



Project no: **29038**

Project Acronym: **CBCED**

Project title: **CHALLENGES AND PROSPECTS OF CROSS BORDER CO-OPERATION IN THE CONTEXT OF EU ENLARGEMENT**

Instrument: **Sixth Framework Programme Priority 7-Citizens and Governance in a Knowledge Based Society**

Thematic Priority: **Specific Targeted Research or Innovation Project**

Deliverable 12: Consequences of EU Enlargement for Economic Development in Border Regions

(Urve Venesaar and Merle Philak)

Partner responsible: **School of Economics and Business Administration, Tallinn University of Technology, Estonia**

Due date of deliverable: 31.05.2008
Actual submission date: 10.07.2008

Start date of project: **01.03.2006**

Duration: **30 months**

Project coordinator name: **Prof. David SMALLBONE**

Project coordinator organisation: **Small Business Research Centre (SBRC), Kingston University
Kingston Hill
Kingston-upon-Thames**

Project co-funded by the European Commission within the Sixth Framework Programme (2002-2006)		
Dissemination Level		
PU	Public	X
PP	Restricted to other programme participants (including the Commission Services)	
RE	Restricted to a group specified by the consortium (including the Commission	
CO	Confidential, only for members of the consortium (including the Commission Services)	

Table of Contents

1. INTRODUCTION.....	3
2. OUTCOMES FROM LITERATURE REVIEW: THE STARTING POINT	4
2.1 Types of Border Regions.....	4
2.2 Factors Influencing Entrepreneurship Development and Cross Border Cooperation at the Regional Level	7
2.3 The Process of EU Enlargement and its Impacts on Border Regions and Entrepreneurship.....	9
3. MAIN EMPIRICAL FINDINGS.....	11
3.1 Regional Differences as a Factor influencing EU Enlargement Effects	11
3.1.1 Factors of regional disparity	11
3.1.2 Factors of relative economic development.....	13
3.2 The Impact of Changes in the Status of Borders for the Development of Entrepreneurship.....	14
3.2.1 Border-related EU enlargement effects for internal regions	16
3.2.2 Border-related EU enlargement effects for external regions	18
3.3 The Trade Regimes as a Result of the Alignment with the EU Acquis Communautaire.....	24
3.3.1 Changes in trade regimes	25
3.3.2 The consequences of the implementation of acquis communautaire.....	27
3.4 Changes in the Institutional Environment related to the EU Enlargement.....	30
3.4.1 Adoption of EU legislation in new member states	30
3.4.2 Participation in cooperation programmes and changes in funding	32
3.5 Changes in the Business Environment related to the EU Enlargement.....	33
3.5.1 Changes in border regions of “old” member states	33
3.5.2 Changes in border regions of “new” member states	35
3.6 The Characteristics of Competition as a Result of EU Enlargement	40
3.6.1 Characteristics of competition in internal border regions.....	40
3.6.2 Characteristics of competition in external border regions.....	43
4. CONCLUSIONS	45
REFERENCES.....	51

1. INTRODUCTION

Recent EU enlargements have changed the status of regions/ borders in Europe, by widening the cap of regional economic development and by creating new internal and external border regions. In addition to removal/ emergence of border-related barriers that have accompanied EU enlargement there have also been other impacts like opening of the market, increased competition or decrease in the number of customers that pose new opportunities, but also threats for the development of entrepreneurship and cross border cooperation (CBC) in economically less-developed regions near the border.

The objective of this paper is to analyse and evaluate the consequences of EU enlargement for border regions and it therefore has the following aims:

- Identify the key elements in a typology of different types of border regions in the EU;
- Highlight factors influencing entrepreneurship development at a regional level that may be potentially influenced by border effects, or changes in the status of borders;
- Identify the implications of recent EU enlargement for border regions, and the factors influencing these.

The analysis is based on secondary data from 12 case study regions (CSRs) in Finland, Germany, Greece, Estonia, Poland and Bulgaria, and also on primary sources of data (interviews with key informants, entrepreneurs and households). As a starting point, outcomes from literature review, which has been undertaken earlier within the same research project, are considered as main propositions for analysis.

In the report, after a short summary of outcomes from literature review, the main empirical findings are presented starting from an overview of regional differences of regions under study as a factor influencing EU enlargement effects. This follows with the impact of changes in the status of borders on the development of entrepreneurship. Next, different enlargement impacts (changes in foreign trade

policy, institutional environment, and variations in entrepreneurship environment including the nature of competition) are analysed on the level of border regions, on one hand, and institutions, enterprises and households, on the other hand. When analysing the enlargement effects the location and level of economic development in a region is taken into account as an influencing factor on the nature of enlargement effects. In terms of enterprises their size and economic sector are considered where it is possible. Finally, the main results from the empirical study are presented in the concluding section.

2. OUTCOMES FROM LITERATURE REVIEW: THE STARTING POINT

2.1 Types of Border Regions

The status of regions/borders changed as a result of EU enlargement. After the removal/emergence of border-related barriers new internal and external border regions were created. The location of regions near the internal or external border of the EU, determines the conditions for crossing the border for various items (e.g. goods, people) and consequently the challenges or restrictions for cross-border cooperation. EU enlargement has opened borders for free movement of economic factors (e.g. goods, labour) and people between EU member states over internal (“soft”) borders, but has tightened external (“hard”) borders. A number of previous studies have pointed out the need for typology of regions and analysis of regional differences, which may be taken into account whilst assessing the consequences of EU enlargement for economic development in border regions.

A regional typology based on the location of regions may consider the status of countries (e.g. old or new EU members, candidate countries or “third” countries), bordering regions under study. This typology has been used by Resmini (2002) in the analysis of the impact of the eastern enlargement in EU border regions in Bulgaria, Estonia, Hungary, Romania and Slovenia. Defining regions at the NUTS III level, border regions were divided into three groups: (i) those bordering present EU members; (ii) those bordering other candidate countries negotiating accession; and (iii) those bordering external (“third”) countries.

According to the European Commission (2001), regions along the former EU external border may experience distinct integration effects because of their proximity to the new member states. 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). External border regions (i.e. areas along the external EU borders), on the other hand, are assumed to be in a more difficult situation. This applies particularly to regions along the eastern borders of new member states bordering with “third” countries.

Other studies have pointed out various bases for analysis of regional differences. For example referring specifically to cross-border regions, Jessop (2002: 37-42) offers a typology, based on the processes of how a cross-border region has evolved, emphasizing the importance of preceding events, as well as contextual factors. Cooperation and entrepreneurship near borders can be based on various motivations, including historical relationships between companies.

Referring to the enlarged Europe, Krätke (2002) distinguished three types of regions: (1) structurally strong industrial centres of old European industrial states, (2) structurally weak regions of new member-states and (3) relatively strong industrial locations in new member states. Additionally, Muller and Nauwelaers (2005) by adopting a regional innovation systems’ perspective, identified five types of multidimensional regions in Europe: (i) capital regions; (ii) regions with tertiary growth potential; (iii) skilled manufacturing platforms’ regions; (iv) industrially challenged regions; and (v) lagging-behind agricultural regions. This typology was based on the five dimensions of innovation capacity: knowledge creation; absorptive capacity; diffusion capacity; demand; and governance capacity.

Analysis undertaken by Weise et al. (2001) has identified four inter-related types of regional disparities: a contrast between urban and rural areas; a core/periphery

disparity, especially in countries with a mono-centric urban structure; a west/east difference, which is particularly evident in border areas; and concentrations of restructuring problems in old-industrial areas (Bachtler & Downes, 1999), which are important to consider as a basis for regional development.

Alongside with regional typology features the potential for cross border co-operation of enterprises and regions is likely to be affected by a variety of other regional characteristics, where regions on both sides of the border are needful to consider. These factors influencing regional development of entrepreneurship include: human resources e.g. education level of population, age structure; economic activity e.g. sector mix, size distribution of enterprises, degree of concentration/ diversification, number of enterprises; policy environment for entrepreneurship and cross border partnership e.g. policies to promote entrepreneurship; physical infrastructure e.g. density of road & rail networks; historical factors e.g. common history between two sides of the border; cultural factors e.g. shared language(s), regional identity.

In conclusion, a key distinction for the assessment of the consequences of EU enlargement for economic development in border regions is that between “soft” and “hard” borders or between internal and external regions. In addition to the location of border regions, other factors such as the status of countries (old or new EU members, candidate countries or “third” countries) and border regions under study, the level of regional economic development in both sides of the border, as well as other indicators, including specific regional characteristics, will be taken into account to assess the influence the EU enlargement in Case Study Regions (CSRs).

The proposition for analysis is that different types of border regions are considered in order to use this as a basis for differentiating EU enlargement effects. EU enlargement effects are also differentiated by factors of regional economic development in the domestic region as well by those in the region across the border. The internal regions by having relatively similar regions across the border have therefore greater potential for economic development than external regions that border economically less developed regions. The internal border regions are

expected to benefit in the medium and long term from integration effects although they face adjustment pressures in the short run.

2.2 Factors Influencing Entrepreneurship Development and Cross Border Cooperation at the Regional Level

In order to assess the implications of EU enlargement on entrepreneurship development in border regions and on cross-border cooperation, it is necessary to consider the factors influencing the development of entrepreneurship at the regional level. These factors include first of all the conditions of the external business environment (business regulations, i.e. trade policy, trade regime, implementation of *acquis communautaire*, etc; economic environment, e.g. demand and supply issues, etc. incl entrepreneurship policy measures) as well as the awareness and competency of entrepreneurs to operate in a changing business environment and benefit from the challenges of cross-border co-operation.

Previous studies have shown that significant spatial variations exist in the extent to which SMEs contribute to employment growth and economic development. Mason (1991) has explained these spatial variations in new firm formation rates in terms of differences in structural characteristics (industrial sector, establishment size and occupations); socio-cultural factors (entrepreneurial orientation of the population and the entrepreneurial propensities of local institutions); economic factors include demand-related (such as the level of disposable income, the ownership structure and functional composition of industry) and supply side variables which affect the supply of the main factors of production and flows of information.

As to CBC, specific characteristics of individual border regions are likely to affect the opportunities for, and constraints on the internationalization of enterprises and cross border activities of households and institutions. A study undertaken in South-eastern Europe suggests that trade relations and economic cooperation depend on the level of specialisation and the size of the markets (Dimitrov et al, 2003). At the same time, it suggests that barriers to cooperation matter and can negatively affect the performance of border region firms.

Overall, firms in countries surveyed were less concerned about potential barriers, such as the quality of infrastructure (roads, check points proximity) and more concerned about the wider issues, such as a lack of assistance in developing cross-border relations, political stability, corruption, exchange rate variations, as well as the financial conditions prevailing in each country. Surveyed firms did not consider a lack of common language across the borders to be a major barrier for interaction. The study results indicated that the best policy to encourage cross-border cooperation is the development of the economies in the region and the improvement in their business environments.

At the individual level, social capital can be applied to petty traders and small firms, as well as to other actors and agents within a region. In the case of petty trade and small-scale business activity, the relationships are often based on kinship ties, professional/business linkages and/or on personal acquaintanceships. Social ties serve primarily as tools to reduce some of the risks associated with trading and business (Williams and Balaž 2002; Wallace et al. 1999).

