitants. When the population exceeded this size, there were repeated waves of emigration (Büchel, 2003a). The economic crisis of the 1920s and a devastating flood of the Rhine River laid a poor foundation for sustainable economic development. Since the 1940s, low taxes, liberal regulation, small government, and innovation have helped to transform it from an agrarian backwater into one of the most advanced high technology industrial countries in Europe. Its high tech manufacturing companies are important provid-

ers of employment to the indigenous population and offer as many jobs abroad as at home (Beattie, 2004). This achievement comes from a clear and long term strategy for developing a high-end economy. In line with the prescriptions of Michael Porter (1998), Liechtenstein elaborated strategies and policies to create the best conditions to sustain its competitive advantage.

### **Liechtenstein: Foreign Policy Strategy and Goals**

Liechtenstein defines its foreign policy goals and diplomatic approach in its *2007 Report concerning the Goals and Priorities of Liechtenstein Foreign Policy*. This comprehensive paper updated and modified the one that was submitted to Parliament in 1996 (Regierung des Fürstentums Liechtenstein, 2008). The primary goal of Liechtenstein's foreign policy is safeguarding the independence and welfare of Liechtenstein (sovereignty policy). The subordinate foreign policy goals are: engagement on behalf of peaceful coexistence of peoples (peace policy); alleviation of suffering and poverty in the world (solidarity policy); respect for human rights and advancement of democracy (human rights policy); safeguarding of Liechtenstein's economic interests (foreign economic policy); and protection of the natural environment (foreign environmental policy) (Regierung des Fürstentums Liechtenstein, 2008).

Since Liechtenstein lacks the political and military means to enforce its interests, it is much more dependent than other states on the existence and application of international law to protect these interests. Liechtenstein's foreign policy therefore embeds itself in multi-

lateral and bilateral cooperation (Regierung des Fürstentums Liechtenstein, 2008). While Liechtenstein is primarily engaged in the UN and the WTO at the global level, the focus at the European level is on Liechtenstein's membership in the European Free Trade Association (EFTA), the European Economic Area (EEA), the Council of Europe, and the Organization for Security and Cooperation in Europe (OSCE), as well as on relations with the European Union (EU). In the area of bilateral affairs, Liechtenstein concentrates on the traditionally close relations with its neighboring countries of Switzerland and Austria, which continue to play the most important roles, as well as relations with Germany and the United States, which are gaining importance (Regierung des Fürstentums Liechtenstein, 2008).

A survey and evaluation on the priorities of Liechtenstein's foreign policy conducted by the Ministry of Foreign Affairs in 2002/2003 showed that the spectrum of activities of the Ministry of Foreign Affairs and its subordinate Government Offices is broad in pursuing these foreign policy goals. The primary activity, in terms of workload, is economics, including the financial center. The second greatest focus is on tasks within the scope of public diplomacy, i.e. traditional diplomatic and consular relations, public outreach, and cultural cooperation in the broadest sense (Regierung des Fürstentums Liechtenstein, 2008). Hence due to its small geographical area, limited natural resources, modest population size, and minuscule government, Liechtenstein must carefully take its relevant and restricted resources and convert them into soft power. This package must then be precisely and selectively projected to safeguard and promote its sovereignty in the community of nations, and to achieve its foreign policy goals. The next

sections explore how the Principality does this, basing the analysis on the DICE methodology.

### **Diplomatic Element**

Diplomacy is the power of suasion—convincing foreign governments to take desired actions without resort to more forceful methods. It is the tool of choice for microstates. Liechtenstein has increased its use of the diplomatic element of statecraft by extending its representational network and activating honorary consuls in public diplomacy and commercial roles.

Historically, the European community of nations confined a microstate like Liechtenstein to the margins of international diplomacy. In the 20<sup>th</sup> century, it was a recognized state, but with a modest network of diplomatic relations and minimal participation in a few United Nations agencies. Liechtenstein faced severe disadvantages in its dealings with the rest of the world due to low bargaining power, high fixed costs of negotiation, and the presence of overpowering European neighbors. Given its small size, Liechtenstein did not possess the human and physical capacities needed to unilaterally conduct the various bilateral and multilateral negotiations that are needed for national requirements (Andriamananjara and Schiff, 2001). Yet as a paradoxical effect of its weaknesses and limited capabilities, only diplomacy and other instruments of statecraft were available to it, albeit with a narrower range of concerns and interests to defend (Reid, 1974; Selwyn, 1975; Mohamed, 2002).

Maurice East (1973) argued that since such states lack the necessary resources to establish sufficient diplomatic apparatuses, they de-



pend on multilateral diplomacy—a relative economic method, compared to bilateral diplomacy—in their relations with other states. Very small states attach the highest priority to multilateral diplomacy, in part because it makes sense to work within the large framework that the UN and its agencies provide, and partly because missions in New York, Brussels, and Geneva can also serve as a base for bilateral contacts (Rana, 2007). For all the small states, the virtues of multilateral diplomacy are as symbolic as they are practical. Participation itself reaffirms the dignity, sovereignty, and the legal equality of all states at the table. This is not to understate the importance of international and regional bodies in addressing the central interests of microstates (Bartmann, 1999). Liechtenstein joined the Council of Europe in 1979 and the United Nations in 1990 (Bartmann, 1999; Neumann and Gstöhl, 2004: 6). The opening for this came largely from the proliferation of microstates across the globe, particular in the developing world, which paved the way for the smallest European microstates to engage international diplomacy fully for the first time in multilateral forums.

Yet, the nature of Liechtenstein's size creates a contradiction. As a very small state, Liechtenstein needs to rely upon international law and effective diplomacy to protect and further its interests, but its economic and human resource base limits its ability to support a large diplomatic network for this. Therefore, efficient and innovative means have to be considered to balance this incongruity. With a population of 35,002 (CIA World Factbook, 2010), Liechtenstein, like other microstates with limited human and financial resources for foreign policy, concentrates a large part of its diplomacy on multilateral forums where it gains leverage and efficiency from its mission presence. Liechtenstein's current diplomatic network of missions and embassies reflects this selective representation to maximize coverage and lever-

age in specific locations given multilateral and bilateral opportunities. Since Liechtenstein's Foreign Ministry, including its representation abroad, only has 27 personnel, this approach is both rational and cost effective.

