



SMALL STATES IN THE INTERNATIONAL COMMUNITY
AND THE LESSONS LEARNED BY ICELAND

**Lecture by
the President of Iceland
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Distinguished professors,
scholars, officials,
students and other guests

It was with great pleasure that I accepted the invitation to speak to you today about the position of small states at the dawn of the 21st century and to open a discussion on how the opportunities offered in the age of globalization have enhanced the possibilities for small states to prosper and provide their people with better living conditions.

My country provides a good basis for such a dialogue because for centuries Iceland was the smallest and poorest country in Europe but we now enjoy one of the highest living standards in the world. When we joined the United Nations more than 50 years ago we were consequently for a long time the smallest country attending the General Assembly but in recent decades the number of small states within the United Nations has grown to 40 – 50 states depending on the definition of smallness. Within Europe the number of small states has also grown in recent years and Slovenia and the three Baltic States – Estonia, Latvia and Lithuania – offer fascinating examples of how small states have succeeded in becoming significant partners in the new Europe.

In many ways we could argue that the new sovereign small European states have been more successful than some of the larger ones in consolidating their democratic system, reforming the economy and creating significant partnership in the international arena.

Although I intend to deal mostly with the favourable economic opportunities which the 21st century's globalized economy offers the small states it is also worth remembering that a small state can also show diplomatic and political initiatives and leadership where large nations have hesitated. The role that Iceland played in recognising the sovereignty and independence of Slovenia and Estonia, Latvia and Lithuania when more powerful European countries were reluctant to recognize the dawn of the new European democratic era is a good example of an innovative political role, but I could also mention the influence that Iceland had in the 1970s on the transformation of the Law of the Sea when we extended the exclusive economic zone, the fishing limits around our island, first to 50 miles and then to 200 miles. Every time the British sent their Navy to fight against our action but within a decade our initiative had become international law.

In many ways a small country is well placed to become a creative political laboratory, a fertile ground for democratic initiative, a bearer of new ideas, an initiator of new thinking – and it might also be easier for a powerful country to accept a proposal for a new policy from a smaller country because then the implication for the balance of power is almost non-existent.

It was with reference to our own experience but also bearing in mind the increase in the number of small states in recent decades that we recently decided in Iceland to establish a centre of small states, based within the University of Iceland but constructed in such a way as to be international both in its membership and reach. We hope that by coming here to the University of Ljubljana today we can encourage active participation by Slovenian scholars, officials, political leaders and others in the years to come. We can certainly learn a lot from each other's experience and actively bring those lessons to the large community of small nations which now accounts collectively for a quarter of the United Nation's members.

Let me begin our dialogue here today by relating the experience of my country with respect to the conditions and opportunities prevailing at the opening of the 21st century.

I mentioned before that Iceland was for centuries the smallest and the poorest country in Europe. One hundred years ago we were a sparsely populated and impoverished nation of fishermen and farmers who for centuries had lived under foreign rule. Ever since Iceland was settled in the ninth century the population had been less than 100,000, and from the Middle Ages, ordinary people's living standards were determined by the interests of colonial rulers; Iceland had most of the characteristics of

countries which today are associated with the third world. The campaign for independence began around the middle of the 19th century, Iceland received home rule at the beginning of the 20th century and sovereignty in 1918, and the Republic was established in 1944. Seven centuries of foreign domination in Iceland thereby finally came to an end.

At the dawn of the new century Iceland is still one of the smallest states in the world in terms of population, with fewer than 300,000 inhabitants, and its gross domestic product is 8½ billion US dollars. But the transformation in national living standards is almost incredible. Iceland now has one of the highest average incomes in the world, and in terms of GDP per capita, within the OECD, we are outstripped only by Norway, Switzerland and the USA, and ahead of Canada, Denmark and Germany. The nation has adopted information technology in such a scale that per capita use of mobile telephones and internet connections is the highest in the world, and the same goes for access to computers. The economy has evolved from the rudimentary techniques of fishermen and farmers towards the diversity which moulds a developed economy, although the technologically advanced and market-driven fisheries sector still plays an important role in our foreign currency revenues.

Iceland's evolution in the 20th century and its efforts to seize opportunities that the global economy offers in the new century in many ways represent interesting material for discussing the contemporary position of small nations and their ability to provide their inhabitants with living standards which are comparable with the best anywhere in the world. Although my compatriots have a tendency to underline our unique position in many fields – a fixation which is deeply rooted in our culture, identity and history – I nonetheless doubt that this success can primarily be attributed to the Icelandic national character. On the contrary, I feel that Iceland's experience pays fine testimony to the potential that all small nations have for taking advantage of economic opportunities, especially if they are also fortunate enough to manage their own affairs with steadfastness, discipline and vision, and can establish a balanced and stable economy.

The transformed character of the world economy in recent years is much more favourable towards small states than the conditions that prevailed for most of the 20th century. A strong case can be argued that smaller states have never had opportunities on the scale witnessed today. Former obstacles to their growth have largely been abolished and replaced by an open and wide field where the talents, imagination and creativity of individuals determine what is harvested, and not how big they are or the physical resources available to them.