At a regional level, common problems and resources in constituent parts of a cross-border area can contribute positively to creating and sustaining cooperation across borders. For example, Nordic and Baltic cooperation is motivated by the need to tackle problems of nuclear waste management, long distances, harsh climate and environment (Saprykin 2003). In the case of Italy and Slovenia, specific regional assets have played an important role in designing measures for achieving common development goals (Sfiligoj 2000).

The proposition for analysis is that border-related effects of EU enlargement have an impact mostly for economic factors as the removal/ emergence of barriers for movement across the border can create wider markets, increase competition or decrease the number of customers. The influence of changes in the status of borders on political, structural and socio-cultural factors is also needful to consider. In addition, the specific characteristics of individual border regions are likely to affect the opportunities for, and constraints on, the internationalisation of enterprises and cross border activities of households and institutions.

2.3 The Process of EU Enlargement and its Impacts on Border Regions and Entrepreneurship

The paradox of globalisation is that it generally 'softens' borders between states, including within the EU, but it can be argued that political and economic integration associated with enlargement tightens external borders (Leontidou et al. 2005: 389-91). More specifically enlargement of the EU is associated with strengthening of the EU's external borders and determining the conditions for crossing them (Berg and Ehin 2006: 53-61; van Houtum and Scott 2005).

The removal of trade barriers has resulted, on one hand, in increased access to new markets, thus creating new opportunities for companies to expand their activities beyond their national borders, as well as providing consumers with a wider range and higher-quality products and services. On the other hand, the removal of trade barriers has also increased competition. The impact of joining the Single Market can be analysed by further detailing the effects of removing barriers to trade and movement of factors of production, on the one hand, and adoption of common EU standards, on the other hand. This distinction (which is sometimes also referred to as negative and positive integration effects) is not always clear cut, since the removal of non-tariff barriers to trade is often linked to the adoption of product standards. At the same time inside EU the enlargement has been accompanied by a continuing process of integration, which has affected regional production structures, the level of competition, as well as social conditions. Another group of integration measures includes the adoption of EU norms and policy principles (i.e. *acquis communautaire*). This means the alignment with the external trade regime (including the adoption of the EU common external tariffs), the adoption of product and process standards (ranging from quality standards of products to safety at work and environmental norms), as well as other EU common policies (such as common agricultural policy, transport policy, regional policy, etc).

The overall impact of the enlargement process on SMEs in the 13 candidate countries has been estimated to be much stronger than on SMEs in Europe-19, where effects vary by sector and region. SMEs in manufacturing, wholesale and transport are affected to the greatest extent by competition, with those in construction

and business services benefiting from growing demand. In retail, two-way shopping tours have led to both additional competition and a growth of potential customers in EU-15-CEEC border regions, while SMEs in tourism, especially those located in traditional European travel destination areas, profit from additional demand due to increasing income in the CEECs. Furthermore, in almost all sectors the impact on SMEs in regions bordering candidate countries is significantly greater than on SMEs in other regions (COM, 2003).

The results of the above study suggested that alongside competition and demand effects, two further aspects affect SMEs in the 13 candidate countries: 1) the adoption of the *acquis communautaire* ensures, on the one hand, an improvement of the domestic business environment and, on the other hand, implies significant investment requirements by SMEs in areas, such as emissions, waste management, product safety, working conditions in order to meet the required standards. The 'compliance burden' differs by industry and it is more serious for smaller firms, as previous enlargements have shown (Smallbone et al, 1999); 2) foreign investment, in the form of subsidiaries or manufacturing plants, represent important clients for small locally based suppliers and sub-contractors, contributing to the transfer of technology and management skills to domestic SMEs. On the other hand, foreign companies are often more competitive and may crowd out local SMEs, especially in construction and retail. A so-called 'credibility effect' will boost FDI to the new Members after 2004, and additional small-scale investments in border regions with old Members can be expected in particular (COM, 2003).

As far as firm types are concerned, the enlargement process is changing the business environment for all firms, although it can be argued that the effects are not uniform across firms of different sizes. A number of studies have focused on the implications of EU enlargement for SMEs (e.g. Smallbone et al, 1999; Smallbone and Rogut, 2005), including some that refer back to the experience of previous market integration (e.g. Smallbone et al, 1999). Their main conclusion is that whilst accession-related changes have important potential implications for firms of all sizes, the distinctive size-related characteristics of SMEs affect their ability to identify, cope with and respond to new sources of threat and opportunity. The proposition for

analysis is that EU enlargement impacts (changes in foreign trade policy, institutional environment, variations in business environment including the nature of competition) are differentiated by the geo-political status of regions, their level of economic development and also by firm size and sector.

3. MAIN EMPIRICAL FINDINGS

3.1 Regional Differences as a Factor influencing EU Enlargement Effects

3.1.1 Factors of regional disparity

Previous studies have found that the EU enlargement effects vary in terms of regional differences. The division of regions according to their developmental potential, which is influenced by a contrast between internal/ external regions, urban and rural areas, a core/ periphery disparity, a west/east difference and restructuring problems in old-industrial areas is brought below (see table 3.1). In the case of urban-rural divide a third option is also used – intermediate region – meaning a region between rural and urban, where 15-50% of the population is living in rural local units (with less than 150 inhabitants/ km²) (Bacsi & Kovacs, 2006).

Table 3.1 Factors of regional disparity in CSRs

Region	Urban/ rural area ¹	Core/ periphery	West/ east difference	Old industrial area
<i>Internal</i>				
Zgorzelec	Intermediate region	Periphery	West	-
Petrich	Intermediate region	Periphery	-	-
Serres-Drama-Thessaloniki	Predominantly rural-intermediate-predominantly urban region	Periphery-periphery-core	-	-
Görlitz	Predominantly urban	Periphery	East	-
Hochfranken	Intermediate region	Periphery	East	-
Tornio	Intermediate region	Periphery	West	-

¹ Regions are classified as follows: 1) predominantly rural region if more than 50% of the population is living in rural communes (with less than 150 inhabitants/ km²), 2) intermediate region if 15-50% of the population is living in rural local units, 3) predominantly urban region if less than 15% of the population is living in rural local units (Bacsi & Kovacs, 2006).

External				
Biala-Podlaska	Predominantly rural	Periphery	East	-
Kyustendil	Intermediate region	Periphery	-	-
Ida-Viru	Predominantly urban region	Periphery	East	Old industrial area
South-East Estonia	Predominantly rural region	Periphery	East	-
Florina-Pella	Predominantly rural-intermediate region	Periphery-periphery	-	-
South-Karelia	Intermediate region	Periphery	East	-

Source: Weise et al., 2001; Bachtler & Downes, 1999; Own division based on Regional summary reports of CSRs

The current CSRs are disadvantaged because they are border regions, located mostly in the periphery of their respective countries. The situation for other factors is more varied. Six regions are internal ones having a common border with another EU member state and six regions are external bordering with third countries. For some the west/ east difference is crucial, for others it is not an influencing factor. For regions like Ida-Viru, South-East Estonia, South-Karelia, Biala-Podlaska, Görlitz and Hochfranken the eastern location can be said to be a disadvantageous factor. It is problematic especially for regions bordering with non-EU countries as the territories across the border tend to be less developed and agricultural areas. For regions like Zgorzelec and Tornio their western location is a factor contributing to the level of economic development. In terms of urban/ rural divide, there are also differences between the regions with Zgorzelec, Petrich, Thessaloniki, Görlitz, Hochfranken, Tornio, Kyustendil, Ida-Viru, and South-Karelia being predominantly urban. And as to restructuring problems, Ida-Viru has relied heavily in the past on large-scale industry, and this has curbed development of more dynamic and innovative small- and medium-scale entrepreneurship.

It can be concluded roughly that Zgorzelec and Tornio as internal, predominantly urban, western and industrially stronger regions are likely to gain more from the economic integration. On the other hand, for Ida-Viru as external, eastern region with issues of structural change the economic integration might prove more problematic due to enterprise restructuring and closures, followed by high rates of unemployment and emergence of groups of people like low qualified and long-term unemployed for

whom re-integration into the labour market can be particularly difficult. Although, restructuring can also be seen as a basis for future development because material base in the form of real estate (business plants), infrastructure and labour-force is already present. Also for Biala-Podlaska and South-East Estonia, as external, rural eastern regions, their location and economic structure are not contributing to development.

3.1.2 Factors of relative economic development

The level of economic development in the domestic region and the one across the border acts as a good explanation factor of the consequences of EU enlargement for the economic development of CSRs. The analysis is based on the division of internal and external CSRs into four regional types identified on the basis of levels of regional development. The differences of economic development are considered from two aspects: domestic region versus region across the border, and differences between domestic regions themselves. The factors differentiating regions in relation to EU enlargement influences are e.g. their location as internal or external region, level of prices, availability of jobs and goods, level of economic and institutional development.

The external CSRs are as a rule better economically developed than the regions across the border (e.g. regions at Finland-Russia, Poland-Belarus border), but at the same time there are also differences between the CSRs themselves (e.g. regions in Finland, Greece and Poland, Estonia). The differences between internal CSRs and regions across the border (also internal border regions) are smaller (e.g. Polish and German border regions), but they cannot be said to have reached similar level of economic development either (e.g. Greek and Bulgarian border regions). The expected levels of regional development and CBC between neighboring regions vary according to the level of economic development of the domestic region and the respective region across the border. It is possible to differentiate between four cases of regional development and CBC activity. Developed domestic regions and developed regions across the border have high potential of regional development.

That applies to Finnish and Swedish regions, German and Polish, and German and Czech regions. Weaker domestic regions, but stronger neighboring regions indicate uneven development on two sides of the border and CBC activities have the possibility to take advantage of these differences (lower prices, production and labor costs, etc). This is the case of Bulgarian and Greek regions. The same applies to stronger domestic regions, but weaker neighboring regions like in case of Finland and Russia, Greece and Bulgaria.

In cases of less developed regions in both sides of the border, informal cooperation for economic coping and social reasons is important and it depends on favorable historical and cultural factors. This applies to Estonia where in South-East Estonia a culturally close group of people the Setos live on both sides of the border and in Ida-Viru there is a large Russian minority (Venesaar et al, 2008a, 2008b). Similarity is a common Soviet background that applies in addition to Estonia-Russia also to Poland-Belarus. There is also an important Slav-speaking (bilingual) population in Florina-Pella, which has kinship ties with the other side (FYROM) (Vogiatzis et al, 2008a). As to Kyustendil and FYROM similar landmarks and traditions can be found on either side of the border, although the isolation between the two countries in the past has created stereotypes and misunderstanding (Todorov and Kolarov, 2008a). In the case of external regions, there are also political tensions between the countries that complicate CBC activities.

3.2 The Impact of Changes in the Status of Borders for the Development of Entrepreneurship²

The EU enlargement has changed the relative location of regions and their economic development capacity in relation to their geo-political status by creating new internal/ external borders/ border regions. The EU enlargement effects that are connected to the border can be divided according to the results of empirical analysis into measures of foreign trade policy related to free movement of goods, services and capital between member states and common trade regulations for third countries, and visa

² We differentiate between border-related EU enlargement effects and wider socio-economic changes. The border-related effects analysed in this chapter are removal/ emergence of visa requirements, customs duties, border queues, clearing formalities, quantitative and item restrictions on goods, double tariffs. Wider socio-economic impacts like changes in trade regimes, institutional and business environment (including competition) are analysed in the following chapters.

policy related to free movement of persons between member states and restrictions for third country nationals that is the core of economic integration in the form of removal of internal barriers, but strengthening external ones.

