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Comparison of the Economic Development of Five European Microstates in the Last 20 Years

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Zadání práce: Tato bakalářská práce se pokusí podat geografický a historický přehled pěti evropských mikro států (Andorra, Lichtenštejnsko, Malta, Monako, San Marino) s důrazem na jejich hospodářský vývoj v posledním čtvrt století.

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Prohlášení

Prohlašuji, že bakalářskou práci na téma
Comparison of the Economic Development of Five European Microstates in the Last 20
Years

jsem vypracoval samostatně.

Použitou literaturu a podkladové materiály
uvádím v příloženém seznamu literatury.

J.Hradec, duben 2008

podpis studenta

Anotace

Comparison of the Economic Development of Five European Microstates in the Last 20 Years

Tato bakalářská práce podává základní informace o pěti evropských mikrostátech (Andorra, Lichtenštejnsko, Malta, Monako, San Marino). V teoretické části práce popisuje geografický, demografický a historický přehled a politické a ekonomické podmínky. V praktické části práce porovnává vývoj jejich ekonomik za posledních 25 let pomocí několika indexu a ukazatelů. Závěr sumarizuje silné a slabé stránky jednotlivých ekonomik a dotýká se vztahu se zbytkem Evropy.

duben 2008

Poděkování

Za cenné rady, náměty a inspiraci

bych chtěl poděkovat

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1 INTRODUCTION

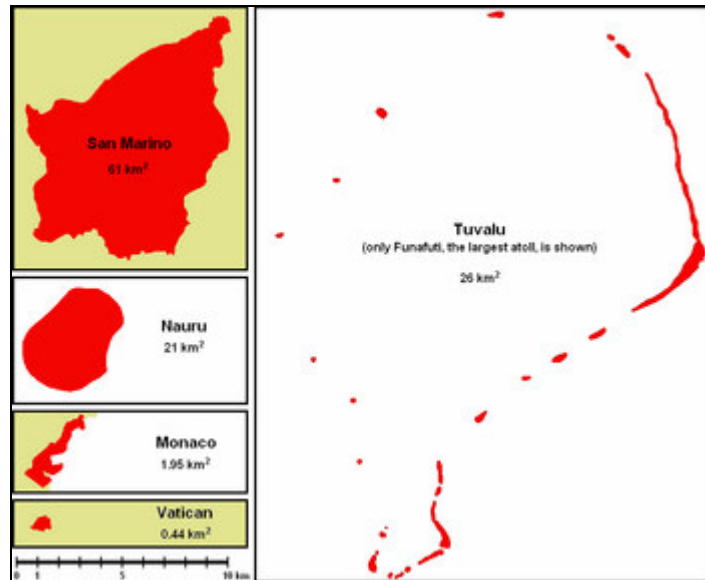
The subject of this bachelor thesis is the comparison of five European microstates. This topic is quite interesting for me for there is relatively little information about them, nevertheless they deserve more attention.

The first part describes each of the microstates. I have divided the information into several parts for each country. There are basic characteristic features with some national symbols, and then I have mentioned the geographical and demographical background. I have also summed up the history of each country with emphasis on the key facts which dealt with their historical development and their struggle for independence. The other part is about politics focused on international relations and description of the individual political systems. The last part devoted to each country is wider than the previous one dealing with the summary of economic conditions.

The practical part of my thesis has as its objective the comparison of the development in the last 25 years. For the comparison I have chosen some macro economical indicators mainly concerned with Gross Domestic Product, according to data availability. Then I have compared some other aspects of their economies, focused on their economical maturity, in other words on the quality of life in these countries. The conclusion summarises the weak and strong points of these countries. I have also mentioned their relations with the European Union.

2 THEORETICAL PART - FIVE EUROPEAN MICROSTATES

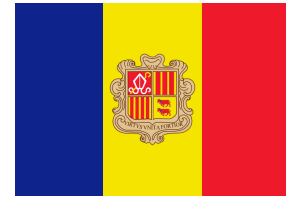
2.1 *Microstates*



Picture 1 - Microstates

The Microstate or Ministate is a sovereign state, which has a very small area and very low amount of population. These two factors occurred usually simultaneously. Except for Europe, the microstates in the world are mostly insular countries. As examples I can mention the Bahamas, Tuvalu, Samoa, Fiji, Singapore, Brunei, Bahrain, Barbados, Granada or Trinidad and Tobago. But we can also find similar microstates in Europe. These are Andorra, Liechtenstein, Luxembourg, Malta, Monaco, San Marino and the Vatican City. It is not worth while to deal with the Vatican City, because it is the Papal State and is characterized by enormous cultural activities and wealth. The Vatican City is the smallest state in the world with 0.44 square kilometres only and less than 1,000 inhabitants. On the other hand Luxembourg is much bigger than the others with more than 2,500 square kilometres. The microstates should not be confused with territories called micronations which are not recognized as sovereign states.

2.2 Andorra



2.2.1 Characteristics

| | |
|---------------------|--|
| Official name: | Principat d'Andorra (Principality of Andorra) |
| Form of government: | Parliamentary coprincipality with one legislative house (General Council [28]) |
| Capital: | Andorra la Vella |
| Official language | Catalan |
| Official religion | none |
| Monetary unit | euro (€) |

2.2.2 Geography

Andorra is a small landlocked country with 468 sq km in Western Europe. It's located in the mountain valleys of the Eastern Pyrenees Mountains and bordered by Spain and France. Andorra is sharing 56.6 km of border with France on the north and 63.7 km of border with Spain on the south. Andorra is situated in the valley of the Valira River which leaves the country for Spain. Surrounding mountains are significantly shaped by glacier. The elevation



above sea-level is quite high with an average height of 1,996 m. the highest point is the Coma Pedrosa at 2, 946 m, on the other hand the lowest point is where the Valira River leaves the country with 870 m above sea.

Andorra is administratively divided into seven parishes. It is Andorra la Vella, Canillo, Encamp, Escaldes-Engordany, La Massana, Ordino and Sant Julià de Lòria. The smallest one is the Andorra la Vella, but with the capital city of the same name is the biggest based on population.

2.2.3 Demography

Andorra's population is around 72,000 permanent citizens and density 154 persons per sq km. The number of inhabitants is still increasing. For instance Andorra had about 38,000 inhabitants in year 1980. Andorrans are a minority in their country with 1/3 of population. The rest 2/3 of population consists of immigrants from Spain, France, Portugal, Britain and Italy. Mainly the immigrants from Catalonia in Spain caused the growth of population with up 43% share of population. The capital city Andorra la Vella has population of 23,000 inhabitants.

The official language is Catalan, but Spanish and French are also widely spoken. English is also frequently used for business.

2.2.4 History

Andorra is the last independent survivor of the March States, a number of buffer states created by Charlemagne to keep the Muslim moors from advancing into Christian France in the 8th century. Then overlord of Andorra kept Count of Urgell, later diocese of Urgell, headed by Bishop of Seu d'Urgell. In the 11th century the bishop placed himself under the protection of the Lord of Caboet from Spain because of fear of military action by neighbouring lords. Later French Count of Foix became heir to Lord Caboet through marriage and this made dispute over Andorra between French Count and Spanish bishop.

The solution was made in year 1278 by signing of a *paréage* (means a feudal treaty recognising joint sovereignty over a territory by two rulers) between Bishop of Urgell and Count of Foix. In 1574 co-sovereignty passed from Count of Foix to the French crown and later to the French Republic. Nowadays the heads of state are French president Nicolas Sarkozy and Bishop of Urgell Joan Enric Vives Sicília represented by vicars.

2.2.5 Politics

Andorra is a parliamentary democracy that retains as its head of state the co- princes. Andorra approved and ratified its first Constitution on 4th May 1993. By this Andorra became a democratic state. Parliament is called the "General Council" and has 28 members, which formed the legislative branch. The executive branch is formed by the

head of government (currently Albert Pintat Santolària) and nine ministers. Andorra has no military because Spain and France are responsible for defence.¹

2.2.6 Economy

Andorra was originally undeveloped agricultural country. Disadvantageous natural conditions did not allow greater development of Andorra. There were lack of arable land and elevation above sea-level enabled only growing undemanding plants, such as potatoes and tobacco. A little bit more successful was breeding of cattle and livestock. Pasturage and growing of tobacco keep a small importance up to present day. You can see tobacco leaves drying in a lot of houses outside the capital city.

The changes in economy came with development of tourism in the second half of the 20th century. At first ski resorts were made, which later became used even in the summer as resorts for alpine hiking or cycling tourism. But the main development occurred with shopping tourism, because Andorra does not impose duty on imported goods and has very low taxes. The prices are still about 20 – 40 % lower than in neighbouring Spain. Every day many people go to Andorra just for shopping.²

Tourism with more than 10,000,000³ visitors annually forms about 80 % of Andorra's Gross National Product. Advantageous tax conditions have attracted many foreign companies. Especially bank companies are the other pillar of economy of Andorra. The important industry is water power supply. Hydroelectric power plants produce enough amount of electric current for the whole country and part of it is exported to Spain. Trade is predominantly realized with both neighbours Spain and France. Andorra exports tobacco goods and furniture, on the other hand imports food and commodities. Andorran

¹ *Background Note: Andorra* [online]. 2007 , November 2007 [accessed 2008-03-03]. Available from: <<http://www.state.gov/r/pa/ei/bgn/3164.htm>>

² KOŘÍNEK, Vladimír. *Ministáty Evropy*. Krnov, 2003. 129 p. ISBN 80-903184-0-1

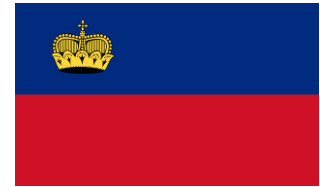
³ *Ministeri de Finances : Servei d'Estudis* [online]. [2008] [accessed 2008-04-08]. Available from: <<http://www.estadistica.ad/indexdee.htm>>

currency has been Euro since 2002, before that Andorra used French Franc and Spanish Peseta.⁴

There is no airport or railway station in Andorra. The nearest railway stations or airports in France as well as in Spain are interlinked with Andorra by bus lines. There is only one road across defile between Andorra and France, so from time to time in winter months this connection is closed.

⁴ ANDORRA: COMMERCIAL/INDUSTRIAL SITUATION: A PROFILE. *International Market Insight Reports* [online]. 1999 [accessed 2008-03-12]. Available from: <<http://proquest.umi.com/pqdweb?did=43576017&sid=11&Fmt=3&clientId=45149&RQT=309&VName=PQD>>.

