

1. Entrepreneurship in Europe's border regions

David Smallbone, Friederike Welter and Mirela Xheneti

INTRODUCING CROSS-BORDER ENTREPRENEURSHIP

This volume is concerned with entrepreneurship and economic development in Europe's border regions, focusing on the effects of EU enlargement, both within the EU and in neighbouring countries. Particular attention is paid to cross-border entrepreneurial activity, which we refer to as cross-border entrepreneurship. A wide range of types of entrepreneurial activity can take place across international borders, from informal shuttle or petty trading activity at one extreme to formalized joint ventures and strategic alliances between enterprises at the other. At a global level, the increasing internationalization of production systems inevitably leads to the development of cross-border operations, in forms that include partnerships of different types. These include subcontracting, joint ventures and franchise arrangements, which can operate at different spatial scales.

Although the existing evidence base is limited, there are examples of cross-border cooperation involving SMEs in different parts of the world, which demonstrates the potential contribution of this type of activity to regional development. For example, the economic success of the southern provinces of China from the 1980s onwards largely came about because of the highly efficient cross-border SME alliances and joint ventures involving mainland Chinese businesses and Hong Kong-based SMEs (Ze-wen et al., 1991). In Europe, a large number of cross-border partnerships have emerged, which involve German and Austrian SMEs working with SMEs in post-Communist economies, such as Poland, Hungary and the Czech Republic, as well as between Greek and Bulgarian SMEs (Huber, 2003; Krätke, 2002; Labrianidis, 1999).

In this context, faced with rapidly changing international market environments, cooperative inter-firm activity may be viewed as a rational strategy for SMEs seeking to respond to competitive pressures with limited internal

resources. For entrepreneurs, such cooperation can offer an opportunity to access new markets and/or sources of supply, as well as possible access to sources of capital, labour and/or know-how. For firms located in border regions, which are often economically disadvantaged, cross-border cooperation may offer one of the few opportunities for business development. At the same time, the nature and extent of these opportunities will vary according to the nature of the border, the external environment for entrepreneurship, and characteristics of firms themselves. As a consequence, the nature and extent of this type of cross-border activity is affected by the heterogeneity of border regions, in terms of formal and social institutional structures, linguistics and ethnicity, all of which can influence economic processes long after the demise of formal and physical borders (Huber, 2003; Perkmann, 2005; 2003).

It is equally important to stress that cross-border partnerships must not be seen as a panacea for SMEs facing increasing internationalization forces. Some SMEs in transition and developing countries, in particular, have already experienced the negative effects of foreign companies seeking partners as a short-term expedient, faced with uncertain local market conditions. Such firms may also experience few of the learning benefits that are one of the prime justifications at the micro level for this type of strategy in the longer term.

Cross-border entrepreneurship can provide opportunities for regional development as well as for individual entrepreneurs. This particularly applies in the context of border regions, which are typically peripheral to the core of national economic activity, with few development assets. As a result, creating a policy environment to enable and facilitate productive forms of cross-border cooperation may be a necessary part of the regional development strategies for these border regions. However, the relationship between entrepreneurship development and cross-border cooperation is likely to be a reciprocal one. On the one hand, cross-border cooperation may act as a stimulus for entrepreneurship development in regions that in many respects appear disadvantaged and peripheral. On the other hand, the nature and extent of existing entrepreneurship in a region is likely to affect the level of interest in cross-border cooperation, because it will affect the number of individuals and businesses that seek the markets, suppliers, capital and know-how that cross-border enterprise cooperation potentially offers. Either way, there are implications for the environment for entrepreneurship, and thus for entrepreneurship policy.

Although cross-border cooperation may be viewed as a potential asset for regional development, with potential political, as well as economic benefits, the heterogeneity of border regions and the different levels of economic development, institutional settings and levels of entrepreneurship affect the

processes of interaction across borders. These are important features to understand when designing relevant policies to assist in the development of these regions.

THE CONTEXT OF EU ENLARGEMENT

A key part of the context for this volume is the enlargement of the European Union. Without doubt, the process of EU enlargement has redrawn the political map of Europe, with particular implications for regions that are adjacent to the new borders of the EU. This presents entrepreneurs and businesses with new sources of threat and opportunity, which in turn have implications for regional development. The orientation of the new EU members towards the West combined with new regulations for cross-border movement of goods and people may significantly hamper existing cross-border cooperation of individuals and enterprises. On the other hand, cross-border cooperation offers a potential source of opportunity which can lead to enhanced competitiveness for entrepreneurs and businesses on both sides of a border. It may be argued that, unless special measures are taken, enlargement of the European Union will produce negative effects on the adjoining countries, such as Ukraine, Belarus and Moldova, and especially on their border regions.

For firms in the newly independent states (NIS), low domestic purchasing power can limit the scale and scope of domestic markets, encouraging those with ambitions to grow to look abroad to identify and develop new market opportunities. In such circumstances, subcontracting and other forms of collaborative arrangements with foreign firms offer certain advantages, compared with more independent strategies for penetrating foreign markets, since they can reduce market entry costs and barriers, with lower associated business risks. At a household level, cross-border cooperation can present opportunities for entrepreneurial people to engage in trading activities, which, although typically offering a means of survival, can also offer a stepping stone towards the development of more substantial enterprises, for those with substantial entrepreneurial drive. Additionally, institutional cooperation can be instrumental in facilitating sustainable cross-border partnerships between enterprises, contributing to enhanced competitiveness for participating regions.