The foreign trade policy and visa policy measures mentioned by the representatives of institutions, enterprises and households were removal or introduction (depending on whether it concerned relations with EU member states or third countries) customs duties, non-customs restrictions, and visas, accompanied by simplified/ complicated border crossing, customs clearance, and queues and waiting time at the border crossing points. There are also other influences in addition to the EU enlargement that have caused changes at borders and border crossing procedures, e.g. increased flows of goods across the border, out-dated border crossing infrastructure, complicated political situation, which have added to the border crossing queues and waiting time.

Table 3.2 Nature of EU enlargement influences on internal and external border CSRs

Region	Mainly positive influence	Mainly negative influence	Both positive and negative influence	Mainly no notable influence
Internal				
Zgorzelec	x			
Petrich	x			
Serres-Drama-Thessaloniki	x			
Görlitz	x			
Hochfranken	x			
Tornio				x
External				
Biala-Podlaska		x		
Kyustendil		x		
Ida-Viru			X	
South-East Estonia			X	
Florina-Edessa-Thessaloniki				x
South-Karelia				x

Source: Own division based on Regional summary reports of CSRs

According to the results of the literature review internal and external border regions of the EU experience EU enlargement effects differently, so a distinction is made in the analysis between these two types of regions (see table 3.2). Although, the distinctions are not clear-cut as border-related factors supporting and constraining CBC can be observed simultaneously and if the institutions and enterprises of a

region have cooperation partners in different counties at the same time then the enlargement effect can be positive in relation to one country and negative for cooperation with the other.

3.2.1 Border-related EU enlargement effects for internal regions

According to key informants and entrepreneurs the border-related enlargement influences for internal border regions have been mainly positive. For households there have also been negative effects. Integration with EU market in terms of changes in the status of borders removed border crossing barriers and created a “soft” border (in case of Zgorzelec, Petrich, Serres-Drama-Thessaloniki, Görlitz and Hochfranken), except for Tornio, which already has a joint border with an old EU member state (Sweden) and was therefore not affected by recent enlargements in terms of border and border crossing.

The borders became more permeable for representatives of institutions as the abolishment of border control allowed more frequent and efficient communication between Greek and Bulgarian institutions (Vogiatzis, 2008b), including economically strong centre in northern Greece - Thessaloniki. The border crossing traffic was accelerated also between Germany and Poland, where the simplification of border crossing rules made it easier for local actors to engage in cooperation (Welter et al., 2008a) as barriers were removed between eastern Germany and more developed areas of western Poland.

For enterprises in the internal regions of Germany-Poland and Bulgaria-Greece EU enlargement simplified border crossing, clearing formalities, movement of persons and goods:

According to our interlocutor, the EU-Eastern Enlargement has facilitated the border crossing, especially for the German employees who are responsible for the onsite services in Poland. Moreover, the clearing formalities of declaring, for instance, measuring equipment, dropped. (Görlitz, E15)

The EU Enlargement affected in a positive way the firm's performance and the existing CBC. This relates to following advantages: decrease in border formalities and possibility for more travels to Greece for a definite term; the export permission for distribution of live fish, produced in Bulgaria to the other EU countries increases the possibilities for selling of the fish products on international markets. (Petrich, E5)

At an enterprise level, the representatives from internal regions also found that their businesses were influenced positively by the removal of customs fees, restrictions on quantities of goods and visas, which simplified the preparation of documentation necessary for border crossing and accelerated border crossing. This decreased costs related to CBC (e.g. because of evasion of double taxation, decrease in custom costs) and increased the competitiveness of enterprises. According to the entrepreneurs as a result of the removal of border crossing formalities:

"... waiting periods have become noticeably shorter and time losses on borders reduced" (Görlitz, E2; E7; Petrich, E8; Serres, E6), "... turnover has increased" (Görlitz, E2), "... facilitated to a large degree our CBC activities" (Serres, E1), "... increases the firm's competitiveness" (Kyustendil, E8)

These changes have been mentioned mostly by small and medium enterprises, and also exporting micro enterprises. For the latter the decrease of border crossing costs is especially important under the conditions of increased competition due to the free movement of goods. Although the impacts of EU enlargement for institutions and enterprises have been mainly positive in the internal border regions, at the level of households joining the EU internal market has brought also negative impacts like strengthened border control and stricter surveillance over the enforcement of EU legislation, which has limited their informal activities, but of course also decreased illegal transactions:

EU Enlargement affects CBC negatively because of the strengthened border control related to harmonization of requirements to cosmetic products with the requirements of European legislation in this field. (Petrich, H8)

I have problems in the Bulgarian borders. They make a lot of controls. This does not happen on the Greek border. They know you there, and they don't give you problems. (Serres, H2)

3.2.2 Border-related EU enlargement effects for external regions

The EU enlargement effect for external border regions is more varied. For institutions, enterprises and households of the two external border regions Biala-Podlaska and Kyustendil the accession had mainly negative border-related effect as it created a “hard” border, and the introduction of visa regime and restrictions on goods transported across the border acted as a barrier to CBC in both cases. This in its turn reduced the number of customers and income from CBC activities. This is a serious constraining factor for the development of Biala-Podlaska region as it is rural and located in the eastern periphery of EU. For external regions Poland-Belarus and Bulgaria-FYROM this can be illustrated by the following examples:

It has restricted access to the CBC countries. One can bring less amounts of cigarettes, alcohol, fuel and other products legally. (Biala-Podlaska, H7)

In the end of 2006 the CBC was affected by the Bulgaria's accession in the EU. The orders from the Macedonian partners started to decrease. One of the main factors is the trade limits – import taxed and duties and the introduction of a visa regime for the Macedonian citizens. (Kyustendil, E11)

In the two external border regions of Estonia (Ida-Viru, South-East Estonia), the border-related impact for CBC was both positive and negative. For institutions and enterprises the positive aspect was that third countries had to apply the same foreign trade policy towards Estonia as they did towards other EU member states, so Russia had to abolish double customs tariffs on Estonian export. At the same time the emergence of the “hard” border and the alignment with EU’s external trade regime which took place was softened by the fact that the removal of trade barriers at the beginning of 1990s by the EU and double-tariffs used by Russia, had caused the economy to re-orient itself from cooperation with Russia towards the EU and the importance of Russia as foreign trade partner had dropped considerably during the beginning of 1990s.

When households were asked to assess the barriers they face in developing their cross-border co-operation, then the introduction of quantity and item restrictions on goods and stricter visa regime instead of former border crossing lists was estimated

to be a barrier as it inhibited trading activities, but also restricted cross border social relations and communication. Since both Estonian regions are located in the eastern periphery of the EU increased possibilities of CBC would contribute to local development, although the nature of regions is different – Ida-Viru being an old industrial area and South-East Estonia being a rural region. Impact on Estonia-Russia relations is illustrated below:

In terms of Russia joining the EU brought no changes except for the disappearance of double tariffs, problems with customs procedures and bureaucracy stayed. (Ida-Viru, E10)

And for two external regions Florina-Pella and South-Karelia the border-related impact for CBC was mostly neutral. Florina-Pella has a border with FYROM, which is an EU candidate country and representatives of institutions and enterprises expect positive outcomes like enhanced reliability and professionalism due to adoption of EU standards after its accession and to a lesser extent also during the accession period. But the exact time of its accession is unknown, and the current Stabilisation and Association Agreement, signed between the EU and FYROM, does not have big impact for the entrepreneurs:

The EU enlargement did not play any part, since the country (the FYROM) still abstains from harmonising with the rules of operation of the EU. When they finally enter the Union, I believe that there will be important impacts to our own collaboration. (Florina, E11)

In the case of South-Karelia contrary to popular expectations there have been no major changes mentioned by the representatives of institutions and enterprises neither in the direction of Baltic countries or Russia after the EU enlargement. The border of Finland with Baltic countries did become a „soft” one; and it had more effect on the consumer behaviour of individuals. On the level of households the emergence of soft border with Estonia, the removal of restrictions to the movement of goods and cheaper prices enhanced commercial tourism from Finland to Estonia, i.e. buying alcohol, tobacco, sweets (Zashev, 2008). The business activities of enterprises were not affected to great extent as the economies of these countries are relatively small and still in transition. An example from Southern Finland and the Baltic countries:

We were afraid that because of the EU enlargement in 2004, the Baltic countries would prove very competitive as the tariffs they had to pay for exports to Russia would be lowered. Before the EU membership the tariffs had been twice as high. However, as it turned out, competing companies were not established in these countries (that still have much lower levels of cost than Finland), so our business was not affected by the EU enlargement. No precautions had been made, this was only a matter we had pondered on. But we did keep a close eye on the situation. (South-Karelia, E4)

In addition, a double effect of EU enlargement can be observed inside the counties in terms of different regions according to their location. It can be also said that the effects have been more positive for internal western regions and negative for external eastern regions as the former are located more in the core of the EU and the latter are more in peripheral areas. In countries like Poland and Estonia there was no notable EU enlargement effect or it has been negative for the eastern regions/ eastern market, but positive effect for western regions/ western market. This can be illustrated by the following examples about the various markets of Polish and Estonian entrepreneurs:

It had no impact on trade with eastern markets. It had, however, on cooperation with West European markets. The number of barriers has lowered. (Biala-Podlaska, E5)

Joining the EU has had an influence, trading became easier. We traded before the EU also with Europe, but then the paperwork was much more complicated and time consuming. Today as long as the truck is loaded, paperwork is completed and the truck can go. The Russian direction is not much different. (South-East Estonia, E8)

At the enterprise level the enterprises located in EU external border regions have mentioned as the main obstacles: quantitative and item restrictions on goods, complicated customs documentation, increased border queues and waiting time, increased customs duties and visa regimes for third countries.

Quantitative and item restrictions on goods have been evaluated negatively by enterprises and households of Biala-Podlaska region that borders Belarus (e.g. Biala-Podlaska, E6, H2, H3, H6, H7), by Estonian regions that border Russia (e.g. Ida-Viru, H7; South-East Estonia, H1, H4, H6) and by the Finnish region bordering Russia (South-Karelia, E8). This can be explained by relatively big price differences in goods

and services between these regions and their neighbouring regions on the other side of the border and by the expected profit from trade, which decreases due to border formalities. In the case of Finland the entrepreneur vividly illustrates the difference between “hard” and “soft” border and the consequences for his business activities in Russia and Estonia:

In addition on this border there are regulations regarding alcohol exports that prohibit people from importing/exporting any alcohol unless they have stayed in the country for at least 20 hours. Such restrictions are not applied on any other border – people from Helsinki can take a ferry to Tallinn and back and bring as much alcohol to Finland as they wish (even take a car and bring hundreds of litres of alcohol to Finland). ... If this regulation was changed to e.g. 10 hours, it would already make a difference to our business – if the passengers were after 10 hours stay allowed to take back alcohol (the same amount as it allowed from all third countries) it would clearly brighten up our business prospects. (South-Karelia, E8)

Related to this the enterprises of regions of Biala-Podlaska (E12), Kyustendil (E7) and Ida-Viru (E1) have referred to complicated customs documentation and visa requirement. These are mostly micro enterprises and households in external regions that see it as a problem for their CBC, which according to the opinion of entrepreneurs/ managers and households results in: „ ... limits in exports of goods” (Biala-Podlaska, H11) or „ ... fewer tourists from the East” (Biala-Podlaska, H12).