2.3 Liechtenstein



2.3.1 Characteristics

| | |
|---------------------|--|
| Official name: | Fürstentum Liechtenstein (Principality of Liechtenstein) |
| Form of government: | Constitutional monarchy with one legislative house (Diet [25]) |
| Capital: | Vaduz |
| Official language | German |
| Official religion | none |
| Monetary unit | Swiss franc (CHF) |

2.3.2 Geography

The principality of Liechtenstein is a small country with 160 sq km. The area of Liechtenstein is made up of part of the Valley of the upper Rhine River surrounded by the European Alps. The valley is approximately 20 km long and 6 km wide. The country borders on Switzerland in the west and south and on Austria in the east. The country is of equilateral triangle shape. The entire length of the border is only 72 km. The highest point is the Grauspitz with 2.599 metres. Most inhabitants live in the valley on the right side of the Rhine. All industries are also located there. The climate is mild with frequent rainfall. The country has good conditions for plentiful development of flora. The strictly protected forest covers almost 35% of the land.



2.3.3 Demography

Liechtenstein has about 35,000 inhabitants and the density is 220 persons per sq km. Liechtenstein is the fourth smallest country of Europe. The majority of population are

Liechtensteiners with 65 %; the other ethnics are Swiss, Austrian, Italian, German and Turkish. The origin of Liechtensteiners is Alemannic and they speak Alemannic, a German dialect. But the official language is German. The biggest town is Schaan with almost 6.000 inhabitants; the capital city Vaduz has 5.000 citizens.

2.3.4 History

The area was originally settled by Alemannic tribes round the year 500. During the rule of Charlemagne the country had been part of the Frank Empire. The County of Vaduz and the Domain of Schellenberg arose there in the 14th century. Then Prince Johann Adam Andreas of Liechtenstein united these areas under the Principality of Liechtenstein on the turn of 17th and 18th centuries.

The Principality was, however, part of the Holy Roman Empire. The new owners of this area did not stay there but dwelled in other domains of theirs in Austria. The last armed conflict territory of Principality were when Napoleon Bonaparte fought against Austrian army in one of his victorious battles. Liechtenstein joined the Confederation of the Rhine established by Napoleon from 16 German speaking countries in 1806. That meant final dissolution of the Holy Roman Empire after 8 centuries. The Principality of Liechtenstein became member of German Confederation after Napoleon defeat in 1815. The first prince who visited the Principality was Alois II in 1842. In 1858 started a period of prosperity under the rule of Johann II also known as Johann II the Good. He issued a constitution and the first Diet was established in 1862. The first bank was founded. The existence of the German Confederation ended in 1866 when Austria was defeated in the Austro-Prussian War.

Therefore Johann II declared independence of the Principality. He also proclaimed neutrality, which had been kept during both World Wars. At the time of the dissolution of the Austro-Hungarian Empire the Principality restored close relation with Switzerland. Hans-Adam II is the present-day Prince of Liechtenstein.

2.3.5 Politics

Liechtenstein is a parliamentary democratic monarchy according to the last constitution from 1921. The head of state is a Prince who represents the country on the international

level. The legislative power is in hands of the Prince and the Diet (Landtag). The Diet has 25 members elected from two parishes Oberland and Unterland. The elections are held every four years. The Cabinet, made up from Prime Minister and three ministers, has the executive power. The citizens have the right for referendum in political topics. The only armed unit is a police force.⁵

2.3.6 Economy

After World War II Liechtenstein still was a poor agricultural state. There was a slow development of industry but most people worked on small farms. After 1945 many changes happened. Most of small farms went bankrupt and were replaced by big agricultural companies. The poor agricultural state turned into a flourishing industrial state in terms of a quick industrialization. A ratio of people employed in both economic departments changed every year for the benefit of industry.

About 40% of the area of the Principality is used for agriculture and 35% of the area is forested. Despite that only 1.3% of economically active population is employed in agriculture. The main segment of agriculture is a stock breeding for milk. Farmers have favourable conditions for growing fruit and vegetables. In the valley there are many orchards and vineyards. Liechtenstein is practically self-sufficient in the production of cereals.

About 45% of the population works in industry. The main branches of industry are electrotechnics, engineering, metal-working industry, viticulture, pharmacy and chemical industry. The production is focused on high quality specialized products intended chiefly for export. The well-known are dental products.

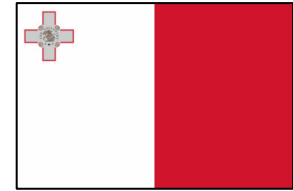
The rest of the population is working in business and services. Generally people think that there are no taxes levied in Liechtenstein, but that is not true. But the conditions are still very advantageous for many foreign investors, so the big amount of capital is concentrated there.

⁵ *Background Note: Liechtenstein* [online]. 2008 , April 2008 [accessed 2008-03-03]. Available from: <<http://www.state.gov/r/pa/ei/bgn/9403.htm>>

Besides taxes the national income is gained by selling postage stamps, collecting duties and tourism. In certain periods of time the profit from stamps was 50 % of the whole national income. These days it forms approximately 10 % of the income.⁶

⁶ KOŘÍNEK, Vladimír. *Ministáty Evropy*. Krnov, 2003. 129 p. ISBN 80-903184-0-1

2.4 Malta



2.4.1 Characteristics

| | |
|---------------------|--|
| Official name: | Repubblikka ta' Malta (Maltese); Republic of Malta (English) |
| Form of government: | Unitary multiparty republic with one legislative house (House of Representatives [65]) |
| Capital: | Valletta |
| Official language | Maltese; English |
| Official religion | Roman Catholicism |
| Monetary unit | Maltese lira (Lm) |

2.4.2 Geography

Malta is a small island republic with 316 sq km located in the Mediterranean Sea approximately 93 km in the south of Sicily. Three islands – Malta, Gozo and Comino - are inhabited; the other three small islands Filfla, Cominotto and the Islands of St. Paul are uninhabited.

Maltese Isles are peaks of underwater chalky mountains, which begin in Sicily. The south-western coast is formed by rocky cliffs; the north-eastern coast is very rugged with deep bays. Malta uses machinery for the desalting of sea water, because fresh water comes from only from insufficient rainfall.

The climate is subtropical and dry. The vegetation is very poor because of excessive pasturage and soil erosion.



2.4.3 Demography

Malta has about 410.000 inhabitants. The density of population is around 1.300 persons per sq km, which places Malta between the most densely populated countries in the

world, currently the 8th position. About 93% of the inhabitants are of Maltese origin and 1.3% is British. The number of population has increased by around 100.000 since 1970. Despite it Malta has a large number of emigrants, who live throughout the world. The official languages are Maltese and English. Many people can speak Italian.

2.4.4 History

The history of Malta is extremely colourful. It is caused due to its strategic location in the Mediterranean Sea. That resulted into frequent power fights over Malta. On the other hand it caused that Malta has a big amount of remarkable historical monuments. Some of them belong to the oldest in the world.

The islands were colonized by Phoenicians in the 8th century BC. They and the aboriginal people created the base of the present Maltese nation and language. Phoenicians used Malta as a seaport, because they were famous businessmen and seafarers. They also founded cities in inland of the islands. Their dominion lasted 3rd century BC, when Malta was conquered by the Romans. Later Malta was under the rule of Arabs (from 870 AD) and Siculo-Normans (from 1090 AD). Then many emperors were relieved in Malta. The islands were given to the Order of the Knights of the Hospital of St John of Jerusalem in perpetual lease from a Spanish Emperor in 1530. During a short period of time Malta was under the rule of Napoleon who plundered cities and churches. Then Malta had become an English colony. Absolute independence was declared in 1946. In 2004 Malta became a member of the European Union.

2.4.5 Politics

Malta has been a parliamentary republic since 1974, when the constitution was issued. Malta is a member of the British Commonwealth with executive authority vested in a Maltese president. President is elected by Parliament for a 5-year-long period. The legislative power is in the hands of the unicameral House of Representatives which is made up of 65 members elected for 5-year-long terms of office. Executive power is executed by Prime Minister who is appointed by the president. Prime Minister makes up the Cabinet. The judicial system is arranged according to the French pattern with the

Supreme Court and the Constitutional Court. The military organisation is called the Armed Forces of Malta (AFM).⁷

2.4.6 Economy

The economy of Malta has changed since 1979 when the last British soldier left the country. Industry and especially services have most developed since then. Remarkable is especially the boom of tourism. The number of visitors of the country has increased 10 times for the last 30 years. Services represent the decisive part of its GDP.

The structure of Malta's industry has changed after the departure of British troops. The shipyards in Valletta have focused on maintenance or construction of civil vessels. Other branches of industry are chalk mining, production of furniture, electronics, textile and footwear industries, grocery and tobacco processing. The share of industry on the GDP is around 25%.

Malta has no natural sources except for building stone; therefore Malta is dependent on imports of raw materials. But there is undersea geological exploration underway because of possible deposits of oil-fields. Agriculture is not an important source of GDP because of rough natural conditions. There is lack of arable land. The main produce is potatoes, vegetables, wheat, barley, citrus, figs and flowers. Fowls, pigs and sheep are kept, too. Some families fish for a living.

Malta imports groceries; agriculture produces around 20% of Malta consumption, machinery, commodities and tobacco for processing. Malta exports rubber goods, textile, plastic materials, fruit, vegetables and flowers. The main Malta's trade partners are Italy, France, USA, Germany and Great Britain.

Sea navigation is naturally the most meaningful transport branch. There are two seaports in the capital. Many ships sail under Maltese flags, because of advantageous registration.⁸

⁷ *Background Note: Monaco* [online]. 2008, April 2008 [accessed 2008-03-03]. Available from: <<http://www.state.gov/r/pa/ei/bgn/3397.htm>>

⁸ KOŘÍNEK, Vladimír. *Ministáry Evropy*. Krnov, 2003. 129 p. ISBN 80-903184-0-1

2.5 Monaco



2.5.1 Characteristics

| | |
|---------------------|---|
| Official name: | Principauté de Monaco (Principality of Monaco) |
| Form of government: | Constitutional monarchy with one legislative body (National Council [24]) |
| Official language | French |
| Official religion | Roman Catholicism |
| Monetary unit | euro (€) |

2.5.2 Geography

Monaco is a small country in Western Europe. It is located on Azure Coast of France between Nice and Italy. There is nice Mediterranean climate, the summers are hot and dry and winters are mild. Location on lower slopes of the Coast Alps protects Monaco against cold north wind called Mistral. The whole area of 1.95 sq km is densely settled. Monaco is divided into four districts. In the north there is Monte Carlo with tall buildings, hotels and residents. La Condamine is a commercial centre along the port. In the southwest there is district Fontvieille, which part lies on a landed up sea bay. The last district named Monaco-Ville is historical centre of Monaco with the well-known botanic garden called Jardin Exotique de Monaco and the Oceanographic Museum.