In changing the shape of Europe, enlargement has resulted in some external borders moving, some internal borders being dissolved, old borders re-emerging, and new borders being established. The status of a number of previous EU border regions (such as in Austria and Germany) have changed from external to internal borders of the EU, and a number of

new member states (for example Baltic countries, Czech Republic, Poland and the Former Yugoslav Republic of Macedonia (FYRoM)) have formed new external border regions/borders of the EU as a whole. EU integration has been accompanied by an increase in regional disparities as a result of the concentration of economic activities in capital cities or other core regions (Ezcurra et al., 2007; Petrakos, 2001; Dunford and Smith, 2000). The enlargement process favoured regions in proximity to the EU core, leaving many border regions in a vulnerable position (Monastiriotis, 2008; Hughes et al., 2003). As many border regions are among the more disadvantaged areas in Europe, their development prospects are an important aspect of the enlargement process, emphasizing the potential importance of cross-border interaction and cooperation for economic development purposes.

With the accession of ten new member states, the share of border regions in the total area of the EU increased from 22 per cent in the EU15 to more than 35 per cent in the EU25, while the percentage of the population living in border regions rose from 15 per cent to almost 25 per cent (Niebuhr, 2005). According to the European Commission (2001), regions along the former external EU border, in particular, may experience distinct integration effects because of their proximity to the new member states. In general, these internal border regions are expected to benefit from economic integration in the medium and long term, since increasing cross-border interaction, combined with a favourable location in the enlarged EU market may initiate dynamic growth processes in these areas, although the effects may be differentiated by the pre-existing level of economic development.

However, in the short run, internal border regions might face pronounced adjustment pressures due to increased competition in product and labour markets (Niebuhr, 2005). Regions with internal borders within the EU are not regarded by the European Commission as principally disadvantaged, whereas external border regions (that is, areas along the external EU borders), are assumed to be in a more difficult situation. This particularly applies to regions along the eastern borders of new member states. Hypothesized effects of recent and planned enlargement of the EU may be drawn from the experience of previous enlargements. In considering possible implications for border regions, it is important to note indirect influences through, for example, the effect of enlargement on national economies, as well as direct effects on border regions.

In the 1990s, Western European integration was strengthened by the creation of the Single Market in Europe, the EU accession of three EFTA member countries and by the introduction of the single currency (Fidrmuc et al., 2002, p. 46). The general view is that EU enlargements have changed the external business environment, offering new markets and challenges for entrepreneurs in all countries, but also threats (for example Lejour et al.,

2001; Brücker, 2001), particularly for weaker regions and weaker firms (for example Smallbone et al., 1999). Each of the previous enlargements has brought challenges, but it has been suggested that the nature and potential scale of Eastern enlargement is both the largest and most challenging to date (for example Lejour et al., 2001).

Eastern enlargement is also qualitatively different from earlier rounds, because it includes very different countries compared to existing members and occurred in a more integrated environment (Bellak, 2004). Brenton (2002, p. 1), for example, has noted that Eastern enlargement has four key differences compared with earlier enlargements: a broader dispersion of income levels; new members are transition countries on their way from centrally planned towards market economies; more EU legislation has to be adopted; and a substantial degree of pre-accession integration exists. In order for Central and Eastern European countries (CEECs) to join the EU, a number of conditions had to be met: the existence of a market economy; the capacity to withstand competitive pressures; and the capacity to take over and implement the *acquis communautaire* (EU law and regulations) (Grabbe and Hughes, 1998; Lavigne, 1998).

Although Eastern enlargement has expanded the population of the EU by about one-fifth, new member states only account for 4.6 per cent of the GDP of the enlarged EU (Trichet, 2004), reflecting the low per capita income levels in CEE countries. The process of catching-up assumes positive implications for economic growth and welfare, as well as fostering economic and financial integration. The enlarged EU represents the world's largest unified market, accounting for about one-quarter of total world trade and global income (Trichet, 2004). These changes create new conditions for enterprises, both in new member states (for example rapid trade expansion to the EU), and existing members (for example also new markets for goods; FDI to CEECs), but there are also threats.

THE PROJECTS

This volume is based on research undertaken in two related projects. These are briefly described below, although key findings are found throughout the book. The two projects had broadly similar objectives and common leadership, although the geographical focus was different, as was the level of funding. Project One focused on regions in the NIS that had borders with EU member states, whereas Project Two was concerned with border regions within EU member states. There was also some difference in timescale between the two projects. Nevertheless, the results are complementary as they focus on regions on different sides of the EU border. Both projects

operated with local partners¹ in each country, who are responsible for the data collection within their country.

