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Contents

1. Introduction	1
2. Profile of the Cross Border Region	3
2.1 Economic Development: Characteristics and Key Issues	4
2.2 Entrepreneurship Development	6
2.2.1 Developing entrepreneurship: the problems of growth and continuity	7
2.3 Social, Cultural and Historical Perspectives	8
2.3.1 <i>The Finnish – Soviet Friendship and Cooperation</i>	10
2.4 Policy Environment for Entrepreneurship and CBC	10
2.4.1. Employment and economic development Centres (T&E Centre).....	11
2.4.2. South Karelian Chamber of Commerce and Industry	11
2.4.3. Association of South Karelian Entrepreneurs	12
2.4.4. Lappeenranta Business Development Company	12
2.5 Potential for Future CBC.....	13
3. Institutional Cross Border Co-operation	14
3.1 Nature and Extent of Current Institutional CBC	14
3.2 Enabling Factors for CBC	15
3.3 Constraining Factors for CBC	15
3.4 Examples of Positive Experiences of CBC	17
3.5 Examples of Negative Experiences of CBC.....	18
3.6 Evidence of Cross Border Clusters.....	19
3.7 Enlargement-Related Effects on Institutional CBC	21
3.8 Policies for Institutional and Enterprise CBC	21
4. Enterprise Cross-Border Co-operation	23
4.1 Types of Current CBC Identified	23
4.2 Characteristics of enterprises involved in CBC, including foreign partners	23
4.3 Evidence of Change in CBC over time	25
4.4 Costs and Benefits of CBC to Enterprises	27
4.5 Positive and Negative Lessons from CBC	28
4.6 The Role of Trust in Enterprise-Based CBC	33
4.7 Enlargement-Related effects	36
4.8 Use of External Assistance and Participation in Public Policy Programmes (a) in general (b) in relation to CBC.....	37
4.9 Policy issues identified.....	39
5. Informal and Household-Based CBC.....	40
5.1 Characteristics and Types of Informal and Household-Based CBC Identified	40
5.2 Background and characteristics of participants, including foreign partners	41
5.3 Enabling and Constraining Forces.....	41
5.4 Evidence of Change over Time, including Current Trends and Future Prospects.....	42
5.5 The Role of Trust.....	47
5.5 Enlargement-related effects.....	48

5.6 Policy Issues Identified	48
6. Conclusions.....	48
6.1 Overall Assessment of CBC in Region	48
6.2 CBC: Enlargement Related Issues Emerging.....	49
6.3 Co-operation and Clustering Related Issues	50
6.4 Identity and Perception-Related Issues	51
6.5 Trust- and Learning Related Issues Emerging	51
6.6 Policy and Governance Related Issues	52
6.7 Future Prospects for CBC.....	53

1. Introduction

The CBCED project is investigating the challenges and prospects for cross border co-operation (CBC) for entrepreneurs in border areas affected by EU enlargement. The project seeks to identify sources of threat and opportunity for entrepreneurship in a broadly based selection of different types of border region, together with the types of policy response required at the EU, national and regional levels to influence these. Following a review of the existing evidence base and of relevant theoretical literature, the methodology employed involves a combination of secondary data and primary, empirical investigation in the case study border regions listed below.

The document represents Deliverable 11 of the CBCED project. It contains the regional summary report for the Imatra case study region, which is one of 12 regions included in the CBCED project for detailed empirical investigation. These case study regions are:

- Imatra and Tornio in Finland
- Gorlitz and Hochfranken in Germany
- Biala Podlaska and Zgorzelec in Poland
- Florina and Serres in Greece
- Kyustendil and Petrich in Bulgaria
- Ida-Viru and the South East region in Estonia

The purpose of the regional summary reports is to present a summary of the main results from each of the case study regions, in which empirical investigation has been undertaken. The regional summary reports are intended to complement the papers (Deliverables 12-16) related to each of the substantive work packages.