2.5.3 Demography

Monaco has approximately 32.500 inhabitants and density 16.500 persons per sq km. About one half of them are residents of Monte Carlo. About 6.000 inhabitants are of Monegasque nationality, so they form a minority, 47 % are French and about 16 % Italian. The rest of the population consists of more than 125 nations.

The official language is French. But Italian and English are widely spoken. The Monegasque language is spoken mainly by older population, but it is taught in school.

2.5.4 History

The history of Monaco dates back to prehistoric ages, which is proved by cave findings. The area of Monaco was important because of the Rock of Monaco which later served as a fortress. Monaco was occupied by Liguria nations, than by Phoenicians who were replaced by Greeks. Greeks valued Monaco as a strategic place with an appropriate bay for anchorage of their ships. During the overlordship of Romans the port was substantially extended. In the Middle Ages many nations occupied Monaco. In the 13th century Fulco del Cassello began the construction of a fortress atop the Rock of Monaco.

Monaco has been ruled by the House of Grimaldi with some breaks since 1297. Monaco's sovereignty was recognized by the Franco-Monegasque Treaty in 1861. The famous casino of Monte Carlo was opened in 1863. Monte Carlo gradually gained such a fame that the jet set from all over the world started to come there. The first constitution was adopted on 5th January 1911 by Albert I. Prince of Monaco Rainier III had to face an attempt of Greek ship-owner Aristoteles Onassis to overrule the country through business transactions in Sea-bathing Society which owns the Casino of Monte Carlo. Rainier III issued a new constitution in 1962 based on modern principles. In 1993 Monaco became an official member of the United Nations.

2.5.5 Politics

Monaco has been governed as a hereditary constitutional monarchy since 1911 with the Prince of Monaco as Head of state. He reigns with help of various advisory boards. Prince of Monaco represents monarchy on the political scene abroad and his function is to sign and ratify international contracts and deals.

The executive branch presents the Council of Government, which has 4 members; one of them is the minister of state who is a French citizen. The legislative branch is made up of Prince and the National Council. Each of the four districts has its own communal council headed by the mayor. The court system is an imitation of the French system. The defence

of Monaco is guaranteed by France in exchange for support of French interests by the Prince of Monaco in his dealings.⁹

2.5.6 Economy

Relatively unknown is Monaco's manufacturing. It started to develop in the 20th century but as late as the last 20 years has grown substantially. It mainly caused a boom of the district Fontvieille. Industry is focused on branches which does not require much space and do not pollute the environment. It includes especially production of medicaments, cosmetics, electronics and plastic materials. Manufacturing forms about 13% share of Monaco's Gross National Product.

The next very important source of national income is tourism. There are more than 2,500 hotel rooms; the most of them are set in 4-star category. Except the seasonal tourism Monaco also supports so-called business tourism, it ensures high occupancy of hotel rooms the whole year round.

The biggest part of national income is made by the tertiary branch; it includes banking, insurance business, and consultancy or middleman services. It brings almost 50 % of gross national product. About 21% of national income comes from commerce.

Monaco as one of the richest countries in the world as to provision of quality social and health care to its citizens. There are made approximately 30,000 work places, it equals virtually the number of inhabitants of the country. Therefore the unemployment is minimal and many of vacant places are filled by foreign applicants.¹⁰

The Principality of Monaco is in customs and monetary union with France. They used to pay with French francs, now Monaco uses as currency Euro as well as France since 2002. Monaco is well-known as the so-called Tax Haven. The details are given in chapter 3.7.4.

There are no agricultural activities because the entire area of the Principality of Monaco is built-up.

⁹ *Background Note: Malta* [online]. 2007 , November 2007 [accessed 2008-03-03]. Available from: <<http://www.state.gov/r/pa/ei/bgn/5382.htm>>

¹⁰ KORŮNEK, Vladimír. *Ministáry Evropy*. Krnov, 2003. 129 p. ISBN 80-903184-0-1

2.6 San Marino



2.6.1 Characteristics

| | |
|---------------------|---|
| Official name: | Repubblica di San Marino (Republic of San Marino) |
| Form of government: | Unitary multiparty republic with one legislative house (Great and General Council [60]) |
| Capital | San Marino |
| Official language | Italian |
| Official religion | none |
| Monetary unit | euro (€) |

2.6.2 Geography

San Marino is the oldest republic in the world and the second smallest republic next to the Republic of Nauru. San Marino is a peaceful enclave nearby the well-known summer resort of Rimini in northern Italy located on the eastern slopes of the Apennines. On their edges there is Monte Titano peak which is in the centre of the Republic of San Marino. The dominating features in the capital city called San Marino are towers and ruins of La Rocca fortress.

San Marino is divided into 9 districts locally called Castelli. Those are the Castello della Città di San Marino, Castello di Acquaviva, Castello di Borgo Maggiore, Castello di Chiesanuova, Castello di Domagnano, Castello di Faetano, Castello di Fiorentino, Castello di Montegiardino and the Castello di Serravalle. The largest town is Dogana.



2.6.3 Demography

San Marino's population is around 30,000 permanent citizens and the density 500 persons per sq km. The residents mostly consist of Sammarinese with 85.7 %. About 5000 Sammarinese live outside San Marino mainly in Italy. Italian nationality makes about

13% of San Marino's population. The official language is Italian. The San Marino citizenship is inherited, the reason is the small area of the Republic.

2.6.4 *History*

The 3rd September 301 is officially considered as the day of the establishment of San Marino. The legend goes that a Christian stonecutter named Marinus who came there because of the anti-Christian Roman Emperor Diocletian's chase on him. Marinus and a small community of people following their beliefs built a chapel on the peak of Monte Titano. The land was named San Marino after him.

The bull of Pope Honorius II recognized San Marino as an independent and politically separated state in 1126. The first constitution was proclaimed in 1263. Then several other constitutions followed. The last one was proclaimed in 1600 and has been valid since then. Sanmarinese have been under the influence of Italian circumstances throughout their history. The peak Monte Titano had been fortified because of that and the fortress became practically unassailable. San Marino was very often a target of military attacks. It was occupied twice, but they kept the independence due to the treaty signed by the Pope Urban VIII in 1602 and finally thanks to the bull of Pope Clement XII in 1740.

After the unification of Italy San Marino remained the only separate state among several tens of former independent tiny territories. San Marino remained neutral even during Mussolini's dictatorship in Italy.

2.6.5 *Politics*

The ancient institution called Arango, assembly of heads of each family, transferred the power to the Great and General Council in the 15th Century. Nowadays Arango is an assembly of all voters where people can bring, for instance, petitions in public interest.

Every sixth months the Great and General Council elects two Captain Regents as heads of state. The executive power is in hands of the State Congress, composed of ten secretaries.

The Council of Twelve, elected by the Great and General Council, performs virtually the function of the Supreme Court. Defence is the responsibility of Italy.¹¹

2.6.6 Economy

The main income comes from tourism, the development of which has started in the mid-fifties. By then the Republic of San Marino was relatively a poor country. Key livelihood was agriculture, which means especially pasturage and soil cultivation. Today agriculture has no longer a big influence, because less than 2% of employable inhabitants work in agriculture these days. People grow mainly corn, grapevine and olives and breed cattle and pigs.

The only natural resources of San Marino are stones and cement. But the traditional profession of stone-cutting is in recession. San Marino imports petrol, electric energy and commodities. The main export articles are wine, wool, ceramics and furniture.

The majority of population works directly or indirectly in tourism, which brings 60 % of the total income of the republic. Another 10% of the income comes from the purchase of postage stamps and collecting coins.

Industry is represented by several medium size and small companies. There is oil pressed, cement or many various groceries produced. Traditional branches are footwear and clothing industries and the well-known San Marino ceramics already mentioned above.¹²

San Marino has a very good welfare system. Many of inhabitants are employed by the state and the state provides them with housing allowances. San Marino maintains the lowest unemployment rate in Europe and has no national debt.

¹¹ *Background Note: San Marino* [online]. 2008 , April 2008 [accessed 2008-03-03]. Available from: <<http://www.state.gov/r/pa/ei/bgn/5387.htm>>

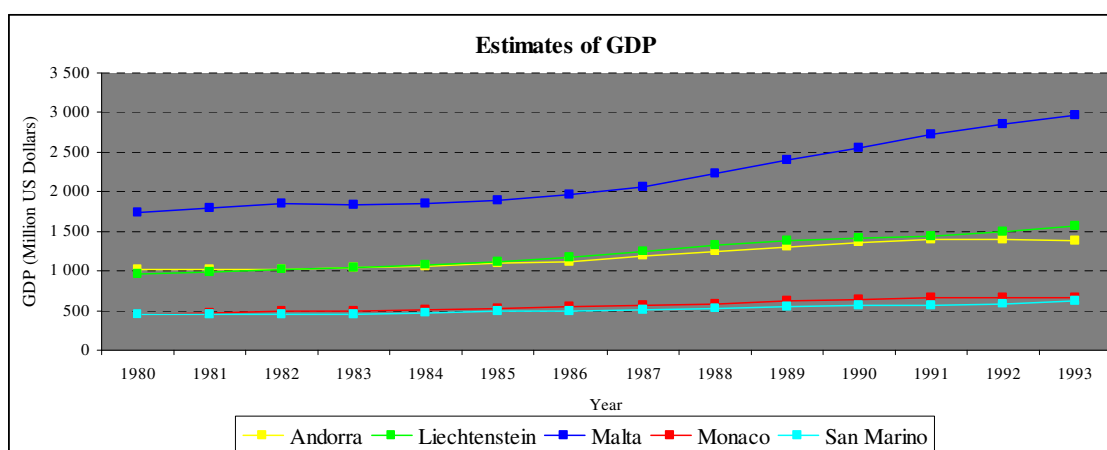
¹² KOŘÍNEK, Vladimír. *Ministáry Evropy*. Krnov, 2003. 129 p. ISBN 80-903184-0-1

3 PRACTICAL PART - COMPARISON

3.1 Estimates of GDP

3.1.1 1980 - 1993

Graph 1 : Estimates of GDP in years 1980 - 1993



Source: United Nations Statistics Division

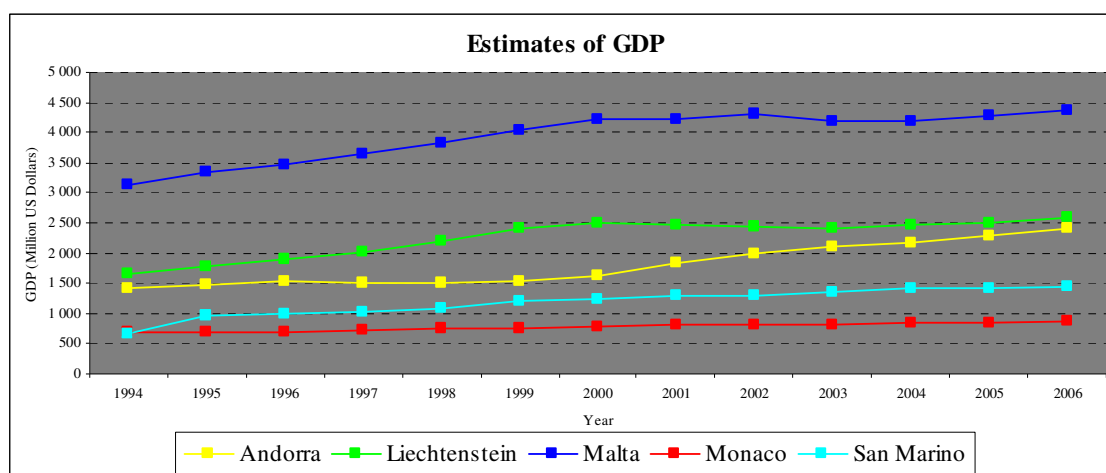
All the values of GDP are estimates at constant 1990 prices in Million US Dollars. At first sight we can see three levels of GDP. The first one is the line of the development of GDP in Malta which starts in 1980 at the value of 1,747 Million US Dollars. The next level shows us very similar curves of GDP of Andorra and Liechtenstein. GDP in 1980 has the value of 1,016 Million US Dollars for Andorra and 958 Million US Dollars for Liechtenstein. The third and the lowest level shows again similar curves of GDP, this time the GDP of Monaco and San Marino. As you can see, from 1980 till 1986 the change is not significant at all. In Malta almost 30 % of GDP came from manufacturing in comparison with 3 % from agriculture in 1998. But many of these details are not available for the previous periods.

