Resolution 1848 (2011)[1]
Final version

The challenges faced by small national economies

Parliamentary Assembly

1. Council of Europe member states differ significantly in terms of size and level of development and are not confronted with the same policy challenges. In considering economic and social policy issues, much attention tends to focus on large economies, while the particular characteristics, development problems and vulnerabilities of small national economies often get overlooked. Because 21 of the 47 member states with a population of less than 4.5 million can be considered as small national economies, the Parliamentary Assembly believes it is necessary to raise awareness and stimulate public debate on this issue both in these countries and among their international partners – whether they be states or organisations.

2. Moreover, as the Council of Europe seeks "to achieve a greater unity between its members for the purpose of safeguarding and realising the ideals and principles which are their common heritage and facilitating their economic and social progress", it is necessary to ensure that the development potential and capacity of the smaller states is fully exploited, through adequate policy choices at national and European levels.

3. Although their economic and social profiles vary considerably, all the small Council of Europe member states have been heavily affected by the global financial and economic crisis and some, faced with particularly serious problems (such as Iceland, Latvia and Moldova), have required emergency assistance. The crisis has highlighted these countries' economic and social vulnerability, which is due to a combination of factors: small domestic markets, limited diversification of local production and exports, high dependence on foreign markets, insufficient local resources, weaknesses in public and private sector capacities, difficulties in managing cross-border capital flows and attracting investment, as well as susceptibility to population movements and natural disasters.

4. The Assembly therefore insists on the importance of good governance through institutions, human resources and legal order in underpinning development. It views efforts to ensure sound macroeconomic fundamentals, diversify national economies, strengthen institutional capacity, build up competitiveness, optimise use of local resources, secure adequate transport and energy interconnections, and foster human progress as the key drivers of a long-term and sustainable development strategy for small states.

5. The Assembly is convinced that small states have no choice but to be open to investment, trade, new ideas and change, to constantly adapt and transform their economies in order to raise living standards, enhance the quality of life of their population and secure the benefits of globalisation in the increasingly liberal global trading environment. It believes that international organisations can play a very useful role in ensuring a level playing field and greater solidarity between small and big actors on the global economic scene. They can also assist capacity building in small states.

6. Given the importance of the financial sector to the development of small economies, the Assembly points to the need to seek a better balance between financial services and the rest of the economy. It is particularly concerned about the prevalence of monopoly situations (private or public) with a risk of market

1. Text adopted by the Standing Committee, acting on behalf of the Assembly, on 25 November 2011 (see Doc. 12779, report of the Committee on Economic Affairs and Development, rapporteur: Mrs Coleiro Preca).

distortions and undue influence of vested interests in small national economies. It also stresses the need to rein in budget deficits and to return to a balanced budget situation. Resorting to domestic rather than external borrowing would increase resilience of national economies to external shocks.

7. The Assembly notes a growing public concern over the quality of life and the sustainability of development. It underscores the huge economic potential of the environment sector in this respect, not least through the emphasis on green and cultural tourism, as called for in its Recommendation 1835 (2008) on sustainable development and tourism: towards quality growth. The Assembly, moreover, considers that small states could lead the way in Europe by testing green development options.

8. The Assembly believes that in order to fully tap their development potential, small states need to enhance their human capital through social policies. Moreover, they should seize the opportunities of the economy of speed rather than the economy of scale by using e-governance and high technologies that make it possible to boost efficiency, create new jobs, render information more accessible and help transform competitors into partners, irrespective of their size or location.

9. The Assembly therefore invites the small Council of Europe member states to:

9.1. build a national consensus around the efforts of constant improvements in the functioning of justice systems and the rule of law, macroeconomic stability, tax administration and public resources management, social services, entrepreneurial activity, personal security, civil society participation, transparency and accountability;

9.2. closely monitor the role of monopolies, oligopolies and monopsonies play in their economies and, if necessary, to reassess their policies on privatisation and regulation in order to spread economic well-being more evenly across the population and to fully involve the private sector in the implementation of national development strategies;

9.3. seek the closest possible regional ties, alliances with other small states and partnerships with multilateral development institutions and international organisations such as the European Union, the European Investment Bank (EIB), the Council of Europe Development Bank (CEB), the European Bank for Reconstruction and Development (EBRD), the International Monetary Fund (IMF), the World Bank and the World Trade Organization (WTO);

9.4. use public–private collaboration and the support of multilateral development banks in exploiting new technologies fully to boost national welfare systems, infrastructure and regulatory frameworks;

9.5. consider ways of not only improving the regulation and transparency of financial services they provide, but also of using them to develop other types of domestic economic activity, thus gradually reducing the reliance of national well-being on the financial sector;

9.6. use fiscal incentives to encourage microcredit schemes, to ensure fair access of all economic players, especially small entrepreneurs, to financial resources and to promote socially responsible investment policies so that a sufficient share of corporate profits is reinvested locally;

9.7. accord high priority to the provision of affordable, accessible and efficient services for education, training and health care;

9.8. accelerate a shift towards the green economy through a dedicated national strategy and investment in this field;

9.9. put in place policies and incentives for retaining highly skilled members of the population and attracting back to the country those who have emigrated;

9.10. foster investment in recycling waste and its transformation into energy and new resources;

9.11. develop their transport and energy interconnections by, as appropriate, taking full advantage of their European Union membership or Eastern Partnership facilities, action plans for the development of Trans-European Networks and the related financing schemes through the EIB loans and European Union funds, including the Structural Funds and the Cohesion Fund.

10. The Assembly also invites the relevant international organisations to assist capacity building in small national economies and to take into account the latters' specific needs in their work on policy advice and development strategies.