Project One: Cross-Border Cooperation in Belarus, Moldova and Ukraine and EU Enlargement (2005–07)

Funded under the INTAS² scheme, this project investigated the nature, extent and forms of cross-border cooperation in Ukraine, Belarus and Moldova in border regions with EU members and upcoming accession states, in order to assess its contribution to entrepreneurship, economic and social transformation. Key themes were the potential of cross-border entrepreneurial partnerships for economic development; the role of trust and learning in relation to cross-border cooperation; and the effects of EU enlargement. Interviews were conducted with representatives of households and enterprises in each of the case study regions. A total of 300 in-depth interviews were conducted face to face with representatives of institutions (10 per region), enterprises (20 per region) and households (10 per region) in Belarus, Moldova and the Ukraine.

Project Two: Cross-Border Cooperation and Entrepreneurship Development (CBCED) (2006–08)

Funded under the EU Framework VI programme, the CBCED project was concerned with entrepreneurship in EU border regions, focusing on cross-border cooperation. Through its focus on economic development, CBCED complemented previous projects (that is, EUDIMENSIONS, EXLINEA) which had investigated other aspects of cross-border cooperation. CBCED sought to contribute to evidence-based approaches to policy development with respect to cross-border entrepreneurship. The project has analysed the implications of EU enlargement on entrepreneurship development in different types of border regions and assessed the potential for cross-border entrepreneurship contributing to regional development, in EU border regions. A total of 510 in-depth interviews were conducted face to face with key institutional informants and business support organizations (15 per region), enterprises (15–20 per region) and households (10–15 per region).

Specific issues investigated include the effect of border changes on the perception of entrepreneurs and institutional actors, with respect to regional identity; the scope for the development of emerging clusters of economic activity in border regions; and assessing the role of individual and collective learning at the regional level, as well as personal and institutional trust, for fostering or impeding cross-border cooperation and its contribution to

economic development. A key element was to make practical recommendations to policy makers and practitioners in the fields of entrepreneurship and economic development, concerning cross-border cooperation, which were presented at a workshop in Brussels at the end of the project in the form of a policy briefing.

In both projects, the methodology employed included a review of the existing evidence base and relevant theoretical literature. It focused on eight case studies of border regions in Project One and 12 case studies of border regions in Project Two, each of which involved a combination of secondary data and primary, empirical investigation. As well as interviewing the owners and managers of businesses of different sizes that were, or had been, involved in cross-border cooperation, in each case study region the researchers investigated the experience of local actors, such as local authorities, business associations, business support organizations and informal network groups, with respect to different forms of formal and informal cooperation across borders. In order to capture a wide range of entrepreneurial activity, individual traders and households were included. In analysing the scope and nature of cross-border cooperation, the project particularly focused on the role of trust, and on individual and collective learning, assessed in relation to other factors, as influences on the success of these cross-border relationships, in terms of their longevity and the benefits that accrue to the respective partners.

INTRODUCING THE CASE STUDY REGIONS

Empirical investigation was conducted in a total of 20 regions: eight in Project One and 12 in Project Two. The case study border regions were located in Belarus, Finland, Germany, Moldova, Poland, Greece, Ukraine, Bulgaria and Estonia. Each of the case study regions (CSRs) is briefly described in the rest of this section. These summaries are intended to provide a context for the detailed description of cross-border entrepreneurship in subsequent chapters.

Project One

In this project, empirical investigation was undertaken in three border regions in Belarus and Ukraine and two regions in Moldova, which is a much smaller country. In Belarus, the regions studied included Grodno, which borders Poland and Lithuania; Brest, bordering Poland and Ukraine; and Vitebsk, which borders Lithuania, Latvia and Russia. Official statistical data for the number of small enterprises and individual entrepreneurs per



Notes:

CBCED regions: Tornio (1) and South Karelia (2) in Finland; Ida Viru (3) and South East Estonia (4) in Estonia; Biała Podlaska (5) and Zgorzelec (6) in Poland; Gorlitz (6) and Hochfranken (7) in Germany; Kyustendil (8) and Petrich (9) in Bulgaria; and Serres (9) and Florina (10) in Greece.

INTAS regions: Western Ukraine (11) in Ukraine; Cahul district (12) and Edinet district (13) in Moldova; Grodno (14), Brest (15) and Vitebsk (16) in Belarus.

Source: Adapted from <http://www.nationsonline.org>.

Figure 1.1 Map of the case study regions

1000 inhabitants reveals a higher level of entrepreneurial activity in the population in the regions containing Vitebsk and Grodno compared with Brest.

In Ukraine, the empirical investigation was undertaken in three border regions of western Ukraine: the Lviv, Volyn and Zakarpattya regions, which have common borders with Poland, Slovakia, Hungary and Romania. The three regions comprise 9 per cent of the total territory of Ukraine and 10 per cent of its population. The population density in the Lviv and Zakarpattya regions is above the Ukrainian average, whilst the Volyn region is less populated. The level of small business development in the Lviv and Zakarpattya regions (at 62 and 60 small enterprises per 10 000 inhabitants) is close to the Ukrainian average (60), but it is lower in the Volyn region (45 small enterprises per 10 000 inhabitants). All three of these regions in western Ukraine have suffered from a high level of emigration, related to a reduction of employment opportunities at home. Lviv and Zakarpattya belong to the Carpathian Euroregion territory and Volyn is part of the Bug Euroregion.

