

Small States Regional Cooperation

Liechtenstein

Andreas Brunhart

Small States

Regional Cooperation - Introduction

- Regional cooperation in virtually all fields of provision of public services/tasks (some examples):
 - Common customs, currency and taxation (some, not all, taxes are collected collectively) with Switzerland
 - Own police, but some cooperation (assistance in case of big events, training of police officers, prisons). No military cooperation or shelter.
 - Dealing with natural disasters (Rhine dam etc.)
 - Waste management, energy market, agriculture, transportation/traffic. Access to Swiss facilities: e.g. hospitals or universities and vocational education/training schools.

➔ Around 500 bi-/multilateral agreements!
- Motives for regional cooperation:
 - Economic interdependencies
 - Offsetting lack of economies of scale/scope and expertise
 - Outsourcing of public duties (also free riding...)
 - Small domestic market size, achievement of "level playing field" for companies
- Liechtenstein's social/economic ties with neighbors date back many centuries: Orientation of southern Liechtenstein towards Switzerland, northern Liechtenstein had stronger links to Austria.

Small States Customs Treaty: History

- 1852-1919: Customs treaty with Austria
- Since 1924: Customs treaty with Switzerland
- Important adjustments of customs treaty:
 - Major revision in 1990: Liechtenstein was allowed to autonomously negotiate trade agreements and become member of multilateral trade/economic organizations (EFTA 1991, WTO 1995)
 - Other major revision of 1994: Customs treaty adjusted to allow for Liechtenstein membership in the EEA (1995), Liechtenstein from then on part of two economic (and legal) areas/markets

Small States

Customs Treaty: Institutions

- Areas covered: Customs, taxes and import duties, movement of people/goods/capital, etc.
- Swiss laws automatically applicable for Liechtenstein if law is relevant to customs treaty (with some exceptions): About 800 legal provisions in place.
- Moreover, all trade and customs agreements between Switzerland and other countries do also apply to Liechtenstein.
- At the same time, Switzerland is authorized to represent Liechtenstein in those trade and customs negotiations.
- Institutional terms:
 - Bilateral treaty
 - Tight political and administrative relations with Switzerland (literally "all the time and on all levels"), but low degree of institutionalization
 - Strong dependence on Switzerland, weak participation rights

Small States

Customs Treaty: Policies

- Import taxes and tariffs:
 - Mutual collection
 - Customs infrastructure and personal is Swiss (even border between Liechtenstein and Austria is being controlled by Swiss officials/authorities)
 - Switzerland decides on legal conditions and level of levies
 - Earnings distributed in accordance to allocation formula (depending on type of duty)
- Value added tax:
 - Mutual collection
 - Switzerland mainly responsible (some assistance of Liechtenstein's tax authority)
 - Switzerland decides on tax rates
 - Earnings are distributed in accordance to allocation formula (population and national income share between countries)

Small States

Currency Treaty: History

- Austrian crown official currency in Liechtenstein (1901)
- Official introduction of Swiss franc in Liechtenstein in 1924 (along with customs treaty). "Inofficial" introduction already before 1924 as people's response to hyperinflation of the crown.
- Currency treaty between Switzerland and Liechtenstein (1980):
 - Swiss franc official tender of the Principality of Liechtenstein
 - Certain Swiss legal and administrative rules applicable to Liechtenstein
 - Swiss National Bank (SNB) as Liechtenstein's national/central bank
 - Financial intermediaries (banks, investment undertakings) must comply with SNB's reporting requirements.

Small States

Currency Treaty: Institutions

- Areas covered: Monetary policy, currency circulation, payment system, monitoring and supervision of financial market
- Liechtenstein part of the Swiss franc currency area, with banks having access to SNB funding on the same terms as Swiss banks (yet, in case of crisis emergency access could be limited for financial institutions from Liechtenstein)
- Liechtenstein: No vote in SNB's monetary decisions and no share of SNB profits
- Institutional terms:
 - Bilateral treaty (6 pages), which is updated if necessary
 - Annual meeting of Liechtenstein's prime minister and chairman of SNB's governing board
 - Meetings/exchange between ministries, Financial Market Authority (FMA), Office of Statistics and SNB
 - The "SNB delegates for regional economic relations" represent the Swiss National Bank (SNB) in the various regions of Switzerland. The SNB delegate who is responsible for Eastern Switzerland is also in contact with Liechtenstein.

Small States

Currency Treaty: Policies

- Collaboration and shared responsibilities between Swiss National Bank (SNB) and Liechtenstein's Financial Market Authority (FMA):
 - SNB is responsible for monetary policy decisions for Switzerland (and therefore also for Liechtenstein)
 - Liechtenstein: Financial stability issues and macroprudential policy are joint responsibilities of Liechtenstein's government and FMA (in Switzerland: Government, SNB, FINMA).
- Liechtenstein companies have to report data to SNB for regulatory and statistical purposes (financial market and bank statistics, balance of payments statistics etc.). On the other hand, SNB also reports some relevant data to FMA.

Small States

Conclusion on regional cooperation

- Regional cooperation inevitable, even more so given the small country size
- Customs and currency treaties are some of the main pillars of Liechtenstein's economic success
- Outlook:
 - The dynamic accelerated and will further intensify
 - Topics/challenges of subordinate relevance call for even more (yet multilateral) cooperation (climate change, immigration, digitalization)
 - Complex balancing act between regional/bilateral cooperation (e.g. customs treaty) and international rules and regulation (e.g. coming from EEA-membership)
 - Governments recently mentioned official considerations to become member of IMF and WHO