



**The 21<sup>st</sup> Century:  
THE RENAISSANCE OF SMALL STATES  
In Global Business, Innovation and Partnerships**

**A Speech  
by  
the President of Iceland  
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Your Excellencies,  
Ladies and Gentlemen

When the chains of the Cold War were broken and waves of democracy and economic reforms began transforming Europe, ushering in an optimistic and dynamic vision of the future, many political leaders, experts and commentators predicted that the larger countries would be the success stories of the new Europe.

According to their forecast, Poland, Hungary, Germany, France and others would be in the forefront with continuous growth and economic prosperity, providing the stimulus which would carry the continent into a new era.

Now, almost twenty years later, we know that the landscape turned out to be different. Large European economies have gone through difficult times, often having to overcome deep and complicated problems, even crises; some are still struggling to find their footing in the evolving global economy, uncertain how to strengthen the foundations of future prosperity, how to execute necessary reforms and structural changes.

Meanwhile, many of Europe's smallest states have experienced the most successful period in their entire history. They have enjoyed strong growth, diversified their economies, created corporations and companies that have become leading players in the European and even global

markets. They have given their people opportunities to excel in areas that used to be insignificant in their economies, areas which are rapidly becoming the major growth lines in the 21<sup>st</sup> century economy: banking and finance, telecommunications and information technology, pharmaceuticals and fashion, creative arts and modern design – to name only a few.

The five Nordic countries – Finland, Sweden, Norway, Denmark and Iceland – all either small or medium-sized on the European and the global scale – have long been cited as models of economic and social progress, showing how welfare can be combined with competitive markets. In the last fifteen years or so many other small European states have also demonstrated success beyond what the larger European countries have achieved. Estonia, Latvia, Lithuania, Slovenia, Slovakia and Luxembourg are all examples of small European countries that have fared well in recent times compared to their larger European partners.

When we examine the transformation of Eastern and Central Europe following the downfall of communism, we see clearly a group of small states which has raced ahead of the historically dominant Eastern European countries. The smaller states have turned out to be more flexible, more dynamic, more successful in executing economic reforms. They have laid the foundations for prosperous and growing economies and taken greater advantage of the new global market and the internationalisation of finance, services and information technologies. Of course, these countries are beset with multiple problems, some severe and deep-rooted, but comparatively speaking, in the new Eastern and Central Europe it is the smaller states that have demonstrated the greatest success.

Further to the north, out in the Atlantic, my own country has similarly shown that smallness can provide a winning streak. For centuries, Iceland was one of the poorest countries in Europe, a nation of farmers and fishermen, numbering between 50 and 60 thousand people who were spread all around the island, living in isolation, struggling from one era to another as plagues and natural disasters kept the population from growing.

It was not until the first decades of the 20<sup>th</sup> century that the population of Iceland remained constantly at a level above 100,000, and it took almost a century to rise above 300,000.

Although Iceland is a member of the Nordic family of nations, it is essentially a different case. It was colonized for centuries, first by Norway and then Denmark, and did not achieve full independence until 1944. Our economy was underdeveloped, dominated by fishing and farming. Until the 1970s, Iceland was classified by the UNDP as a

developing country but last year it reached the No. 1 place on the UNDP global Human Development Index, having become one of the most prosperous countries in the world.

According to widespread and established thinking, it is almost inconceivable that such a small nation could produce one of the most viable and dynamic, entrepreneurial and creative modern economies. We are speaking about a nation that grew from 100,000 to only 300,000 throughout the 20<sup>th</sup> century – and let us remember that almost a half of that number are children and old-age pensioners. The productive part of the Icelandic population ranged from approximately 50,000 to 200,000 people throughout the 20<sup>th</sup> century.

Helped by the ending of the Cold War, globalisation, the information revolution and the removal of previous economic barriers, Iceland's small home market has in the last ten years produced dozens of companies which have become strong players in Western and Eastern Europe and also in Asia and the United States.

