



Lecture
by
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OLD TRADITIONS – NEW BEGINNINGS:
THE SUCCESS OF SMALL STATES
IN THE GLOBAL ECONOMY

At the beginning of the 20th century Iceland was a sparsely populated and impoverished nation of fishermen and farmers who for centuries had lived under foreign rule. The campaign for independence began around the middle of the 19th century and Iceland received home rule at the beginning of the 20th century, 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. Globalization is leaving its mark on the Icelandic economy to a growing degree. Activities of financial institutions and businesses are increasingly being shaped by the laws that globalization ushers in.

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 and medium size 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 and medium sized 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.

Admittedly, Iceland has had to take the rough with the smooth in achieving an effective economic framework. Sharp swings, high inflation and devaluations were rife at various periods in the 20th century, strikes and fierce labour disputes reflected tensions within society. From the middle of the 1960s to the mid-1980s, inflation averaged 50% and was sometimes much higher.

Just over a decade ago, the government which was in office from 1988-1991 managed to bring inflation under control and create a foundation for lasting stability. Inflation was brought down from more than 20% to less than 2% in 1994, and few countries that have wrestled with such a high rate of inflation have achieved such a success. Since then, Iceland's economic policy has aimed to consolidate such balance, and has produced one of the best track records in Europe in this respect. A low rate of inflation, high economic growth, rising real wages and low unemployment are the characteristic features of the Icelandic economy during the last decade, although strong measures were sometimes needed in order to secure such results.

Iceland therefore has all the conditions in place to seize the opportunities presented by the economy of the 21st century, opportunities that new technology and the globalization of business create every single day. The transformed character of the economy and industry in recent years is much more favourable towards small and medium sized states than the conditions that prevailed for most of the 20th century. A strong case can be argued that our 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 our nations can rapidly become highly lucrative products in the global marketplace. Company growth in our 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 our nations with opportunities to flourish. Never before have they enjoyed such potential for prosperity and progress.

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 seems to prove competitive elsewhere in the world. Iceland can serve 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. Our businesses can now become the best in their fields in the world.

A number of Icelandic software companies have developed products in recent years which have attracted the attention of major corporations and governments around the world. Icelanders have been engaged in such cooperation with IBM, Ericsson, INTEL, Cisco, Vodafone and Motorola, to name a few examples. On my State Visit to Russia the authorities there showed a strong interest in Icelandic software for an emergency telephone network linking ambulance, fire, police and rescue teams. A

company that has earned the President of Iceland's Export Prize has developed a document storage application in which local government authorities, government agencies and major corporations in other countries have expressed an interest. Cooperation with the Icelandic administration played a key role in developing this software. Although Iceland's governmental apparatus is small, its scope is nonetheless sufficiently wide to reflect most of the problems that need to be tackled in larger societies, making Iceland a promising site for developing interesting products.

The airline Air Atlanta Icelandic – to be named next year Avion Group - which thirteen years ago owned only one small plane, is now the largest company in its niche in the world with successful specialised air services in Europe, China, the Middle East, Malaysia, Latin America and elsewhere, demonstrating once again the remarkable Icelandic achievement in aviation which is equally reflected in the fact that Icelandair operates daily more flights from Reykjavik to the United States than are available from Oslo, Stockholm and Helsinki combined.

The evolution of Pharmaco, now called Actavis, from a small Icelandic company to a major player in the global pharmaceutical business with operations in southern and central Europe, sales networks in Russia and the United States and fascinating partnerships in Asia is perhaps the most dramatic proof of how the transformation of the global economy has opened up new opportunities for Iceland. Our exports of pharmaceutical products to Germany now exceed our export of redfish to that large country which traditionally has been one of the most important markets for Icelandic fish.