In Moldova, the case study regions included the Cahul district in the southern part of the country, and the Edinet district in the north. Both districts have a common border with Romania and are members of Euro-regions. Cahul district is part of the Lower Danube Euroregion and Edinet district is part of the Upper Prut Euroregion.

Project Two

This project conducted empirical investigation in 12 case study regions (CSRs), two in each of the following countries: Finland, Germany, Poland, Greece, Bulgaria and Estonia.

Finland

Tornio is located in the Finnish Lapland bordering Sweden. It is a scarcely populated area, even in Finnish terms. This is why a medium-sized town such as Tornio has grown into an economically important centre. The economy of this CSR relies heavily on industry, particularly the paper and metal industries and IT. Proximity to Sweden has contributed to the growth of Tornio. Key issues for this CSR focus on employment, because of difficulties in attracting and retaining skilled labour, although the unemployment rate remains high. For the educated young people, southern Finland has a strong attraction. Unlike some other borders in the EU member states, the Finnish–Swedish border was never meant to truly keep people away from each other and thus was never perceived to be a true obstacle to cross-border cooperation. Furthermore, unlike other European

cross-border regions, the people living in Tornio–Haparanda and the surrounding regions always had a strong regional identity, which certainly helped to avoid the national rivalries and sometimes bitterness that exists in other regions due to a common history or different national cultures and values.

South Karelia borders the Finnish regions of Kymenlaakso, Southern Savonia, and North Karelia. It is an external border for Finland and for the EU with Russia. Soviet times were also of little help to local cross-border cooperation as the border was almost closed and all cooperation was settled in centralized talks between Moscow and Helsinki. In terms of economic development, South Karelia has a lower GDP than the average for Finland, although GDP per capita is higher than the average for EU27 countries. The region is heavily dependent on the forestry industry. There are a few large companies in the paper industry, which has traditionally provided stable employment; this has not encouraged the development of a culture of entrepreneurship. The number of SMEs in the region is somewhat smaller than in other regions, due to the dominance of large-scale industry in the region.

Germany

Görlitz is the easternmost town in Germany, situated on the river Neisse. After World War II, the Treaty of Potsdam divided Görlitz into a German part on the western side of the Neisse and a Polish part named Zgorzelec, making it a good example of a border artificially dividing what was previously a single functional unit. The impact of the political division was intensified by the displacement of Germans and Poles. The German inhabitants were forced to move behind the newly established border to Görlitz, while the eastern part of Görlitz was taken over by the Soviet military. The GDP per capita of Görlitz has continually been below the level for Germany as a whole, although in 2003 Görlitz showed the strongest economic development of the administrative district of Dresden, of which it is part. Historically, Görlitz has been an important location for the textile, optical, electronic and metal industries, as well as for vehicle construction and engineering. It is characterized by small enterprises and its main competencies are in the fields of machine construction, logistics and railway engineering. Enterprises in ICT and biotechnology have also settled in the region. However, the overall number of enterprises in the region is low.

Hochfranken is situated in North Bavaria, at the Bavarian–Czech border. Hochfranken is an old industrial region, with the main industrial resources in the fields of ceramics, glass and porcelain, as well as textiles. Hochfranken has a well developed transport infrastructure. The region is characterized by a prevalence of SMEs. The EU Eastern enlargement has

aggravated the region's weaknesses, although some businesses shifted their production to the Czech Republic to take advantage of lower wage costs. Historically, the regions on both the German and Czech side of the border have a turbulent common history. After World War II, Sudeten Germans living in the border regions of Czechoslovakia were forced out of the country, and their property was confiscated by the Czechoslovakian state. At the same time Czech and Slovak people as well as other minorities were resettled in the border regions, thus probably impeding the creation of a consistent border identity on the Czech side. Hand in hand with the changing political and historical situation, long-standing relations were revived and new relations emerged. The main problems in developing cross-border activities in Hochfranken are the language barrier, differing mentalities and diverging socializations as well as the historical background of both nations.

Poland

Zgorzelec is located close to the borders with Germany and the Czech Republic, which is undoubtedly an advantage for economic development and cross-border activity. The accession of Poland and the Czech Republic to the EU in 2004 reinforced this by moving the region from the periphery to the centre of the EU. The economy is fairly diversified, covering manufacturing, construction, market and non-market services. The majority of enterprises in the area (about 40 per cent) operate in trade, with only 8.5 per cent in production and 8.8 per cent in construction. The rest provide services. After World War II, previously German populated areas such as Zgorzelec experienced the deportation of Germans and the settling in of people from eastern Poland. A number of Ukrainians, Lithuanians, Latvians and Belarusians, who had been sent there as forced labour, also inhabit Zgorzelec. Present-day inhabitants of Zgorzelec have acquired substantial openness to other nations, cultures and religions, as well as open mindedness to cooperation and international initiatives as a result of their history.