These Icelandic companies, which have utilized their experience in the small home market to get a foothold in other countries, include the following:

- Energy companies which specialize in clean energy, geothermal and hydro, and are now engaged in power projects in China, California, Europe, East Africa, and are discussing further advances into India, Indonesia, the Middle East and Central America.
- A pharmaceutical company which has grown from a small factory in Iceland to becoming the fifth largest generic pharmaceutical company in the world, with factories in many countries and sales networks in Asia, Europe and North – America.
- Telecommunication companies, mainly operating in Central and Eastern Europe, but also in Iceland and Finland; to some extent drawing on cooperation with the leading Chinese company, Huawei, to strengthen their market position.
- Banks which started to operate outside Iceland only ten years ago are now with presence in Northern Europe and elsewhere. Their early success was helped by solid pension funds that were established by trade unions and employers' associations some decades ago, making the Icelandic pension system one of the strongest in the world. History has shown that small states can

become centres for banking and finance. Venice and Florence in the Middle Ages, Lebanon before the Middle East entered a state of permanent crisis, Switzerland and Luxembourg in recent decades are all examples of this.

- A retail company established by a father and a son in a small location in a Reykjavík suburb less than 20 years ago has now become one of the leading such companies in Europe; a strong partner in a global network of 4,300 stores, employing around 70,000 people in more than 30 countries.
- A food company, founded by two brothers in a garage in Iceland two decades ago, is now the largest ready-made food company in Britain and is making inroads into China.
- A prosthetics company, producing artificial legs, established by a single innovator, has grown into one of the two largest such companies in the world.
- Information and software companies, which benefited from the creative Icelandic environment, in which smallness makes it easy to bring talented and trained people together. For example, the internet game company CCP has made EVE Online one of the most popular multi-player online games in Europe.

I mention these companies here today not to boast of the success of my country, but only to illustrate how one of the smallest nations in Europe has in recent years utilized the opportunities offered by the new global economy to achieve remarkable success.

Many commentators, both in the European media and representing competing foreign companies, have tried to explain away our success, and in doing so they have resorted to some far-fetched explanations, containing both hilarious and offensive claims.

Very few pundits have made the effort to understand how underlying global developments and modern transformations have enabled Iceland, and many other small European states, to achieve unprecedented success. Traditional thinking, both in academia, the media and some business quarters, has been dominated to such an extent by old thought-patterns, by a framework built on the 19<sup>th</sup> century theory of economies of scale or by the traditional emphasis on big players and large corporations, that the fundamental change which by the dawn of the 21<sup>st</sup> century has altered the global market has largely been ignored, especially as regards how smaller states can now utilize new opportunities to enter what I have termed a renaissance era.

Former obstacles to their growth have largely been abolished and replaced by a wide and open field where the talents, imagination and creativity of individuals determine what is harvested; not how big they are or the physical resources available to them.

In the last century, heavy industry, oil resources and manufacturing generated great economic wealth. That was the era of large nations which employed mass production as the means towards advancement. Information technology and globalization have dramatically altered this situation. Innovations can now emerge from any corner. Individual initiative and creativity can lay the foundation anywhere in the world for companies which in a short time can establish a global presence. Technology and intellectual products, special services and information systems developed within a small nation can rapidly become highly lucrative products in the international marketplace.

Company growth in small states is no longer subject to the old restrictions. Through globalization, companies can grow to gigantic proportions in their respective fields. The new economy of the 21<sup>st</sup> century has thus 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, the view that integration into regional alliances is the wisest course to take; that small states will run into trouble if they do not align themselves with others. Such arguments have dominated the European dialogue but on closer examination we see that the opportunities available to small states are related more to access to an open international business environment, and that such access can be ensured and consolidated in various ways.

For example, the core of Iceland's adaptation to globalization has been its membership of the European Economic Area, which was created by an agreement between the EFTA nations and the European Union. Under this agreement, Iceland belongs to the EU inner market regarding free movement of goods, services, labour and capital, but can make independent trade agreements with states and corporations outside the EU. We are now negotiating a free-trade agreement with China, and Iceland is the first, and until now the only, European country to engage in such negotiations with China. By being formally outside the EU, while being part of its internal market through the EEA, we have the freedom and flexibility to do this.