If someone had predicted twenty years ago that Iceland could become a prominent player in the international pharmaceutical, financial and banking markets, that visionary would have been deemed completely crazy and he would probably have been voted down in every foreign business seminar. The success of Actavis and Kaupthing-Bank is therefore an interesting basis for examining the opportunities offered to us in the coming years. Kaupthing-Bank has within a decade developed

into one of the ten largest banks in the Nordic countries with successful operations on both sides of the Atlantic.

The transformation of Marel from its roots within the university research community in Iceland to its position at the outset of the 21st century as one of the most interesting food processing technology companies in the world shows how innovation which originates within the fishing sector can be applied in meat processing plants all over the United States and Europe. In addition to Marel many other companies with backgrounds in Iceland's fisheries sector now sell their technology around the world and some of them have set up plants and branches in other countries to increase their production and strengthen their position.

The foundation of deCODE and the development of genetic research in Iceland has gained worldwide attention and the director has spoken at so many conferences and given so many interviews with media in Europe and America that he probably has long ago lost count of the number. deCODE demonstrates how Iceland can serve as the basis for medical research business which is at the forefront of the evolution of the health sector in the 21st century, an area which will keep on growing in importance and turnover.

Fifteen years ago the prosthetics company Össur was housed in confined premises in the oldest part of Reykjavik but has now become probably the largest and the fastest-growing company of its kind in the world. Two years ago the group took over the US company Flex Foot. The spread of diabetes means that the prosthetics market is continually growing and this company is a classic example of how a small nation can assume a strong position globally for healthcare products.

There is much to suggest that, in the new economy, the small state can be an profitable basis for business innovations. In our 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 our states 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 us.

In addition to the opportunities which small states now enjoy there are other characteristics, like the nature of our culture, our traditional roots and customs which I believe are contributing, and will contribute even more in the future, to making our countries an interesting and a successful partner for investors in other countries.

Business culture in Iceland is dominated by six traditional strands which make it especially amenable to successful cooperation with others in the global market.

First, the Icelandic tradition of doing things is not very bureaucratic, maybe because we simply do not have enough people to fill all the parts in big bureaucratic structures, and this has given entrepreneurship in our country more freedom to manoeuvre and excel.

Secondly, Icelandic business relationships are very personal, the trust established between individuals in leading business positions is the essence of our community, a trust which is classical like the old saying: My word is my bond. This has enabled companies, large and small, to proceed more speedily and more effectively than their competitors in other countries where business structures have become more bureaucratic.

Thirdly, the entrepreneurship which was fostered in the traditional society of farmers and fishermen when the initiative of individuals was critical for successfully battling with the forces of nature, has in modern times become a strong driving force. In this sense Iceland is more of a "frontier society" than the old continental countries in Europe, more influenced by a spirit similar to that which has been a key element in the American success.

The fourth dimension is creativity. Icelandic culture has always respected the talents of individuals who compose poetry and tell stories, who are creative participants in their companionship with others. People who were original in their choice of words always enjoyed great respect and the nation has regarded poets as superior to officials. These attitudes have been passed on to the business community today – the Icelandic term used to describe a pioneer or entrepreneur is “athafnaskáld”, which literally means “poet of enterprise”. 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 globalised economy.

Fifthly, our business culture is very result-oriented, the tendency is to go directly to solving the task at hand, without emphasis on bureaucratic procedures or without extensive memo writing. The story about the Icelander and the Swede who were travelling in Africa when their car broke down illustrates this clearly. The Swede started to write a memorandum to headquarters but the Icelander got out of the car and started to repair it and soon they were able to drive on.

And sixth, our business culture is strongly interactive and offers opportunities for people from different sectors to establish cooperation without great difficulties or major bureaucratic hindrances. The extensive knowledge that business leaders have of the capabilities of others in different fields has enabled them to draw people together into promising projects.

It is the great opportunity of our times that we can create economic progress out of our traditional values, that we can be deeply rooted in our culture and highly successful in the modern global economy.

The future offers us opportunities to celebrate our heritage and strengthen at the same time the prosperity of our people.

That is the message I offer you here today and I thank you profoundly for the invitation.