### **Liechtenstein's Diplomatic and Consular Network**

Currently, the Principality has eight diplomatic missions, and the following paragraphs give an overview of their positioning and responsibilities. The Liechtenstein embassy in Berne, Switzerland represents Liechtenstein's many-sided interests with the Swiss Federal government, and is responsible for the day-to-day diplomatic contacts with most of the bilateral missions accredited to Liechtenstein. Some 85 foreign ambassadors are currently accredited to Vaduz, but all reside in Berne. The mission in Brussels handles the full range of European Economic Area (EEA) and European Union matters, while serving as the embassy to the Kingdom of Belgium and as the non-resident embassy to the Holy See. The latter relationship is important because about 80 percent of Liechtenstein is Catholic, and the Church has played a strong cultural and religious role in Liechtenstein's history (Beattie, 2004; Eccardt, 2005).

The mission in Strasbourg, France, handles traditional Council of Europe business, and is a useful point of contact with the Central and Eastern European countries. The Mission in Vienna is accredited to the Republic of Austria, and covers the Organization for Security and Cooperation in Europe (OSCE). The Geneva mission looks after business with EFTA, the WTO, and the UN institutions there. The mission

in New York takes advantage of the UN as clearing house for world-wide diplomatic business. As described, these six missions are multifunctional, managing both multilateral and bilateral relationships.

On the bilateral front, traditionally the small and especially very small European states had to be content with maintaining only a minimum of diplomatic missions. This approach aligns with the arguments by East and Plischke that the external relations of microstates are characterized primarily by their selectivity in establishing diplomatic missions abroad (East, 1973; Plischke, 1977: 47). For bilateral relations, these states tended to focus on a more powerful or capable neighbor. In the case of older countries like Andorra, Liechtenstein and Monaco, these missions were accredited to neighboring countries only, France and Spain for Andorra, Austria and Switzerland for Liechtenstein, France for Monaco. One of these neighbors was then entrusted with representing the diplomatic and consular interests of the small state in the rest of the world (Kappeler, 2007). These “outsourcing” arrangements met national diplomatic requirements well into the 1990s, until increasing globalization and advances in technology allowed these resource-minimal small states to build and exercise diplomatic power on their own volition (Prinz Nikolaus von Liechtenstein, 2004: 197-8).

Within this overall foreign policy framework, the maintenance of bilateral relations remains a priority task. Yet while these two way relations are an important part of Liechtenstein foreign policy, actual direct diplomatic presence remains selective based upon country importance. Aligned with this task is the enhancement of the image of Liechtenstein abroad. Closely linked to this effort is a strong emphasis on the information element of power, in this case public diplomacy - promoting the reputation and international credibility of Liechten-

stein, with Germany and the US as the initial priorities (Regierung des Fürstentums Liechtenstein, 2008: 86). Currently, besides the aforementioned missions that cover multiple states and organizations, Liechtenstein maintains resident embassies for bilateral relationships only in Germany and the United States.

Liechtenstein's relationship with Germany is extremely important, given the cultural, linguistic, political, and economic ties between the two states, and notwithstanding different positions in the recent controversy over private banking in financial centers. Liechtenstein strengthened its diplomatic relationship with Germany by building an embassy, appointing a non-resident Ambassador, and then upgrading this to a resident Ambassador. The creation of Liechtenstein honorary consulates (see below) was designed to extend this network and further strengthen the bilateral relationship (Regierung des Fürstentums Liechtenstein, 2008: 138, 157).

Similarly, the relationship of Liechtenstein with the US, in comparison to earlier years, has intensified. With the September 11, 2001 attacks, and the subsequent fight against terrorism, this relationship has taken on a high degree of importance, particularly for the Liechtenstein financial center. In order to better manage this geopolitical development, Liechtenstein converted its diplomatic mission at Washington from a non-resident to a resident Ambassador in October 2002. Furthermore, as in Germany, honorary consulates were introduced for the first time to cover Liechtenstein's interests in two US regions (Regierung des Fürstentums Liechtenstein, 2008: 139-140, 158). Thus, the overall Liechtenstein foreign policy framework for bilateral relations, with its focus on selected countries and specific func-

tions, drove the decision to implement the honorary consulate model (Regierung des Fürstentums Liechtenstein, 2008: 24).

Already in June 2001, the Liechtenstein government presented a report to the Foreign Affairs Commission of the Parliament where the creation of a consular representational network was proposed to extend Liechtenstein's presence and better project its soft power (Regierung des Fürstentums Liechtenstein, 2006, 8). To highlight this shift in diplomatic representation, Foreign Minister Rita Kieber-Beck stated in a 2006 speech:

May I note with thanks that, however – since 1919 – Switzerland has handled our consular affairs in those countries in which Liechtenstein is not represented. We are in the process of establishing honorary consulates for Liechtenstein in the United States of America and Germany, which we believe will lend additional support to our information and communication efforts (Beck, 2006).

The appointment of these consuls was part of an overall effort to increase diplomatic, economic and cultural relations between Liechtenstein and its key partners. Foreign Minister Rita Kieber-Beck emphasized before Parliament that honorary consulates could constitute “important listening posts in the sense of an early-warning system abroad.” The necessity of such listening posts became clear in 2000, when Liechtenstein was confronted with international criticisms of the governance of its financial center in relation to suspected money laundering. Accordingly, Germany and the United States were to be the two countries in which Liechtenstein would mark its presence more strongly for political and economic reasons. Based on the experience gathered, the Liechtenstein government left it open whether

such consulates would be established in other countries as well (Portal of the Principality, 2006).

From July 8-11, 2007, Ambassador Claudia Fritsche joined Foreign Minister Rita Kieber-Beck to appoint Dr. Bruce Allen of Macon, Georgia and Mr. Leodis Matthews of Los Angeles California as Liechtenstein's first honorary consuls in the United States. The appointment of the consuls was part of an effort to increase diplomatic, economic, and cultural relations between Liechtenstein and the United States, with a focus on promoting academic and cultural exchanges, as well as increased economic ties between the U.S. and Liechtenstein (Embassy of the Principality of Liechtenstein, 2007). The United States is currently Liechtenstein's largest bilateral trading partner, with Liechtenstein's companies employing approximately 4,500 people in the United States. Liechtenstein's Foreign Minister Rita Kieber-Beck summed up the diplomatic rationale best: "Establishing an honorary consulate gives us the opportunity to develop business" (Embassy of the Principality of Liechtenstein, 2007). Ambassador Claudia Fritsche (2010) provided the ambassadorial view and rationale for the honorary consuls:

A small country has limited possibilities to reach out beyond its Embassy in Washington to other parts of the United States. Liechtenstein presently has a special need to establish a positive image, to correct misperceptions and to increase its awareness level in the United States. Honorary Consuls serve as outposts to inform about Liechtenstein, to get input on how Liechtenstein is perceived and to increase our outreach on various levels - political, cultural, business, academic.

There is a special necessity to present Liechtenstein as a diversi-

fied economic/business center. Contrary to popular perception, the manufacturing industry is the largest contributor to Liechtenstein's economy, followed by financial services and general services.