We could say that Iceland enjoys the best of both worlds: it can take advantage of the benefits offered by the EU in many fields, under both the EEA and the Schengen agreements, without any major sacrifices, and

also establish trade relations at its own discretion with nations and corporations elsewhere in the world – in the US, Asia and Latin America – without being tied to the complex EU negotiating processes. So far, this arrangement has turned out well for Iceland. We have benefited from European cooperation, but at the same time utilized the advantages of being a small state that determines for itself the relations with others. Admittedly, opinions in my country are divided as whether this arrangement can be maintained in the long run; consequently our future strategy is frequently under discussion.

In the last few months there have been, as you are undoubtedly aware, reports in the European media about the state of the Icelandic financial system. This is, however, nothing new. To prove that point, let me quote from a speech I gave in Finland nearly two years ago. That text is a healthy reminder that crises come but crises also go, for small states like all others.

In Helsinki on 24<sup>th</sup> May 2006 I said:

”Admittedly, there have recently been conflicting reports about the health and viability of both the Icelandic banks and the Icelandic business community, as well as about the Icelandic economy itself.....

No one denies that there are imbalances in the Icelandic economy at the moment, as witnessed for example by an unprecedented current account deficit and inflation that is well above the inflation target of the Central Bank. Part of this story has been a roller-coaster development of the Icelandic krona — first an unsustainable appreciation, and then a sharp fall in recent weeks. As usual in such cases - and there have been several around the globe — the process was driven by a combination of external developments, domestic over-optimism and actions within the Icelandic system.

It is, however, important to remember that imbalances and inflationary pressures are not new in Icelandic history. But we have weathered them before and will certainly do so again, although global financial forces play a larger role in the current episode than in the past.

Let me assure you that the present disturbances are small compared to the storms I faced when I became Minister of Finance in the late 1980s. Then we succeeded in steering the ship of state towards an era of economic stability which we consequently enjoyed for a long period of time.

We have, however, been reminded of valuable lessons. One is that if you are a player in the global financial system, it is of paramount

importance to keep foreign confidence in your financial institutions. Another is that reporting or misreporting by others can play a role.

It is worth noting that in the avalanche of reporting and evaluation to which we have been submitted in recent weeks, there is a prevailing characteristic: - The greater the knowledge of Iceland and the longer the experts have followed the Icelandic voyage, the more positive, informed and optimistic the conclusions have been.”

In another part of that same 2006 Helsinki speech I emphasized that:

“So long as the world continues to prosper, the Icelandic endeavours will remain on course – expanding and deepening their marketing positions in different parts of the world, gathering increased strength for future advances. Only a major recession in the global economy could derail the Icelandic journey.

Of course, some enterprises will from time to time be slowed down, and a few could even fail, as is the nature of any successful capitalistic economy, but on the whole the range and variety of Icelandic enterprises have now produced a solid, strong global network with reliable and firm links all over the world.”

I have quoted from this speech in 2006 to underline that economic difficulties for small states are bound to occur from time to time as happens in larger states. However, following those months into 2006 Icelandic banks and companies enjoyed for about a year and a half a period of extraordinary success, confirming once again what Iceland has demonstrated in the last ten years or so, that globalization and arrangements with larger economic associations, whatever form they take, can create a renaissance for small states if they apply firm policies that address the requirements entailed by opening up their economies.

Every entity now 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. Innovations come from all directions, and individuals and businesses in small states, or in small communities within larger states, can now rapidly attain key positions. Small size not an insurmountable obstacle. The traditional sectors of the industrial revolution, which based their growth on economies of scale, are no longer decisive.

In fact, there is much to suggest that in the new global economy, small states can be profitable bases for business innovations because in them it is easier to see how different elements can be linked together, how

to establish cooperation between different fields, gain access to information and experience and grasp solutions to difficult tasks. A small state can serve as a kind of laboratory or research station in precisely those sectors that are increasingly dominating the economy of the 21<sup>st</sup> century, sectors which are based on individual brainpower and creativity.

It is interesting to observe how culture makes an increasingly stronger impact on the competitive positions of nations; how the creative energy that it nourishes produces numerous opportunities. Small states are well placed in this respect, because their culture and customs, heritage and history, give them a unique position. Such qualities can prove decisive, fostering talents that allow entrepreneurs to excel and flourish, producing innovations based on research, development and experience in the small home market, which thus becomes a kind of training ground for companies wishing to penetrate larger markets. A novelty or a product which gains a foothold in a small state proves competitive elsewhere in the world. Companies are no longer held back by old boundaries. The entire world is now their playing field.