Visa is a serious obstacle for households as it directly limits movement across the border, but also for certain types of enterprises whose activities are linked to providing services to tourists (who also need to cross the border), like in case of accommodation, recreational activities. As a result of visa regimes and customs duties the turnover and profit of enterprises is reduced, the latter because of the costs related to CBC (e.g. waste of time in queuing to cross the border; increased costs of preparing necessary documentation), also the number of customers decreases:

In the end of 2006 the CBC was affected by the Bulgaria’s accession in the EU. The orders from the Macedonian partners started to decrease. One of the main factors is the trade limits – import taxed and duties and the introduction of a visa regime for the Macedonian citizens (Kyustendil, E11).

Increased border queues are a major problem for cross-border cooperation of enterprises in addition to other external regions also on Estonian-Russian border, where due to the EU enlargement and opening of internal borders trade flows from Europe (e.g. from Poland, Hungary) to Russia via Estonia have increased, which means increased competition for transport enterprises and additional loads for Estonian cross-border trade. In addition to the increase of trade flows the political problems between Estonia and Russia have slowed down the movement of goods across the border even further (e.g. low capacity of Russian border crossing points to process goods and due to it long border-crossing queues). Due to these reasons many Estonian enterprises have been forced to end their cooperation with Russia and look for possibilities of directing their internationalization activities partly or totally to other markets:

The obstacles have to do with the Russian side – laws and regulations, queues at the border, closing of local roads. I wouldn't rely my business only on Russia. May-be bigger firms, who import fuel, can do that. We have cooperated less and less with Russia, at some point the relations were very tight, we even rented a part of railroad in Pihkva. Since there is so much instability, you become lazy and look for more stable sources of supply, e.g. from Latvia. It's more expensive, but it's also more stable (South-East Estonia, E15).

Increased customs duties for third countries decreases the competitiveness of enterprises from those countries on the EU market, it also decreases the competitiveness of those enterprises of EU border regions, who buy raw materials or goods/ services from third countries (e.g. South-East Estonia, E2) or if they are unable to buy from third countries, then they are forced to buy more expensive raw materials from the EU inner market (Petrich, E2).

When enterprises in the external border regions have encountered no notable changes or negative ones, then for households there have been also positive aspects. In case of households, CBC between Greece and FYROM has increased as due to the visa requirement to enter Greece people from FYROM are increasingly interested in acquiring Bulgarian passport and in entering the Greek market through these means. So Bulgaria's accession to the EU has had an indirect impact in

addition to its own cooperation with Greece also for cooperation between FYROM and Greece:

Till now, I used to get multivisa, meaning one year-limitless entries-visa. Some years ago, I used to work for a Greek company here, MIHOS, for eight years. Recently I wasn't able to get visa. This created lots of problems to my business. Now, I think I am able to get a Bulgarian passport. This will be very good for my job, as Bulgaria is in the EU. It is very easy, you just have to go to the Bulgarian Embassy and sign a paper where you say "I feel Bulgarian". (Florina, H21)

At the same time tightening of border-crossing formalities are also seen in positive light by households that benefit from decrease of illegal activities through elimination of competitors as:

„...the so-called "hard" border has diminished the illegal activities of the border" (South-East Estonia, H10).

The factors influencing the development of entrepreneurship at a regional level that were most influenced by border effects and changes in the status of borders were the level of complication, speed and cost of movement of goods, services and people across the border. The emergence of "soft" border inside the EU generally simplified matters and "hard" border with third countries restricted cooperation and communication.

To summarise, it is possible to distinguish between border-related enlargement influences for internal and external border regions. For internal border regions the effects have been mainly positive. At the institutional level the simplification of border crossing rules allowed more frequent and efficient communication and made it easier for local actors to engage in cooperation. For enterprises in internal border regions EU enlargement simplified border crossing, clearing formalities, movement of persons and goods as customs fees, restrictions on quantities of goods and visa requirements were removed. The decrease of border crossing costs was important for small and medium enterprises and exporting micro enterprises. The households of internal border regions have also faced negative consequences of EU enlargement due to stricter control over the enforcement of EU legislation.

The effects for external border regions have been more varied being mostly negative for Biala-Podlaska and Kyustendil as the “hard” border created a visa regime and restrictions of goods. In case of Estonian border regions the negative aspect had to do with border-crossing restrictions for enterprises and households, but the fact that Russia abolished double tariffs on Estonian export was positive. In case of Florina-Pella the effect was neutral as FYROM adopting EU standards enhances its reliability and professionalism, but the date of its actual accession to the EU is not known. In case of South-Karelia there were no notable changes either in the direction of Baltic countries or Russia as the economies of the Baltic states are rather small. For enterprises the problems have been customs restrictions and waiting time at the border. Visa is an obstacle for household and enterprises providing services like accommodation and recreational activities. For household there have also been positive aspects like increased cooperation between FYROM and Greece as due to the visa requirement people from FYROM are increasingly interested in acquiring Bulgarian passport to enter Greece.

3.3 The Trade Regimes as a Result of the Alignment with the EU Acquis Communautaire

Foreign trade regimes of both old and new member states were altered as a result of EU enlargements. New member states had to adopt and follow the general acquis communautaire of the EU, including the trade policy. For countries joining the EU it meant the implementation of a joint system of customs tariffs (removal of customs tariffs on the export of agricultural products from the new member states to the EU, implementation of EU joint system of customs fees for import from third countries), implementation of non-tariff barriers (implementation of quotas for import from third countries, implementation of production and export subsidies, implementation of technical trade barriers/ norms), and adopting the EU agreement base in trade policy. For existing (i.e. “old”) member states it meant mainly the removal of customs tariffs on the export of agricultural products from the new member states as most other restrictions had been gradually removed during the accession process.

3.3.1 Changes in trade regimes

For acceding countries it is possible to distinguish positive and negative integration effects, such as the effects of removing barriers to trade and movement of factors of production, on one hand, and adoption of common EU standards (ranging from quality standards of toys, pharmaceuticals, electronic equipment, etc to safety at work and environmental norms), on the other hand. These processes can be linked, e.g. only those dairy producers in candidate countries which are certified on the basis of EU norms can export their products to the EU. In the CSRs of new member states the removal of barriers to trade is viewed positively by institutions and enterprises as illustrated by the following examples about Bulgaria-Greece and Estonia-EU cooperation:

... As a result of Bulgarian membership in EU and removal of custom barriers between Bulgaria and Greece, cooperation among Bulgarian firm and Greek partners is developing. ... A number of factors have positive influence over existing CBC: suppliers of goods, produced in Bulgaria, exporting to EU's single market have some benefits after 1 January 2007 resulting from the fact that customs duty is not payable on goods bought from countries within the EU. (Petrich, E4)

Trade with the EU and with Latvia and Lithuania improved much after the accession to the EU. ... And also the customs arrangements are simpler, or the speed and price of commodity movement. (South-East Estonia, E2)

The removal of barriers to trade is also viewed positively by institutions and enterprises of the existing member states, as there is less bureaucracy, shorter waiting times, easier trade, e.g. between Germany-Poland, Greece-Bulgaria:

... Our interviewee perceives the shorter waiting times at the border crossings as well as the simplifications of customs regulations to be positive results from Poland's entry into the EU. (Görlitz, E7)

The EU enlargement has undoubtedly influenced the nature of this cooperation, since things are now easier due to the simplification of the procedures at the custom houses. As a result, it is easier for us to supply them with what they need, but also to import products from Bulgaria. (Serres, E7)

Another aspect of the trade regime that can have varied effects is the implementation of customs tariffs and non-tariff barriers for import from third countries. The more open the economies of the acceding countries were before the enlargement like in the case of Estonia, the more trade barriers the joint foreign trade policy brought. The wide-spread effect was the re-location of trade from more-efficient non-EU countries to less-efficient EU member states. This is illustrated by the following examples from Estonia and Bulgaria:

... The biggest (change) was the EU customs tariff, for us it is 12% of the third countries customs tariff. It raised our price, there is nothing we can do and my competitiveness with Russian rubber boots diminished, that of Polish boots increased. ... Russian goods are after accession to the EU less competitive. (South-East Estonia, E2)

Before Bulgaria Membership in EU, the beef meat was imported mainly from South America. Since 2007, however, the high custom-tariffs for the meat imported in EU have made this source unprofitable to use. On the other hand, the production of beef meat in Bulgaria (approximately 10 000 tons per annum) is extremely insufficient for the need of the meat processing industry. This forces Bulgarian meat processing enterprises to purchase the necessary raw materials from the EU countries, where the price is higher (they are about 2 levs per kilo more expensive). (Petrich, E2)

Production and export subsidies are according to institutions and enterprises important for increasing the competitiveness of certain products, although this is not any more the case as illustrated by examples from Poland and Estonia:

Subsidies to the export of fresh fruit and vegetables are important. We use this. (Biala-Podlaska, E18)

The external environment has indirect effect on CBC as there are no export subsidies in EU any more. The whey powder was sold from intervention store-houses already 2-3 years ago, today there are no such stocks in EU any more. There butter store-houses were bought empty this spring. We stored in Estonia the intervention butter. (South-East Estonia, E8)

Households have also benefited from removal of trade barriers in the EU internal market and have been adversely affected by the existence or emergence of barriers

in the external border regions. Although the closed border in external border regions has had also a positive effect as it has decreased the number of competitors: *“There are fewer Russians now selling cigarettes, so we sell more.” (Biala-Podlaska, H14)* and the existence of customs has brought gains from illegal activities through avoiding formal importing procedures that are going to disappear when “soft” border emerges and the individuals will have to formally register their activities if they wish to continue: *“My activity with Greece is not registered. I bring things from Greece, without paying any taxes, as personal things, so then I can sell them here ... My future plan is to make legal business.” (Florina, H10)*

In the case of internal regions, where the removal of barriers had mostly positive effects, there were also adverse consequences as competition increased because: *“The free access of all Bulgarian residents to go for shopping in Greece have caused fade out of petty traders’ functions as jobbers in the sale-trade of food and beverages (as the interviewee is).” (Petrich, H2)* and the number of customers decreased: *“Now that there is not much control at the borders, there is not much crush at the customs. People do not stop to look at my stand as they did before. They just go because they cross the borders faster” (Serres, H3).*

*3.3.2 The consequences of the implementation of *acquis communautaire**

Implementation of EU technical norms was accompanied by a need for investments, increased quality, and level of organisation and competitiveness of enterprises. As negative effects of the implementation of the *acquis* the institutions and entrepreneurs have mentioned the need for investments in order to follow technical norms in enterprises, bureaucracy (Zgorzelec, E16) and the fact that regulations are not always clear-cut (Zgorzelec, E8) and due to complicated nature their adoption takes time, as explained by the following example:

“ ... Polish law is adjusted to the EU-regulations indeed, but many people are not acquainted fully with these regulations.” (Görlitz, E6)

An interesting aspect is that different conditions apply to trade with EU member states and with third countries, i.e. having a certificate to be able to export to Europe does not automatically enable export to Russia, and certificates need to be re-applied:

Then the veterinary obstacles were created by Russia, but we were able to pass also that problem. It (lasted) something like a year and meant that the Russian side had to recognise Estonian firms one-by-one and allow them to export to Russia. At some point no-one had the permit and all export stood still, then there came inspectors from Russia, wrote a report and after 3 months came a favourable decision.” (South-East Estonia, E7)

On the whole, following EU technical norms is viewed twofold as a financial burden and hindrance to further development, but sometimes also as a guarantee for greater quality, organisation and competitiveness. On one hand, the technical requirements are unclear and their implementation demands time and financial resources:

Legal regulations are not very clear, environmental requirements hinder the development of the company, deficiencies of workforce (construction engineers have gone to the West). (Zgorzelec, E8).