The year 1987 had started a quicker development of GDP. The fastest trend in increase recorded the economy of Malta. Malta achieved every year growth much bigger than the other countries. Liechtenstein and Andorra still kept similar development of their GDP. In the year 1983 Liechtenstein equalized GDP of Andorra and the following years drew apart. The difference was in 1993 even 175 Million US Dollars. The slowest progress occurred in Monaco and San Marino. But Monaco retained a small lead ahead San Marino. Their GDP got over 600 Million US Dollars in the year of 1993. When we match

the details of the origin of GDP in Malta from 1988 and 1993 we can see that the shares are almost the same with no rise of any sector.¹³

3.1.2 1994 - 2006

Graph 2 - GDP 1994 - 2006



Source: United Nations Statistics Division

As we know, Malta has the biggest GDP among the European microstates. Malta kept its leading position concerning the value of GDP. The year of 1994 found Malta in increasing of its product regularly like in a few previous years. Malta carried on with its stable progress until the year of 2000. Liechtenstein increased the difference between itself and Andorra. The peak of difference turned up in 2000 when the GDP of Liechtenstein was higher of 873 Million US Dollars than GDP of Andorra. Andorra recorded very small shift of GDP curve in years 1994 – 2000, GDP increased by 200 Million US Dollars during those years. San Marino got at the level of Monaco in 1994 and then in 1995 GDP of San Marino increased annually by 300 Million US Dollars. Monaco shows a slight progress upwards for the whole surveyed period.

Malta has not significantly increased GDP since 2000, so the value of GDP is at 4,356 Million US Dollars for the year of 2006. The small fight of Andorra and Liechtenstein has had the opposite tendency since the year of 2000 and their GDP has

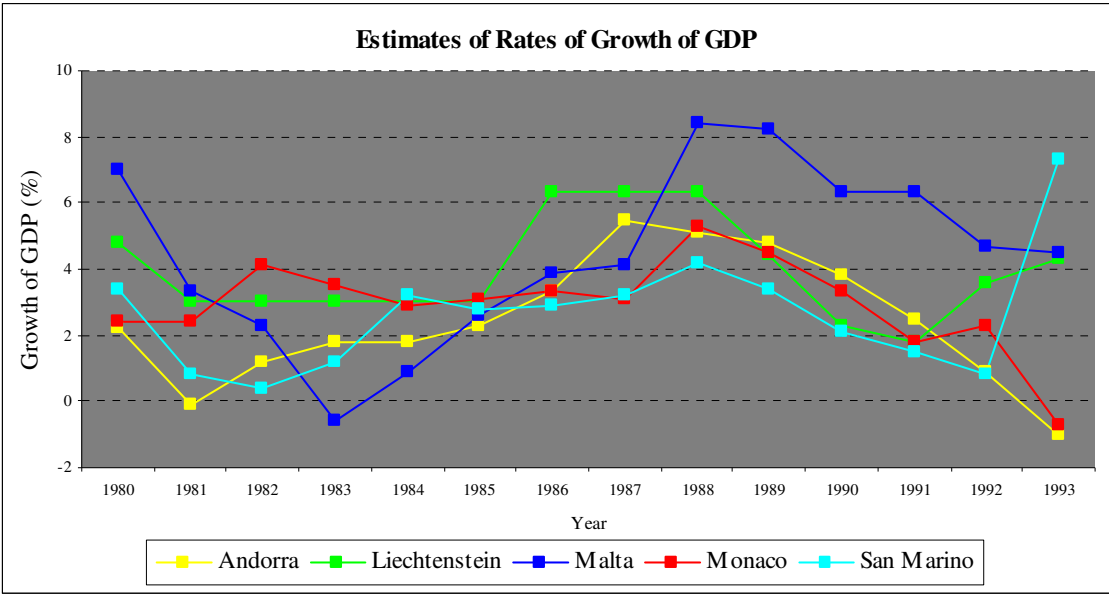
¹³ United Nations Statistics Division - National Accounts : National Accounts Main Aggregates Database [online]. [2007] , August 2007 [accessed 2008-04-02]. Available from: <<http://unstatp.un.org/unsd/snaama/Introduction.asp>>

almost the same value in 2006. San Marino has the value of GDP at 1,431 Million US Dollars in 2006 and has markedly departed away from Monaco.¹⁴

3.2 Estimates of Rates of Growth of GDP

3.2.1 1980 - 1993

Graph 3 - Growth 1993 – 2006



Source: United Nations Statistics Division

My comparison starts in the year 1980. The first economic indicator I have chosen to survey is the growth of Gross Domestic Product (GDP). As you can see in the graph above, each country except Monaco recorded slowing-down of economy at the beginning in 1981. Generally we can see a similar course of the growth of GDP with local differences of every country. Andorra kept a very stable progress in value at about 2% till the year of 1985 including. The same stable progress we can see in Liechtenstein, but at a higher level at 3%. The GDP growth of Malta diminished in years 1980 – 1983, the year of 1983 showed out even recession, but in the following years the growth increased again. Monaco had kept its high level of growth till 1985.

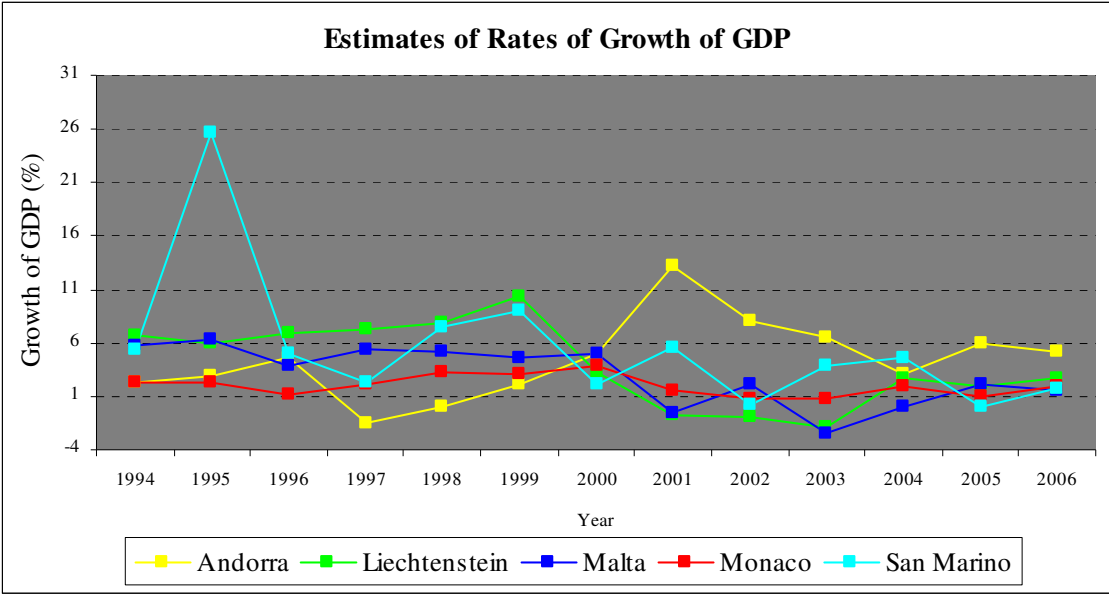
¹⁴ United Nations Statistics Division - National Accounts : National Accounts Main Aggregates Database [online]. [2007] , August 2007 [accessed 2008-04-02]. Available from: <<http://unstatp.un.org/unsd/snaama/Introduction.asp>>

The period between 1986 and 1989 meant for all of countries very good results for the GDP growth. The most successful country was Malta when it achieved a growth higher than 8 % two years in a row. The smallest annual growth in this period has San Marino with 2.9 % which is – anyway – not a bad growth.

The last four years from 1990 and 1993 did not record any huge progress. Each of the countries has a stable growth but not as significant as in the previous period. The growth rate of Andorra and Monaco slackened and culminated at – 1 % for Andorra and – 0.7 % for Monaco in 1993. Malta kept the highest progress in growth rate among the European microstates. San Marino also embodied a fall of growth rate, but the year of 1993 meant an increase by 7.3 %.¹⁵

3.2.2 1994 - 2006

Graph 4 - Growth 1994 - 2006



Source: United Nations Statistics Division

The year of 1994 was better than the previous year. Economy of Andorra and Monaco got back to black numbers. The biggest growth showed Liechtenstein at 6.8 %.The next four of the countries reached the growth rate between 2.4 % and 6.3 %. By contrast the GDP

¹⁵ United Nations Statistics Division - National Accounts : National Accounts Main Aggregates Database [online]. [2007] , August 2007 [accessed 2008-04-02]. Available from: <<http://unstatp.un.org/unsd/snaama/Introduction.asp>>

growth rate of San Marino was incredible - 45.6 %, but the graph shows only value 26 % because of comparability of the other values.

During the years from 1997 to 1999 the slowest growth achieved Andorra, when their annual growth was between -1.5% and 2.1 in contrast to the year 1996 with 4.6 %. On the other hand the rate of growth continually increased from 5.9 % in 1995 to wonderful 10.4 % in 1999. The growth of GDP of Malta and Monaco did not predicate of any extreme values. But the slope of curve of San Marino varied direction every year, but finally the year 1999 represented the growth at nice 9.1 %.