We all know how the metals industry, oil resources and heavy goods manufacturing generated wealth in the last century. The industrial revolution was the era of large nations and mass production was their means towards advancement. Information technology and globalization, on the other hand, have dramatically transformed the operating environment. Innovations can now emerge from any direction, new types of market goods have appeared, individual initiative and creativity can lay the foundation anywhere in the world for companies which can establish a global presence. Technology and intellectual products, specialist services and information systems developed within a small nation can rapidly become highly lucrative products in the global marketplace. Company growth in small states is no longer subject to the same restrictions. Through globalization, they can grow to gigantic proportions in their respective fields in the space of a few years. It can definitely be said that the new economy of the 21st century has presented small nations with opportunities to flourish. Never before have they enjoyed such potential for prosperity and progress.

These claims may clash with certain prevailing attitudes and the view that integration into various kinds of international alliances is the most favourable course to take, and that small states will run into troubles if they do not align themselves in this way on a long-term basis. Such attitudes dominate the European dialogue, and are also present in many other parts of the world. However, no contradiction need be involved here. On closer examination, the possibilities available to small states are based on access to an open international business environment, and such access can be ensured and consolidated in various ways.

In many respects Iceland and Slovenia are ideal examples for providing this dialogue with a wide range of material, and for making a realistic assessment of the opportunities available to small states in the age of globalization. Let us begin by looking at a few general features.

First: Education and economic growth. Although the University of Iceland has been a strong institution and other universities have joined the field in recent years, Icelanders have benefited greatly from having to seek their further education in many fields from other countries. Students returning home passed on their knowledge to a society which in this way incorporated cultural features from many different directions. Experts who had studied at some of the world's leading educational establishments assumed leadership positions in various fields. On account of its small population, Iceland became a kind of melting pot where cultural movements from various countries engaged in a creative flux. In larger countries there is a tendency to acquire education exclusively on the home front, but small states are compelled to look farther afield. This

can become a valuable resource, especially when education is an increasing precondition for economic growth, and the impact has been felt not only in the transformation of the Icelandic economy but also in the development of science, the health service, activities of financial institutions and other fields.

Despite having a population of only 100,000 at the beginning of the 20th century and just over a quarter of a million now, Iceland nonetheless managed to become one of the world's leading fishing nations. This achievement illustrates how small states, through specialization and vigorous foreign trade, can successfully take advantage of the international division of labour. Iceland now ranks thirteenth in the world in terms of catch volume and sixth in terms of net export of marine products. Our share in global seafood trading amounts to several percent.

Second: A few words about the welfare system. Iceland has managed to integrate the welfare system with a flexible and strong economy. Everyone enjoys the same right to education and healthcare, both of which are financed almost entirely by central and local government taxes. The family of a manual labourer has the same access to schools and hospitals as the family of the President. Equality is the fundamental principle of the welfare state. We have managed to build up an educational system and healthcare institutions which conform to stringent Western quality standards, without impairing the competitiveness of our industries or imposing an excessive tax burden. The public sector's share in GDP amounts to only 39% in Iceland compared with an average of 44% in the European Union. There is much to suggest that our small size has enabled us to develop such a strong and efficient welfare system at so little cost in terms of GDP because we do not have enough people to make it bureaucratic. We have had to allow people who work in the welfare system substantial scope for making their own decisions. The close contact that our small size engenders also inspires an active sense of community alongside the system itself, and when individuals and families encounter setbacks, there is almost always someone who is prepared to lend a helping hand.

Third, Iceland's small population has given it an element of flexibility that proved to be an unquestionable advantage in 20th century economic developments, and will probably be even more so in the future. Poor fish catches and price slumps in foreign markets often caused considerable difficulties for Iceland in the past, but the strong community spirit which was reinforced by its small size enabled the nation to adapt to new circumstances. A considerable degree of flexibility has always been built into the Icelandic economy and smallness has proved an advantage

in this respect: everyone has perceived the need and realized that common interests are at stake.

The view that size restricts small states by denying them the benefits of the economies of scale has not turned out to give a realistic picture of the situation. Iceland's experience has shown that specialization in certain sectors and active foreign trade can provide a small nation with a strong market position, especially when knowledge and education are key factors.

Fourth, there is the question of stability. Small countries are perhaps less stable than larger ones, for instance because shocks in one sector can transmit serious effects to the economy as a whole. The fisheries sector has often had such an impact on the Icelandic economy. This proved to be a test of our ability to apply disciplined and forward-looking economic policies and to create consensus about effective action. We have had varying degrees of success in this respect in the course of time, but have done much better in the past decade after inflation was brought under control in 1988-1991. It has also recently been seen how concerted action by the government, labour movement and employers managed to expedite greatly the deflationary process and prevent the need for a tight monetary stance with an accompanying negative impact on economic growth and employment. Competition, transparency and the personal contact engendered by small size doubtless made a significant contribution towards preserving stability with coordinated actions. Disciplined economic policies thus allow small nations to achieve the balance necessary for enjoying prosperity in the long run.

