

## **Sub-National Island Jurisdictions as Configurations of Jurisdictional Powers and Economic Capacity: Nordic Experiences from Åland, Faroes and Greenland**

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**Abstract:** This paper is concerned with the relationship between jurisdictional powers and economic and innovative capacity in the context of sub-national island jurisdictions (SNIJs). The “jurisdictional powers thesis”, prominent in the present island studies debate, is confronted and discussed with reference to an empirical, comparative, study of the three Nordic SNIJs: the Åland Islands, the Faroe Islands and Greenland. The paper takes as its point of departure an ideal-type SNIJ which is characterized by a good match between jurisdictional powers and economic capacity; it then analyzes the three cases in terms of this ideal-type. Three different types of configurations emerge, representing three types of “deviations” from the ideal-type SNIJ; these are discussed in terms of their development potentialities.

*Keywords:* Åland, economic capacity, Faroes, Greenland, innovative capacity, jurisdictional powers, resourcefulness, sub-national island jurisdictions (SNIJs).

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### **Introduction**

In recent years the economic-strategic potential of jurisdictional powers has become a prominent research issue within the discipline of island studies (Baldacchino & Milne, 2000; Baldacchino, 2006). Various species of insular jurisdictions, ranging from micro-states to divergent forms of sub-national island jurisdictions (SNIJs), have been analyzed and compared in terms of their economic success (Armstrong *et al.*, 1998; Armstrong & Read, 2000; Bertram & Poirine, 2007). The result is a growing number of taxonomies and classification schemes that reflect the existence of a multiplicity of political and economic configurations amongst the global population of islands (Watts, 2008) and, one might add, the truly entrepreneurial capacity of many an island community (Bertram & Poirine, 2007). Economically successful islands are not just the subject of “a temporary spell of good fortune” (Baldacchino, 2000: 68), but should also be considered as sites where intelligent strategic agents make creative and innovative use of their material and immaterial resources, including their jurisdictional powers. Baldacchino & Milne (2000) maintain that such a “resourcefulness of jurisdiction” cannot be ignored if we are to better understand the *modus operandi* of a multitude of successful island economies. Criticizing the traditionalist “volatile economy” approach to island studies, they state:

“Our research suggests that this lacuna in economic theory needs to be addressed so that constitutional resources, particularly in small states, are seen and measured for the large reservoirs of economic potentiality that they really are. Legal personality permits jurisdictions of various degrees of autonomy to act for themselves in economic strategy and planning, and to use their powers most intelligently to build more diversified, self-reliant economic communities” (*ibid.*: 8).

The ‘resourcefulness of jurisdiction’ thesis, along with the conceptualization of island communities as strategic agents (rather than as victims of unfortunate circumstances), has inspired a comparative study of the three North European (Nordic) SNIJs: Åland, Faroe Islands and Greenland.<sup>1</sup>

Thanks to an interpretative, naturalistic approach and qualitative, in-depth empirical research methods,<sup>2</sup> this study explores various meanings and expressions of political autonomy and economic capacity, both historical and contemporary, in the three SNIJ contexts. Each SNIJ has been approached as a case or a bounded system. Based upon the empirical data collected, the study has constructed three alternative configurations of jurisdictional powers and economic capacity. These configurations capture the empirically experienced inter-relations between jurisdictional powers and economic capacity in each of the three SNIJ cases; they also indicate which strategic and dynamic challenges the significant actors of each SNIJ might face.

From a political economy perspective, it has been suggested that SNIJs represent “the best of all possible worlds” and that “these island jurisdictions deploy many of the benefits associated with political sovereignty while they are delegating responsibilities to, enjoying the security provided by, and reaping the material benefits of, remaining in association with a larger, and typically richer, *patron*” (Baldacchino, 2006: 860). This and similar statements suggest that the transition from a SNIJ to a fully fledged state would, at least from an economic angle, not be a commendable path of development. The partnership with the metropole is, in itself, a most important resource which should be protected, managed, and exploited (Baldacchino & Milne, 2008b).

This idea of a SNIJ comes close to a Weberian ideal-type construct (Weber 1947/1969). The very purpose of an ideal-type is to offer a ‘pure’ (abstract and logical) typification of an empirical phenomenon and a natural conceptual starting-point for empirical endeavours. Deviations from the ideal-type should be identified in various empirical settings so as to accumulate an increasingly more differentiated (and, simultaneously, deeper) knowledge of the phenomenon: in this case, the SNIJ. The ideal-type SNIJ suggests that jurisdictional

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<sup>1</sup> The study was initiated and has been administered by Statistics and Research Åland (ÅSUB). It was funded by The Nordic Council of Ministers as well as by Nordregio, Stockholm. Four individual reports: Karlsson (2007a, 2007b, 2008) and van Well (2008) (the last one on Bornholm) and a final one, summarizing the findings of the individual studies (Karlsson *et al.*, 2009) have been published. The authors of these reports express their deep gratitude to the funding institutes.

<sup>2</sup> The in-depth case studies of the three SNIJs are based upon 22 personal interviews with significant political, economic and administrative actors. The interviews were conducted: (1) in Åland in January 2007; (2) in the Faroes in March 2007; and (3) in Greenland in November 2007. Extensive documentary studies have supplemented the empirical research.

powers are resourceful; that they represent a true resource in the strategic and economic development of an island community. Referring to the configurative “realities” of the study, one might say that the ideal-type SNIJ is characterized by a perfect match between jurisdictional powers and economic capacity: that is, jurisdictional powers can be fully and intelligently utilized so as to match the state and current potential of the economy.

This paper reports the results of confronting the ideal-type SNIJ with three different island situations and suggests that there are still some important lessons to be learnt about the interrelations between jurisdictional powers and economic capacity. There is not always a perfect match between the two: either the jurisdictional powers are not enough to be truly resourceful; or the economic capacity is such that formal jurisdictional powers cannot be fully utilized. Still, when there is a match, important cross-fertilization and synergies occur.

By means of empirical illustrations and configurative representations, this paper aims to offer a differentiated picture of the complex politico-economic realities of SNIJs. Before some pivotal points of these empirical realities can be described and represented the two principal constructs – jurisdictional powers and economic capacity – need to be defined.