Similarly, in Germany, the Liechtenstein honorary consuls are a more recent development, and while having a strong public diplomacy and brand promotion role like their US counterparts, their focus is slightly different. A large part of this difference results from crisis management over the tax evasion issue between the two governments. This case was but a further step in the "deconstruction" of offshore banking center secrecy and privacy privileges which started with Germany's 2008 onslaught on the financial center of Liechtenstein. It should be noted that the banking secrecy issue extended beyond German-Liechtenstein relations to include others. The United Kingdom later became involved in negotiations with Vaduz on this subject, and tax evasion concerns also applied in parallel to Liechtenstein's Swiss financial center neighbor.

As Munich-based honorary consul Dr. Christian Waigel noted, "My task is to broaden awareness of Liechtenstein beyond the tax dispute." He and his Frankfurt-based colleague Christian Ratjen contribute to this goal by participating in the internal German debate over high taxes versus citizen rights to privacy and discretion through the use of foreign financial centers. They promote this dialogue-based approach, rather than simply finger pointing at smaller neighbors. The second focus is related: to position Liechtenstein as a charming neighbor with trade, tourism, and investment opportunities. As Waigel commented, "We want to show the people of Bavaria that a trip to the Principality is worthwhile and that every southern German should go there at least once in his lifetime" (Liechtensteinischer Bankenverband, 2010). Similarly, Frankfurt-based Consul Ratjen (2010) uses his 40 years of

domicile in Hessen, and his extensive business networks in metropolitan Frankfurt, to promote and enhance the image of Liechtenstein.

Thus, diplomatically, Liechtenstein has increased its soft power projection through extending its representational network and penetrating key bilateral partners with honorary consulates. These missions and honorary consuls are at the forefront of promoting Liechtenstein's sovereignty, image, and relevance in international affairs. The Liechtenstein honorary consul model also represents an important mechanism within an overall public diplomacy and branding strategy. The efforts of both embassies and consulates meld and integrate with Liechtenstein's informational efforts described in the next section.

### **Informational Element**

Often, what small states lack in structural clout they can make up through creative agency (Cooper and Shaw, 2009: 2). This is the fountain from which informational power springs. Governments around the world have increasingly recognized the need to tell the story of their nation to the target international audience, not in simplistic propaganda, but with subtlety and sensitivity (Pilon, 2005). Promoting positive images of one's country is not new, but the conditions for projecting soft power have transformed dramatically in recent years. Conveying information and selling a positive image is part of it, but this power also involves building long-term relationships that create an enabling environment for government policies (Nye, 2008).

Liechtenstein's struggle with the political challenges of globalization is a good empirical case to study the innovative use of informational power. Until the 1990s, the country was highly successful in



coping with globalization. Its financial sector attracted large sums of international capital, due to banking secrecy laws and modest tax rates. Liechtenstein had the reputation of being a 'financial haven', 'tax oasis' and a 'money laundering paradise'. This was the original metaphorical structure constituting the country as a financial center. However, since the mid-1990s the country has come under attack from other states intent on pursuing tax-avoiding citizens, and concerned about money laundering and terrorist financing. Liechtenstein reacted by taking relevant political measures, first and foremost the implementation of strict anti-money laundering regulations. In parallel, it tried to mitigate its reputational damage by initiating an image campaign. A crucial aspect of this campaign, as will be shown, was the attempt to change the dominant metaphorisations of the country by inventing the 'Brand Liechtenstein' metaphor and by promoting the country as a crown and a gem as opposed to a negative simile. Additionally if a state like Liechtenstein is small and unfamiliar to most of the world, the need for a metaphor may be particularly urgent (Hülse, 2009: 113-114).

With this as background, starting in 2002, Liechtenstein began reworking its national image with an integrated branding, public relations, and diplomacy campaign. Besides revamping the government internet site to an attractive source on everything from finance to tourism, reaching out to journalists and opinion leaders, and hiring a consultancy to create a Liechtenstein brand, the principality integrated classical diplomacy (Simonian, 2004). This section addresses the steps and actions Liechtenstein has taken in the non-diplomatic realm of informational power to protect its reputation, gain competitive advantage, and project a more positive image to foreign audiences. A simple framework for assessing this informational element of power

uses nation branding, public diplomacy, and policy expertise as sub-components.

### **Nation-Branding**

Nation branding can be an important tool in the development of a nation's soft power (Ying Fan, 2008a). A nation's brand consists of three sub-brands: political, economic, and cultural (Ying Fan, 2008b). These three brands are usually intertwined and need to work in synergy to achieve the same goal of promoting a nation's image (Ying Fan, 2008a). From another optic, a nation brand can be defined as the total sum of all perception of a nation in the mind of international stakeholders, which may contain some of the following elements: people, place, culture / language, history, food, fashion, celebrities, and global brands (Ying Fan, 2008a).

While branding originates in the business world, in today's environment, a country -- just like a corporation or other large entity -- has to manage its reputation actively if it wants to gain competitive advantage (Passow, 2005). In fact, as Olin (1999) observed, countries and companies are becoming increasingly more alike. Hence, there are many similarities between a country as small as Liechtenstein and a company. A short listing includes size, an offering, existence within a competitive set, a financial logic, and an appeal to an audience (Passow, 2005). The latter characteristic points to the need for a brand and its management to promote the desired image of a country.

For Liechtenstein, brand development came as a response to national threats. Formerly a poor agrarian country, Liechtenstein

has developed into a major banking location. Low taxation as well as a strict banking secrecy law explains the financial center's attractiveness to foreign investors. Today, the financial market makes for roughly one third of Liechtenstein's Gross Domestic Product. In November 1999, the German news magazine the *Spiegel* published an article on financial practices in Liechtenstein, titled "Invitation for Money-Laundering" (Der Spiegel, 1999). Apart from triggering a downright diplomatic crisis between Germany and Liechtenstein, the article set the tone for the press coverage that was to follow. Liechtenstein was in the international news, and there, it was increasingly constructed as a shady paradise for criminal money-launderers. Its image was seriously damaged. This was followed by the Organization for Economic Cooperation and Development (OECD) and the Financial Action Task Force (FATF) both labeling Liechtenstein as a an "uncooperative tax haven" in June 2000 (Hülse, 2009: 121-122). This term was synonymous for a money-laundering state.

The government of Liechtenstein framed the events of 1999 and 2000, the *Spiegel* article as well as the blacklisting by the OECD and FATF, as a threat to the country's reputation. Mario Frick, then head of government, called out in despair: "We are much better than our reputation." (Hülse, 2009: 123) In addition to ad-hoc responses to the image crisis of 1999 and 2000, the government of Liechtenstein also took more far-reaching measures. It implemented anti-money laundering legislation, and — more interesting for this paper and the projection of soft power— it initiated a professional image campaign. This seemed to be a logical consequence of the way the events of 1999 and 2000 had been framed, namely as a problem for the country's reputation (Financial Times, 2004).