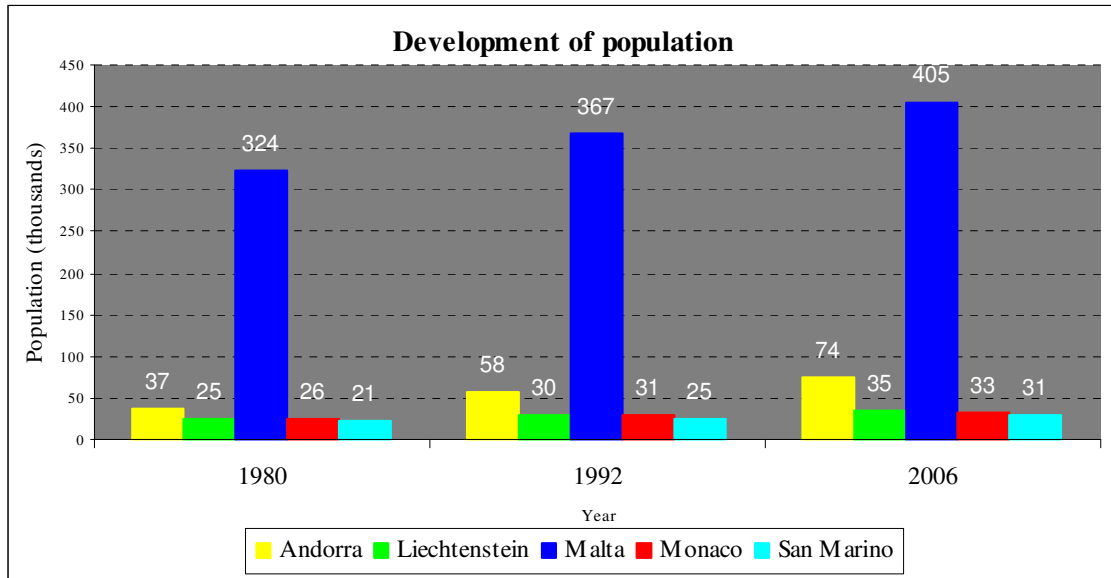
As the Liechtenstein reached the peak of growth in 1999, the next four years was in token of decreasing of rate of GDP growth. In 2003 the rate was even below zero at the value of -1.9 %. Meanwhile in previous years weak Andorra accomplished the biggest annually increase of the rate of growth, it was 13.3 % in 2001 and values of rate ranked among the highest ones in the followings years. San Marino further showed imbalance in the rate of growth when the high rate changed the low one. The same situation occurred in Malta, when the rate even varied between black and red numbers.

In the year of 2006 the largest rate of growth attained economy of Andorra at 5.2 %. The other countries remained in the stable rate from 1.6 % to 2.7 %.¹⁶

¹⁶ *United Nations Statistics Division - National Accounts : National Accounts Main Aggregates Database* [online]. [2007] , August 2007 [accessed 2008-04-02]. Available from: <<http://unstatp.un.org/unsd/snaama/Introduction.asp>>

3.3 Population

Graph 5 - Population



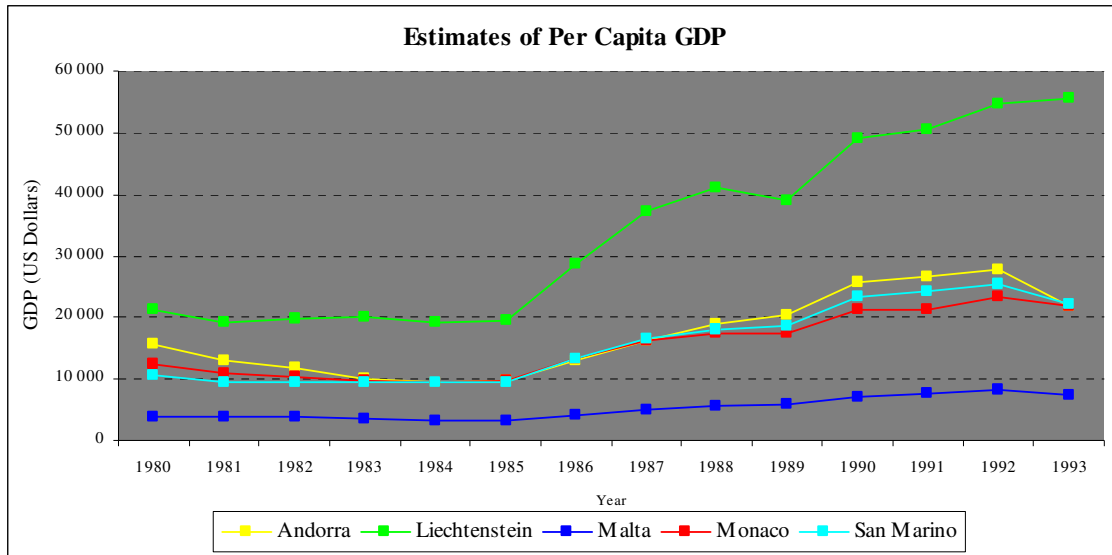
Source: *Encyclopaedia Britannica*

It is very important to get a summary of population in the five European microstates. The graph above shows us the size of population in the three picked years. There are now significant deviations in development of the number of inhabitants. The growth is gentle and natural. One exception is Andorra, the population of which increased twice if we compare the years 1980 and 2006, but we are moving still in small numbers; see chapter 2.2.2. I mention this small note about population because in the next part, I deal with GDP per capita.

3.4 Gross Domestic Product Per Capita

3.4.1 1980 - 1993

Graph 6 - Per capita 1980 - 1993



Source: United Nations Statistics Division

In the beginning I have to say that the Principality of Liechtenstein has the largest GDP per capita in the whole world. It is important to mention that San Marion has reached the 13th position, and Andorra the 14th.

But as we can see in the graph above, the situation was not so great the whole time. It is not any surprise that Malta has the lowest level of GDP per capita, because Malta has much more inhabitants than the other countries. Malta started at 3,878 in 1980 and finished at 7,112 in 1990, the value doubled but it was still very small among the European microstates.

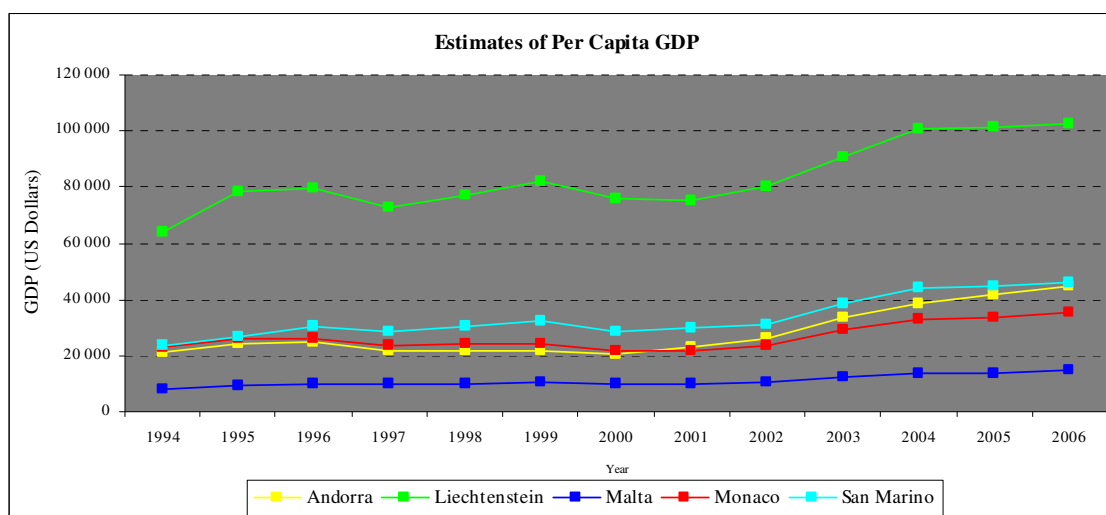
We can see in all countries, that the development was very tiny, almost none until the year of 1985. Nevertheless the next year 1986 showed a big increase in tens of percent. They retained a comparable trend in progress also the next year.

This boost was slowed down and the differences between years 1988 and 1989 were slight, Liechtenstein and Monaco had even smaller value of GDP per capita than in the year before. We can see again that the values of all the countries enjoyed the same

progress in the following years with a full stability in the years 1990 and 1991 and with a slight increase in 1992 and with a drop in 1993.¹⁷

3.4.2 1994 – 2006

Graph 7 - Per capita 1980 - 1993



Source: United Nations Statistics Division

The next year development of GDP per capita was stable; the values remained almost the same, only Liechtenstein increased by 15 %. If we compare the years of 1994 and 1995, the year 1995 was more successful for all the five countries, when the growth was more than 12 % for each of them. The year 1996 was not significant concerning the growth, but the following year was in token of decrease of indicator in all countries below the value of the previous year. An analogous progress was in the period from 1998 to 2001, when the index of GDP per capita varied every year in each country. We can see that the value of index is once rises and the other time falls, but I can not see any connections in the development of economies in this period, there is no common trend. The biggest drop appeared in San Marino in 2000 at almost 11 %. The largest growth achieved Liechtenstein in 2001 at 11.3 % and that meant a symptom of flourishing in the following years.

¹⁷ United Nations Statistics Division - National Accounts : National Accounts Main Aggregates Database [online]. [2007] , August 2007 [accessed 2008-04-02]. Available from: <<http://unstatp.un.org/unsd/snaama/Introduction.asp>>

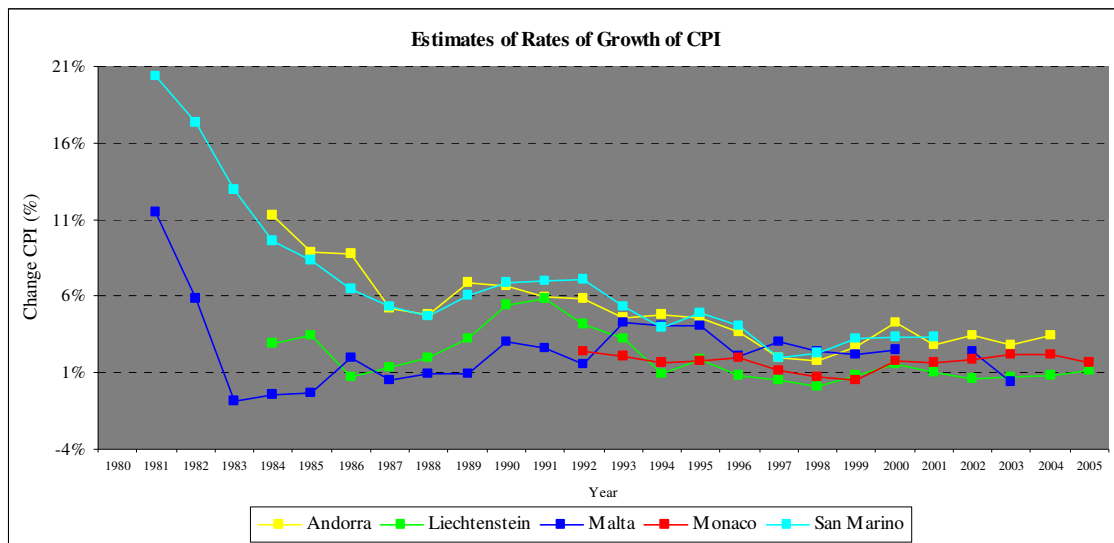
As I said, after unbalance development came a more successful period. According to the graph, the greatest expansion achieved Liechtenstein in absolute numbers, but when we check the percentage change we find out that the greatest increase noted Andorra by 15 %. All of the countries noted a rise in year 2002, but not as big as in year 2003, when the lowest increase was made by Liechtenstein by 13 % (but 10,500 in absolute numbers)! The largest rise was achieved again by Andorra by 28 %, but in absolute numbers it was only 7,500. The collective trend in similar percentage growth was conserved also in year 2004. The last two years of my survey were not flourishing at all, GDP per capita of all the countries remained on the same level as in previous years.