Biała Podlaska borders the Brest region of Belarus. Although Biała Podlaska is part of the Lublin region, the city of Biała Podlaska is closer to Brest than it is to Lublin. Economic changes and administrative reforms have meant that Biała Podlaska increasingly plays a subsidiary role in the Lublin region, with an increasing centralization of economic and political power in the city of Lublin. EU enlargement has led to a significant change in cross-border activity, which was substantial up to 2004 due to historic links and the fact that no visas were required. The economy of Biała Podlaska County is based on agriculture, which gives employment to over 60 per cent of the working population. Both private and public sector services are important employers in the county. The main difficulties in the

development of cross-border cooperation are related to the consequences of the post-integration sealing of the border and more tense relations between Poland and Belarus at the national level. This has limited cross-border cooperation between SMEs, mainly due to the formal requirements related to crossing the border and problems with shipping goods.

Greece

Florina is located in the region of Western Macedonia in Greece, bordering FYRoM to the north and Albania to the east. The regional economy is small in size and faces extensive economic problems, including low levels of GDP, high unemployment and absence of investment activities. The region is mainly agricultural with only limited manufacturing activity in small units in the food and drinks industry and in the field of electric power production based on lignite. The business sector in Florina, as elsewhere in Greece, is characterized by small enterprises. Historical and cultural factors are an important part of the external environment alongside political and economic influences. In fact, commercial exchanges with the northern side of the border were common until 1994 when the Greek state imposed an embargo following the dispute over the use of the name 'Macedonia'. Another feature of Florina is the existence of an important Slav-speaking (bilingual) population, which is a result of population movements and exchanges during and after the dissolution of the Ottoman Empire (1912–14). This part of the population has kinship ties across the border in the FYRoM. The same applies to some Greek-speaking people on the FYRoM side of the border, who have links with the Greek side.

Serres is located in north-eastern Greek Macedonia, bordering the south-east region of FYRoM to the north-west and the Bulgarian district of Blagoevgrad to the north. Serres is mainly an agricultural region, particularly supporting livestock. The main economic problems are related to the agricultural sector: the small size of the agricultural units (and the high fixed costs), the low educational level of the farmers and the strong competition the area faces. Serres is also facing problems related to an ageing population and migration towards more developed areas in Greece. The borders were established after the Balkan Wars (1912–14). Despite hostilities between the Balkan states during the inter-war period, these borders were quite 'soft', due to the fact that people living on the two sides of the border shared common economic and social structures dating from the period of the Ottoman Empire. After World War II, the Greek–Bulgarian borders became 'hard' borders until the early 1990s. After Bulgaria's accession to the EU, the border has softened. There is a free movement of people and capital between the two countries, and border controls are gradually loosening.

Bulgaria

Petrich is situated in south-west Bulgaria, bordering Greece and the Former Yugoslav Republic of Macedonia (FYRoM). Petrich is one of the most fertile areas in Bulgaria, especially with regard to the growing of fruit and vegetables. It is also rich in mineral waters, which offers good opportunities for the development of recreational businesses. The E79 Sofia–Kulata–Greece road (connecting Sofia and Thessalonica) and the Zlatarevo–Strumica–Petrich–Sofia motorway pass through Petrich, both of which are important to the region in terms of its economic development and history of cross-border cooperation. Petrich has an industrial-agrarian economy and produces less than 5 per cent of the country's GDP. GDP per capita in Petrich is around 79 per cent of the national average, although Bulgaria as a whole has a GDP per capita averaging 43 per cent of EU27 GDP in 2008.³ In terms of private sector development in the area, the leading sectors are light industries – clothing, wood processing, furniture, trade and repairing services, agriculture, warehousing and communications. Around 70 per cent of the industrial enterprises are joint-venture companies with foreign investors, mainly from Greece.

Kyustendil is situated in the south-western part of Bulgaria, bordering FYRoM and Serbia. Kyustendil has an industrial-agrarian economy, creating less than 5 per cent of the country's GDP. GDP per capita in Kyustendil has decreased, mainly because of large enterprise closures and restructuring and the out-migration of the region's population to the larger cities of the country. Both industry and services are dominated by SMEs – 90.1 per cent and 99.8 per cent respectively. Local entrepreneurship is weak as a result of a diminishing local market and low purchasing power of the local, ageing population. Many local firms operating in the production sector lack sufficient technological and financial capacity, resulting in low competitiveness. There is strong interest from Greek traders in Bulgarian foods produced in Kyustendil factories. However, the ordered quantities required by Greek customers are often too large for local producers, which restricts their ability to compete in the EU. The main (formal) barrier affecting the scope for cross-border cooperation (CBC) in the region is the visa regime for the citizens of Macedonia and Serbia introduced on 1 January 2007. There are no significant informal barriers to CBC, but there are prejudices, stereotypes or misunderstanding of the different cultural characteristics and customs across the border.

Estonia

The south-eastern region of Estonia borders Russia and Latvia. It is a former agricultural area that experienced sharp economic decline during the period of economic reforms. As a result it is now an economically weak

region when compared to the Estonian average level of development. The region is characterized by an aged population and a large number of inactive working-age people. In south-east Estonia there is less capital and less foreign investment than in other regions in the country. The poor quality of infrastructure, low density of population and incoherent governmental regional policy do not favour foreign investments in this border region. The development of the region has been influenced by the re-marking of the Estonian–Russian border in 1991, which severely disrupted the local transport infrastructure.

