Small States in a Global Economy – Crisis, Cooperation and Contributions

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In an era of globalization, no country can be an island disconnected from the rest of the world and small states are now integrated in the global economy. The analysis in this book shows that the experiences of small states can be valuable for other countries but at the same time, small states can be vulnerable. This book discusses several issues that are of global importance and analyses how small states are affected, why they can be vulnerable and how their experiences can be beneficial globally, including for larger states. The issues discussed include the 2008 global economic and financial crisis; governance issues and vulnerabilities in small states with small institutions and limited administrative capacity; international development cooperation; and how small states can contribute to the global transition to clean energy. Each chapter is a case study. The first chapter discusses how Iceland and Latvia were affected by the 2008 crisis, how they responded and what the post crisis results are both economically and in terms of human progress. The second chapter talks about governance failure in Iceland that resulted in excessive expansion of its banking system and then the total collapse of its financial system. It also discusses the response of the international community, failures in EU financial integration, and tensions between Iceland and “friendly” nations that refused to assist the Icelandic government when it tried to rescue its banking system. The third chapter discusses how the Baltic States, which have transformed themselves from being provinces in the former Soviet Union into modern states, can assist other less advanced transition countries. The chapter argues that the transition experience of the Baltic States can be particularly relevant to emerging countries in Europe and Central Asia. The fourth chapter discusses Iceland’s unique transition to clean energy and how it could assist developing countries in their quest to utilize more of their own clean energy sources for their own as well as for global benefit. In this chapter the role of international financial institutions is analysed to show how they, in partnership with a small country like Iceland, can contribute more effectively to the global transition to clean energy in developing countries. The fifth and final chapter is a concluding chapter that discusses what lessons can be learned from the previous chapters, challenges small states are faced with in a global world, and how they can contribute constructively to the development and well being of other countries globally.

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“The case of Iceland is truly fascinating and this book made me want to learn more about Iceland and its relationship with Nordic countries.”
- Reviewed by Hirokazu Miyazaki, (Professor of Anthropology, Director, East Asia Program and Coordinator, Global Finance Initiative, Cornell University)

“This book will be assigned in my future classes, and recommended for our students.”
- Reviewed by Dr. Christine Ingebritsen, (Professor and Director, Center for West European Studies, the University of Washington)

“Well written and thoughtful. An excellent exercise.”
- Michal C. Moore, Ph.D. (Energy & Environmental Policy Distinguished Fellow, School of Public Policy and Professor of Energy Economics, Department of Economics, University of Calgary)

“In this book Professor Hilmarsson offers an interesting analysis of a wide range of small states issues. This includes how small states can help solve some of the world’s greatest problems, including the transition to clean energy and the transition to a market economy. It also shows that small states do not react uniformly to international financial crises. Some emphasize close cooperation with international organizations while others are more likely to pursue bilateral relations or even act unilaterally. No single formula can explain the behavior of small states in the international arena.”
- Professor Ligita Šimanskienė, Klaipėda University, Lithuania

“Professor Hilmarsson provides an excellent analysis of how small states respond differently to an economic and financial crisis. In Iceland the government was isolated during the 2008 crisis, all its major banks fell and the currency depreciated sharply. Nevertheless Iceland managed to protect its welfare system and the economy is recovering remarkably well. Latvia received strong international assistance during the crisis mainly from the EU as well as the Nordic countries which had and still have strong interests in the Baltic financial sector. Latvia now enjoys strong economic growth but unemployment and income inequality remain a concern. In this book Professor Hilmarsson also shows how the Baltic States can increase the effectiveness of their development programs by engaging in policy dialogue with less advanced transition countries in Europe and Central Asia. He further shows how Iceland can contribute to the transition to clean energy in developing and emerging market economies in partnership with international financial institutions. This is an important contribution and I strongly recommend it to anyone interested in the economic and financial literature focusing on small states.”
- Reviewed by Dr. oec., assoc. prof. Ramona Rupeika-Apoga, University of Latvia

“This is an important contribution to the small states literature. In this book Professor Hilmarsson shows how small states like Latvia and Iceland can become vulnerable during times of economic and financial crisis, especially when confronted by larger states and international organizations, including international financial institutions. He also demonstrates how small countries can make contributions of global importance: the Baltic States through their international development cooperation when assisting less advanced transition countries and Iceland through assisting emerging countries in their transition to clean energy. The ideas in this book are likely to prompt discussion and debate.”
- Reviewed by Professor Dr. Erika Samilo,(Head of the Department of International Economics and Business, University of Latvia)

“In this book Professor Hilmarsson makes an important contribution to the study of small states in a global economy. His empirical evidence casts doubt on some of the conventional wisdom concerning optimal foreign policy strategies. The study examines small states during the 2008 global financial crisis, the contribution of small states to economic development and transition to markets, and their potential in the transition to clean energy. Hilmarsson uses his extensive knowledge of Iceland and the Baltic States to explore empirically the effectiveness for small states of multilateralism, bilateralism, unilateralism, and cooperation with international organizations, including international financial institutions. The evidence shows that no single strategy fits all circumstances. Strategies such as working closely with a group of larger nations (or not doing so), can bring benefits but also costs when relationships involve conflict of interest. Hilmarsson, with his broad academic background and experience, work on three continents as a staff member of the World Bank Group, and advisor to Iceland’s foreign minister, was well placed to make a substantial contribution to the burgeoning small states literature.”
- Thráinn Eggerþsson, (Professor of Economics, University of Iceland and Adjunct Professor, Hertie School of Governance, Berlin