The content of each regional summary report follows a broadly harmonised framework. Following this introduction, subsequent sections are:

- Section 2, which provides a profile of the case study region in terms of economic development; entrepreneurship; social, cultural and historical perspectives; the

policy environment for entrepreneurship development and cross border co-operation; and an assessment of the future potential for CBC.

Section 3, which summarises cross border co-operation involving institutions, paying attention to enabling and constraining influences; examples of positive and negative experience of institutional CBC in the region; evidence of cross-border clusters, if any; an assessment of any enlargement related effects on institutional cross-border co-operation; and policies for institutional and enterprise based CBC. This section is based mainly on the findings of interviews with key informants and business support organisations in the region.

Section 4 is concerned with cross-border co-operation, involving enterprises. Specific topics covered include: the types of CBC that enterprises are currently involved in; characteristics of enterprises involved in CBC, including foreign partners; evidence of change in CBC over time; the costs and benefits of CBC to enterprises; positive and negative lessons from CBC; the role of trust in enterprise-based CBC; enlargement-related effects (if any); use of external assistance and participation in public policy programmes; and policy issues identified. This section is based on interviews with entrepreneurs and/or senior managers of enterprises

Section 5 is concerned with informal and household-based cross border co-operation. Specific topics covered include the characteristics and types of informal and household-based CBC identified; the background and characteristics of participants in this type of activity; enabling and constraining forces; evidence of change over time, including current trends and future prospects; the role of trust; any enlargement-related effects; and policy issues.

Section 6 contains a summary of the main conclusions. Following an overall Assessment of CBC in the region, the section summarises findings in the region in relation to each of the main substantive topics featured in the project. These are enlargement-related issues; clustering-related issues; identity and perception-related issues; trust-related issues; and policy issues. The section ends with a summary assessment of future prospects for CBC in the region.

2. Profile of the Cross Border Region

Imatra – Svetogorsk is perhaps one of the most interesting regions for researchers of cross-border cooperation. Being at the frontline of continuous power struggles between Sweden and Russia the region certainly has a difficult history. It was not improved by the Winter War between Russia and Finland in which Finland lost a considerable amount of its territory, its second biggest city and a significant chunk of its industrial base. The Soviet times were also of little help to the local cross-border cooperation as the border was almost closed and all cooperation was settled in centralized talks between Moscow and Helsinki.

Nevertheless after the dissolution of the Soviet Union cross-border cooperation made its first steps and brought its first results, controversies and lessons. It was a learning process for both the officials and the companies involved which was not always smooth. Nevertheless the Finnish side is well equipped to turn the CBC into one of driving forces of regional development and economic growth. It has the administrative capacity, well developed infrastructure, visible industrial clusters and regional industry champions.

On the short side there is relative lack of tradition in terms of entrepreneurship and a slowly decreasing, but still quite visible mistrust, based on prejudices and stereotypes. The South Karelian companies could be much more active in exploring the CBC advantages, and thus one may note that they are underutilizing the potential.

This report is based on interviews with some 21 companies and 20 key informants including 5 business support organizations. As it will be seen both officials and companies agree on the potential. Still there are rather different views how the opportunities should be pursued and what are the main obstacles.

The report is furthermore an interesting read, as it draws on the experiences of a “hard” European Border – one of the very few that does not have visible prospects of softening any time soon.

2.1 Economic Development: Characteristics and Key Issues

Tables 1a and 1b indicate that South Karelia has higher GDP per capita compared with the EU-27 countries. However the region is below the average for Finland even if the difference is not big.

Table 1a. PPP per inhabitant in percentage of the EU average

	time	2001a00	2002a00	2003a00	2004a00
Geo					
<i>eu27</i> European Union (27 countries)		100.0	100.0	100.0	100.0
<i>fi</i> Finland		121.1	120.0	113.5	115.5
<i>fi187</i> Etelä-Karjala		118.1	112.7	110.1	107.3

Source: (Eurostat, 2007)

Table 1b. Euro per inhabitant in percentage of the EU average

	time	2001a00	2002a00	2003a00	2004a00
Geo					
<i>eu27</i> European Union (27 countries)		100.0	100.0	100.0	100.0
<i>fi</i> Finland		137.1	136.0	135.9	135.2
<i>fi187</i> South Karelia		133.7	127.8	131.9	125.6

