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The challenges faced by small national economies

Motion for a resolution

tabled by Ms Marie-Louise COLEIRO PRECA and other members of the Assembly

This motion has not been discussed in the Assembly and commits only those who have signed it

Economies vary sometimes considerably in size and level of development, even in such relatively homogeneous groups as the European Union. In discussing economic and social policy issues, attention very often tends to focus on large economies. This implies that the particular characteristics and challenges faced by small national economies do not receive the necessary attention

There is a whole body of literature that suggests that small national economies face additional challenges in sustaining economic growth. These costs are further compounded if such economies are at the periphery of an economic zone. These factors should be taken into consideration when discussing economic and social issues.

The additional costs borne by small, peripheral economies can be attributed to a number of factors. These can range from the inability to benefit from economies of scale, a higher reliance on strategic imports such as food and fuels, to limited absorption capacity and the issue of indivisibility of costs. Moreover, small national economies are more open and therefore more exposed to external shocks.

Openness to trade is not limited to merchandise trade. Indeed small national economies, especially those in the European Union, are particularly dependant on a limited number of activities such as financial services and/or tourism. Hence, output in small states tends to be more volatile due to the compounding of certain characteristics:

- i. their greater openness exposes them more to changes in world market prices and world demand;
- ii. their lack of economic and export diversification leaves them more exposed to terms of trade shocks.

Small national economies on the periphery of an economic block also face additional transport costs. Indeed, transport costs impact on the vulnerability of an economy. Small national economies are also more exposed to uncertainties with regard to the supply of energy fuels and telecommunication services. Small national economies are also burdened with the running of the necessary administrative institutions that are set up to implement not only their national financial and economic policies, but also global policies.

Consequently, even if a small country has a high GDP per capita, it still has a disproportionate exposure to external developments, an exposure widely referred to as economic vulnerability. Over the past years there have been a number of attempts to measure vulnerability. The general conclusion that has emerged from these studies is that small states tend to be more economically and socially vulnerable than other groups of countries.



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The Parliamentary Assembly should raise awareness of the vulnerability of small economies and the challenges that they face in pursuing economic growth, and propose recommendations to national governments designed to help meet these challenges.

Signed (see overleaf)

*Signed*¹:

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