The harmonisation of legislation and regulations (that began before the actual joining in 2004) brought with itself a lot of changes and problems for firms, which are in themselves good things, but it has required also a lot of finances. (Ida-Viru, E7)

On the other hand, there are also benefits like better quality of products, improved work safety and sanitary conditions, increased awareness about environmental concerns and raised overall competitiveness:

Due to European requirements we enforce quality on our suppliers, or even increase of quality. (Biala-Podlaska, E2)

... The so called euro-norms are beneficial for the firm. It is not easy to follow them, but once they are fulfilled, the firm benefits (e.g. safety at work, sanitary requirements). (Ida-Viru, E18), „ ... the implementation of environmental protection measures, which has changed the way of thinking and re-arranged the priorities and forced to invest in places where one wouldn't invest without this awareness and pressure” (Ida-Viru, E7), „EU technical norms have contributed to the increase in quality of production ... and increased the competition of the firm in Russian market.” (Ida-Viru, E6)

At the level of enterprises, small and medium size manufacturing firms with more than 10 employees have assessed the implementation of *acquis communautaire*, whilst the micro enterprises have not mentioned it. This can be explained by their orientation towards the internal market and by their provision of services. As negative

impacts of implementing EU *acquis*, the managers of manufacturing enterprises of various sizes have mentioned growth of bureaucracy (Tornio, E2; Zgorzelec, E16), lack of understanding of all the regulations (Zgorzelec, E8) and problems with the smallness of courts and keeping deadlines (Görlitz, E6). The service enterprises have also mentioned the restrictive influence of the labour market and foreign trade policy (Zgorzelec, E19) and environmental regulations for the development of enterprises.

The results of implementing *acquis* have been evaluated as positive by both enterprises of internal and external regions, referring to:

“... evasion of double taxation” (Petrich, E8), “ ... improvement of existing licence regime for the internal transport” (Petrich, E9), “... organisation of legislation” (Zgorzelec, E2), and “improvement of organisation of work.” (Zgorzelec, 11; Ida-Viru, 18)

To summarise, joining the EU resulted in changes of foreign trade regimes as the barriers to trade for new member states were removed. But the new member states had to implement customs tariffs and non-tariff barriers for import from third countries that effected most the former liberal economies. On the positive side they acquired access to EU production and export subsidies. For households the effects varied as “hard” border on the negative side limited border crossing, but also decreased the number of competitors and allowed gains from illegal activities. “Soft” border in addition to positive aspects like better access increased also competition and decreased the number of customers. Another aspect of trade regime, the implementation of EU technical norms, increased need for investments, bureaucracy and their adoption took time, but it increased quality, level of organisation and competitiveness of enterprises. Micro enterprises have not mentioned this, which can be explained by their orientation more towards internal market and provision of services.

3.4 Changes in the Institutional Environment related to the EU Enlargement

After the EU enlargement, new member states became subject to joint economic, agricultural and regional policy. Already before accession a substantial degree of integration existed as the EU legislation to be adopted was higher than in previous enlargements.

3.4.1 Adoption of EU legislation in new member states

The effects differ for existing and new member states being more profound for new member states. According to representatives of institutions and enterprises the enlargement created a more stable environment, introduced long-term planning, increased possibilities for participation in cross-border programmes, provided additional financial resources and information for cooperation, increased trust and credibility, equalised situation with neighbours, increased quality, but in some places also created mistrust and divide between neighbours. For old member states the indirect effects were that the institutional environment in neighbouring regions became more stable and secure, structural reforms accelerated, but enlargement meant also direct effects like less EU funding.

For new member states the EU enlargement created a more stable institutional and business environment. The adoption of EU legislation, strengthening and developing own legislative base and business support infrastructure in new EU member states contributed to the overall order and stability in the macro environment:

When talking about changes then with every year life in Estonia and environment for entrepreneurship improves. The legal base strengthens and improves. There is more order. (Ida-Viru, E11)

The adoption of EU legislation was also accompanied by the establishment of institutions responsible for the implementation and monitoring of EU policies in new member states, which have contributed to the development of entrepreneurship support structures (Venesaar and Pihlak, 2008b) or founding of institutions on the territory of the country with which cooperation is made in order to be closer to

resources. E.g. branch offices of Greek enterprises have been established in Bulgaria (Petrich E12; Petrich E10).

For old member states the interest to cooperate with new member states has increased as due to harmonization with EU legislation and specific standards their environments are perceived as more equal, secure, advanced, knowledgeable and understandable, which facilitates further cooperation.

... In general our interlocutor believes that most of the problems result from the fact that people do not do enough. He has made very good experiences with his employees. He holds the view that also in Poland customs are becoming more European. The Poles learn extremely fast and are capable for improvising. (Görlitz, E10)

This fact, in combination with crack of corruption that has been actively pursued in the past years, particularly following the EU enlargement, creates a sense of security. The trust of investors towards the Bulgarian market, and consequently towards potential collaborators, has increased. (Serres, E9)

The level of stability and security has increased also for households due to the accession in the EU. Also perceptions of each other became more positive:

Yes, Germans no longer perceive us as badly as they used to in the past. (Zgorzelec, H12)

In some cases, on the other hand, the enlargement broke up former relations and created mistrust between neighbours. This is the case of relations between Estonia-Russia, Poland-Belarus, Bulgaria-FYROM. This was most apparent in regions neighbouring EU new member states as joining the EU had distanced them from what was perceived to be common (shared socialist background, cultural closeness) or from the process of amending relations and becoming closer. In the case of Bulgaria and FYROM for many decades the relations were politically strongly influenced by relations between Bulgaria and former Yugoslavia. This meant that there was neither economic integration nor positive relations at the political level. Moreover, for a certain time the political anti-Bulgarian propaganda was able to create an anti-Bulgarian frame of mind among some circles in FYROM. The relations started to improve from the end of the 90s but after the EU-accession of Bulgaria the

new barriers set up between the two countries created new negative attitudes against Bulgaria.

It may be said that Bulgarian membership in EU put an end of this activity. The Macedonian more prefer the Chinese than the Bulgarian goods even there are no price divergence between them. The Macedonian people want to emphasize that "all Bulgarian is second hand." (Kyustendil, H4)

On the whole, the attitudes are rather ambivalent as respondents shared different experiences with regard to relations across the borders. It depends on the basis of the assessment – political or personal; the latter being in general more positive than the former. E.g. people from FYROM feel more secure in Bulgaria after its accession to the EU and Estonians feel that they are being treated better by Russian customs:

The Macedonian citizens were attracted by the benefits coming from the Bulgaria's integration in the EU and the deriving future perspectives. As a result many Macedonians obtained a car which to use in Bulgaria, or had friends who could accommodate them when visiting the country. This process occurred in parallel with the increasing feeling of security of the Macedonian citizens in Bulgaria. (Kyustendil, H1)

... the EU expansion has not influenced the situation in the border apart from the fact that the attitude of the Russian border guards has slightly changed (i.e. they respect the Estonians as EU citizens. (South-East Estonia, H9)

3.4.2 Participation in cooperation programmes and changes in funding

In the opinion of institutions and enterprises the EU enlargement increased possibilities for participation in cooperation programmes, sources of funding and information for CBC. In addition indirect EU funding allocated for bigger regions influences individual firms.

European assistance can also be felt (roads, communications, infrastructure). This is a big help also to the hotel. Historical landmarks are being restored. (Ida-Viru, E11)

The negative aspect was the decrease of EU funding as enlargement decreased the available resources and changed the status of regions of existing EU member states as they were less developed in relation to the EU15 average level, but not in EU27

because the regions of the acceding countries were very different in terms of their level of development. The situation for Finnish border areas changed as when the Baltic countries joined the EU the economic status of Tornio was altered from an area in need of special economic assistance to an average region within the EU (Louko, 2008). Also in Hochfranken EU subsidies are considerably lower than in Czech Republic at the other side of the border (Welter et al., 2008b).

To summarise, the EU enlargement effects on the institutional environment in new member states were mainly stabilising as it brought more order, security, knowledge and skills to the macro environments. On the other hand, it created tensions along external borders as joining the EU was viewed with suspicion by counties outside it like Russia, Belarus and FYROM. As another aspect of institutional environment, joining the EU provided access to the union's budget, increased possibilities for cooperation programmes and availability of other sources of funding. At the same time it meant change in the status and in the funding of the regions of old member states like Tornio and Hochfranken.

3.5 Changes in the Business Environment related to the EU Enlargement

According to representatives of institutions and enterprises, EU enlargements have changed the external business environment and have offered opportunities like access to new markets, rise in efficiency and quality as a result of following EU product and process standards, removal of double VAT, increased demand in some sectors, FDI and more varied sources of finances for all counties/ regions. EU enlargements have also created sources of threats like increased competition, need for extra investments due to the requirement to adopt EU product and process standards, out-flow of work-force, increased prices and labour costs.

3.5.1 Changes in border regions of "old" member states

Some previous assessments suggested that the overall impact of enlargement on the "old" EU will be negligible, because the economies of the acceding countries are very small. Although this applies to countries as a whole, border regions of the old member states are in a different position as due to their peripheral position they are generally less economically advanced than core regions in the same country and

therefore more vulnerable to changes in the external environment. The macro level effect on regions certainly varies according to their size and the economic capacity of their neighbouring market. According to the representatives of institutions and enterprises in cases when countries/ regions across the border are small and less economically developed, the impact is also smaller. It could be illustrated by the following examples from Finland-Estonia and Greece-FYROM, although in case of FYROM there are also unsettled diplomatic relations with Greece and the visa requirements that inhibit mutual contacts:

EU enlargement has not had any significant effect on our business. I do know that the Estonians are building hotels and in future it can become a threat to our business but at the moment I think the impact is very, very small. (South-Karelia, E21)

EU enlargement in the FYROM case, meaning the Stabilisation and Association Agreement, has not affected our CBC. On a commercial level, EU enlargement in Bulgaria and Romania is very positive, due to the fact that there are many new consumers with an improved purchasing power. This is not the case of the FYROM, where there still is unemployment and economic problems. Our commercial activities are not very good there. (Florina, E3)

But this does not apply to all regions as in case of bigger and economically better developed areas, where the economic growth has been higher than the EU average, there are also more visible cooperation effects. In Germany the fears related to enlargement did not become a reality and many new possibilities have risen for institutions and businesses (Welter et al., 2008a; Welter et al., 2008b). More specifically, in case of Hochfranken the development of Czech companies and economic boom at the other side of the border has contributed to domestic growth:

People did not have particular expectations towards the EU-Eastern Enlargement. According to our interlocutor, the effect of a collapsing economy, which had been pretended to exist, has not occurred. The thing which has occurred indeed is rather the other way round: Czech companies are in full activity and show a great pent-up demand, so that they engage German companies for help. (Hochfranken, E12)

Opening of new markets has also been important due to the fact that it has increased demand and profits: "... EU enlargement in Bulgaria and Rumania is very positive, due to the fact that there are many new customers with increased purchasing power". (Florina, E3), and offered

possibilities for investments: *“As to the Baltic countries ... they are now open for foreign investments and it is much easier for us to sell anything to these countries”*. (Tornio, E10).