### **Jurisdictional Powers and Economic Capacity: The Constructs and their Meanings**

It should be clear by now that the two most important analytical tools of this study are the constructs of jurisdictional powers and economic capacity. With these tools the empirical realities of the three SNIJs have been captured, given meaning and typified. In the process, the meanings of the constructs themselves have been changed and new elements of definition have been introduced. The journey that the constructs have undertaken, of course, reflects the differentiated empirical experiences that have been made in this study.

#### *Jurisdictional powers*

Following politico-economic convention, this study considers both *de jure* and *de facto* powers as significant components of the overall jurisdictional powers of a SNIJ. The *de jure* dimension consists in what is allowed by the statute books: the formal, regulatory, juridical and constitutional room for political manoeuvre. The *de facto* dimension includes those additional strategic and administrative skills, customary powers as well as those socio-political relationships and networks upheld by the significant political actors and which may not be defined at law (Karlsson *et al.*, 2009).

The skills that the political system of a SNIJ exhibits in handling its own affairs are basically a question of *learning*, or of accumulating collective knowledge (Maskell *et al.*, 1998; Kitson *et al.*, 2004). The formal constitution might, or might not, offer opportunities for accumulating such critical administrative knowledge and, in the end, of developing more skilful policy-makers. Political entrepreneurship and innovative development strategies do not exist in a socio-political vacuum but are based upon the specific learning opportunities that the local constitutional context offers. The degree of dynamism built into

a formal constitution affects the *de facto* jurisdictional powers by the means of learning. But just as important as the learning opportunities are the social relationships and networks of the SNIJ élite system (Baldacchino, 2005). The *relationship capital* (Kitson *et al.*, 2004) which the leading actors are – or are not – in the possession of is constituted by both intra-regional and external relations. Most important among the latter are those with the metropole (Baldacchino & Milne, 2008a). The capacity to both accumulate and mobilize a relationship capital is critical to the *de facto* jurisdictional powers of the SNIJ.

In the empirical process of the study, it became clear that intra-regional roles and relationships, rooted in the political culture of the region, were key to explaining the *de facto* jurisdictional powers of that region. A region can be conceptualized as a community of political practices (Wenger, 1998) that incorporate institutionalized patterns of interactions between the political élite and – what is important here – the business sector of that region. To the extent that the political élite assumes only a “junior partner” role (Sejerstedt, 1996) relative to the business sector in the economic development of the region, it also becomes more reluctant to take upon itself a significant entrepreneurial responsibility. Economic strategies are left to the business sector to decide upon and to implement. The tools of political economy, although at hand, are not given a significant role in the processes of policy-making. The opposite may be just as true. Then, the political culture of the region gives the political actors a more prominent role to assume in the development of economic strategies and, consequently, policy-instruments become important in the moulding of the economic future of the SNIJ. Basically, the political culture of a SNIJ touches upon the form of the overall economic system that it exhibits (Whitley, 1999; Fellman *et al.*, 2008).

Even more important to the national mobilization of a SNIJ - and the resourcefulness of jurisdictional powers - are both the collective self-confidence and the identification patterns of its citizens (Srebrnik, 2000; Asheim, 2004). If significant groups of citizens identify themselves with the metropole rather than with their local community, there is a tendency to ignore the resourcefulness of local, formal, jurisdictional instruments. Financial and psychological reliance upon the patron also tends to hinder the development of a strong localized (and proto nationalist?) self-confidence: essential to a *de facto* mobilization of jurisdictional powers.

While the *de jure* jurisdictional powers rest upon a formal constitutional platform, the *de facto* jurisdictional powers reside in processes of learning, in social relationships and networks, in political cultures and in a collective feeling of self-confidence. Needless to say, the *de facto* jurisdictional powers of a SNIJ add real powers beyond the formal constitution.

### *Economic capacity*

Economic capacity is a complex and dynamic phenomenon the elements of which are highly interconnected. As suggested by Baldacchino & Milne (2000), the economic capacity of a SNIJ is defined as the abilities (and skills) of the significant actors of a region to utilize existing and new resources in an efficient and innovative manner in order to pro-

actively deal with external and internal challenges and crises, as well as with external and internal possibilities and opportunities. Basically, the economic capacity of a SNIJ concerns its long-term ability to produce wealth and welfare for its citizens.

A key element of the economic capacity of a region is the existence of a *core competency* (Prahalad & Hamel, 1998; Boye, 1999). Specialized economies have long been at the very core of economic discourse and the concept of core competency rests, harmoniously, in that discourse. This concept focuses not only upon the level of specialization of a regional economy but also upon its inherent potential for growth and (related) diversification. Moreover, it is indicative of the sustainable competitive advantages that certain specialized regions maintain over time (Porter, 2003; Coenen & Asheim, 2006). A strong core competency is the very platform of a strong regional cluster and is, as such, also the carrier of cultural and identity-related elements (Paasi, 1986).

The identification of a core competency requires both historical and longitudinal perspectives. A core competency is not developed overnight. Significant to its identification is a (more or less visible) existence of divergent (but still related) economic branches (industries and firms) that thrive from an association with the core competency. The more solid and robust these branches, the stronger the core competency; the greater the number of identifiable branches, the stronger the *innovative capacity* of the core competency (Karlsson, 2007a). Innovative capacity refers to a pro-active and creative exploitation of various resources; the key resource being the core competency itself (*ibid.*).

Innovative capacity is an essential element of gaining and maintaining competitive advantage. Small economies are, in this gaining and maintaining endeavour, critically dependent upon their differentiation skills (economies of scope). However, they rarely have the resources necessary to develop sophisticated research and development (R&D) systems. Instead, innovation by imitation is a much more preferred, and successful, strategy (*ibid.*). Being inspired by new ideas abroad, bringing them safely home and adapting them to the conditions of the local context is what the innovative behaviour of a small island society is often about. The local entrepreneur is often a cosmopolitan: scrutinizing, converting and translating ideas from abroad into local products and services which can be offered to various markets, among them those markets from which the ideas were originally borrowed.