Source: (Eurostat, 2007)

Table 2. Unemployment in South Karelia

South Karelia	As of December each year					
	2001	2002	2003	2004	2005	2006
Unemployed	10 440	10 154	9 770	9 610	8 976	8 026
Population of working age	64 228	64 524	64 204	63 845	63 409	63 400
Long term unemployed	2 613	2 615	2 334	2 602	2 368	1 833

Source: (Statistics, Finland 2007)

As demonstrated in Table 2, according to the Finnish Bureau of Statistics, in the last 5 years the number of unemployed has decreased, and in 2006 the regional unemployment rate stood at 12,6% which was still considerably higher than the national average of 7,6% (January 2007).

The number of small and medium size enterprises in South Karelia was approximately 4 500. By far the biggest employer is the Finnish government and in the private sector, the companies in the forest industry. The multinational companies in the region solely operate within this particular sector and all of them are originally Finnish. The only exception to this is the biggest private employer in Svetogorsk – International Paper. Being one of the world’s leading companies in pulp and paper, International Paper has some annual sales of c.a. \$22 billion, operations in over 20 countries and it employs some 60,000 people worldwide.

A comparatively reliable way of testing the presence of industrial clusters is to look for concentrations of jobs within different sectors. If there are clusters, the jobs should be divided between the clusters, as illustrated in table 3 (figures from 2002):

Table 3. Concentration of jobs within different industrial clusters in South Karelia

Number of employees	Industry
7,193	Forestry / Pulp & Paper
2,590	Metal Industry
1,662	Information and Communication Technology
800	Gateway

Source: (E-Karjala, 2007)

Looking at the employment structure, one may argue that the forestry, pulp and paper industry is dominating the regional economic profile. Imatra follows the general structure and tendencies of South Karelia. Just as in South Karelian general, the biggest employers in Imatra are the Finnish government and companies in the forestry sector.

Table 4 may demonstrate that medium sized companies are largely missing while most registered companies are, in fact, micro enterprises.

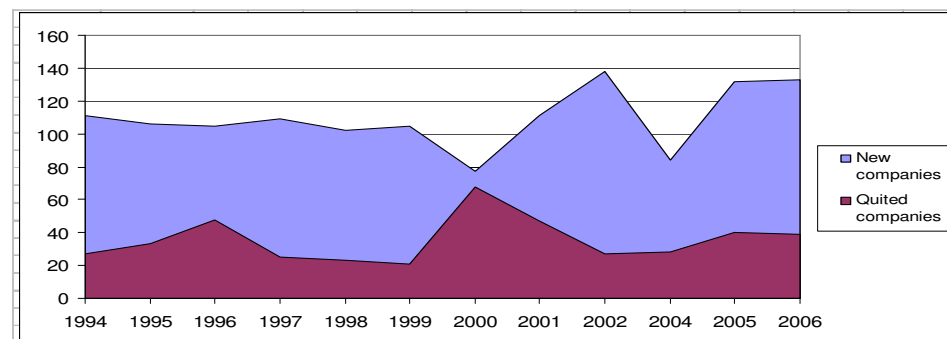
Table 4. Division of companies in Imatra by the N of their employees

0-4 employees	75,4 %
5-9 "	12,1 %
10-19 "	6,4 %
20-49 "	4,7 %
50-99 "	0,8 %
100-249 "	0,5 %
> 250 "	0,2 %
Total companies: 1723	Total working places: 10113

Source: (Kesälähti, 2007)

Figure 1 shows that after a crisis point, experienced in 2000, the creation of new companies in Imatra has exceeded the number of companies which are closed down. However as stated above, the problem is rather in the inability of small companies to grow further.