Ida-Viru County is the second largest county by population in Estonia. A previously industrial region, the county is now economically weak compared with other counties in Estonia. GDP per capita in Ida-Viru County was 66.6 per cent of the Estonian average in 2005. Unemployment problems, due to the disappearance and restructuring of large industrial enterprises, together with the largest non-Estonian population in the country have created a situation where conditions for the development of the region are more complicated than in other parts of Estonia. In terms of cultural and economic relations between Ida-Viru county and Russia, more than 45 years of coexistence during the Soviet period have helped the regions to know each other well, and have facilitated the development of rich historical–cultural traditions. Estonia's independence caused relations between Estonia and Russia to worsen, and caused tensions and instability in the relationship. However, having population in both towns speaking the same language and sharing a close ethnic and cultural identity, helps to overcome the distrust and tensions, and to redevelop cross-border cooperation. A common language of communication is a good precondition for cooperation, but it also creates problems with integrating local people in the Estonian society and causes isolation of the region.

INTRODUCING THE CHAPTERS

The rest of the book consists of 10 chapters, which are divided into four main parts: conceptual issues; regional case studies from the EU; regional cases from the NIS; and finally policy perspectives.

In Chapter 2, Urve Venesaar and Merle Pihlak set the scene by identifying the consequences of EU enlargement for economic development in border regions. In assessing the enlargement-related effects, the authors stress the difference between soft, internal borders of two EU member states and hard external borders of the EU with non-member countries. Enlargement has removed many internal borders, such as those between Poland and Germany, thereby opening up new business opportunities. Alongside this,

external borders have been strengthened to improve security, which in some cases makes cross-border cooperation more difficult.

Another important point stressed in Chapter 2 is the role of the regional context in enabling and/or constraining the development of entrepreneurship. Both the needs and potential of border regions depend on a number of social, cultural, economic, historical and institutional characteristics, which together create an external environment for entrepreneurship development. One of the emerging propositions is that the potential for regional economic development, including the development of entrepreneurship and cross-border cooperation, is likely to be affected by characteristics of the regions themselves.

Chapter 3 by Friederike Welter, Nadezhda Alex and Susanne Kolb consider the role of trust and learning in cross-border entrepreneurship. It is widely recognized that trust is an essential ingredient in successful networks, providing the glue which holds networks together. Similarly in a cross-border context, trust might be expected to play a particularly important role at the macro level because of the risks inherent in cross-border transactions. As a consequence, a priori, one would expect trust between cross-border partners to be high in the case of cooperation which is lasting and successful. Essentially, trust assists individuals in controlling risk and reducing the costs connected with each border crossing. Trust and learning are closely linked, although learning can happen independently of trust, but it can also be an outcome of trust and can influence trust building.

Two regional cases from the EU are presented in the second part of the book. The first is the case of Görlitz–Zgorzelec, which Anna Rogut and Friederike Welter present as an example of cross-border cooperation within an enlarged Europe (Chapter 4). There is a long history of cross-border cooperation in Görlitz–Zgorzelec, which includes institutional cooperation, in some cases funded through participation in EU programmes. Institutional cross-border cooperation has been accompanied by the development of spontaneous cooperation between companies and households, undertaken with or without the support of programmes and public resources. Prior to Poland's entry to the European Union, cross-border activity was stimulated by differences in prices, labour costs and regulations. However, in the post-accession period such differences have been gradually diminishing (European Commission, 2007; Rogut, 2008; Rokicki and Żoźnowski, 2008), which in turn has led to a search for new sources of mutual benefit.

Chapter 5 is drawn from southern Europe. Lois Labrianidis, Kiril Todorov, Georgios Agelopoulos, Efi Voutira, Kostadin Kolarov and Nikos Vogiatzis describe the situation with respect to cross-border cooperation in the Bulgaria–Greece–FYRoM triangle. This case clearly demonstrates the role of context in shaping contemporary cross-border relationships better

than any other in the book. This part of Europe is one of the most fragmented, based on small regional economies with competing historical memories of the past, conflicting notions of ownership and belonging, perpetuated by the presence of ethnic minorities that inhabit shared borders. Paradoxically, perhaps, substantial cross-border capital flows are occurring between the more and less developed areas in the Balkan region as a whole. The case also demonstrates how political disputes concerning use of the name 'Macedonia' have not prevented entrepreneurial people from developing significant cross-border cooperation on the ground.

The next part also contains regional case studies, but this time from the NIS: three from Ukraine and Belarus and two from Moldova. In Chapter 6, Elena Aculai and Adela Bulgac discuss the effects of EU enlargement on SME development in Moldova's border regions. For Moldova, the significant change came in 2007 when Romania joined the EU. Whilst there may be spillover benefits into Moldova in the longer term, a tightening of the visa and customs regimes has made cross-border entrepreneurial activity more difficult, which is a familiar story in countries located at the hard external borders of the EU. Moldovan entrepreneurs also complain that the Romanian market has become increasingly competitive as the number of foreign companies active in the market has increased.