The positive influence of EU enlargement in the long-run has been evaluated by manufacturing and retail enterprises in connection with establishing stable contacts and starting to use EURO (Goerlitz, E3), widening of the Schengen area and benefitting from positive developments in neighbouring countries (e.g. Czech Republic, FYROM) (Hochfranken E,17; Florina, H2).

For households of the old member states possibilities opened up with the removal of border crossing barriers to purchase cheaper goods and services in neighbouring areas, like Finnish people buying alcohol in Estonia (Zashev, 2008), Germans buying in Poland and the Czech Republic cheaper and better quality fresh groceries, deposit-free beverages, petrol and cigarettes, also using the services of hairdressing and cosmetics (Welter et al., 2008a; Welter et al., 2008b). The price difference has decreased over time, but in case of some goods and services it still exists.

3.5.2 Changes in border regions of “new” member states

In the context of the present study a stronger macro-economic impact can be observed in the case of border regions of “new” member states Estonia, Poland and Bulgaria. Easier access to EU market is viewed as an asset by representatives of institutions and enterprises, although the economies and border regions of these countries are more vulnerable than those in the old member states due to weaker level of economic development. Still, widening of the potential market offers in addition to bigger client base also potential for obtaining information and learning as: *“Positive effects, which I noticed are widening of purchase market, new approach, new technologies, new organisation of work”*. (Biala-Podlaska, E4), and access to new materials, which offers competitive advantage in other markets where they are not so widely used: *“... while constricting sites in Macedonia Elstorm Ltd. is building in the installations materials and components made in the EU, which are had to access, and in most cases – unknown to the Macedonian companies ... In this way the Macedonian partners of the company take advantage of the technical achievements of the European manufacturers”*. (Kyustendil, E6).

Other positive influences at the level of enterprises have been the growing demand, increasing amount of investments, access to EU budget and removal of double VAT system. According to the opinion of entrepreneurs the EU eastern enlargement has increased positive attitudes towards enterprises of all sizes and sectors in EU new member states (e.g. Poland, Bulgaria) in their neighbouring countries (e.g. Greece, Germany), which in its turn has increased the amounts of subcontracting, the demand for goods, the number of tourists. The same tendencies can be noticed also in regions located near EU external border (e.g. Estonia, Bulgaria), e.g.:

„The attitude towards Estonian firms is the same as towards the EU ones. This has good effect. ... We are talked to as equals” (Ida-Viru, E8).

A problem for development of cross-border relations of SMEs is a lack of capacity to fulfil big orders. The effect of EU enlargement can be seen as a creation of favourable conditions for investments. According to the opinions of respondents this is especially important for micro and small size enterprises, which are most sensitive to the influences of the external environment. This has been done in order to increase the production capacity of enterprises and to enable the fulfilling of larger orders. This has been mentioned by enterprises active in retail and production, e.g.:

“EU enlargement influence has a positive influence over firms’ activities related to increase in the volume of investments made for establishment of new production department in Petrich” (Petrich, E10)

Changes in the regulations of business operations have created security towards Bulgarian enterprises (Serres, E9), which has also a downside as the labour costs are rising and more stability in the macro environment attracts other investors and increases competition. The positive influence of investments related to the EU enlargement has been also mentioned by Polish and Estonian enterprises. In the Estonian case the accession to the EU has increased the interest of Russian enterprises to invest into Estonia (in manufacturing and services), which also means an investment in EU (Ida-Viru, E7). Here a supporting factor is economic stability that Estonia has achieved as: *“This is essential in border region where Russian citizens have it easier to invest as there are no language problems and information can be reached, and above all the investments are in EU territory, there is no need to go further”.* (Ida-Viru, E11)

Entrepreneurs have seen as positive the opened access to the EU budget in the form of support for building roads, communications, infrastructure, and subsidies for export; this has been mentioned mainly by managers of micro and small enterprises in retail and services in the external regions of EU (Kyustendil, E14; Ida-Viru, E11; South-East Estonia, E3; Biala-Podlaska, E18). In internal regions the average size manufacturing enterprises have mentioned subsidies for development of competitiveness of enterprises i.e. purchase of machines, equipment (Zgorzelec, E8), support from EU structural funds and subsidies (Zgorzelec, E5, E13), as well as possibilities for enterprises to participate in different EU programmes (e.g. framework programmes, Interreg, etc) (Serres, E2). Removal of internal borders in EU decreased prices in the common market as double VAT was abolished, which is important for retail enterprises in new member states (e.g. in Polish region Zgorzelec, E10).

The negative changes in business environment at the enterprise level have been increased outflow of workforce, increased prices and wages. Outflow of work-force in external border regions of new member states is caused by decreased trading activity (Kyustendil, E1) (e.g. decrease of demand, as hard border has limited purchasing trips from neighbouring countries, on the other hand, access to cheaper goods has decreased demand of domestic goods and services). In addition, free movement of people between EU member states has provided an opportunity to go to work in a foreign country (e.g. in case of Zgorzelec, E8 construction workers).

The increase of prices and labour costs in new member states is a result of price convergence in EU inner market, which causes the countries to lose the advantage offered by lower production costs, to re-orient their economies towards more capital-intensive production in order to be competitive on EU market in the long-run. This could mean abandoning the areas where production costs have risen for other areas still offering the cost advantage or viewing the growing economy of new member states as a potential market and developing more advanced forms of CBC.

More specifically by sector, the growth of prices and wages has been mentioned from different aspects. First, as a negative factor of increased prices and wages the

manufacturing enterprises of new member states have mentioned losing the competitive advantage due to disappearance of cheap production inputs (e.g. Petrich, E13), which decreases CBC with neighbouring countries (e.g. Greece) and due to which subcontracting of neighbouring countries moves to cheaper locations (FYROM, etc).

On the other hand, the standard of living in Bulgaria, as well as the salaries, has increased. Consequently, within the next 3-4 years it will no longer make sense to cooperate with companies there, since the labour cost will become higher. This is the reason why our sector is turning more towards alternative destinations, such as the Middle East. (Serres, E5)

Second, the increase of wages has increased the purchasing power of people and increased demand in the market, which in its turn supports the development of trade enterprises (e.g. Biala-Bodlaska, E17). But the growth of prices in tourism sector decreases the number of customers in this sector (Petrich, E7) and possibilities of cooperation in the service sector (e.g. Serres, E5).

The increase of prices in third countries across the border (e.g. Russia) decreases the profits of manufacturing enterprises and due to small differences in prices it is not beneficial any more to buy raw materials from these countries (e.g. South-East Estonia). In addition the instability of cross border trade increases the risk of the enterprises and problems with border crossing raise the cost of raw materials even further. Raw materials are therefore bought from EU member states, which is more expensive and increases the cost of products even further, but the quality is guaranteed (e.g. South-East Estonia, E7; Petrich, E2).

For households along the “soft” Greek-Bulgarian border the business environment became more complicated as the easier border crossing situation decreased profits because competition increased, prices became higher in Greece and Bulgaria, and border crossing mobility decreased (Vogiatzis et al., 2008b). But in Zgorzelec, which also has a soft border, the positive aspect was that the number of potential customers increased as: *“There are more Germans visiting Zgorzelec now than in the past”.* (Zgorzelec, H5)

In the case of hard borders, the households mentioned that visa requirements, quantity and item restrictions on goods have inhibited petty trade and decreased the number of customers. The increase of prices has had negative impact on cross border trade in one direction, e.g. from Bulgaria to FYROM as prices in Bulgaria have become higher than in FYROM (Todorov and Kolarov, 2008a), but has contributed to trade in other directions, e.g. from Russia to Estonia, when fuel becomes more expensive in Estonia households import it more extensively from Russia (Venesaar and Pihlak, 2008a).

Households viewed negatively the emergence of the hard border in Biala-Podlaska due to visas and quotas on goods that have limited movement across the border, the number of customers and profit; although on the positive side it has also curbed competition (Rogut, Piasecki and Zuromski, 2008a). The motivation for cross border trade of households in the EU external regions has been the possibility to buy cheaper goods (e.g. in Russia, Belarus), but the increase of prices of goods in these regions has decreased the interest of households for purchasing trips to the other side of the border, which in its turn has decreased the profit from these activities and the increase of prices has been seen negatively for CBC (e.g. Kyustendil, H5; H6; H7; H8; South-East Estonia, H8).

To summarise, the changes in the business environments of regions of some old member states like South-Karelia have been negligible as the market across the border in Estonia is small. In other regions like those in Germany bordering western parts of Poland and Czech Republic new possibilities have risen for institutions and enterprises to cooperate. Opening of new markets increased demand and profits and offered possibilities for investments. For households new possibilities emerged for buying goods and services at a more affordable price across the border like in case of Finland-Estonia, Germany-Poland, Germany-Czech Republic.

Regions in new member states have benefited from easier access to EU market as it offers bigger client base, new information and learning opportunities, access to new materials, growing demand, increasing amounts of investments, access to EU budget, removal of double VAT system. The downside has been the increase of

prices and labour costs as a result of price convergence in the EU inner market and also the outflow of work-force. The growth of prices and wages has caused the manufacturing enterprises to lose the competitive advantage and move subcontracting in neighbouring countries to cheaper locations.

On the other hand, the development of trade enterprises is supported by the increased purchasing power of people. But the growth of prices in tourism sector decreases the number of customers there and possibilities for cooperation in the service sector. The increase of prices in third countries across the border decreases the profits of manufacturing enterprises and it is not beneficial to buy raw materials from there anymore. For households the “softening” of borders increased the number of customers like in the case of Germany-Poland, but in some other cases decreased profits due to increased competition and increase of prices like in case of Greece-Bulgaria. In case of “hardening” borders visa requirements and restrictions on goods inhibited petty trade and decreased the number of customers. The positive aspect of hard borders has been the fact that it has curbed competition.

3.6 The Characteristics of Competition as a Result of EU Enlargement

EU enlargement is characterised by gradual integration, which has affected the level of competition. The removal of trade barriers has provided access to new markets but has also increased competition for those entering new markets and for those operating in markets where more competitors have settled. In some sectors like tourism, the removal of barriers to trade has increased demand and in some sectors like retail the two-way shopping tours have led to increased competition. The impact on competition for enterprises in regions bordering candidate countries (internal regions) is significantly greater than for enterprises in other regions (external regions).