Figure 1. Creation and liquidation of companies in Imatra region



Source: (Kesälähti, 2007)

2.2 Entrepreneurship Development

The biggest problem for the development of entrepreneurship in this region is its heavy dependency on the forest industry. There are a few big companies in the paper industry and local people have always relied on that these companies will employ them, so traditionally there has not been a strong culture of entrepreneurship. The number of SMEs in the region is somewhat smaller than in other regions in general, due to the dominance of the large-scale industry in the region. The biggest companies in South Karelia are mainly in forestry; pulp and paper industries. Most of the SMEs in the region are providing maintenance and support functions for the paper industry, so there are quite few SMEs that actually have products of their own.

Three distinct features describing the entrepreneurial development in South Karelia: Firstly, the entrepreneurial activity in South Karelia differs quite dramatically from the other Finnish regions, due to the above mentioned dominance of large-scale industry. But at the same time there are lots of micro-size enterprises. The second distinct feature is the lack of medium-sized companies and there are historical reasons for this kind of structure among the local enterprises. Thirdly, the average age for the local entrepreneurs is higher than in the rest of Finland.

2.2.1 Developing entrepreneurship: the problems of growth and continuity

Developing entrepreneurship in South Karelia requires a lot of effort and eventually will take some time. Structural change will not happen quickly. In many respects, this positive development has already started, especially in the tourism and service sector. One of the biggest stimuli is the closeness of Russia, and especially the relatively close location of St Petersburg.

This can be seen in the amount of tourists from Russia to Imatra, who come either to do some shopping, or to spend holidays e.g. in the local spa. However with respect to CBC, the main problem facing the region from the entrepreneurs' point of view is that the Russian enterprises are much more eager in establishing themselves in Finland than vice versa.

Most of the new SMEs are service providers for the local industries, and a number of them have been established as a result of the large companies outsourcing policies. Mostly the SMEs are very small and employ only one person, i.e. the entrepreneur.

Within the last 20 years the population in Imatra has decreased from 40,000 to 29,000, and keeps on decreasing. The employment rate is still as low as it was 20 years ago. Furthermore the SMEs have fled Imatra, and the large scale industry that is left in the region is currently outsourcing and automating their operations. Many of the new firms register their activities in the neighbouring municipalities and not in Imatra. There are a significantly greater number of new SMEs in the neighbouring Joutseno and Ruokolahti than in the city of Imatra.

To become an entrepreneur in this region requires a lot of effort, and a lot has been invested to develop the spirit of entrepreneurship. As mentioned above, the existing SMEs in South Karelia in general and in Imatra region, in particular, are too dependent on the forest industry and the problem is that too many of the SMEs have no products of their own. The level of new business start-ups is quite good and the most important sector in SMEs is the service sector; there are services in construction, logistics and in trade. Local SMEs are characterized as being very small, employing only 1 to 5 employees.

Very few SMEs are actually growing companies, and the willingness to take risks is quite low. Local SMEs should develop their own product ranges instead of just subcontracting to the large forest companies. It is especially important to get enterprises to understand the need for growth, and to have more ambition to invest in their businesses.

That is why there are barely any medium sized enterprises, and one priority should be to promote growth of small companies. Imatra authorities would like to have more SMEs in the manufacturing industry, and also to support them in developing their activities. But it will take time and effort to make these firms grow, so that they can eventually employ more people than just the owner. One threat regarding the local SMEs is the entrepreneurs' relatively high age. Some studies have shown that the entrepreneurs in South Karelia have not taken into account that in some point it might be difficult to find a continuator for their firms.