Fifth, globalization has brought Iceland, like other small states, a wealth of new tasks, which we have tackled by systematically building up financial markets and switching our monetary and exchange rate framework from a fixed exchange rate regime to a floating one with inflation targeting. The core of Iceland's adaptation to globalization in recent years has been its membership of the European Economic Area, which is based on an agreement made by the EFTA nations with the European Union. Iceland thereby belongs to the EU single market for the free movement of goods, services, labour and capital, but can make independent trade agreements with states and corporations outside the Community.

In recent years Iceland has shown how a small state can make an organized and successful response to globalization and exploit it to boost its own economic growth and general welfare. Globalization can spell a renaissance for small states if they apply firm policies that address the requirements entailed by opening up the economy.

With the IT revolution, computerization and a wide spectrum of technological advances, world industry and business have been radically transformed, and these fundamental changes have become increasingly widespread with the impetus given by globalization. Now, in effect, avenues have opened up for ideas and innovations from anywhere in the world. Every entity has the opportunity to profile itself. New companies can emerge regardless of where their home base is, and soon have the whole world as their market region.

Small size is no longer the obstacle it once was. The traditional sectors of the industrial revolution, which based their growth on economies of scale, are no longer decisive. Now, innovations can come from all directions and individuals and businesses in small states or in small communities within larger states can rapidly attain key positions.

In fact, there is much to suggest that, in the new economy, the small state can be a profitable basis for business innovations. In small states it is easy to see the way that different elements link up, establish cooperation between different fields, gain access to information and experience, grasp solutions to difficult tasks. Although Iceland has a small population, it has all the characteristics of developed Western societies, its market is similar and its government administration disciplined – plus the fact that the general public are ready to embrace technological innovations and eager to cooperate with experts and researchers in all fields. Experience shows that the small state can serve as a kind of laboratory or research station in precisely the sectors of industry that are increasingly dominating the economy of the new century. In this respect, the new economy can truly open up new horizons for small states.

Many examples can be cited to show how Iceland has managed to establish itself in a world market with innovations in diverse fields, and this success is to a significant extent based on research and development which has been conducted in the small home market. Something that gains a foothold in Iceland proves competitive elsewhere in the world. Iceland acts as a kind of training centre for penetrating larger national markets. Companies are no longer held back by the boundaries of the small state. The entire world is their playing field. Industrial growth is not restricted. This is obviously a turning point for any small state, and many examples of the Icelandic experience demonstrate without a doubt that the transformation of the global economy has given smaller players the opportunity to flourish.

In addition, there is much to suggest that culture will have a strong impact on the competitive position of nations, and the creative energy that it nourishes will produce numerous opportunities. Small states may also

be well placed in this respect, because their culture and customs, heritage and history give them a unique position. Icelandic culture has always respected the talents of individuals who compose poetry and tell stories, who are creative participants in their companionship with others. Admiration of creative people has been transplanted from ancient times into the new age, and originality is one resource that our small nation's culture has handed down. Such qualities can prove decisive in the globalized economy. The culture of small states can foster talents that allow entrepreneurs and "poets of enterprise" to excel.

I have tried to shed light on the position of small states in an era of growing globalization by referring to Iceland's experience. Although each country is special in certain ways, I feel that the Icelandic paradigm has some universal application. It shows that the IT revolution underlying globalization, and various main characteristics of the new economy, the service, software and technology sectors, can arm small states with a wealth of opportunities for enhancing their economic growth and general welfare, and that companies developing within a small state can nonetheless have the whole world as their market.

While small states certainly need to tackle a variety of problems, they have qualities which are precious assets in the new era. I have discussed several and more could be mentioned. Their contribution towards the evolution of democracy is also important, since the close contact and transparency engendered by smallness can boost the democratic way of life. It is interesting to note that, in antiquity, the cradle of Western democracy was Athens and Rome, which in those days were small states by modern standards with a similar population to that of Iceland today. The settlers of Iceland established their own parliament more than a thousand years ago and the Icelanders have always been proud of having the oldest national assembly in the world.

History shows that small states can serve as a creative forum for democracy, law and legal order: models for civilized society and transparent government. Although the contribution made by small states, past and present, to the advancement of democracy and political ethics is beyond the scope of this lecture, it is important to bear such factors in mind too when examining the economic position of small states.

Small states also have the great quality that they are a threat to no one and there is no risk involved in engaging in widespread cooperation with them. They have no hidden agenda and cannot deploy military might, financial power or strong political pressure to achieve their aims. They act straightforwardly and there are no problems involved in being their friends. Such qualities are also genuinely valuable at a time when

complex relations underlie the coexistence of nations. Many doors are open to a small nation that remain closed to others. Other countries seek its assistance and its contribution, because they all know it will never prove a threat to its partners.

Such freedom from fear can also be a resource when globalization brings increasing ties between nations, communities and businesses. It is an advantage to be small and be able to have everyone as a friend.