3.6.1 Characteristics of competition in internal border regions

The nature of business environment in internal CSRs (in which case an existing and new member state share a common border, except for Tornio) has been altered due to EU enlargement rather drastically. According to the representatives of institutions

and enterprises, on one hand, demand and the number of customers have increased as border crossing barriers have been removed and economic growth in new member states fosters cooperation with more advanced regions across the border:

Our interlocutor has never seen the EU-Eastern Enlargement to be dangerous but only as a chance in form of the development of the markets. He states that for him, the "East has always been part of the agenda already". (Hochfranken, E9)

On the other hand, competition has increased, as new competitors have entered the market, offering different products and services, whose quality is better or price more affordable, and which causes the number of customers to decrease. Sometimes competition itself has emerged with enlargement like in case of Poland-Lithuania:

Changes connected with EU enlargement resulted in greater access for competitors from Poland. Until then only I knew "the way". (Biala-Podlaska, E3)

In addition to reducing number of customers, the opening of new markets has also diminished suppliers as the latter have wider choice to whom to sell, like in case of Greece-Bulgaria:

... In my opinion, the country's accession had a very positive effect in cross border cooperation, stimulating our activities, but on the other hand it also led to quantity reductions in their exports to Greece, because they are now able to export to the whole world. (Serres, E20)

Increased competition has led to decrease of prices of domestic products, and has lowered sales and profit, e.g. in Finland:

The EU enlargement has affected our business at least in one way: as a result of the Baltic countries joining the EU beer has become a product that the supermarkets and smaller grocery shops sell for a very low price in order to attract customers. So the enlargement caused the price war in beer sales, as the shops and beer producers in Finland were afraid that the inexpensive beer from these countries would take over the beer markets. Beer prices decreased as the shops no longer make good profit with their beer sales and also the taxation on beer was reduced. (Tornio, E16).

Competition from new member states caused the prices to decrease in old member states, but initiated measures for increasing the competitiveness of enterprises. In order to cope with increased competition additional investments in technology have been necessary to compete with competitors whose production costs are lower due to less capital intensive production in new member states:

The EU enlargement has had an effect on our business and also on our CBC – there are more and more companies who are able to compete with us, which are located in the Baltic countries with a cost level much lower than in Finland. We had anticipated this change and as there is little we can do about the labour costs we did invest some money on the latest technology and this way try our best to compete against these “new rivals”. (Tornio, E12).

Competition has also increased for households, as new competitors have entered the market, selling cheaper products, and causing the number of customers to decrease, e.g. in Bulgaria:

In respondent's opinion, EU Enlargement has a negative influence over CBC with Greece because of increased competition and decreased demand. Customers of mobile phones to be imported from Greece decrease because the parallel import of cheaper phones from other European countries. (Petrich, H10)

At times the competitors that have emerged are also illegal ones and the removal of border crossing barriers and control does not provide protection against it like across the Greek-Bulgarian border:

... It is also easier now for Bulgarian taxi drivers, legal or not, to work inside Greece. This is illegal. The controls are not so good, so it is more difficult for us to make a living. Greek traffic police doesn't make proper controls in order to regulate this matter. ... (Serres, H4)

“Soft” border and the removal of border crossing barriers has caused activities, which demand less skills, like petty trade, to fade out, as due to increased competition the number of customers has decreased, e.g. between Bulgaria-Greece:

The free access of all Bulgarian residents to go for a shopping in Greece have caused fade out of petty traders' functions as jobbers in the sale-trade of food and beverages (as the interviewee is). After January 2007, increasingly large number of households from the region of Petrich travel to

Greece almost every week to buy goods from the so-called 'discounters' – for example the German discount market chain called Lidl. (Petrich, H2)

On the other hand, opening of borders has contributed to some entrepreneurial activities of the households like offering services (hairdressing, beauty treatment, cleaning) at higher price to customers in old member states (Welter et al., 2008a).

3.6.2 Characteristics of competition in external border regions

The enlargement effects on competition in external border regions have not been much different from those in the internal regions, only on a smaller scale. In the direction of EU the external border regions have been also affected by the opening of markets and removal of barriers to trade, which have provided new opportunities for CBC, but have increased competition in the form of raising the number of competitors, decreasing the number of customers, reducing prices of domestic products, lowering profit as prices and sales have decreased, decreasing sources of supply, and increasing the need for investments in order to stay competitive.

The nature of competition in external CSRs has changed with EU enlargement because the number of competitors has increased as in the case of Estonia:

... The enlargement of the EU has brought no changes to cooperation relations but the environment has changed (competition, location became not good). ... A number of new hotels have been opened in better environments (towns, nice places) making the competition stronger: the environment and political situation has decreased the competitiveness of this hotel. ... (Ida-Viru, E2)

Sometimes the composition of competitors has changed as the importance of one economic block has decreased, and another has emerged, like for Estonia-Russia. Due to increased cooperation the flows of goods between EU and Russia increased, which brought with it new competitors (e.g. Poland, Hungary) and it posed greater demands for transport enterprises (South-East Estonia, E19).

Joining the EU has made the transport of goods easier, relations with Russia have changed. If before the enlargement of the EU the market was divided mainly between former Soviet Republics, then now the competitors are more Polish and Hungarians from Central- and Eastern

Europe. There are problems and queues at the border as the Polish and the Hungarians have language problems, issues with preparing the documents, mistakes in the documents and understanding them takes a lot of time. (South-East Estonia, E19)

Increased competition has also reduced the number of customers or is likely to cause that in the future. In the case of Greece-FYROM, it is likely that in the long-run the competition will decrease the number of customers as FYROM becomes a member of the EU:

I would say that the prospects regarding cooperation with this particular country is not very optimistic. In Skopje, there are large firms activating in the same sector as we do, who can cover the needs of our customers. So I am not sure that these customers will continue seeking our services. There is no doubt that, at some point, FYROM will also get organised, it will become a member of the EU and go through all the stages that Greece has also undergone. The question is when. (Florina, E9)

In order to stay competitive increased competition has demanded drastically larger expenses, e.g. in terms of raising the salaries and has hindered development like in case of Poland:

Rise of competitiveness hinders everything. EU enlargement has caused that the best employees left the company. Other employees are new or less efficient. I had to raise salaries by 100%. That makes investments hard. (Biala-Podlaska, E3)

The negative impacts of EU enlargement mentioned by entrepreneurs in external border regions are increased competition, increased outflow of workforce, some negative aspects of adopting EU acquis, whereas the problems were different according to the size and sector of enterprises. In retail the larger enterprises pose a threat for micro enterprises which may leave the market because of increased competition (Florina, E9). Medium size enterprises see the increase of competition as negative but admit to it stimulating the growth of their enterprises. For example, the increased competition has made it necessary for enterprises to increase their competitiveness in the retail (Biala-Podlaska, E5) and transport sector (Biala-Podlaska, E16).

Households in the external border regions that engage in petty trade across the border mention the negative effects of competition on small-scale shop-keepers as demand for their products decreases as people prefer cheaper goods on the other side of the border (Venesaar and Pihlak, 2008a). On the positive side, hard borders can also limit stiffer competition, because competitors cannot cross the border or the costs related to crossing the border turn the business unprofitable (Rogut, Piasecki and Zuromski, 2008a).

To summarise, the “softening” of borders has increased possibilities for cooperation, but has also increased the number of competitors, which decreases the number of customers, prices of domestic products, sales and profits. Still, it stimulates enterprises in old member states to use measures to increase their competitiveness like invest in technology (e.g. in Finland). For households the “softening” of borders has increased competition and decreased the number of clients. At times illegal competitors have emerged as the control is less strict like in the case of Bulgarian taxi drivers working in Greece. On the other hand, the open border has contributed to the development of services in old member states because of the price difference like in case of Poland-Germany.

In case of external border regions, competition has also increased, but to a lesser extent. The new member states have become more attractive places where to invest or through which border crossing points to transport goods. Micro enterprises were most severely influenced by increased competition and they were considering their market exit. In medium enterprises the increase of competition was also negative, but stimulated growth in retail and transport sector. In terms of households their petty trade activities are a threat for small business owners near the border like in case of Estonia. But in Poland, on the other hand, the “hard” border has limited access by competitors.

4. CONCLUSIONS

EU enlargement effects can be analysed at the level of border regions, institutions, enterprises and households. Enlargement has affected amongst other aspects the status of borders, foreign trade policy, institutional environment, and

entrepreneurship environment including the nature of competition in EU member states and their regions. The level of regional economic development and economic structure (diversity) are factors influencing EU enlargement effects for border regions. For enterprises their size and economic sector can be said to be a differentiating factor.

The border-related enlargement influences in internal border regions have been mainly positive. At the institutional level borders became more permeable and the simplification of border crossing rules allowed more frequent and efficient communication and made it easier for local actors to engage in cooperation. For enterprises in internal border regions EU enlargement simplified border crossing, clearing formalities, movement of persons and goods as customs fees as restrictions on quantities of goods and visa requirements were removed. The decrease of border crossing costs was especially important for small and medium enterprises and exporting micro enterprises. The households of internal border regions faced also negative consequences of EU enlargement due to stricter control at borders over the enforcement of EU legislation.

The effects on external border regions have been more varied being mostly negative for Biala-Podlaska and Kyustendil as the “hard” border created visa regime and restrictions of goods. In the case of Estonian border regions, the negative aspect had to do with border-crossing restrictions for enterprises and households, but the fact that Russia abolished double tariffs on Estonian export was positive. In case of Florina- Pella the effect was neutral as FYROM adopting EU standards enhances its reliability and professionalism, but the date of its actual accession to the EU is not known.

In the case of South-Karelia there were no notable changes either in the direction of Baltic countries or Russia as the economies of the Baltic states are rather small and in transition. The enterprises, more specifically, have mentioned as problems quantitative and item restrictions on goods, complicated customs documentation, increased border queues and waiting time, increased customs duties for third countries and visas. Visa is an obstacle for household and enterprises providing

services like accommodation and recreational activities. For households there have also been positive aspects like increased cooperation between FYROM and Greece as due to the visa requirement people FYROM are increasingly interested in acquiring Bulgarian passport to enter Greece in this way.

It was expected that the border-related changes impact mostly economic factors (like opening of new markets, increased competition or decreased number of customers) that influence the development of entrepreneurship. This was largely the case, but also the EU enlargement influence on environment where business operates cannot be ignored as it deepened misunderstanding and political tensions between neighbours by dividing countries into EU and non-EU member states (in case of Russia, Belarus, FYROM).

The EU enlargement also brought along changes in the foreign trade regimes as on the positive side barriers to trade in new member states were removed, but on the negative side the requirement to adopt EU standards emerged. As another aspect of trade regime the new member states had to implement customs tariffs and non-tariff barriers for import from third countries that affected mostly the former liberal economies. On the positive side, they acquired access to EU production and export subsidies. For households the effects varied as “hard” border on the negative side limited border crossing, but also decreased the number of competitors and allowed gains from illegal activities. “Soft” border in addition to positive aspects like better access increased also competition and decreased the number of customers.

The implementation of EU technical norms increased the need for investments, bureaucracy and their adoption took time, but increased quality, level of organisation and competitiveness of enterprises. Mostly small and medium size manufacturing firms having more than 10 employees have evaluated positively the implementation of *acquis communautaire*; micro enterprises have not mentioned this, which can be explained by their orientation more towards the internal market and provision of services. The EU enlargement effects for institutional environment were mainly stabilising as it brought more order, security, knowledge and skills to the macro environments of new member states as a result of which they were viewed by old

member states on a more equal basis. On the other hand, it created tensions along external borders as joining the EU was viewed with suspicion by countries outside it, such as Russia, Belarus and FYROM which have a new EU member border.

