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And What if the Country Size Matters

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Abstract

This article explores the 'Size of Nations Hypothesis,' examining how geographic, demographic, and economic size influence national development. It discusses the trade-offs between economies of scale in large nations versus the agility and trade openness of smaller states, concluding that governance and innovation are more critical than physical size for achieving sustainable and inclusive growth.

Keywords: country size economic growth development economics Size of Nations Hypothesis sustainable development governance economies of scale heterogeneity costs.

Introduction

There is no single universal definition of country size, but in economics and political science the concept is generally understood along three measurable dimensions: Geographic Size (Territory) related to the physical land area of a country, usually measured in square kilometers. For example, Russia is the largest country by land area, while Malta is among the smallest. Demographic Size (Population) related to the number of inhabitants, which determines the scale of domestic markets and labor supply. China and India are the largest by population, while Iceland or Botswana are relatively small. Economic Size (GDP) related to the total value of goods and services produced, often used as a proxy for a country's weight in the global economy. For instance, the United States has one of the largest GDPs. In development economics, country size is often treated as a composite variable that combines territory, population, and economic capacity. There is a well-known economic hypothesis related to country size, often referred to as the « Size of Nations Hypothesis ». It originates from early development economics and was later formalized by Alesina and Spolaore (2003) in their influential work « *The Size of Nations, Journal of Economic Growth* ». The hypothesis argues that country size affects economic performance through three main channels : Economies of Scale which state that larger countries can spread the fixed costs of public goods (infrastructure, defense, administration) across bigger populations, lowering per-capita costs. Heterogeneity Costs state that larger populations and territories tend to be more diverse, which increases governance complexity, inequality, and the risk of political fragmentation. Openness and Trade state that small countries compensate for limited domestic markets by being more open to international trade and specialization, while large countries can rely more on internal demand. The origins of the debate on whether country size matters in development can be traced back to early contributions by Simon Kuznets (1960), who first linked demographic and territorial size to economic performance. Soon after, Robinson (1960) and Michealy (1962) examined the vulnerabilities of small states, emphasizing their dependence on trade and exposure to external shocks. Later, Jalan (1982) provided empirical evidence on small countries, showing that while structural constraints exist, strong governance can offset them. These foundational works introduced the “country size problem” into development economics, framing size as a contextual variable rather than a deterministic factor. The debate was systematized by Alesina and Spolaore (2003), who offered a formal model linking country size to public goods provision, heterogeneity costs, and trade openness. More recent studies (Bertram and Poirine, 2023; Read, 2023; Thorhallsson and Wivel, 2024; Easterly and Kraay, 2025) have updated this discussion, confirming that institutions, openness, and innovation outweigh sheer size in shaping

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outcomes. Applied to contemporary cases, larger countries such as Nigeria, South Africa, India, China, and Brazil demonstrate how scale can drive economic growth but complicates environmental quality and inclusive growth. Nigeria's oil wealth has fueled GDP expansion but created severe ecological damage in the Niger Delta. South Africa's industrial base supports regional trade but its reliance on coal undermines environmental sustainability. India and China have lifted millions out of poverty, yet both face regional inequality and pollution crises (Alesina, Spolaore and Wacziarg, 2024). Brazil's stewardship of the Amazon rainforest illustrates how large ecological assets are difficult to protect under competing economic pressures (Bertram and Poirine, 2023).

In contrast, smaller and medium-sized countries such as Mauritius, Botswana, Tunisia, Singapore, Luxembourg, Denmark, Costa Rica, and Rwanda show how compactness or moderate size can be leveraged for resilience. Mauritius and Botswana have combined openness with prudent governance to achieve inclusive growth (Read, 2023). Tunisia, though not large, has invested in renewable energy and organic agriculture, integrating environmental quality into its development strategy while fostering social inclusion. Singapore and Luxembourg thrive through specialization and global integration, while Denmark and Norway combine welfare systems with environmental stewardship (Thorhallsson and Wivel, 2024). Costa Rica demonstrates how prioritizing renewable energy and forest conservation can sustain growth, and Rwanda shows how investment in health, education, and digital innovation can ensure inclusive growth despite modest size (Easterly and Kraay, 2025).

In conclusion, the literature demonstrates that country size shapes opportunities and constraints but does not predetermine development success. Large states must manage complexity, inequality, and environmental pressures, while small and medium states must balance openness with resilience. Ultimately, economic growth, environmental quality, and inclusive growth depend less on size and more on governance, innovation, and integration into global systems.

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