In March 2002, the foundation 'Image Liechtenstein' was set up

as a public-private initiative aimed at improving Liechtenstein's reputation. It started its work with an assessment of Liechtenstein's international image, based upon — among others — an analysis of the country's press coverage in foreign newspapers. This showed that the financial market and in particular money-laundering were the key topics when the international press wrote about Liechtenstein (MPR4 Research Project Report, 2002).

In synthesizing research on Liechtenstein's brand, three main issues were identified: the financial sector, the national leadership appeal, and the comparatively low familiarity of Liechtenstein abroad. For the first, although Liechtenstein had responded to attacks against its financial sector as an alleged center of money laundering and a safe haven for tax evaders with both communication and structural measures, the negative image abroad had persisted to some extent. Secondly, both inside and outside Liechtenstein, the country's leaders were perceived as lacking charisma and not communicating an appealing vision for the country. The third issue was the low familiarity of Liechtenstein abroad. Despite its highly specialized industry and leading financial center, the Principality was not well known compared with other countries in its competitive set (Passow, 2005).

Liechtenstein's brand-positioning study examined the government's strategic intent and overriding goals and objectives, while determining the Principality's strategic capability including its unique resources and its core competences. The SWOT analysis for Liechtenstein highlighted its physical appeal in the US and Austria where it enjoys a considerable reputation, and in addition Liechtenstein offers an attractive business environment with good infrastructure and low taxes. An important conclusion was that although Liechtenstein has this excellent business environment, its highly developed manufac-

turing industry was not common knowledge—interestingly since this sector comprises mainly “clean” technologically advanced industries that align with perceptions of the country as an unspoiled land (Passow, 2005).

The result was a recommended strategy for Liechtenstein to reinforce its strengths and leverage the country’s physical appeal and excellent business environment. Implementation aspects included a new national logo and design for all official material and communications, a strapline “Liechtenstein – the global village”, and coherent messaging of the Principality’s core values (Passow, 2005).

Based on these results, in March 2003, ‘Image Liechtenstein’ published a first set of recommendations on what the country should undertake to improve its international image: it should re-design its website, increase its diplomatic presence abroad and start a branding process, with the goal of creating a consistent and distinctive country-image. And the government reacted: it gave its website a major overhaul, increased the number of its foreign embassies from two to eight and invoked the help of public relations and marketing agencies. In November 2003, the Principality commissioned the London-based branding agency Wolff Olins to re-make the image of Liechtenstein. The result of Wolff Olins’ work was presented in July 2004 as ‘Marke Liechtenstein’ (‘Brand Liechtenstein’) (Hülse, 2009: 124). According to Henning Rabe, a Wolff Olins consultant, “Regions and metropolitan areas have done similar things. But it’s the first thorough and successful attempt by a country to brand itself” (Simonian, 2004).

The Liechtenstein brand was introduced with the goal of symbolically representing the values and qualities that make up Liechtenstein’s distinctive characteristics in a clearly recognizable brand. The

following five core messages stand for Liechtenstein and constitute the basis of the brand:

- *internationally networked small state open to the world (the heart symbolizes dialogue among people and nations),*
- *successful financial center (the circle represents a coin),*
- *highly developed industrial location (the rhombus stands for precision work),*
- *diverse cultural life (the house as a symbol for customs, tradition, history, and culture),*
- *hospitable vacation and recreation country (the flower stands for nature and is composed of hearts – the symbol of dialogue).*

The five symbols are joined together into the form of a crown, representing the monarchic system of state and Liechtenstein's entrepreneurial Princely House. Together, the symbols stand for the identity and diversity of the country of Liechtenstein, united under the Liechtenstein brand. The "Liechtenstein Brand" initiative has the goal of repositioning Liechtenstein internationally for the long term. The brand's primary function is to present the country for purposes of public relations and communication, and is a powerful aid for all messaging measures of the state, both at home and abroad (Government Spokesperson's Office, 2009: 88-89).

This brand initiative is germane in assessing Liechtenstein's soft power projection to international audiences. To repair reputational damage from its tax haven struggles, and to protect its character for the future, Liechtenstein projects itself as a brand, with marketing and advertising methods as central tools of the Principality's foreign policy. A brand state is obviously a "competition state", orienting

its entire activities towards the market. Other states are regarded as competitors or customers in the global market place. The citizens are treated as if they were customers or employees (Cerny, 1997). Liechtenstein Prince Hans-Adam II stipulated that “like a company, a state must focus on its strengths.” Since the older Liechtenstein metaphors were increasingly accompanied by negative predicates and the blacklist-metaphor constructed Liechtenstein in an unfavorable way, the country reacted by initiating an image-campaign. It was based on a set of innovative metaphors — Liechtenstein as a crown, gem and brand — aiming at the re-constitution of a positive country-image (Hülsse, 2009: 128-129).

Naturally, there are limitations and criticisms to this approach. First, branding and publicizing a nation in the same way as a company ignores some important differences in the nature of each. A company exists to enrich its shareholders and is answerable only to them. Sovereign nations have broader rights and responsibilities, many of them of a public goods nature. Second, a selected brand approach ultimately only reflects the ruling regime’s own formulation of Liechtenstein identity and image based upon consultant and external market inputs. Not all rebranding inputs may be accepted given domestic political considerations. In the case of Liechtenstein, this is particularly relevant given the intertwined interests of the Princely House and the state. For example, the Ruling Prince’s efforts to keep veto powers for himself in the sense of an absolute monarch gave a non-progressive perception to Liechtenstein’s brand and created negative public images for the external world. In this case, the Liechtenstein people called a referendum in 2012 to strip the Prince of his legislative veto powers. This effort was prompted by a national vote held in September 2011 on whether to decriminalize abortion in the mainly Catholic coun-

try. Days before the poll, Prince Alois, a Catholic, declared he would use his power of veto to oppose any changes to the country's abortion ban, whatever voters decided. Subsequently, a group of Liechtensteiners launched a referendum to take away the princely right to veto. Although he won, Alois made no secret that his family would have left if the referendum passed. Foreign press gave this attitude negative coverage (Paterson, 2012). Hence branding has limitations based upon domestic political interests. Nevertheless, this brand approach, coupled with public diplomacy and policy expertise, provides a central element of Liechtenstein informational power.