To sum up, Liechtenstein is not the most successful country by annual growth in percentage, but when we check absolute numbers, even a small rise in percentage means a big difference in comparison with the other countries. The value of index is in 2006 five times higher than in 1980 in Liechtenstein. Andorra and Monaco have achieved the smallest percentage since 1980, but I have to mention a very important note, and it is that the number of inhabitants of Monaco has changed slightly, but the number of population in Andorra has doubled since 1980. Malta was not so successful in the rise in absolute numbers because of much bigger population than the others, but the value is three time higher than in 1980.¹⁸

¹⁸ *United Nations Statistics Division - National Accounts : National Accounts Main Aggregates Database* [online]. [2007] , August 2007 [accessed 2008-04-02]. Available from: <<http://unstatp.un.org/unsd/snaama/Introduction.asp>>

3.5 The Consumer Price Index in 1982 - 2005

Graph 8 - CPI 1982 - 2005



Source: Encyclopaedia Britannica

The price level is a weighed average of price of goods and services in economy measured by the Consumer Price Index. The increase of the price level is called inflation, whereas the decrease is called deflation. The reason of inflation is the rise of a natural amount of money in economy. This amount is regulated by a monetary policy of central banks of each country. The inflation can have many impacts on the country's population. The important characters are the intensity and the time duration of inflation.

For the beginning of the period I have found the data just for Malta and San Marino. As we can see from the graph above, San Marino had a galloping inflation in the years 1981 - 1983, which represents a two-digit inflation. But the rate of inflation dropped, which is called disinflation and it is very common. Malta had the inflation at 11.5 % in 1981 but the following drop ended in deflation in the years from 1983 to 1985. The deflation is quite rare and occurred only in this period and only in this country in the data available for me. The inflation of Liechtenstein was surprisingly unstable, but still in a fine range.

From 1987 to 1992 it was Malta where the inflation was the lowest of all the monitored countries. It moved in range from 0.5 % to 3 %. San Marino and Andorra were the opposite side, in their case the rate of inflation was higher than 4 % for all the years from 1987 to 1994, but both curves continued in the same trend, while sharp curves upwards or

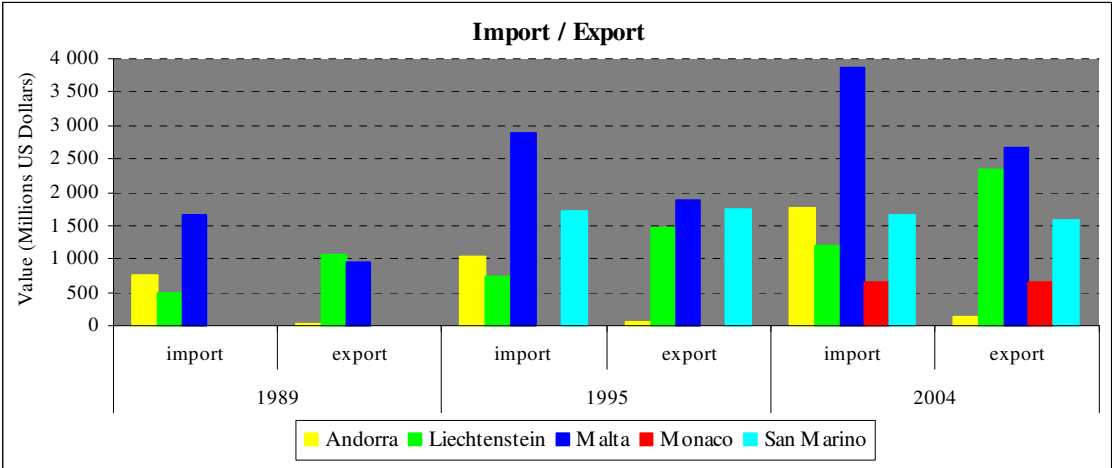
downwards might be quite dangerous for their economies. The data of Monaco were available from 1992 and presented a moderate inflation with a maximum point at 2.4 %.

According to the graph it is obvious that the period from 1995 to 2005 was represented by a very low inflation. Malta kept its inflation in the interval from 2 % to 4 %. The lowest rate of inflation was recorded in Liechtenstein. It varied from 1.8 % in 1995 to 0.1 % in 1998. Also Monaco kept a healthy development of inflation which moved from 0.7 % to 2.2 %. In the recent years Andorra suffers from a higher inflation.¹⁹

It is necessary to reckon on inflation in the planning of long-term investments. The amounts of rates of inflation can be assumed thanks to the estimates of specialized institutions or can be estimated from the behaviour of the central banks of the individual countries. These central banks can also design plans how to reach a particular inflation in the future.

3.6 Import and Export

Graph 9 - Import / Export



Source: Encyclopaedia Britannica

The graph above shows us the approximate development of exports and imports. There are no available data for Monaco until year 2000 because Monaco participates customs union with France. When we look at imports, Malta is the most active and reaches the biggest imports. Malta’s difference between imports and exports rises in the time on

¹⁹ Encyclopaedia Britannica : Book of the year 1991- 2007

behalf of imports. The imports of Malta were almost 3,800 Million US Dollars. Andorra's exports were 30 times higher than the imports, but over time the imports were 10 times higher in 2004. Despite the growth of the exports, the difference is still abysmal. According to data for Monaco the ratio of the imports and exports of Monaco was one to one in 2004. San Marino's ratio is also balanced, but both values are much bigger than in Monaco. On the other hand the situation of Liechtenstein is opposite. Liechtenstein exports about twice more than imports. We can see that the values of Andorra, Malta and Liechtenstein rise in time. While the exports and imports slightly declined between years 1995 and 2004.

Andorra trades especially with Spain (over 50 %) and France (over 20 %), the third important business partner is Germany mainly for Andorra's export of parts of motor vehicles. The main partners of Liechtenstein for imports are Germany (40 %), Austria (30 %) and Italy (5 %); the main import article is machinery. Liechtenstein exports goods with high added value and the main trading partners are Germany, the US and France. Malta's major import and export partners are Italy and Germany. The main articles of trade of Malta are machinery and transport equipment. Major import sources of Monaco are Italy (33 %), Belgium (10 %) and interesting Madagascar (7 %). Major export destinations of Monaco are Germany, Italy and France. At the end, it is obvious that the major trade partner of San Marino is Italy, the other countries forms less than 10 %.²⁰

²⁰ *Encyclopaedia Britannica : Book of the year 1991- 2007*

3.7 Taxation Systems

3.7.1 Introduction

A low or no existing taxes are common symbols of each of the five European microstates. It is caused by the fact that these countries enjoy advantageous conditions. We can find out many common indicators, why these countries may be called Tax Haven. Tax Haven includes mainly Andorra, Liechtenstein, Monaco and San Marino. Malta is not considered as a Tax Haven; nevertheless the tax burden ranks among the lowest in Europe.

These countries can afford low or no taxes because their income is not dependent on tax revenue. The income and high standard of living is ensured by revenues especially from tourism.

Now I would like to introduce each country a little bit closer, because it is obvious that every single country has a different tax system.

3.7.2 Andorra

At first let us have a look at Andorra.

Andorra does not levy any direct taxes, which mean income tax or property tax. State expenditures are financed from system of indirect taxes. These indirect taxes are levied on production, goods processing and import of all products. Depending on the kind of goods, the range of tax flows in the interval from 1 % to 12 %.

Other sources of the national income are taxes from electric power or phone charges. Public companies have to pay to the state an annual capitation at approximately 800 Euro. Many of rich East-Europeans have a permanent residence in Andorra because of a favourable tax treatment.

Every employee pays 5 % of his income from gross wage to the treasury on social insurance; the employer pays on behalf of him the next 13 %. The state divides this income in the following way: 51 % goes to health insurance and 49 % to retirement

insurance. The health insurance covers 75 % of medical treatment costs, the remaining 25 % are to be paid by each citizen himself.

3.7.3 *Liechtenstein*

The tertiary sector has played a key role in Liechtenstein recently. The essential part of this sector is formed by the banking system. The bank secret is carefully guaranteed similarly as in neighbouring Switzerland.

Thanks to low taxes there are many international companies registered in Liechtenstein. But many of these companies do their businesses in other countries. The direct taxation is comparatively low. The profit tax for companies varies between 7.5% and 20 %. The income tax for individuals moves at around 10 %. The indirect taxation in appearance of the value added tax (VAT) has three tariffs of values of 7.6 %, 3.6 % and 2.4 %.