Also central to the economic capacity of a SNIJ is the human capital factor (Kitson *et al.*, 2004). A core competency cannot be maintained without unique skills and without a dynamic learning capacity. The existence of a core competency is equivalent to many people sharing a certain (competitive) knowledge (Karlsson, 2007a; 2007b). The diffusion of critical knowledge is therefore crucial if a core competency is to survive over time. This is not just a question of the formal educational system but also one of everyday knowledge and cultural transmission (Asheim, 2004). Still, the formal educational system may have much to contribute. Educating young people at home is likely to reduce the risk of losing them. It also means that the identity element of a core competency can be maintained and strengthened (Karlsson, 2007a; 2007b).

## The Three Nordic SNIJs – Jurisdictional Powers and Economic Capacity at Work

The three Nordic SNIJs, the subjects of this study, exhibit both similar and dissimilar features. The following table offers some general data (Table 1).

**Table 1** - Åland Islands, Faroe Islands and Greenland: General Data.

	<i>Åland Islands</i>	<i>Faroe Islands</i>	<i>Greenland</i>
Area (km <sup>2</sup> )	1,552 (comprising 6,757 islands)	1,396 (comprising 17 islands)	2,166,086 (80 % of which is ice and glaciers)
Population	27,153	48,433	56,462
Population/km <sup>2</sup>	17.8	34.7	0.14 (of area free of ice)
GDP per capita	33,100 Euros	33,000 Euros	25,200 Euros
Jurisdictional Status	Autonomy within Republic of Finland	Autonomy within Kingdom of Denmark	Autonomy within Kingdom of Denmark
EU Status	Member	Not a member	Not a member
Parliament	Lagtinget (30 members)	Logting (33 members)	Landstinget (31 members)

*Source:* Karlsson *et al.* (2009:118-121).

## The Case of Åland: Delimited Jurisdictional Powers and Strong Economic Capacity

### *Jurisdictional powers*

Åland has, since 1921, enjoyed Home Rule within the Republic of Finland. Åland was, and still is, Swedish: in language, culture and identity. Formerly, Åland and Finland constituted the Eastern part of the Swedish Realm from the 10<sup>th</sup> century and up until 1809. The Eastern part of the realm was then lost to Russia and became a Grand Duchy within the Russian Empire. The Russian revolution in 1917 and Finland's subsequent declaration of independence mobilized the Ålanders who, at that time, were experiencing a real threat to their Swedish identity. An unofficial referendum, held in 1919, clearly revealed the wish of the population of Åland: a reunion with Sweden. Contrary to this, the League of Nations – assigned to solve the so-called “Åland question” – decided that Åland should remain part of Finland but with a certain degree of autonomy (Barros, 1968).

The Autonomy Act of Åland guarantees the preservation of the Swedish language and the Swedish culture but gives the Ålanders a very restricted influence over economic issues (Lindstrom, 1997; 2001; Karlsson, 2007a). The Act has been revised twice, in 1953 and 1979, but Åland has still not, except on the municipal level, a taxation competency of its own. The Ålanders pay their state tax to Finland. Annually, 0.45 % of the total revenues of the state of Finland (except loans) are paid back to Åland as a lump sum. The revenues of the community of Åland are, consequently, not controlled by the Home Rule authorities.

The *de jure* jurisdictional powers are delimited especially if one is to compare with other autonomies around the world (Lindstrom, 2000; Watts, 2008). Compared to the constitutional status of the Faroe Islands and Greenland, that of Åland has been rather static. The two revisions that have been made have not contributed significantly either to a political or to an economic dynamism. They have not meaningfully strengthened the *de jure* jurisdictional powers of Åland. Politics is basically the same and the politicians have had few opportunities to learn a more sophisticated type of policy.

The Parliament of Åland (*Lagtinget*) has legislative competences within areas such as education, culture and the preservation of old monuments, health and medical services, environment protection, promotion of industry, internal communications, municipal administration, police services, the postal services and radio/TV broadcasting. The laws of the state of Finland regulate foreign affairs, civil and penal law, courts of justice and, as mentioned, customs and taxation. Åland has the right to elect its own member to the Parliament of Finland, but is not represented on the EU Parliament. Furthermore, Åland is a neutral and de-militarized zone which means that no armed forces or fortifications are allowed on the islands. A special feature of the Home Rule of Åland is the right of domicile - a right which is necessary to possess if one is to acquire land or property, run a business or even vote in general elections. The right of domicile is naturally possessed by Ålanders born in the islands. Foreigners living in the islands may apply for this right, but only after five years of permanent residence. Consequently, the ownership of land and water is altogether an issue of the Åland government (*Landskapsregeringen*).

The very idea of a partnership (Baldacchino & Milne, 2008a) which prevails in today's debate on multi-level governance (Bache & Flinders, 2004) is not much discussed in either Helsinki or Mariehamn. The Ålandic relationship with Finnish authorities has, from time to time, been rather strained: a number of disputes concerning territorial, economic and cultural issues have occurred. An ongoing dispute concerns the Ålanders' very right to communicate with Finnish authorities in their own language: Swedish. "Guarding and protecting the autonomy" has become the predominant attitude taken by the political system of Åland (Karlsson, 2007a).

An ongoing dispute concerns the representation of Åland in the Parliament of the European Union. As was mentioned earlier, Åland does not have an EU representative of its own but is represented by Finland. Two recent decisions of the EU Parliament in particular, most unpopular among Ålanders, concern the abolition of the (for many decades almost sacred) spring aquatic bird shooting, and the consumption of snuff (economically, a very important tax free sales product of the ferry industry of Åland). These decisions have mobilized the Ålanders in a struggle for a parliamentary seat of their own. Finland has – by referring to the size of the nation of Finland, the limited number of seats that Finland holds in the EU Parliament, and the small population of Åland – refused to seriously consider this matter. However, when the ratification of the Treaty of Lisbon came to the fore, the Parliament of Åland – in its negotiations with Finland - threatened not to ratify it. Whether such a refusal by the Åland Parliament actually could affect the overall process of ratification became an issue, even in some European newspapers. It appeared that the status of the Parliament of Åland, relative to the status of the Parliament of Finland, was not absolutely clear; and

Finland, frustrated by the obstinacy of the Ålanders, even suggested that it might somehow exclude Åland from the EU. This dispute, however, came to an end late in 2009 when the Self-Government Policy Committee (*Självstyrelsepolitiska Nämnden*) of the Parliament of Åland voted in favour of ratifying the Lisbon Treaty. In the process, the Ålanders were granted the right to speak in matters concerning Åland in the EU Court. Still, the issue of an EU parliamentary seat has a high priority among the Ålanders and will, probably, be activated anew should another unpopular EU parliamentary decision be taken.