2.3 Social, Cultural and Historical Perspectives

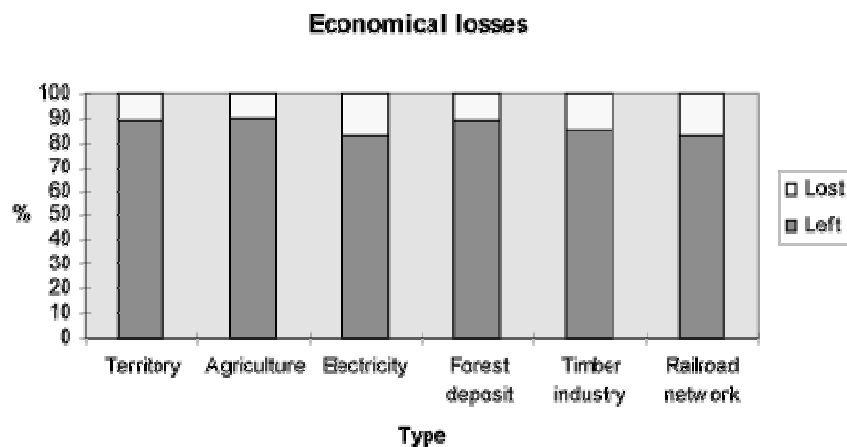
South Karelia could be described as a region with a difficult history. For centuries it was at the front line between Russian and Swedish interests. Thus the region was first part of Sweden and then part of Russia until the Bolshevik revolution in 1917.

Finland gained its independence from Russia in 1917, and also prior to this event the Russian rulers had given Finland an autonomous status within the empire. In many respects, the Grand Duchy of Finland had been a showcase of Russia for the rest of Europe.

Finnish independence was granted by Lenin and it involved no bloodshed on either side. However, in the Second World War Finns were forced to fight for the nation's independence against the Soviet Union. The Finnish people still treasure a memory of Finland winning the winter war, but the reality is not quite as black and white. However, Finland remained an independent state, but had to pay substantial war reparations to the Soviet Union till 1952 and also large portions of Finnish territory were lost. The great majority of the ceded territory was, in fact, in South Karelia. The ceded territory comprised over 10 % of Finland's territory, an area roughly the size of the Netherlands. It had housed some 450 000 Finns (c. 12 % of the total population). Nearly 100 % of the Finnish population from the ceded areas moved to Finland (Korhonen 2006). Among others, the Enso (Svetogorsk) industrial area was lost. Enso had no military significance whatsoever, but it was extremely important to Finland's economy

Figure 2 may help to understand why the results of the Winter War could be described as a national disaster.

Figure 2. Economical losses of Finland resulting from the 1939-40 War



Source: (Korhonen, 2006)

Some 15% of the wood industry (sawmills, paper mills etc.) was lost by the ceded territories, not to mention other industry. Over 17% of Finland's electricity output was lost, as well as a significant part of the railroads and waterways – both vital for the local industry. As a result of the winter war the formerly second biggest city in

Finland, Vyborg also became a Russian territory. It is not hard to recognize that little friendliness was left among Finns towards their Russian neighbour.

2.3.1 The Finnish – Soviet Friendship and Cooperation

Finnish-Soviet trade developed out of the barter arrangements of the early post-war years. Especially the 1947 Treaty of Commerce, in which the Finns and the Soviets agreed to expand bilateral trade and to extend to each other most favoured nation status (Korhonen, 2006).

During the Cold War, the Soviet Union was Finland's largest trade partner, and Finland was the Soviet Union's largest Western client up until the 1970s. In 1987 Finland still placed third in Soviet trade with the West. Although the relative importance of Finnish-Soviet trade had declined in the 1980s, the two countries still needed each other's business, and they sought to compensate for the setbacks in trade by expanding other forms of cooperation (Ibid.).

Despite these elaborate institutional arrangements, prospects for expanding Finnish-Soviet trade dimmed after 1986, when falling oil prices sharply reduced the Soviet Union's ability to finance imports from Finland. The reform movement initiated by Gorbachev had both advantages and disadvantages for the Finns. Finns experienced immediate difficulties, however, when Moscow decided to decentralize foreign-trade decision making, reducing the importance of long-standing Finnish contacts in the Soviet Ministry of Foreign Trade (Ibid.).

2.4 Policy Environment for Entrepreneurship and CBC

While the national policies are designed in different ministries and by the parliament, the main organizations implementing the national policies (for the development of entrepreneurship and support for SMEs locally in Finland are: 1) Employment and economic development centres, 2) Finnish Entrepreneurs' Association, 3) Regional (City) Chambers of Commerce, and finally, 4) Regional (City) Business support centres.