3.7.4 *Monaco*

From the 19th century there were no taxes, but in 1963 Monaco signed a treaty with France which requires that the French settled in Monaco after 1957 should pay taxes in the full height to France. The companies the activities of which are more than ¼ made abroad have to pay income taxes. Other companies and personal entities are exempted from these income taxes. But VAT is levied, in the amount of 5.5 % and 20.5 %.²¹

3.7.5 *San Marino*

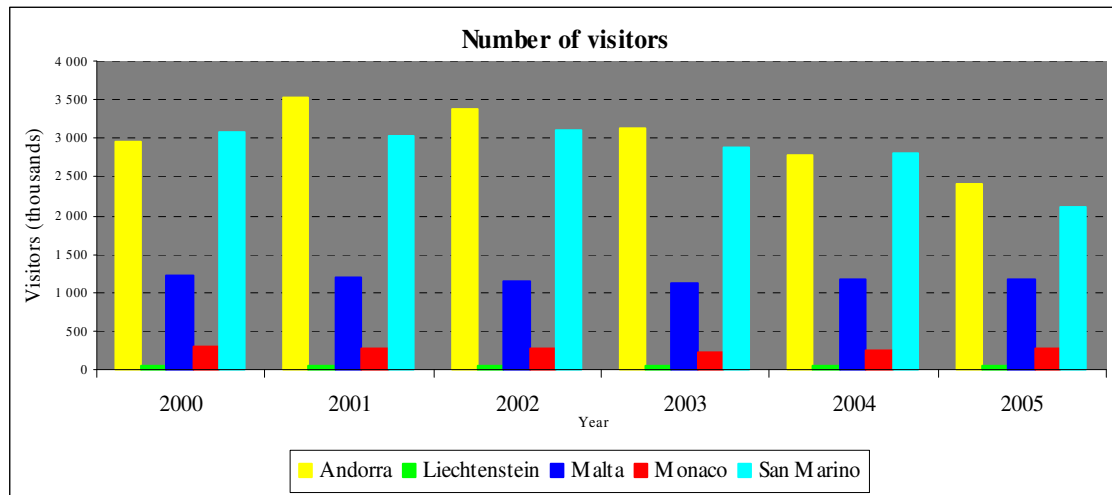
Companies have to pay profit taxes in the rate of 19 %. The capital gains are liable to the tax of 5%. San Marino levies taxes on imported goods. It is because San Marino has open borders and otherwise they would not be able to collect revenues from duties. This tax is under the EU Customs agreement. The VAT is also levied according to Italy's VAT.

²¹ GOLLA, Petr. *Nejnižší daně? Monako, Andorra a San Marino* [online]. 2007, 22. 1. 2007 [accessed 2008-04-24]. Available from: <<http://www.mesec.cz/clanky/nejnizsi-dane-monako-andorra-a-san-marino/>>

3.8 Other Comparisons

3.8.1 Tourism

Graph 10 - Visitors



Source: *Encyclopaedia Britannica*

As I have mentioned many times, tourism is a very important part of national revenues. But it is clear that not all the countries of the five European microstates are attractive for the same reason. Now let's summarize the findings. The graph above shows the total amount of visitors covering the six years till the year of 2005.

Andorra can boast of the highest numbers. The graph shows the numbers of tourists; it is very essential to say this, because of special conditions in Andorra. I think that Andorra is unique in this way. The common allurements are skiing and alpine hiking. The number of those tourists gets around 3,000,000. But Andorra is known for its speciality called shopping tourism. So we can add another 8,000,000 visitors and the final number easily reaches more than 10,000,000²² visitors a year. Most of these shopping visitors come from Spain and France. This is the reason why Andorra is called the Mall of Europe and the revenues from tourism represent almost 80 % of Gross National Income.

²² *Ministeri de Finances : Servei d'Estudis* [online]. [2008] [accessed 2008-04-08]. Available from: <<http://www.estadistica.ad/indexdee.htm>>

According to the next column of Liechtenstein, I think that tourism is not the key stone of success. It is natural, because Liechtenstein does not have the sea, and the closeness of the Alps take most of potential skiers. But the income is still not insignificant.

The reasons for visiting Malta are clear enough. First it is its location in the Mediterranean Sea with a high number of sunny days and wonderful beaches. The next serious motive is the history of Malta with its many sights. However, the inflow of visitors is limited because of its small size. Malta is nowadays more often a final destination for vacation than, say, for instance, in the 80's.

In my opinion, the reason why to visit Monaco is different than just for spending one's holiday there. Monaco is more attractive for rich people because, I think, the country has a great renown in the world and life there is based on luxury. Monaco is extremely interesting for its Casinos in Monte Carlo or prestigious Grand Prix of Formula 1. Monaco does not specialized in beach tourism, but its distinction is the so-called business tourism. Monaco holds a lot of conferences; we can talk about a few hundreds a year. The participants of these conferences make up almost one third of all visitors.²³

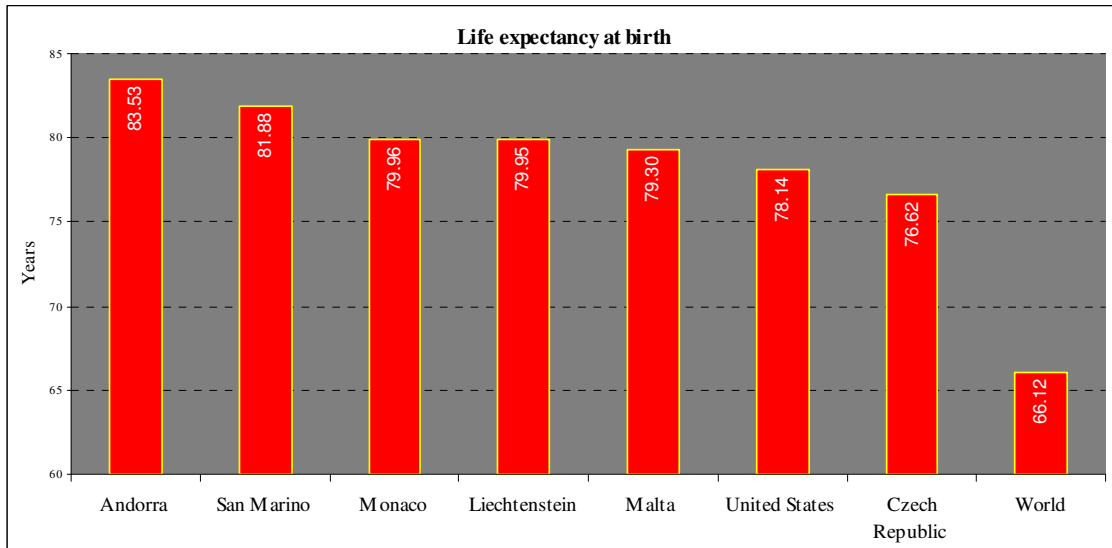
San Marino has also attained a high numbers as to tourism, but focuses mostly on Italian visitors. I think that San Marino is not so fascinating for tourists; it is rather more interesting for some travellers than for people on holidays. But visitors make up to 60 % of its national income. We can compare these small countries with the Czech Republic which had over 6,000,000 visitors in 2005 and can conclude from that that all the five European microstates' results are not so bad and it proves the impact of tourism on these microstates.²⁴

²³ *Portail officiel du Gouvernement Princier* [online]. 2008 [accessed 2008-03-27]. Available from:
<<http://www.gouv.mc/devwww/wwwnew.nsf/Home>>

²⁴ *United Nations Statistics Division - Common Database : United Nations Common Database (UNCDB)* [online]. 2008 , 17 March 2008 [accessed 2008-04-05]. Available from:
<http://unstatp.un.org/unsd/cdb/cdb_help/cdb_quick_start.asp>

3.8.2 *Life expectancy at birth*

Graph 11 - Life expectancy at birth



Source: CIA Factbook

The next comparison is very interesting. All the information is estimates for year 2008. Generally we can easily say that the five European microstates belong to the top of the countries worldwide according to the index of life expectancy at birth. This index measures assumed age which is achieved by members of the existing population. I compared total age, but there are differences between women and men, women usually live longer than men. So this index measures the overall quality of life in a country, the value is affected by the condition of health care services, level of criminality, military background of a country, the state of the environment, mortality and many other factors.

Andorra has reached the first position all over the world with the average age at 83.53 years. The life expectancy of San Marino takes the value of 81.88 and Monaco of 79.96 years. It is surprising that Liechtenstein is the fourth of the European microstates and the 21st worldwide. As we can see from the comparison of the GDP per capita, the standard of living is very high in this rich country, nevertheless the life expectancy is 79.95 years. The actual value for Malta is 79.3. To make a better picture, I added some other countries for comparison. The United States reaches the value of 78.14, the European Union similarly 78.51 and the Czech Republic 76.62. The value for the Czech Republic is still

very high in comparison with the whole world, because the World life expectancy is only 66.12 years.²⁵

²⁵ *Encyclopaedia Britannica : Book of the year 1991- 2007*

4 CONCLUSION

My task was to compare the five European microstates with emphasis on economic development in the last 25 years. In my opinion these countries are aside the world public interest and do not play any important role in the international policy and relations. However, all of them are members of the United Nations, the rule of which says that every single member has just one vote, no matter how large or populous the member is, so this rule makes the vote of microstates even more important. In the beginning, it was difficult to gather information about economic indicators because all these countries, except for Malta, are not members of the OECD or the European Union. But exactly their membership in the United Nations provided me with the necessary information about the development of their economies. So the statistical information is mostly based on data taken from the United Nations Statistics Division.

I think that we can find signs which are common for all of these countries. The characteristic features of these microstates are their small size, and a low number of populations, which makes these countries unable to be competitive in the amount of agricultural or manufactured goods on the world's scale. In my opinion, a positive factor of these countries is the strength, courage and patriotism of their inhabitants, the fact which can be documented by quite a long history of independence from their neighbour countries. Their great love for freedom resulted in the fact that they did not let themselves to be absorbed by their military strong neighbours during long centuries and in many military conflicts. Also the shortage of natural resources is definitely not an advantageous position for these countries. In comparison with the rest of the world we can find countries which got rich exactly through their natural resources, especially the microstates Brunei and Bahrain, which have oil fields.

Due to the reasons mentioned above every single country had to build up its economy on different pillars to provide their inhabitants with high living standards. I think that all of the microstates belong to highly developed European states with sound economies. We can find similarities in their economies such as the attractiveness because of taxation systems or high attendance of tourists. I was quite surprised to find that a fairly big amount of income comes from issuing stamps. I had never expected that stamps can be such a significant item for the national revenues when talking about such small states.

For the purpose of gaining some competitive advantages, the European microstates are very often somehow connected with other large states. In addition, these countries have special relations with the European Union, except Malta, which is a full member of the EU. The full membership is not for the rest of them so profitable because of costs, but their profits from some particular settlements. San Marino and Monaco use the euro with permission to stamp their own limited number of euro coins. The euro is the currency also in Andorra; according to the negotiations Andorra will have the right to stamp euro coins in 2009 if it observes some banking rules. Andorra has a custom union with the EU. Liechtenstein is the only microstate that is part of the European Economic Area and uses Swiss franc. Monaco has very close relations with France; through them it practises similar policies with the EU. San Marino has an open border and customs union with the EU. All of these microstates are also members of European organizations, such as the Council of Europe. Malta has been the full member of the EU since 2004 and I think that it is early to conclude if it has helped Malta's economy or not.