If one considers demanding processes like these in the context of the relationship between Åland and Finland, the *de facto* jurisdictional powers cannot be regarded as a significant resource to the benefit of Åland's economy (Lindström, 2001; Karlsson, 2007a).

### *Economic capacity*

The economy of Åland has, historically, been strong and stable compared with other regions of similar status (Ackrén, 2005; Baldacchino, 2006). At the core of its strong economic capacity is a core competency based upon nautical, technical, logistical and shipping management skills which has been nurtured for over 700 years. The shipping industry has, at its height, represented more than 50 % of the Åland GDP and has, through continual spinoffs, created the largest maritime cluster of the Northern Baltic (Lindström, 2002).

The shipping industry has demonstrated excellent adaptation skills and innovative capacity over time and has come to operate, successfully, in various segments of the international transport market. Many a successful business concept has been imported from abroad (Kåhre & Kåhre, 1988; Tudéer, 1993; Harberg, 1995). The diversity of the industry has had a profound impact on its steady progress during the last 150 years. Smaller, maritime shipping companies operating over shorter distances have come to operate alongside bigger tanker and ferry companies. This diversity has balanced contradictory business cycles and contributed to the ability of the shipping industry to maintain its leading role within the economic life of Åland (Lindström, 2002; Karlsson, 2007a).

Of course, the maritime cluster of Åland has not been able to avoid the recessions that periodically challenge the international shipping industry. Over 1975-1985, the shipping industry of Åland went through a dramatic structural change that left the fleet much reduced in number (Harberg, 1995). Simultaneously, prominent ship owners moved their fleets to such countries as Bahamas, Bermuda and Cyprus. The drastic down-turn of the merchant fleet was, however, balanced by the up-turn of the ferry traffic – now the cornerstone of the shipping industry of Åland. The business concept that developed the ferry industry was borrowed from abroad (more precisely, from the Channel) and adapted to the conditions of the Baltic (Svensson, 1986). Innovation by imitation has been a preferred strategy and the cosmopolitan attitude that lies behind it has come naturally to the entrepreneurs of this shipping milieu (Kåhre & Kåhre, 1988).

Åland society has, for a long time, been a truly maritime community. The maritime core competency has even been the carrier of a seafarer identity that, for more than a 100 years,

was practically taken for granted (Kåhre & Kåhre, 1988). The Ålanders were, after all, seafarers. From the 1860s and up until the First World War, ownership of the shipping companies was widely dispersed. Almost every family had at least some shares in the many companies that had not only Mariehamn but also some minor municipalities as their headquarters (Papp, 1971). This fostered a widespread and diffuse knowledge of shipping and shipping management. There was also never a shortage of financial capital and the financial risks were secure. The first Ålandic bank was established in 1919 and the first marine insurance company was set up in 1938. With these two service providers, the maritime cluster began to grow (Lindström, 2002).

The (marine) insurance and finance companies are even today, together with a growing number of IT-companies, those that contribute most to the growth of the economy of Åland (ÅSUB, 2009). They are servicing both the Ålandic and some Nordic/European markets and have an extended internationalization as a prime strategic goal. Other service providers such as consultancy firms focusing upon security and transport efficiency (logistics) have been established. Tourism and trade have benefitted from the efficient transportation facilities that the ferry companies provide, and those wholesale companies that offer tax-free products that are essential in upholding the ferry traffic between Sweden and Finland have flourished (*ibid.*). The educational system has developed close to the core of the maritime cluster and produced seafarers in great demand by the international shipping industry for almost 100 years (Harberg, 1995).

This success story of the Ålandic shipping industry – and consequently of the economy of Åland – has in recent years, however, become more problematic. A fiercer competition coming from shipping companies operating in more favourable institutional settings – in The Netherlands, Belgium and Germany – has challenged the Ålandic merchant fleet's market share. Contrary to the recommendations of the EU Commission (2003, 2004), Finland – with the taxation instrument in its hands – has not prioritized shipping among its industrial policies (Karlsson, 2007c). The tonnage tax, today a natural policy measure in many EU countries with maritime interests, is still only (reluctantly) discussed by the policy-makers of Finland. This laggard attitude has had a negative impact upon the renewal of the Åland merchant fleet, as well as upon the entrepreneurial climate within its shipping cluster: its youngest shipping company is now more than 30 years old.

Just as serious a strategic challenge to the shipping industry is the problem of the recruitment of personnel. With the ongoing dissolution of the maritime cluster identity (Lindström *et al.*, 2009) the attractiveness of the industry is declining among young people in the region. An expansion of the industry, as one would expect to find in the light of the growing transportation market of the Baltic, is thus hindered. The educational system is constantly under fire from the industry and conflicts between the educational system and the shipping companies, not observable in the past, are separating the two former cluster partners. The industry, thus, prefers personnel with hands-on knowledge and emphasizes educational programs that are skill-based with more practical 'learning-by-doing' while the educational system stresses international standards and more theoretical knowledge.

A third problem to the Åland economy is the moving out of parts of the ferry fleet from Finland to Sweden. This strategic move, motivated by cost efficiency reasons, negatively affects the economies of the 16 municipalities of Åland. The government and the parliament of Åland can do little to prevent this development since they do not have the necessary competencies or political instruments (Karlsson, 2007c). Lobbying with Helsinki – for the sake of the Åland shipping industry – has, so far, proved unsuccessful.

*Jurisdictional powers and economic capacity – problematic interrelations and an imperfect match*

The strategic challenges presently confronting the Åland economy clearly reveal the deficiencies of the “jurisdictional tool box”. The question is: can Åland rely solely upon its existing relations with Finland in order to protect the core of its economy - the shipping industry? Or has the time come to revise The Autonomy Act, with a view to expand the political room of manoeuvre, and so reducing the threats to the economy? The political culture of Åland is loath to struggle for a strengthening of the regional jurisdictional powers. Home Rule authorities have, historically, been reluctant to interfere with the business sector: maybe because they have not had the relevant institutional instruments in their hands. One might even say that in the past there has not been any particular need for an economic policy: the shipping cluster has carried the economy of Åland. The situation today is different and challenges the local political culture. Is the Åland political system ready to assume “a senior partner role” in the development of the Åland economy? That would certainly require some kind of development, of a kind that the jurisdictional system of the past has not produced. Being static, rather than dynamic, the Home Rule Act has not fostered that political entrepreneurship that is now seriously required.