As another aspect of institutional environment, joining the EU provided access to union budget, increased possibilities for cooperation programmes and availability of other sources of funding. At the same time it meant change in status and in terms of funding in the regions of old member states like Tornio and Hochfranken.

The changes in the business environments of border regions of some old member states like South-Karelia have been negligible as the market across the border in Estonia is small. In other regions like those in Germany bordering western parts of Poland and Czech Republic and forming new internal regions in the central areas of EU the integration effects have been more profound as new possibilities have risen for institutions and enterprises to cooperate. Opening of new markets increased demand and profits and offered possibilities for investments. Manufacturing and retail enterprises have observed also positive long-term influences from integration like starting to use the EURO and the widening of the Schengen area. For household in the old member states new possibilities emerged for buying goods and services at a more affordable price across the border like in case of Finland-Estonia and Germany-Poland, Germany-Czech Republic.

Regions in new member states have benefited from easier access to the EU market as it offers bigger client base, new information and learning opportunities, access to new materials, growing demand, increasing amounts of investments, access to EU budget, removal of double VAT system. The downside has been increase of prices and labour costs as a result of price convergence in EU inner market, outflow of work-force. The growth of prices and wages has caused the manufacturing enterprises to lose the competitive advantage, decrease CBC with neighbouring countries and move subcontracting from neighbouring countries to cheaper locations. On the other hand, the development of trade enterprises is supported by increased purchasing power of people. But the growth of prices in the tourism sector decreases the number of customers there and possibilities for cooperation in the service sector.

Increase of prices in third countries across the border decreases the profits of manufacturing enterprises and it is not beneficial to buy raw materials from there anymore.

For households the “softening” of borders increased the number of customers like in the case of Germany-Poland, but in some other cases decreased profits due to increased competition and increase of prices like in case of Greece-Bulgaria. In the case of “hard” borders, visa requirements and restrictions on goods inhibited petty trade and decreased the number of customers. Also the increase of prices inhibited trading in one direction (e.g. from Bulgaria to FYROM), but contributed to it in another direction (from Russia to Estonia). The positive aspect of hard border has been the fact that it has curbed competition.

As to competition, the removal of border crossing barriers and the creation of “soft” borders have increased possibilities for cooperation, but have also increased the number of competitors, which decreases the number of customers, prices of domestic products, sales and profits. It stimulates enterprises in old member states to use measures to increase their competitiveness like investments in technology (e.g. in Finland). For households the “soft” border has also increased competition and decreased the number of clients like in case of Bulgaria-Greece. At times illegal competitors have emerged as the control is less strict like in case of Bulgarian taxi drivers working in Greece. On the other hand the open border has contributed to offering services to customers in old member states because of the price difference like in case of Poland-Germany.

In the case of external border regions, competition has also increased, but to a lesser extent. The new member states have become more attractive places where to invest or through which border crossing points to transport goods. Micro enterprises were most severely influenced by increased competition making them to consider leaving the market. In medium enterprises the increase of competition was also negative, but stimulated growth in retail and transport sector. In terms of households their petty trade activities are a threat for small business owners near the border like in case of

Estonia. But in Poland, on the other hand, the “hard” border has limited the access of competitors.

The EU enlargement effects have been different for internal regions with “soft” border and external regions with “hard” border, and for regions with different level of economic development. The effects have also varied between enterprises and households, and between enterprises in different sizes and sectors. Internal and external border regions were differently influenced by border-related effects, but there have been similarities in terms of changes in foreign trade, institutional and business environment, including competition.

REFERENCES

Bachtler, J., Downes, R., Helioska-Hughes, E., & Mackquarkie, J. (1999) *Regional Development and Policy in Transition Countries*, Regional and Industrial Policy Research Paper No 36, Glasgow: European Policies Research Centre.

Bacsi, Z., & Kovács, E. (2006) 'The Role of Cross-Border Cooperation in Rural Development - A New European Perspective' University of Pannonia, Georgikon Faculty Keszthely, Hungary. *Proceedings from the First International Conference on Agriculture and Rural Development*. Topusko, Croatia, November 23-25, 2006.
http://www.agr.hr/jcea/issues/jcea7-3/pdf/jcea73-17_plenary_ses_1.pdf (15.05.2008)

Berg, E., Ehin, P. (2006) 'What Kind of Border Regime is in the Making? Towards a Differentiated and Uneven Border Strategy', *Cooperation and Conflict: Journal of the Nordic International Studies Association*, 41 (1): 53-71.

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: COM.

Commission of the European Communities (2003) *Internationalisation of SMEs* (2003), Observatory of European SMEs 2003, no 6, European Commission Enterprise Publications, Brussels.

Dimitrov, M., Petrakos, G., Totev, S., Tsiapa, M. (2003) 'Cross-Border Cooperation in South-eastern Europe. The Enterprises' Point of View', *Eastern European Economics*, 41 (6): 5-25.

van Houtum, H. and Scott, J. (2005) *Good Practices and Situational Ethics of Cross Border Cooperation*, EXLINEA Policy Paper, Berlin, Nijmegen.

Jessop, B. (2002) 'The Political Economy of Scale' in M. Perkmann and N.-L. Sum (eds.) *Globalisation, Regionalisation and Cross-Border Regions*, Houndmills, New York: Palgrave Macmillan.

Krätke, S. (2002b) 'The Regional Impact of EU Eastern Enlargement – A View from Germany', *European Planning Studies*, 10 (5): 651-664.

Leontidou, L., Donnan, H., Afouxenidis, A. (2005) 'Exclusion and Difference along the EU Border: Social and Cultural Markers, Spatialities and Mappings', *International Journal of Urban and Regional Research*, 29 (2): 389-407.

Louko, S. (2008) 'Regional Summary Report-Tornio, Finland', CBCED Project, Deliverable 11, available from <http://crossbordercoop.net/Publications/RSR%20Tornio%20Haparanda.pdf>

Mason C. (1991) 'Spatial Variations in Enterprise: The Geography of New Firm Formation', in Burrows R. (eds) in *Deciphering the Enterprise Culture: Entrepreneurship, Petty Capitalism and the Restructuring of Britain*, London and New York: Routledge, pp. 74-106.

Muller, E. and Nauwelaers, C. (2005) Enlarging the ERA: Identifying Priorities for Regional Policy Focusing on Research and Technological Development in the New Member States and Candidate Countries, Collective report Fraunhofer ISI/MERIT prepared for the European Commission, DG Research.

Niebuhr, A. (2005) *The Impact of EU Enlargement on European Border Regions*, HWWA Discussion Paper No330, Hamburg Institute of International Economics.

Resmini, L. (2002), *Specialization and Growth Patterns in Border Regions of Accession Countries*, ZEI Working Paper B17.

Rogut, A., Piasecki, B. and Zuromski, R. (2008a) '*Regional Summary Report-Biala Podlaska, Poland*', CBCED Project Deliverable 11, available from http://crossbordercoop.net/Publications/RSR_Biala%20Podlaska.pdf

Rogut, A., Piasecki, B. and Zuromski, R. (2008b) '*Regional Summary Report-Zgorzelec, Poland*', CBCED Project Deliverable 11, available from http://crossbordercoop.net/Publications/RSR_Zgorzelec.pdf

Saprykin, P. (2003) 'Cross-Border Cooperation after EU Enlargement: Possibilities for the Experience of Nordic and Baltic Counties and North-West Russia' final report of the conference Cross-Border Cooperation after EU Enlargement, Tartu, Estonia, 16-18 June.

Smallbone, D., Piasecki, B., Venesaar, U., Todorov, K. and Labrianidis, L. (1999) 'Internationalisation and SME Development in Transition Economies: An International Comparison', *Journal of Small Business and Enterprise Development*, 5 (4): 363-375.

Smallbone, D. and Rogut, A. (2005) 'The Challenge Facing SMEs in the EU's New Member States', *International Entrepreneurship and Management Journal*, 1(2): 219-240.

Sfiligoj, A. (2000) 'Systematic Support for Cooperation among SMEs located in the Areas Adjoining the Border between Italy and Slovenia', synthesis document of project PHARE CBC Slovenia-Italy 'SME Strategy' SL-9701.03.02, available at http://www.informest.it/sme/project_eng.html (10.09.2006)

Todorov, K. and Kolarov, K. (2008a) '*Regional Summary Report-Kyustendil, Bulgaria*', CBCED Project Deliverable 11, available from http://crossbordercoop.net/Publications/RSR_Kyustendil.pdf

Todorov, K. and Kolarov, K. (2008b) '*Regional Summary Report-Petrich, Bulgaria*', CBCED Project Deliverable 11, available from http://crossbordercoop.net/Publications/RSR_Petrich.pdf

Venesaar, U. and Pihlak, M. (2008a) '*Regional Summary Report-South East Region, Estonia*', CBCED Project Deliverable 11, available from http://crossbordercoop.net/Publications/RSR_SouthEastEstonia.pdf

Venesaar, U. and Pihlak, M. (2008b) '*Regional Summary Report-Ida Viru, Estonia*', CBCED Project Deliverable 11, available from http://crossbordercoop.net/Publications/RSR_Ida-Viru.pdf

Vogiatzis, N., Gkintidis, D., Kyriaki, A. Giannopoulou, C. and Agelopoulos, G. (2008a) '*Regional Summary Report-Florina-Pella, Greece*', CBCED Project Deliverable 11, available from http://crossbordercoop.net/Publications/RSR_Florina%20.pdf

Vogiatzis, N., Gkintidis, D., Kyriaki, A. Giannopoulou, C. and Agelopoulos, G. (2008a) '*Regional Summary Report-Serres-Drama, Greece*', CBCED Project Deliverable 11, available from http://crossbordercoop.net/Publications/RSR_Serres.pdf

Wallace, C., Shmulyar, O., Bedzir, V. (1999) 'Investing in Social Capital: The Case of Small-Scale, Cross-Border Traders in Post-Communist Central Europe', *International Journal of Urban and Regional Research*, 23(4): 751-69.

Welter, F., Veleva, N., Kolb, S., Schewitzer an Hack, F., Heubner, B. and Luhmer, R. (2008a) '*Regional Summary Report-Gorlitz, Germany*', CBCED Project Deliverable 11, available from http://crossbordercoop.net/Publications/RSR_Gorlitz.pdf

Welter, F., Veleva, N., Kolb, S., Schewitzer an Hack, F., Heubner, B. and Luhmer, R. (2008b) '*Regional Summary Report-Hochfranken, Germany*', CBCED Project Deliverable 11, available from http://crossbordercoop.net/Publications/RSR_Hochfranken.pdf

Weise, C., Bachtler, J., Downes, R., McMaster, I., & Toepel, K. (2001) *The Impact of EU Enlargement on Cohesion*, European Commission Tender No. PO/00-1/Regio A4, Berlin and Glasgow: German Institute for Economic Research (DIW) and European Policies Research Centre (EPRC).

Williams, A., Balaž, V. (2002) 'International Petty Trading: Changing Practices in Trans-Carpathian Ukraine', *International Journal of Urban and Regional Research*, 26.2: 323-42.

Zashev, P. (2008) '*Regional Summary Report-South Karelia, Finland*', CBCED Project Deliverable 11, available from <http://crossbordercoop.net/Publications/RSR%20Imatra%20Svetogorsk.pdf>