### **Public Diplomacy**

Public diplomacy is another aspect of informational power that intertwines with diplomatic efforts, and it involves activities in the fields of information, education, and culture with the aim of influencing a foreign government (van Ham, 2005: 57). A succinct explanation of public diplomacy is given by Paul Sharp, who describes it as "the process by which direct relations with people in a country are pursued to advance the interest and extend the values of those being represented." (Sharp, 2005: 106) Another characterization refers to it as consisting of government-sponsored programs intended to inform or influence public opinion in other countries (Sun, 2008). This public diplomacy is aimed at foreign populations, and the increasing focus on it can be seen as a symptom of the rise of soft power in international relations. Both small and large countries have in recent years displayed a great



interest in public diplomacy (Melissen, 2005: 23). Liechtenstein has used public diplomacy as a complement to its branding campaign.

According to Jan Melissen, nation-branding and public diplomacy differ in scope. Branding has particularly attracted countries with a weak international image. It is looked upon favorably in a number of transition countries and also among the very small and ‘invisible’ nations. It is perhaps no wonder that the likes of Liechtenstein and Estonia were attracted to the lure of branding (Melissen, 2005: 23). But Liechtenstein went beyond its brand campaign to use its newly appointed honorary consuls as conduits of public diplomacy. Diplomatically, the establishment of Liechtenstein honorary consulates deepened bilateral presence in the key target countries of Germany and the United States, and seemed to be the next logical phase in Liechtenstein’s overall image and branding efforts.

These Germany and U.S. based honorary consuls face very different public diplomacy “environments” in their respective countries. The German domiciled officials have to constantly deal with the old and now inappropriate stereotype or metaphor of Liechtenstein as a tax haven. In the United States, fewer people are conscious of that label, so the U.S.-based honorary consuls have the opportunity to promote the more accurate and modern image of the Principality as a highly educated, “green”, successful, participatory democracy, which is blessed by a fiscally conservative government, resulting in a high standard of living. They can show Liechtenstein as a nation where most of the GDP comes from industry and high tech types of exports, rather than tax haven type arrangements (Stringer, 2011: 34).

The Liechtenstein consuls have an extremely strong public diplomacy and brand development role designed to increase knowledge

about Liechtenstein in their respective countries -- to enhance its image as a world class manufacturing hub; create a more positive picture of its financial center in light of the attacks against supposed tax havens; and serve as foreign policy listening posts (Stringer, 2011). Liechtenstein's use of honorary consuls for public diplomacy demonstrates an innovative approach and the inherent flexibility of this consular institution (Melissen, 2011). More importantly, the consuls become instruments of soft power projection through their activities and support of the overarching branding campaign.

### **Policy Expertise**

Another measure of the informational element of soft power is the ability to demonstrate domain or administrative proficiency based upon policy, educational, or research capabilities. This capability seems especially relevant for knowledge-based economies and at multilateral institutions. For instance, despite the Principality being one of the smallest UN members in terms of population, it has built up a reputation regarding knowledge and expertise through initiatives such as the Princeton University-based Liechtenstein Institute on Self-Determination -- with direct links to the Permanent Mission of Liechtenstein at the UN (Liechtenstein Institute on Self-Determination, 2006).

The Liechtenstein Institute at Princeton University's Woodrow Wilson School of Public and International Affairs promotes research, publishing, teaching, and private diplomacy in the areas related to and emerging from self-determination, especially pertaining to the state, self-governance, sovereignty, security, and boundaries with particular

consideration of socio-cultural, ethnic, and religious issues involving state and non-state actors. It can take credit for advancing international law as it applies to the International Criminal Court (ICC) through its hosting of a series of intersessional negotiations between 2004 and 2009 which resulted in definitions and conditions under which the ICC can exercise its jurisdiction. Furthermore, the Liechtenstein Colloquium on European and International Affairs has hosted private diplomatic conferences on Southeast Europe, Kosovo, and Afghanistan since 1980. Some of the outcomes of the Liechtenstein Colloquium are taken up by the UN General Assembly and Security Council and regularly result in various publications (Government Spokesperson's Office, 2009: 8).

At the UN Security Council (UNSC), Liechtenstein proves the impact of its informational capabilities. Baldur Thorhallsson postulated that small states need to demonstrate high administrative competence, initiative, strong leadership and coalition-building skills, and an ability to prioritize heavy workloads in order to influence and inform the UNSC decision-making process (Thorhallsson, 2012: 140,159). One way to show a small state's informational and administrative competences in the UN work is demonstrated by the number of times countries are invited to the Security Council meetings on the basis of Rule 37. According to the rule, states which either have a particular interest in issues being discussed in the UNSC or have brought the matter to the Council's attention may be invited to the UNSC without the right to vote (United Nations, 1983). This allows non-members the opportunity to exert influence on specific issues. The UN Security Council has invited Liechtenstein 25 times or more to the Council under Rule 37 during the period 2000-2007 (Thorhallsson, 2012: 148). This example highlights a central feature of a state's ability to contribute to

the UN -- it needs to have either economic, military or knowledge resources in a particular policy area to be relevant. Liechtenstein demonstrates the latter through its administrative capacity and expertise.

Liechtenstein actively advocates, and leads on, a variety of reforms at the United Nations, with the goal of enhancing its effectiveness and legitimacy in this world forum. For example, Liechtenstein has submitted a compromise proposal in the on-going negotiations on the expansion of the UN Security Council. For the past several years, UN Member States have been unable to agree either on creating new permanent seats or on merely increasing the number of elected two-year seats. Liechtenstein proposes the creation of an additional category of longer-term seats, with terms of office of 8-10 years and the possibility of immediate re-election ('quasi-permanent' seats). Liechtenstein believes the improvement of the working methods of the Security Council is even more important than expansion. Liechtenstein is a member of the S-5 Group (together with Costa Rica, Jordan, Singapore and Switzerland), which engages in a dialogue with members of the Security Council and all other UN Member States in order to bring about improvements in the working methods of the Council. The group has already been able to effect some such improvements (Government of the Principality of Liechtenstein website, Reform and Strengthening of the United Nations, n.d.).

Besides its regular support for the United Nations Children's Fund (UNICEF), Liechtenstein also shows special interest in human rights, particularly the rights of children and women, and development of international law (Presidents & Prime Ministers, 1998). For some years, Liechtenstein has advocated a reform of the Human Rights system of the UN. Liechtenstein was a key actor in the creation of the Human Rights Council (2006). Furthermore, in the spring of 2011,

Liechtenstein Ambassador Christian Wenaweser facilitated the General Assembly negotiations on the review of the Human Rights Council. Liechtenstein also takes an active part in the reform of the treaty bodies of UN Human Rights instruments (Government: Principality of Liechtenstein website, Reform and Strengthening of the United Nations, n.d.). These latter activities show the seamless melding of diplomatic capability with informational and institutional expertise. The end result is a use of soft power to influence and attract other states to advocate and support certain ideas, principles, values, and positions.