**The Case of the Faroe Islands: Strong Jurisdictional Powers and Strong Economic Capacity**

*Jurisdictional powers*

The Home Rule Act of the Faroe Islands is of a younger date than Åland’s Act. In 1948, and in the aftermath of the Second World War, the time had come to formally manifest the long discussed autonomy of the Faroese people. The war years were, as many analysts have noted, among the most successful in the history of the islands. Isolated from Denmark (which was occupied by Germany during the Second World War), the islands (then occupied by Britain) had to take care of their own administration and handle their own affairs. A new political and business entrepreneurship emerged. When the war came to an end the Faroese people could rightfully claim “we can do it” (Hoydal, 2000; Debes, 2001). This national self-confidence has since been maintained, and even strengthened, by both the upheavals and the recessions of the economy.

The Home Rule Act of the Faroe Islands has, from its very beginning, possessed an in-built dynamism. This means that the local legislative assembly (*Logting*) has been able to take over the responsibility of some agreed upon (and listed) legislative areas from the state of Denmark on a continual basis. The very idea behind the development of the Faroese

autonomy is that “those who decide should pay”, meaning “you decide when you can afford it” (Debes, 2001). This means that the Faroe Islands already controlled their own revenues in 1948: municipal as well as national taxes. It also means that those administrative areas that are financially burdensome are those that have been left in the hands of the Danish Realm: for example, the health care system (the responsibility for which was not taken over until 1977) and the educational system (which, with a few exceptions, remained ‘Danish’ until 2002) (Karlsson, 2007b).

The legislative and administrative areas that were to be “automatically” transferable (by a sole decision by the Faroese parliament) were, in 1948, listed on the so-called A-list, an appendix to the Home Rule Act while those that would require negotiations between the parliament of Denmark and that of the Faroe Islands were listed on the B-list. Legislative and administrative areas that would remain, exclusively, in the hands of the state of Denmark were: foreign policy, monetary policy, civil and penal laws and national security and defence (Lyck, 1997).

Over the years, new areas have been added to the A-list in revised versions of the Home Rule Act. As late as 2005, 25 new areas were listed. When all these are finally transferred to the administration of the Faroese authorities, the Faroe Islands might be said to stand on the threshold of sovereignty (Ackrén, 2006). The *de jure* jurisdictional powers are, no doubt, strong and they have been gradually strengthened.

The overall responsibility of certain policy areas of the administration of the Faroe Islands is shared by Torshavn and Copenhagen. In praxis, however, the state of Denmark exerts a minimum of influence over administrative areas that even legally belong to Copenhagen. Annually, a generous monetary lump sum is transferred from Denmark to the Faroe Islands to cover the Danish part of those expenditures over which there is a mutual responsibility (Statistics Faroe Islands, 2006). The way this system operates strengthens the *de facto* jurisdictional powers of the Faroese (Karlsson, 2007b).

The pragmatism (Baldacchino & Milne, 2008a) that, in general, permeates Denmark’s relationship with the Faroe Islands is seen particularly in foreign policy. Although foreign policy is, formally, an exclusive Danish responsibility, in practice, the Faroe Islands run a foreign office of their own. They are represented in a number of North Atlantic Fishery Associations and have been given the right to sign their own bi-lateral fishery agreements. When it comes to multi-lateral agreements, Denmark is the signing authority but a Faroese representative is present at the occasion of signing (Statistics Faroe Islands, 2006). Furthermore, the Faroe Islands have their own “embassies” in Brussels and in Reykjavik and an attaché in London. The Faroese flag flies outside these “embassy” buildings.

Although the relationship between Denmark and the Faroese Islands has been challenged on several occasions over their (long) mutual history (Harhoff, 1993; Debes, 2001), the partnership has overall been beneficial to the Faroe Islands – and not only financially. The logic underlying the gradual transfer of legislative and administrative competencies is one that also fosters political entrepreneurship and administrative knowledge. Gradually, the political élite of the islands has come to accumulate a stock of critical knowledge which

has also strengthened their self-confidence (Karlsson, 2007b). This knowledge, and the accompanying self-confidence, has been essential to the political entrepreneurship that, during the last 10 years, has come to play a significant role in the economic development of the Faroe Islands. A combination of *de jure* and *de facto* jurisdictional powers has had a positive effect upon the economic performance of the islands (*ibid.*).

### *Economic capacity*

Like that of Åland, the economy of the Faroe Islands is strongly based around the sea. The Faroese are not, however, primarily seafarers but fishers (even though their seafarer competencies should not be ignored). The fishery cluster started to develop in the middle of the 19<sup>th</sup> century when a long lasting Danish trade monopoly was abolished and the Faroese were liberated from a quasi-feudal system binding them to farming (Olafsson, 2000). From then on, an economic capacity – remarkable for a seemingly isolated part of the Northern Atlantic – has continued to develop; today, the Faroe Islands are on the top of the economic Nordic autonomy list (Nordic Statistical Yearbook, 2006). The Faroe Islands have, in fact, never – despite their geographical position – been isolated. A cosmopolitan attitude continues to permeate Faroese society and many a good idea has come from abroad; the Shetlands, historically, being a particular inspirer (West, 1972; Debes, 2001).

The economic capacity of the Faroe Islands began to take shape in the 1860s (Olafsson, 2000). A core competency was developed which made the Faroe Islands, just in a few years time, an important exporter of fish products (mainly dried and salted cod) to European markets. The early fishery industry was mainly coastal and based on various banks outside the archipelago (West, 1972; Debes, 2001). The boats and the techniques at hand hindered the development of a more lucrative deep-sea fishery. But in 1871, a Faroese fishery company bought its first (second hand) sloop from the Shetlands and after that a fishery industry started to develop. With these bigger ships the attractive waters of Iceland and Greenland became accessible and a growing number of Faroese joined the annual expeditions to these waters. New and more efficient techniques were developed, resulting in a fishery competency developing into a core competency. A professional identity (the identity of being a fisher) became a national identity - the Faroe Islands became a nation of fishers (Hoydal, 2000) which furthered the diffusion of knowledge in the Faroese community. The recruitment of personnel was an easy task and it was a natural choice for young Faroese to join the fishery fleet (West, 1972).