Chapter 7 by Nina Isakova, Vitalii Gryga and Olha Krasovska focuses on innovative SMEs in western Ukraine. Ukraine remains a difficult environment for the development of entrepreneurship, with the regulatory environment for business remaining full of holes. SMEs seeking to innovate face all the problems that other SMEs face but with additional issues. As a consequence, it is not surprising that the level of innovation in Ukrainian SMEs is low due to the scarcity of internal capital and other resources, a lack of venture capital in the country and limited cooperative links with new knowledge producers. In this context, as some of the enterprise case studies demonstrate, SMEs in peripheral border regions can address some of these deficiencies by engaging in cross-border cooperation with Western business partners.

In Chapter 8, Anton Slonimski, Anna Pobol, Olga Linchevskaya, and Marina Slonimska describe household involvement in cross-border trading and entrepreneurship in Belarus. In this chapter, the focus shifts from cooperation between enterprises to a simpler form of cross-border trading activity involving households and individuals. However, as the research revealed, a simple concept can be complex in its organization. Moreover, the nature of shuttle trading presented a methodological challenge, particularly with respect to data collection, illustrated in the chapter. Once again the historical and regional context is an essential part of the analysis of the shuttle trading phenomenon. Cross-border cooperation in the western

regions of Belarus with Poland, Latvia and Lithuania has deep roots in the history of the region.

The final part contains three chapters dealing with various policy perspectives. Chapter 9, by Peter Zashev, is concerned with cluster development and cluster policies in border regions. Having reviewed the main problems faced at the regional level in cluster development and policy making, the author offers a concrete set of recommended measures. There is much discussion these days about improving the relationship between research and policy as part of an attempt to make policy more evidence-based; as this chapter demonstrates clustering is one area where the gap between research evidence and public policy is the greatest.

In Chapter 10, Anna Rogut and Bogdan Piasecki shift the focus from policy intervention to the governance structures and practices, from the perspective of cross-border cooperation. Essentially the pressure for change stems, on the one hand, from regulatory arrangements shifting from the national scale upwards to supra-national or global scales downwards to the individual body, or local, urban or regional configurations; whilst on the other hand, economic activities and inter-firm networks are becoming simultaneously more localized/regionalized and transnational. Clearly such trends present a major challenge to traditional regional and industrial policies and more particularly to the governance of them.

In this context, the chapter outlines the diversity of governance structures and practices in Poland and presents their impact on the scale, intensity, nature, and effects of cross-border cooperation. The results presented indicate a degree of diversification in governance structures and practices in Poland in response to the diversity of political and socio-cultural contexts in which cross-border cooperation is conducted. The political context focuses on the implications of Poland's membership of the EU, which has changed the status of some borders, and the dissimilarity versus similarity of the political systems which form the principal framework conditions for cross-border cooperation in both Polish case study regions.

Finally, in Chapter 11, David Smallbone and Mirela Xheneti examine the role of public policy as an enabling or constraining influence on cross-border entrepreneurship. Creating a policy environment to facilitate productive forms of cross-border entrepreneurship may be viewed as a necessary part of the regional development strategies for these border regions. However, it is typically more difficult to achieve in situations where the border is a 'hard' external border of the EU where border controls represent a potential barrier to movement. A broad view is necessarily taken of what constitutes policy, in other words, the effects of government policies and actions on entrepreneurship and cross-border activity rather than a narrower focus on so-called entrepreneurship policies. This is

operationalized by using a simple typology which divides policies into those that directly affect cross-border entrepreneurial activities (such as partner search facilities, cross-border databases, for example of regulations) and those that indirectly do so.

NOTES

1. Project One: Coordinator: Professor Dr Friederike Welter, at that time RWI Essen, Germany; Professor David Smallbone, Small Business Research Centre, Kingston University, UK; Dr Nina Isakova, Centre for Scientific and Technological Potential, Ukraine; Dr Anton Slonimski, Economic Research Institute, Belarus; Dr Elena Aculai, National Institute of Economy and Information, Moldova. Project Two: Coordinator: Professor David Smallbone, Small Business Research Centre, Kingston University, UK; Professor Dr Friederike Welter, at that time RWI Essen and University of Siegen, Germany; Professor Anna Rogut, Entrepreneurship and Economic Development Research Institute, Lodz, Poland; Professor Kari Liuhto, Pan-European Institute, Turku School of Economics and Business Administration, Finland; Professor Dr Kiril Todorov, Entrepreneurship Development Centre, University of National and World Economy, Bulgaria; Urve Venesaar, Department of Business Administration, School of Economics and Business Administration, Tallinn University of Technology, Estonia; Professor Lois Labrianidis, University of Macedonia (UoM).
2. INTAS is an independent international association whose members include the European Union (EU), the EU member states and further countries of the world. The primary objective of INTAS is the promotion of scientific cooperation between the INTAS member states and the members of the Commonwealth of Independent States.
3. http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/National_accounts_%E2%80%93_GDP.