Overall, the informational element of national power, categorized in this section with branding, public diplomacy, and educational/research expertise, offers a very small country like the Principality a way to use soft power to influence foreign audiences and states, and attract them to its values, image, and positions. This factor of national power melds closely with its diplomatic sister. In terms of innovation, Liechtenstein was a first mover in nation branding, and the active repositioning of the country through branding can give it a competitive advantage over other states (Gilmore, 2002). For public diplomacy, its use of honorary consuls as executing instruments shows a canny application of limited diplomatic resources to target key foreign publics. Lastly, Liechtenstein's niche policy expertise on a portfolio of themes allows it to have a strong voice in UN bodies. This particular knowledge and expertise is most evident at the UNSC (Thorhallsson, 2012: 150)

### **Cultural Element**

In Joseph Nye's (2006) conceptualization, there are three (re)sources of soft power for a country: culture (in places where it is attractive

to others), political values (when it lives up to them at home and abroad), and foreign policies (when they are seen as legitimate and having moral authority). This section explores the first resource as it pertains to Liechtenstein. The cultural element of national power is intertwined with its informational and economic siblings, and closely aligned to cultural diplomacy. Cultural diplomacy, “the exchange of ideas, information, art and other aspects of culture among nations and their peoples to foster mutual understanding,” can be loosely defined as all a nation does to present itself to the world (Cummings, 2003). M.C. Cummings places it as a critical component of public diplomacy, but this paper separates it, since cultural diplomacy differs from its larger public diplomacy relative in that it is less closely aligned with policy (or promoting the acceptance of policies), and operates best as a two-way street. Cultural exchanges, for example, constitute one element in this category (Schneider, 2010).

Although scholars are still debating whether one country’s culture has such power to alter the behaviors of another country, Li and Worm (2011) argue that culture is very important in influencing foreign audiences in a subtle way. For example, US popular culture is engaging throughout the world. McDonalds, Coca-Cola and Disney are symbols of the American way of life and are liked globally. In this sense, the US has massive cultural soft influence over foreign people outside its own territory.

Similarly, China has huge potential in cultural soft power. In terms of attractiveness, China has competitive cultural resources. China possesses many unique and eye-catching cultural assets, e.g., Chinese language (characters and calligraphy), Chinese philosophy, Chinese music, movies, arts, architecture, Chinese food, Chinese medicine, Chinese martial arts, and Chinatowns in all major world cities. China

has been extremely active in establishing Confucius Institutes worldwide to promote Chinese language and culture (Li and Worm, 2011: 75).

While Liechtenstein is plainly different in cultural power magnitude from the US and China, cultural policy is an extremely important component of the Principality's foreign policy. Culture and its regional and international exchange build bridges abroad. It is an instrument of integration and dialogue. The cross-border exchange and depiction of Liechtenstein culture and art expand the perception of Liechtenstein as a country (Arbeitsgruppe Kulturaussenpolitik, 2010). As a small state, Liechtenstein has always sought out connections with larger partners. These connections not only resulted in political orientations and economic advantages, but also in cultural fertilization. Liechtenstein views its foreign policy also as cultural policy, since a Government report on the goals of foreign policy stated: "Liechtenstein's cultural policy strives for both an internal and an external orientation. Cultural policy is also understood as part of foreign policy: international and regional." The 2007 Cultural Promotion Act forms the basis for cultural promotion in Liechtenstein. "Liechtenstein must formulate its cultural policy across borders," the Government stated in 1995 with respect to the orientation of cultural policy, "in order to radiate its culture out into the world. International cultural exchange projects should be actively shaped and promoted." (Government Spokesperson's Office, 2009: 71-76)

Liechtenstein uses several instruments and actors for its cultural element of power, and the following cases provide a small sampling of the Principality's projection of cultural soft power (Arbeitsgruppe Kulturaussenpolitik, 2010). One method is the presentation of Liechtenstein artists abroad. In 2012, the celebrated Liechtenstein pianist

Jürg Hanselmann embarked on a US national concert tour with performances in Portland, Oregon, Las Vegas, Nevada, Atlanta, Georgia, and at the Kennedy Center in Washington, DC. This U.S. concert tour featured Hanselmann performing works from Liechtenstein composer Josef Rheinberger, Ludwig van Beethoven, Franz Schubert, as well as his own original work. Interestingly, this tour combined both economic and diplomatic elements of power since the financial sponsors were the Liechtenstein Cultural Foundation, as well as Principality industrial giants like Ivoclar Vivadent, Hilti, Neutrik, and ThyssenKrupp Presta (Embassy of Liechtenstein, 2012).

In a more multilateral approach, on May 23, 2012, Liechtenstein, along with nine other countries, participated in the 7th Annual “Small Nations Poetry Reading” at the Katzen Center for Performing Arts at American University in Washington, DC. The Principality presented a poem by Liechtenstein poet Mathias Ospelt to representatives from Austria, Bahrain, Bulgaria, Cyprus, Iceland, Luxembourg, Malta, Monaco and Slovenia (Embassy of Liechtenstein, 2012).

A further development in the multilateral context was the Vaduz government’s decision to finance an international conference co-organized by the Stockholm International Peace Research Institute (SIPRI) and the small local NGO, Liechtenstein-Institut. This event, entitled ‘Business and Security: Protecting the Legitimate and Blocking the Illegitimate’, took place at Vaduz on 5–6 September 2003 and led to a Liechtenstein-financed book publication by SIPRI, also on ‘Business and Security’ (Bailes and Frommelt, 2004).

Lastly, Liechtenstein stamps have thrilled letter writers and collectors since 1912. For decades, the sale of postage stamps was an important revenue source for the state, and today postage stamps play a small role in cultural export. The stamp designs are usually the



product of Liechtenstein artists, although occasionally foreign artists are also commissioned. The Postal Museum, founded in 1930, shows all Liechtenstein postage stamps and documents the development of postage stamp creation. The portrayal of Liechtenstein in all its diversity serves as the principle for each postage stamp design. About two-thirds of the 40,000 stamps printed annually in Liechtenstein are purchased by stamp collectors from 66 countries around the world (Government Spokesperson's Office, 2009).