Over the last 150 years, the fishery industry has become more differentiated and has come to include the whole value chain (Morkore, 1993; Olafsson, 2000). The processing of fish products is, of course, a more lucrative business than just selling raw fish and the fillet factories soon came to play a major role in adding value to the fish products. The finance and service providing sectors developed as well and gradually – in the middle of the 20<sup>th</sup> century – a cluster was formed (Karlsson, 2007b).

The economy of the Faroe Islands is highly dependent upon its exports. Well over 90% of what is produced on the islands is sold on international markets (Statistics Faroe Islands, 2006). This dependency, of course, makes the economy vulnerable in more than one sense.

International competition is fierce and prices are regularly changing. The flexibility of the production system is crucial to the profitability of the fishery industry as well as to its cluster partners. Building that flexibility has not been an easy task. Investments in trawlers and factories represent a heavy financial burden and running them smoothly and efficiently is critical to profitability. For a political system that traditionally has played a “senior partner” role – such as that of the Faroe Islands – it is natural to intervene when things do not run smoothly. This was the case in the 1990s when the bank crisis of the Faroe Islands became front page news all over the world. That crisis, however, proved to be an important period of learning for both the political and industrial élites of the islands.

The crisis started with the nationalization of the seas in the 1970s (Hoydal, 2000; Debes, 2001). An important consequence of the nationalization policy was that the free fishery on the world seas was prohibited. Free fishery quotas were only allowed inside a 200 nautical mile zone – quotas that were up to the nations to decide. For the deep-sea fishery fleet of the Faroe Islands, this meant returning home to coastal waters where a fierce competition arose. Conflicts between the small, regionally based fishery companies and the big, internationally oriented corporations became regular and the authorities tried to solve some of them by a generous subsidy policy. The Home Rule authorities became the guarantors for an increasing number of private loans that were taken at home and abroad. The fishery fleet became more and more efficient (and internationally competitive) but then, practically overnight, the cod disappeared from Faroese waters. By far the most important export product, the disappearance of the cod proved to be a disaster. The fishery fleet had a huge over-capacity and the loans that had built that fleet could not be re-paid. The fisheries and the fillet factories started to go bankrupt. At that time the Faroese authorities totally lost control over the subsidy system. The crisis turned into a bank crisis and then into a national disaster. Denmark, concerned with its international reputation, lent the Faroese Home Rule authorities huge sums of money resulting in a Faroese debt of 7,300 million DKK (US\$1.4bn) (or 167,000 DKK - US\$32,000 per Faroese) to Denmark (Hoydal, 2000). In 1992, the Home Rule authorities were put under the administration of the government of Denmark; for the first time, Denmark used its legal rights to recall the autonomy given to the Faroe Islands in 1948.

The Faroese banking crisis represents an important lesson; but more interesting than the crisis itself is the remarkable recovery that the economy of the islands underwent between 1994 and 1998. The key lesson learnt is perhaps that a sound financial policy is not based upon excessive subsidies but upon more balanced fiscal policies. Another lesson concerns the very interaction between the authorities and the strong associations and interest groups of the Faroese society. The authorities have learnt to assume a less “senior partner” role and have liberated themselves from too close a bond with the significant actors of the fishery industry. This, in turn, has made the industry even more internationally competitive. This is not to say that the economy of the Faroe Islands of today runs without disruptions. The fishery industry – and the fishery cluster – is still highly dependent upon its export markets and upon a most uncontrollable and fickle resource: the fish.

A diversification of the Faroese economy has, consequently, been an important strategic matter during the whole period of Home Rule. Since the 1980s, the development of a

Faroese oil industry has been investigated. Oil findings under the sea-bed of the United Kingdom's exclusive economic zone bordering the Faroese EEZ mobilized the Faroese authorities – politically and financially – some 20 years ago. After long and tough negotiations with Denmark, the Faroe Islands acquired the rights to all sub-soil and sub-sea hydrocarbon deposits within its territory in 1992. Starting in 2001, drillings have been made by international oil corporations and there are indications that substantive hydrocarbon accumulations exist. A full commercial exploitation of these, no doubt, would altogether change the economic structures of the islands. But some crucial questions need to be answered before a full-scale, commercial hydrocarbon production can become reality. Until then, a number of alternative options for the diversification of the Faroese economy are being developed. These include a growing IT-industry as well as other knowledge intensive services. A newly established ship registry has already found a most interesting market segment among small-and medium-sized ship owners on the west coast of Sweden.

Clearly important elements of the economic capacity of the Faroe Islands are their strategic foresight and innovative capacity.

*Jurisdictional powers and economic capacity – a dynamic balance and an almost perfect match*

The present politico-economic configuration of the Faroe Islands comes close to the idea of an ideal-type SNIJ. The inherent dynamism of the constitutional system has created a politico-economic configuration almost in balance. The jurisdictional powers have been enhanced symbiotically with an increased economic capacity and, vice versa, a gradually stronger economic capacity has furthered the national self-confidence that is essential to the willingness to take on more jurisdictional powers. The two variables have been cross-fertilizing one another.

Faroese society has, over time, accumulated a remarkable learning capacity. The competent financial policy of today (learned the hard way and not just because of a benevolent patron) supports the economic development of the islands and secures the core competency that is crucial to the economy at large. Yesterday's subsidy policy has been replaced by balanced financial measures which, in turn, allow the core competency to develop and the fishery industry to become even more competitive. Today, the core competency of the economic system of the Faroe Islands is not just based upon skills in the fishery trade but is increasingly based on the knowledge of how to preserve a vulnerable marine milieu. No doubt, the pragmatic and generous attitude demonstrated by Denmark when allowing the Faroe Islands to develop its own important foreign networks and associations has contributed significantly to the present adaptation of the core competency.

## **The case of Greenland: Strong Jurisdictional Powers and a Delimited (Independent) Economic Capacity**

### *Jurisdictional powers*

The historical development of Greenlandic society does not demonstrate many similarities to Åland or the Faroe Islands. The Home Rule Act of Greenland is, however, a copy of that of the Faroe Islands and exhibits the same features of dynamism. In a November 2008 referendum, Greenland took a major step towards sovereignty, a step approved by Copenhagen “if this is the will of the people of Greenland”. Still, Greenland has a long way to go in order to become an independent economy.