REFERENCES

- Bellak, C. (2004), 'The impact of enlargement on the race for FDI', Vienna University of Economics and B.A. Working Paper no. 86, Vienna: University of Economics.
- Brenton, P. (2002), 'The economic impact of enlargement on the European economy: problems and perspectives', CEPS Working Document no. 188, Brussels: Centre for European Policy Studies.
- Brücker, H. (2001), 'The impact of Eastern enlargement on EU labour markets', German Institute for Economic Research (DIW Berlin), Berlin: Deutsch-Französisches Wirtschaftsforum.
- Commission of the European Communities (2001), 'Communication from the Commission on the Impact of Enlargement on Regions Bordering Candidate Countries: community action for border regions', Brussels: Commission of the European Communities.
- Dunford, M. and A. Smith (2000), 'Catching up or falling behind? Economic performance and regional trajectories in the "New Europe"', *Economic Geography*, **76**(2), 169–95.

- Eczurra, R., P. Pascual and M. Rapun (2007), 'The dynamics of regional disparities in Central and Eastern Europe during transition', *European Planning Studies*, **15**(10), 1397–421.
- European Commission (2007), 'EU enlargement and multi-level governance in European regional and environment policies: patterns of learning, adaptation and Europeanization among cohesion countries (Greece, Ireland, Portugal) and lessons for new members (Hungary, Poland): ADAPT', final report, Luxembourg: European Communities.
- Fidrmuc, J., G. Moser, W. Pointner, D. Ritzberger-Grünwald, P. Schmidt, M. Schneider, A. Schober-Rhomberg and B. Weber (2002), 'EU enlargement to the East: effects on the EU-15 in general and on Austria in particular: an overview of the literature on selected aspects', *Focus on Transition*, **1**, 44–70.
- Grabbe, H. and K. Hughes (1998), *Enlarging the EU Eastwards*, Chatham House Papers, London: RIIA/Printer.
- Huber, P.B. (2003), 'On the determinants of cross-border cooperation of Austrian firms with Central and Eastern European partners', *Regional Studies*, **37**(9), 947–55.
- Hughes J., G. Sasse and C. Gordon (2003), 'EU enlargement and power asymmetries: conditionality and the Commission's role in regionalisation in Central and Eastern Europe', ESRC 'One Europe or several?', Programme Working Paper no. 49/03, Sussex European Institute, University of Sussex.
- Krätke, S. (2002), 'Cross-border cooperation and regional development in the German–Polish border area', in M. Perkmann and N.L. Sum (eds), *Globalization, Regionalization and Cross-border Regions*, Basingstoke: Palgrave, pp. 125–50.
- Labrianidis, L. (1999), 'The investment activity of Greek companies in CEE countries: the situation beyond the myth', in E. Andrikopoulou and G. Kafkalas (eds), *Greece and the New European Space: The Enlargement and New Geography of European Development*, Athens: Themelio.
- Lavigne, M. (1998), 'Conditions for accession to the EU', *Comparative Economic Systems*, **40**(3), 38–47.
- Lejour, A.M., R.A. de Mooij and R. Nahuis (2001), 'EU Enlargement: economic implications for countries and industries', CPB Document no. 011, available at: <http://www.cpb.nl/sites/default/files/publicaties/download/eu-enlargement-economic-implications-countries-and-industries.pdf>, accessed 18 July 2011.
- Monastirirotis, V. (2008), 'The emergence of regional policy in Bulgaria: regional problems, EU influences and domestic constraints', GreeSE Paper no. 15, Hellenic Observatory Papers on Greece and South East Europe, The European Institute, London School of Economics.
- Niebuhr, A. (2005), 'The Impact of EU Enlargement on European Border Regions', HWWA Discussion Paper no. 330, Hamburg: Hamburg Institute of International Economics.
- Perkmann, M. (2003), 'Cross-border regions in Europe: significance and drivers of regional cross border cooperation', *European Urban and Regional Planning Studies*, **10**(2), 153–71.
- Perkmann, M. (2005), 'Cross-border co-operation as policy entrepreneurship: explaining the variable success of European cross-border regions', CSGR Working Paper no. 166/05, Warwick.

- Petrakos, G. (2001), 'Patterns of regional inequality in transition economies', *European Planning Studies*, 9(3), 359–83.
- Rogut, A. (ed.) (2008), *Potencjał polskich MSP w zakresie absorbowania korzyści integracyjnych*, Łódź: Wydawnictwo Uniwersytetu Łódzkiego.
- Rokicki, B. and A. Żołnowski (2008), 'Ogólne aspekty gospodarcze', in UKIE (ed.), *Cztery lata członkostwa Polki w UE. Bilans kosztów i korzyści społeczno-gospodarczych*, Warsaw: Urząd Komitetu Integracji Europejskiej, pp. 15–33.
- Smallbone, D., B. Piasecki, U. Venesaar, K. Todorov and L. Labrianidis (1999), 'Internationalisation and SME development in transition economies: an international comparison', *Journal of Small Business and Enterprise Development*, 5(4), 363–75.
- Trichet, J.C. (2004), 'EU enlargement: challenges and opportunities', keynote speech at the conference 'Europe's Frontiers: EU Enlargement – Its Implications and Consequences, 27 October, Lisbon: Calouste Gulbenkian Foundation.
- Ze-Wen, G. et al. (1991), 'Technological characteristics and change in small industrial enterprises in Guangdong Province, China', in A. Bhalla (ed.), *Small and Medium Enterprises: Technology Policies and Options*, London: Intermediate Technology Publications.