### **Economic Element**

There is no country in the world that could exert significant soft power when in a dire economic situation (Ying Fan, 2008a). Economic strength can be converted into hard or soft power: "... You can coerce countries with sanctions or woo them with wealth. As Walter Russell Mead has argued, economic power is sticky power; it seduces as much as it compels. There's no doubt that a successful economy is an important source of attraction." (Nye, 2006) A key premise to this element of power is that economic and commercial interests reinforce political interests and should be seen as a tandem (Okano-Heijmans, 2010). Unlike large countries, small states need to maximize their economic performance and build up their commercial reputation by focusing in certain 'market niches' – research and development (R&D), education, finance, insurance, and high-end industry. Contrary to conventional wisdom, resource-minimal small states can build and exercise economic soft power by taking advantage of these niche-building strategies in a virtually borderless world economy connected by electronic, air, and shipping links. This approach affords the possibilities

of tailoring economic aspiration to suitable specialization of production and economies of scale through creative attraction (Chong, 2007).

The success of the European micro-states has so far lain in their ability to neutralize the limitations stemming from their negative geographic, social, and economic attributes, and to turn these potentially negative characteristics to their advantage on the economic international playing field (Dosza, 2008: 95). The Principality is an excellent example of this success. Liechtenstein is a country with approximately 34,000 inhabitants, with 29,000 available jobs. A special characteristic of Liechtenstein's national economy is its comprehensive diversification. The primary sector of the economy, agriculture and forestry, accounts for little more than one percent of the total workforce. Industry and the trades sector account for 44.8 percent of the jobs. The service and commercial economy's share is around 54 percent. In 2009, overall GDP was CHF 4.9 billion with a GDP per person of CHF 166,750 (Office of Statistics, 2012). About 40 percent of GDP is covered by added value in industry and manufacturing, 30 percent in the financial services sector, 25 percent in general services, and the remainder of five percent in agriculture and households (Portal of the Principality of Liechtenstein, 2005; Office of Statistics, 2012).

For Liechtenstein, there is to some extent a natural concentration on high value added sectors, without special national planning and support, given the lack of raw materials, scarcity of labor, and scarcity of land (Büchel, 2003a). Enterprises are forced to be entrepreneurial as they have to face competition abroad without special state support. Economically, Liechtenstein's industry does not manufacture cheap mass products, but only high-tech goods. Liechtenstein has no other option. It does not fulfill the basic prerequisites for the sale of mass

products on a competitive scale. A lack of natural raw materials does not favor the foundation of basic industry or heavy industry in Liechtenstein. Concurrently, the wage level in Liechtenstein is too high to make labor-intensive manufacturing processes appealing. Furthermore, the government takes no steps to spur the economy or promote exports with subsidies or aid (Büchel, 2003b). Its small home market means that the country must achieve success in foreign markets (Büchel, 2004).

The achievement of Liechtenstein's industry is demonstrated by its exports, which increased in the last decade by about 80 percent. In Liechtenstein's special circumstances, the production structures are almost automatically oriented towards specialized market niches. The manufacture of these high tech products calls for constant and intensive research and development work, and highly educated and motivated personnel (Büchel, 2004). This concentration on high tech manufacturing for exports and to a lesser extent banking illustrates that Liechtenstein's success and position high on the economic value chain revolves around the real engines of competitiveness, which are the areas of science, technology, niche industries, entrepreneurship, finance, logistics, and education (Williams, 2005).

### **Political Economy Framework**

Liechtenstein has also developed a favorable political economy framework for its commercial sector. Liechtenstein encouraged a very liberal and attractive climate for investment which has resulted in a remarkably vibrant and high-tech manufacturing sector in a once pastoral country, and a modern services state with worldwide links.

The foundations of its economic success over the past decades have been laid by liberal economic laws, a high degree of political stability, modern infrastructure and a high level of education. This is coupled with a customs and currency union with Switzerland, a robust trade network, financial stability, a central location in Europe, and a serious commitment to R&D (Clements and Spatafora, 1999; Bartmann, 1998; Government Spokesperson's Office, 2009: 52-59).

Reigning Prince Hans-Adam II led the country into the United Nations in 1990, and Liechtenstein has negotiated the liberalization of world trade as a member of the World Trade Organization (WTO) since 1995. Along with the European Economic Area (EEA) and the WTO, the European Free Trade Association (EFTA) is the third leg of Liechtenstein's foreign economic policy. The EFTA countries – Switzerland, Norway, Iceland and Liechtenstein – have built up a strong trade network since 1991, including the large free-trade zone Europe-Mediterranean, South Korea, the Southern African Customs Union, and Singapore (Government Spokesperson's Office, 2012).

The most important export destinations in this network are the United States, Germany, and Switzerland, followed by France, Italy, Hong Kong, Taiwan, Austria, Japan, and Spain. About 45 percent of exports went to the EEA, about 24 percent to Asia/Pacific, and 17 percent to the Americas. As mentioned, industry and trade generate 40 percent of the gross domestic product (GDP). The success of the small country, which has almost as many jobs (about 30,000) as inhabitants, is founded on quality, service, and people with the will to perform (Government Spokesperson's Office, 2012).

Equally important, Liechtenstein has no state debt. The financial reserves in 2008 would have sufficed to cover two annual budgets. The rating agency Standard & Poor's has accorded the Principality of

Liechtenstein the highest rating, AAA, every year since 1996. Liechtenstein shares the best marks in the country rating with its neighboring countries of Switzerland and Austria. In its evaluation, Standard & Poor's emphasizes Liechtenstein's wealth and the strong position of its public finances (Government Spokesperson's Office, 2012).

Finally, the industrial member companies of the Liechtenstein Chamber of Commerce and Industry invested CHF 316 million in staff and material expenditures for research and development in 2007. This figure corresponded to a share of more than 7 percent of Liechtenstein's gross domestic product; or in other words, CHF 8,770 per capita are spent on research and development in Liechtenstein each year. The Principality on average invests around 5 percent of GDP in R&D. This figure exceeds the quotas of all OECD countries, which average approximately 2.3%. The main export product of Liechtenstein is therefore research-intensive, innovative high technology. This level of investment creates the conditions for Liechtenstein companies to gain global market leadership in their respective niches (Government Spokesperson's Office, 2012; US Department of State, 2012). The next section highlights a sampling of companies that contribute to this industrial leadership, and provides an overview of the important, yet controversial Liechtenstein financial center.

### **High-Tech Industrial Sector**

Liechtenstein relies on a highly developed, diversified, and research-intensive industrial sector, which exports almost all its products worldwide. Many companies occupy international market niches; some are even among the world elite. In 2010, the production sector

provided about 40% of the jobs, which in comparison with other European countries is extraordinarily high. 578 enterprises provide the jobs for the industrial sector. These enterprises are mainly small companies with less than 50 employees. They are active in a large number of specialized market niches and contribute to the broad diversification of Liechtenstein's economy. The most important branches are mechanical engineering, electrical machinery, vehicle components, dental technology and food products as well as construction work. With its 160 square kilometers (62 square miles) of territory, the Principality has a small sales market. Hence, the diminutive domestic market of Liechtenstein has always forced the global brands to find export markets. Intensive research and development, the high education level of the employees, the high quality of the products, and the service performance of the enterprises are responsible for international success. Broad diversification has also had a positive effect, both with respect to the enterprises themselves and with respect to the individual sectors and their products. These many components and several main companies have been the secret strength of the business location (Government Spokesperson's Office, 2009; Office of Statistics, 2012: 32; Government Spokesperson's Office, 2012).