Although each small country is special in certain ways, the new global paradigm has universal application to the advantage of small states everywhere. The ICT revolution, globalization and other characteristics of the new 21<sup>st</sup> century economy, and especially the service, software and technology sectors, can arm small states with a wealth of opportunities for enhancing their economic growth. While they need to tackle a variety of problems, their qualities are precious assets in the new era. I have discussed several of these, 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 a democratic and open way of life which consequently strengthens the competitive market. It is interesting to note that, in antiquity, the cradle of Western democracy was in Athens and Rome, at a time when they were small states by modern standards.

In many ways, a small country is well placed to be a creative political laboratory, a fertile ground for democratic initiatives, a bearer of new ideas, an initiator of new thinking.

History shows that small states can serve as models for civilized society and transparent government. They also have the great advantage of being a threat to no one. There is no risk involved in engaging in broad 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. There are no problems involved in being their friends.



Such qualities are genuinely valuable at a time when complex relations, fears and even terror underlie the coexistence of nations. Many doors are open to small nations that remain closed to others. Larger countries often seek the assistance and contributions of small states because they know that these states will never become a threat to their partners. Such qualities are an important asset. We are thus increasingly witnessing that it is an advantage to be small and to be able to have everyone as a friend.

It was with reference to these characteristics and the increasing number of small states, both in Europe and other parts of the world, and because of the intellectually fascinating analysis of achievements by small states, that it was decided in Iceland a few years ago to establish a Centre for Small State Studies, based in the University of Iceland but linked to the Foreign Ministry and to the business community. The centre is constructed in such a way as to be international in membership and geared towards cooperation with other small countries. Since its foundation, it has run special courses devoted to the study of small states within the European Union.

Not only in Europe, but also in Africa, Asia, the Pacific, the Caribbean and the Middle East, small states now form a significant part of the political and economic mosaic. They are increasingly playing significant roles within global institutions, UN agencies, the IMF and the World Bank. Through their election to the Security Council, they have become, in the company of the major powers, crucial players when issues of peace and security are decided.

In the light of this impressive emergence of small states on the global stage, it is remarkable that their special role, their contributions, the hindrances and opportunities which characterise their involvement, their advantages and limitations, their uniqueness and common features have not been explored and examined in a way worthy of such a significant transformation of the international order.

The inauguration of the Centre for Small State Studies in Iceland demonstrated a determination to create a broad international forum where scholars and researchers, officials and political leaders, entrepreneurs and opinion-makers, could come together and examine the role of small states in the modern world, gain new knowledge and profound insights and also discuss how to make small states more effective players on the global stage, enhance their influence, improve their performance, strengthen their economies and provide their citizens with a better life.

Certainly, small states face a great variety of problems, some of them crucial to their very existence. For some, consolidation of their

sovereignty, their security in the face of armed threats, crime and the lack of civil order are still the priority agenda. Environmental disasters, rising sea levels, deforestation and desertification are the preoccupation of others. But small states have also demonstrated how they can significantly strengthen democracy and human rights, international engagements and political creativity, shown for example by Trinidad and Tobago in the campaign for the International Criminal Court, by the Baltic States in the break-up of the Soviet Union and the establishment of democracy in eastern Europe, and by Iceland in the evolution of the Law of the Sea in the 1970s and the 1980s.

The contributions made by small states towards reforming the international community and making the world more civilised are certainly well out of proportion to their small populations. The explanation of this lies partly in their flexibility, their ability to act and initiate when others are silent and passive, in their freedom to engage in operations which would be unthinkable if larger countries were involved because those countries often have complex interests and huge bureaucracies which at times render them unable to act quickly on urgent matters.

It will be fascinating to observe in the coming years how the small European states will use their membership of NATO and the European Union to influence the evolution of the European vision and the course of the trans-Atlantic relationship. Recent events have shown how they can play a crucial role in the dialogue with America and in the evolution of Europe. Never before have so many small states been full partners in the development of the European future.

We must therefore develop greater cooperation between our small nations in order to utilize the fascinating opportunities which the 21<sup>st</sup> century has brought us. It is important that we examine and discuss these new dimensions in an open and constructive way. I am thus both pleased and honoured to be with you here today.