Now a few words about the differences. I think that San Marino has the worst position because it is not located in an attractive area. But as we can see from our comparison, it seems that San Marino does not fall behind the other countries. In my opinion the best location has Malta and I am quite sure that Malta will gather from that for a long time in the future. The decisive part of Monaco's income comes from revenues connected with the ownership of the Casinos in Monte Carlo. Hence Monaco is the destination of rich people who apparently spend more money. I think that Monaco is quite an expensive country, but it offers a high standard of living. Andorra profits from visitors who come there for one-day shopping, I cannot imagine if the discussed rise of prices of food can influence the economy of Andorra. Liechtenstein's economy is mostly dependent on the banking system and the related services. The capital operations are more and more important in the world and the power of information is also larger nowadays.

The comparison should not have to say that one economy is better than the other. But it is clear that the five European microstates are not at the same level. Despite the fact that every country is on different bases, we can see the similar trend in their development during the last 25 years. I think that Liechtenstein had been the most progressive country until the year 2000, since then Andorra has taken this torch.

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APPENDIX

Table 1 - Estimates of GDP at constant 1990 prices in Million US Dollars

| Country / Year | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 |
|----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Andorra | 1 016 | 1 014 | 1 027 | 1 045 | 1 064 | 1 089 | 1 124 | 1 186 | 1 247 | 1 307 | 1 356 | 1 391 | 1 404 | 1 389 |
| Liechtenstein | 958 | 987 | 1 016 | 1 046 | 1 077 | 1 109 | 1 179 | 1 253 | 1 331 | 1 390 | 1 422 | 1 447 | 1 499 | 1 564 |
| Malta | 1 747 | 1 804 | 1 846 | 1 834 | 1 852 | 1 900 | 1 973 | 2 054 | 2 227 | 2 410 | 2 561 | 2 721 | 2 849 | 2 977 |
| Monaco | 453 | 464 | 483 | 500 | 514 | 530 | 548 | 565 | 594 | 621 | 642 | 653 | 668 | 664 |
| San Marino | 445 | 449 | 451 | 456 | 471 | 484 | 498 | 514 | 535 | 553 | 565 | 573 | 578 | 620 |
| Country / Year | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | |
| Andorra | 1 422 | 1 462 | 1 530 | 1 507 | 1 509 | 1 541 | 1 618 | 1 833 | 1 982 | 2 112 | 2 176 | 2 304 | 2 423 | |
| Liechtenstein | 1 671 | 1 769 | 1 891 | 2 028 | 2 186 | 2 414 | 2 491 | 2 472 | 2 449 | 2 402 | 2 466 | 2 513 | 2 582 | |
| Malta | 3 145 | 3 344 | 3 471 | 3 653 | 3 840 | 4 022 | 4 224 | 4 204 | 4 298 | 4 195 | 4 197 | 4 288 | 4 356 | |
| Monaco | 680 | 696 | 704 | 720 | 744 | 766 | 795 | 807 | 813 | 819 | 835 | 843 | 859 | |
| San Marino | 653 | 950 | 997 | 1 020 | 1 097 | 1 197 | 1 223 | 1 292 | 1 295 | 1 345 | 1 407 | 1 407 | 1 431 | |

Table 2 - Estimates of Rates of Growth of GDP (in Percent)

| Country / Year | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 |
|----------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Andorra | 2.2 | -0.1 | 1.2 | 1.8 | 1.8 | 2.3 | 3.3 | 5.5 | 5.1 | 4.8 | 3.8 | 2.5 | 0.9 | -1 |
| Liechtenstein | 4.8 | 3 | 3 | 3 | 3 | 3 | 6.3 | 6.3 | 6.3 | 4.4 | 2.3 | 1.8 | 3.6 | 4.3 |
| Malta | 7 | 3.3 | 2.3 | -0.6 | 0.9 | 2.6 | 3.9 | 4.1 | 8.4 | 8.2 | 6.3 | 6.3 | 4.7 | 4.5 |
| Monaco | 2.4 | 2.4 | 4.1 | 3.5 | 2.9 | 3.1 | 3.3 | 3.1 | 5.3 | 4.5 | 3.3 | 1.8 | 2.3 | -0.7 |
| San Marino | 3.4 | 0.8 | 0.4 | 1.2 | 3.2 | 2.8 | 2.9 | 3.2 | 4.2 | 3.4 | 2.1 | 1.5 | 0.8 | 7.3 |
| Country / Year | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | |
| Andorra | 2.4 | 2.8 | 4.6 | -1.5 | 0.1 | 2.1 | 5 | 13.3 | 8.1 | 6.6 | 3 | 5.9 | 5.2 | |
| Liechtenstein | 6.8 | 5.9 | 6.9 | 7.2 | 7.8 | 10.4 | 3.2 | -0.7 | -0.9 | -1.9 | 2.7 | 1.9 | 2.7 | |
| Malta | 5.7 | 6.3 | 3.8 | 5.3 | 5.1 | 4.7 | 5 | -0.5 | 2.2 | -2.4 | 0.1 | 2.2 | 1.6 | |
| Monaco | 2.4 | 2.4 | 1.2 | 2.2 | 3.3 | 3 | 3.8 | 1.6 | 0.7 | 0.7 | 2 | 0.9 | 1.9 | |
| San Marino | 5.3 | 25.6 | 4.9 | 2.4 | 7.5 | 9.1 | 2.2 | 5.6 | 0.3 | 3.9 | 4.6 | 0 | 1.7 | |

Table 3 - Estimates of Per Capita GDP in US Dollars

| Country / Year | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Andorra | 15 761 | 13 070 | 11 970 | 9 902 | 9 519 | 9 638 | 13 055 | 16 270 | 18 918 | 20 452 | 25 699 | 26 561 | 27 693 | 21 974 |
| Liechtenstein | 21 212 | 19 199 | 19 708 | 20 232 | 19 190 | 19 492 | 28 719 | 37 385 | 41 120 | 39 130 | 49 021 | 50 513 | 54 791 | 55 466 |
| Malta | 3 878 | 3 806 | 3 730 | 3 480 | 3 252 | 3 264 | 4 149 | 5 018 | 5 738 | 5 969 | 7 112 | 7 604 | 8 270 | 7 339 |
| Monaco | 12 503 | 10 897 | 10 308 | 9 872 | 9 326 | 9 696 | 13 422 | 16 170 | 17 486 | 17 416 | 21 290 | 21 153 | 23 297 | 21 821 |
| San Marino | 10 696 | 9 514 | 9 314 | 9 542 | 9 321 | 9 514 | 13 319 | 16 571 | 18 131 | 18 668 | 23 371 | 24 335 | 25 433 | 22 287 |
| Country / Year | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | |
| Andorra | 21 326 | 24 015 | 25 152 | 21 775 | 21 723 | 21 774 | 20 470 | 22 783 | 26 206 | 33 623 | 38 535 | 41 503 | 44 962 | |
| Liechtenstein | 63 752 | 78 464 | 79 893 | 72 436 | 77 216 | 81 993 | 75 583 | 74 996 | 80 066 | 90 512 | 100 426 | 101 167 | 102 605 | |
| Malta | 8 046 | 9 514 | 9 705 | 9 663 | 10 094 | 10 310 | 10 065 | 9 943 | 10 707 | 12 403 | 13 494 | 13 942 | 14 612 | |
| Monaco | 22 939 | 26 263 | 26 232 | 23 676 | 24 383 | 24 017 | 21 812 | 21 887 | 23 662 | 29 030 | 33 005 | 33 861 | 35 375 | |
| San Marino | 23 880 | 26 926 | 30 742 | 28 811 | 30 692 | 32 152 | 28 720 | 29 634 | 31 204 | 38 796 | 44 443 | 44 562 | 46 083 | |

Table 4 - Consumers Price Index

| Country / Year | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Andorra | N/A | N/A | N/A | 11.3% | 8.8% | 8.8% | 5.2% | 4.8% | 6.8% | 6.7% | 5.9% | 5.9% |
| Liechtenstein | N/A | N/A | N/A | 2.9% | 3.5% | 0.7% | 1.4% | 1.9% | 3.2% | 5.4% | 5.8% | 4.2% |
| Malta | 11.5% | 5.8% | -0.9% | -0.4% | -0.3% | 2.0% | 0.5% | 0.9% | 0.9% | 3.0% | 2.5% | 1.6% |
| Monaco | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 2.4% |
| San Marino | 20.4% | 17.4% | 12.9% | 9.6% | 8.3% | 6.4% | 5.3% | 4.7% | 6.1% | 6.9% | 7.0% | 7.1% |
| Country / Year | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
| Andorra | 4.8% | 4.6% | 3.6% | 1.9% | 1.8% | 2.7% | 4.3% | 2.8% | 3.5% | 2.8% | 3.4% | N/A |
| Liechtenstein | 0.9% | 1.8% | 0.8% | 0.5% | 0.1% | 0.8% | 1.5% | 1.0% | 0.6% | 0.7% | 0.8% | 1.2% |
| Malta | 4.1% | 4.0% | 2.1% | 3.0% | 2.4% | 2.1% | 2.5% | N/A | 2.40% | 0.40% | N/A | N/A |
| Monaco | 1.7% | 1.7% | 2.0% | 1.2% | 0.7% | 0.5% | 1.7% | 1.7% | 1.9% | 2.1% | 2.2% | 1.7% |
| San Marino | 4.0% | 4.9% | 4.1% | 2.0% | 2.3% | 3.2% | 3.3% | 3.30% | N/A | N/A | N/A | N/A |

Table 5 - Import / Export

| Country / Year | 1989 | | 1995 | | 2004 | |
|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | import | export | import | export | import | export |
| Andorra | \$766 268 871 | \$23 979 429 | \$1 021 833 993 | \$47 325 103 | \$1 763 750 000 | \$122 500 000 |
| Liechtenstein | \$485 428 682 | \$1 063 117 829 | \$739 169 655 | \$1 482 617 931 | \$1 208 130 081 | \$2 334 146 341 |
| Malta | \$1 666 053 380 | \$950 811 870 | \$2 895 877 778 | \$1 867 569 444 | \$3 873 235 294 | \$2 674 411 765 |
| Monaco | N/A | N/A | N/A | N/A | \$640 000 000 | \$660 000 000 |
| San Marino | N/A | N/A | \$1 719 300 000 | \$1 741 900 000 | \$1 657 000 000 | \$1 566 000 000 |

Table 6 - Visitors

| Country / Year | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|----------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Andorra | 2 949 087 | 3 516 261 | 3 387 586 | 3 137 738 | 2 791 116 | 2 418 409 |
| Liechtenstein | 61 550 | 56 475 | 48 727 | 49 002 | 48 501 | 49 767 |
| Malta | 1 215 712 | 1 180 145 | 1 133 814 | 1 126 601 | 1 156 028 | 1 171 344 |
| Monaco | 300 185 | 269 925 | 262 520 | 234 638 | 250 159 | 285 675 |
| San Marino | 3 071 005 | 3 035 650 | 3 102 453 | 2 882 207 | 2 812 488 | 2 107 092 |