The structural engineering group Hilti, headquartered in Schaan, is the most famous "Made in Liechtenstein" global brand. At construction sites on all continents, over 17,000 employees are at home with their red Hilti cases. Hilti embodies innovative products and services for construction professionals and is the global market leader in fastening technology. Hilti products and system solutions for construction professionals help ensure that skyscrapers are stable and that bridges connect people (Government Spokesperson's Office, 2012).

Like Hilti, Ivoclar Vivadent (2012) – the global brand for beauti-

ful teeth, also located in Schaan – invests huge sums in research and development. Since its founding in 1933, Ivoclar Vivadent has evolved into a leading international manufacturer of high quality materials for preventative, restorative and prosthetic dentistry. In addition to being a leader in product innovation, it is the recognized leader in quality esthetic dental materials. Dental laboratories and dentists in over 100 countries throughout the world use its products. Its focus is to provide product systems for the success of the laboratory technician, the dentist, and the patient (Government Spokesperson’s Office, 2012). This company clearly profits from the Liechtenstein concentration on education, investment in human capital, and quest for niche production capabilities.

Smaller niche players also abound. Neutrik AG in Schaan occupies quite a small market slot. It produces audio jacks for musicians around the globe. No loudspeaker in the Council of Europe in Strasbourg, no Open Air in St. Gallen, no football game in Zurich, hardly a rock guitar and hardly a sound mixer would work without Neutrik jacks. More innovative than its competitors, Neutrik uses glass fibers and has developed a special technology for a new generation of guitar plugs (Government Spokesperson’s Office, 2012). In the logistics field, the Austrian based crystal company, Swarovski runs its main production and logistics center in Liechtenstein. And lastly, Hoval, based in Vaduz, is one of the leading manufacturers of boilers and ventilation sys-

tems in the world. The financial center complements this industrial portfolio.

### **The Financial Center**

The financial center has evolved from a banking center into a financial services center with globally operating investment undertakings and insurances, claiming to fulfil the highest standards with respect to quality of services, competence, security, and diligence (Government Spokesperson's Office, 2009). Of the 17 banks licensed in Liechtenstein today, seven are subsidiaries of Swiss and Austrian institutions. In the years since Liechtenstein's accession to the EEA, the banking sector has experienced a phase of strong growth and expansion. As of the end of 2010, client assets under management declined slightly from the previous year by 3.1% to CHF 121 billion. On a consolidated basis, the assets under management at the end of 2010 totaled CHF 168.1 billion (Liechtenstein Banker's Association, 2011).

The financial sector contributes a total of 33% to Liechtenstein's GDP and generates about 40% of State revenue. Alongside industry, trades and other services, it is thus one of the central pillars of the national economy. The financial sector is an important and attractive employer, with an extraordinarily large share of highly qualified employees. About 5,000 of the more than 32,000 employees in Liechtenstein work in the financial sector (Liechtenstein Banker's Association, 2011). Compared with other countries, the national economic significance of the financial center is disproportionately high in Liechtenstein. Securing a financial center with a long-term orientation based



on continuity and sustainability is thus of fundamental importance for Liechtenstein (Liechtenstein Banker's Association, 2011).

Liechtenstein banks traditionally focus on private banking and wealth management. They do not engage in investment banking and carry comparatively low risks. Their share in the global market for cross-border private assets under management is only about 1%. The financial centre thus occupies a niche position compared to the likes of New York, London, Hong Kong, or even Zurich (Liechtenstein Banker's Association, 2011).

Despite its diminutive size, Liechtenstein is an economic powerhouse, especially when viewed on a per capita basis. With its political economy strongly framed by good laws, liberal trade agreements, and R&D investments, the twin pillars of the high-tech industry and a remarkably robust financial center make it a strong economic power. The Principality has also profited from the strong discipline and direction given by the Princely House, which may be a key ingredient to the coherence of Liechtenstein's successful economic strategy. This benefit comes, though, with the potential price of more limited democracy and citizen's rights. With a coterie of world-class firms in its portfolio, Liechtenstein can project an attractive image to other states abroad—either as an exporter, trade partner, or even market benchmark to be emulated. While not easy to solidify and use as a direct tool of influence, the economic element of soft power blends with its diplomatic, informational, and cultural siblings to become part of a projectable whole. As noted in the beginning, economic power provides the fuel

for using soft power effectively as a nation. In this regard, the Principality has adequate resources for its soft power efforts.

## Conclusions

The purpose of this study was to explore the projection of soft power by a very small country. Perhaps Robert Keohane (1969) made the argument best when he wrote that “If Lilliputians can tie up Gulliver, or make him do their fighting for them, they must be studied as carefully as the giant.” The Liechtenstein case demonstrates this adage through the Principality’s use of its diplomatic, informational, cultural and economic instruments of statecraft (referred to as DICE) to influence other states in international relations. Similar to countries like Iceland or Costa Rica, Liechtenstein possesses no armed forces, and hence cannot use military force in its international affairs.

In summary, the paper offers some specific thoughts to the use of soft power by small states in international relations. First, while the paper has looked at the elements of power separately, in reality they are all melded into a total reservoir of soft power for a state, and can be used in various dynamic combinations. Liechtenstein’s branding campaign is one example. Second, soft power or symbolic power is a means of virtual enlargement of a small state’s foreign policy reach and presence (Chong, 2007), and can mitigate resource constraints. The Principality’s positioning of its diplomatic representations and its selective use of honorary consuls demonstrate one approach to this challenge. Third, soft power needs flexibility, and small states may have better possibilities to use discretionary approaches, which provide more room for maneuver at times of crisis and allow amorphous

issues such as state reputation to be addressed. By analogy, a small firm that does not need huge bureaucratic machinery and is spared the associated rigidities may be better placed than a large firm to react quickly to the needs of its market (Curmi, 2009: 60). Lastly, small states with minimal military resources appear to approximate large transnational corporations in their use of soft power to attain international aims. Both entities must use diplomacy, information, culture, and economic wherewithal to reach international goals, and promote a positive reputation and image abroad. This nexus of small states and large transnational corporations offers potential directions for further soft power research and illustrates the increasing importance of soft power based upon economic relationships, cultural influence, and information dissemination for a wide variety of state and non-state international actors.



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