Greenland was a Danish colony up until 1953 when it became “an integrated part of Denmark”, getting the status of a county. In 1979 it was granted its Home Rule within the Danish Realm. Between 1972 and 1983, Greenland was a member of the European Union (EU) then the European Economic Community (EEC); but left the union after a referendum. A somewhat curious fact about the Greenlandic secession in 1983 is that it cut the territorial size of the EU (EEC) by more than half (Smárason, 2002).

Even though *de jure* jurisdictional powers are strong, *de facto* powers are more restricted. The development of Greenlandic society has been fast – too fast some would say – leaving the people, and especially the original Inuit population, with institutions and political structures that are not particularly mobilizing, but rather alienating them. As is the case with many a post-colonial society, Greenland is, in an administrative sense, a “replica” of the metropole. Dahl (1986), an expert on Greenlandic affairs, has characterized the administration of Greenland as “over-developed” and emphasized the negative consequences of these too sophisticated and well-developed structures. To run its administration, Greenland has become dependent upon immigrants from Denmark – well-educated Danes that have moved into and occupy important positions within the administrative hierarchy. The gap between the former Danish élite and the Inuit population has, during the last few years, become smaller but there is still an uneven distribution of income and the clients of the social system of Greenland (a large sector of the public economy) are mainly Inuit. The “democratic deficit” that characterizes the everyday life of a large portion of the population is a real problem when it comes to the mobilization of the *de jure* jurisdictional powers at hand.

Culturally and politically, the bonds with the metropole, Denmark, have not always been unproblematic. The prospects of finding oil under the soil of Greenland have lead to animated dialogue between Nuuk and Copenhagen from time to time. Rich oil reservoirs would solve most of the economic problems of Greenland. An agreement has been reached but the oil has not still been exploited. Financially, Greenland is highly dependent upon Denmark. An annual lump sum of money is transferred from Denmark to the Home Rule authorities (*Landstinget* and *Landsstyret*), the size of which exceeds what would be motivated by the formal agreement that exists between the governments of Denmark and Greenland (Karlsson, 2008).

In some areas, however, the *de facto* jurisdictional powers clearly exceed the *de jure* powers. This is especially true when it comes to foreign policy and defence. Denmark has given Greenland extensive room for manoeuvre when it comes to foreign policy. Greenland, like the Faroe Islands, is represented in a number of international associations and networks and was, in 2005, given an unrestricted right to make international agreements within areas that belong to the Greenlandic legislative mandate. The geopolitical position of Greenland is, for a number of reasons - and as history can tell - vulnerable. In 2004 a historical agreement, the so called *Treaty of Igaliq*, was signed by the US and Denmark. This treaty on the mutual defence of Greenland was – for the first time – signed also by Greenland.

Gradually, Greenland has strengthened its *de jure* jurisdictional powers. The *de facto* powers are, however, more limited. There are a number of socio-economic problems that need to be solved before Greenland can proceed on its path towards sovereignty. One of them is the delimited economic capacity of the island.

#### *Economic capacity*

The economic system of Greenland is, like that of the Faroes, highly dependent upon its fishery industry. *The Royal Greenland*, the biggest prawn processing company of the world, has its headquarters in Nuuk but is continually out-sourcing parts of its production system to other countries. This corporation has been the very hub of the economy during the last four decades but a fiercer international competition is today forcing its operations out of Greenland. Lower labour costs are found abroad, as well as proximity to consumer markets.

The fishery industry was developed thanks to huge subsidies from Denmark and later on from the Home Rule authorities so as to replace the traditional Inuit hunting economy at a time when the international demand for whale and seal meat, as well as of skins from a variety of Arctic animals had declined. But the (centrally planned) fishery industry has never been the carrier of that core competency that is found with its sister industry in the Faroe Islands. A strong core competency – which today is about to wane – was, however, for several hundred years developed within the Inuit hunting economy. When the Danes colonized Greenland in the 18<sup>th</sup> century, for instance, the competitive advantages of the Inuit production systems were strong enough to give the Danes a chance to force the Dutch out of the whaling business. The strong identity that, in the older days, was associated with being a hunter has not been transferred to the fishers of today. Fishing is just a way of earning a living (Karlsson, 2008).

The highly concentrated character of its core business makes the Greenlandic economy just as vulnerable as that of the Faroe Islands. The dependency on exports is just as high. Promoting the development of new industries that would make the whole economic system more diversified is a strategic issue highly prioritized by authorities. Tourism is one sector that is about to develop even though the high prices and short season have been disadvantageous to this sector in the past. The new cold water tourism (Baum *et al.*, 2000),

however, is expected to change these conditions. Hydrocarbon and minerals explorations constitute another potential sector, the growth potential of which is so far unclear.

An extraordinary feature of the Greenlandic economy is the governance structure of its business sector. The most important companies (including *Royal Greenland*) are not owned privately but by the Home Rule authorities. Greenland embodies, consequently, a form of “state capitalism”. Stimulating an in-flow of private capital has been an urgent issue for the government for the last decades but, so far, many an attempt has proven unsuccessful (Statistics Greenland, 2007). A shortage of both financial capital and management competencies has hindered the search for a radical change in the basis of the current economic system. One of the aims of the (national as well as the regional) educational systems is to reduce the shortage of skilled entrepreneurs and managers. In this manner, the authorities are trying to replace a centrally controlled development process by one that is driven by grass-roots entrepreneurs.

The economy of Greenland is still rudimentary and its capacity is restricted. One should, however, bear in mind that the economy of Greenland was “closed” during the whole colonial period and those international stimuli that are found in the cases of Åland and the Faroe Islands have not been at hand in the case of Greenland. International networks are a late phenomenon in the development of the Greenlandic society and their full potential is not yet exploited.

*Jurisdictional powers and economic capacity – problematic interrelations and an imperfect match*

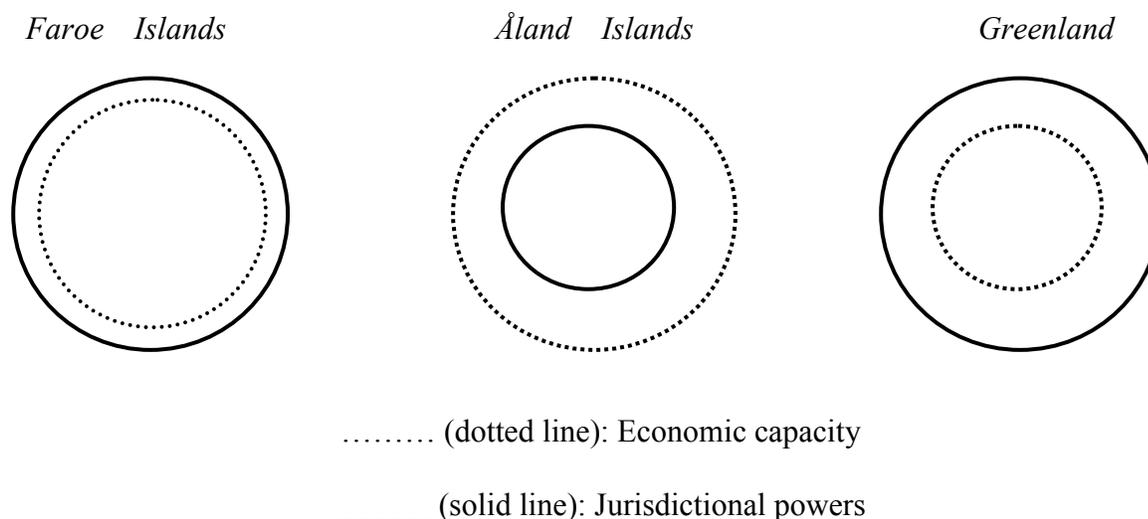
As should be clear, Greenland can be configured as a SNIJ with strong (formal) jurisdictional powers but with only a rudimentary economic capacity. About 50 % of the GDP of Greenland stems from the annual monetary transfers from Denmark (Statistics Greenland, 2007). Although reducing the financial dependency on Denmark is an explicit goal, economic structures have to be changed and a truly entrepreneurial climate has to be fostered for that goal to be reached. Or it could be that the oil dream might come true... In that case, the economic situation would change. But as long as an extensive oil exploitation is only planned for the building of a grass-roots economy, this is a more realistic, and a more sustainable, way to a greater degree of economic independence. This also implies that the Home Rule authorities relinquish their significant “senior partner” role in the development of the Greenlandic society.

### **A Configurative Comparison of the Three SNIJs.**

In the introductory section of this paper it was suggested that an ideal-type SNIJ can be characterized by a good match between jurisdictional powers and economic capacity. The study of the three Nordic SNIJs has provided us with one configuration that comes close to the ideal-type and with two configurations that deviate from the ideal-type. Figuratively, the three SNIJs can be “described” as follows ([see Figure 1](#)).

These schematic configurations offer only a contemporary glimpse of the present politico-economic realities of the SNIJs and say nothing about the dynamism that is part of their historical realities. Still, these schematic configurations can teach us something about the challenges that various SNIJs face.

**Figure 1** - Configurative Comparison of the Faroe Islands, Åland Islands and Greenland.



Of the three SNIJs under review, the Faroe Islands come closest to an ideal-type SNIJ. In this case, one finds an almost perfect match between jurisdictional powers and economic capacity and the two variables support one another. They are and have been, throughout the history of Faroese Home Rule, symbiotically interrelated. The jurisdictional powers have had a positive impact upon the economic capacity and vice versa. In the explanation of the latter causality, one must include an intervening variable: national self-confidence. Being able to cope with hard times – recessions and economic crises – the Faroese have gained an incrementally stronger self-confidence which, in turn, has affected their willingness to take on new political and administrative responsibilities. The most important explanation to the Faroese success story is probably the dynamism of its Home Rule construction. This has spurred a continual development both on a political and on an economic level. The jurisdictional powers have been, truly, resourceful. The main strategic challenge of the Faroese society is to maintain the present balance.

In the case of Åland, there is no perfect match. The economic capacity is stronger than the jurisdictional powers available. Since the jurisdictional powers cannot match the challenges that the core industry – the shipping industry – presently faces, there is a risk that this will negatively affect the economic capacity of Åland. A deteriorating shipping cluster is a real threat to the state of its overall economy. As long as the shipping industry has been able to cope – or rather flourish – on its own, the delimited jurisdictional powers

have not constituted a real problem. Today's fierce international competition, however, requires an institutionally beneficial home milieu. The authorities of Finland have not, at least not in the past, been willing to provide the shipping cluster of Åland with such a milieu. The question is: are the authorities of Åland prepared to start that dialogue with the Realm that is required for an enhanced autonomy? And is the Finnish government prepared to consider, let alone entertain, such a dialogue? The main strategic challenge of the society of Åland concerns its political entrepreneurship.

In the case of Greenland there is also an imperfect match. The formal jurisdictional powers are strong but the state of the economy does not make it possible to fully "reap the jurisdictional fruits". Despite a generous Danish attitude, the *de facto* jurisdictional powers are even, at least in some sense, less than the *de jure* powers. The segregation of the Greenlandic society and the deficiency of democracy, when it comes to a large proportion of the population, reduce the *de facto* powers. Still, the jurisdictional powers clearly exceed the economic capacity. The huge strategic challenge that the authorities of Greenland face is to convert a centralized Home Rule capitalism into a grass roots economy. Developing a regionally and locally based entrepreneurship is crucial to the success of this conversion and to the creation of indigenous economic capacity.

### **Concluding Remarks**

In this paper, the divergence between jurisdictional powers and economic capacity has been scrutinized and discussed in relation to the three Nordic sub-national island jurisdictions. The resourcefulness of jurisdictional powers thesis, which is prominent in the present island studies debate, has been fleshed out by the empirical experiences of these three Nordic SNIJs: Åland, the Faroe Islands and Greenland. An ideal-type SNIJ, characterized by the balance between jurisdictional powers and economic capacity, has been deduced from the literature. This ideal-type has then "guided" the empirical research in the search of differentiated SNIJ forms.

Exploring the differentiated SNIJ population is an important research endeavour since one is likely to find not one but a number of divergent empirical expressions and manifestations of "the best of all possible worlds" (Baldacchino, 2006: 680).

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