2.4.1. Employment and economic development Centres (T&E Centre)

The T&E Centre supports entrepreneurship and SMEs in several different ways. T&E Centres provide advice and consultancy for those interested in establishing a new company; assistance in analysing business ideas and concepts; and training for starting-up and managing a business.

Constituting one form of co-operation between T&E Centres and companies, corporate financing is divided into start-up and business-development funding. The core idea of the corporate financing service is to promote SMEs' business opportunities based on funding allocated to high-standard projects, with the aim of improving these companies' competitiveness and operating environment in the long term. T&E Centres allocate the public funding (much of which comes from the EU) to projects in which such money is expected to contribute considerably to project implementation, business success and employment.

The T&E Centres' internationalisation services help companies enter foreign markets. T&E Centres channel the Tekes (National Technology Agency of Finland) funding for internationally competitive innovation and R&D projects, implemented by research centres and universities.

2.4.2. South Karelian Chamber of Commerce and Industry

The twenty-one Chambers of Commerce in Finland provide companies with information and services promoting business activities, e.g. the South Karelian Chamber of Commerce and Industry offers (SKCC, 2007):

- advice on legislation and taxation concerning trade and industry
- advice on single currency (Euro)
- regular information package in the newsletter for members
- publications by the experts in the Central Chamber of Commerce
- payroll file and book-keeping file that are always up-to-date
- versatile range of courses at a special price for members
- export documents (ATA Carnet and Certificates of Origin)
- authorization of HTM auditors

2.4.3. Association of South Karelian Entrepreneurs

This is a sub-unit for the Federation of Finnish Enterprises. If problems arise, a member enterprise will receive expert advice, which is included in the membership fee. Examples of services, which are vital to entrepreneurs, are free legal consultation on labour legislation, contract law, and corporate taxation (SKE, 2007).

2.4.4. Lappeenranta Business Development Company

Its primary mission is to help make Lappeenranta region a successful growth area and which would stand out from other growth areas. The company offers advice and development services to businesses, markets the Lappeenranta region, and plans and implements development projects. It is owned by the nearby partner municipalities. The support functions for entrepreneurs and SMEs (LBDC, 2007) can be summarized as: (1) enterprise services (such as advice to new and operating enterprises; services supporting business operations oriented towards Russia; marketing the region as a tourist and establishment area; premises and plots) and (2) development projects.

2.4.5. The Imatra Area Development Company Ltd. (Imatran Seudun Kehitysyhtiö Oy)

Founded in 1982, aims at developing economic activities in the Imatra region. In terms of functions and objectives this development company is very similar with the above mentioned Lappeenranta Business Development Company. Its key service areas are as follows (IADC, 2007): Business idea clarification and development; Market research; Profitability calculations; Selection of business type; Assistance with articles and memoranda of incorporation; Selection of finance methods; Finance applications and Entrepreneurs' statutory obligations.

2.4.6. EU programs targeted for regional development

South Karelia is actively using available EU programs targeted for regional development in general and entrepreneurship. Below are presented some examples:

- **The INTERREG programmes;** support cross-border, trans-national and inter-regional cooperation.
- **The South-East Finland – Russia neighbourhood programme 2004-6;** covers the regions of South Karelia, South-Savo and Kymenlaakso in Finland and St. Petersburg, the Leningrad Oblast, the Republic of Karelia (to some extent) in Russia. The main principle of the Program is co-operation between the area of South-East Finland and the city of St Petersburg, and the Leningrad Oblast. The priorities and measures under the program are as follows: (1) Development of transport links and the state of the environment, (2) Development of business and the business environment and (3) Expertise and improving conditions for co-operation.

2.5 Potential for Future CBC

The region certainly has an immense potential for developing cross-border cooperation. It has several key advantages:

- South Karelia borders Russia that is one of the biggest and fastest growing markets in the world
- South Karelia borders Northwestern Russia that is not only one of the economically best doing regions in Russia, but also includes the Russian second biggest city Saint Petersburg
- South Karelia has very good infrastructure and civil administration that is interested in developing CBC further

On the negative side:

- the border between Finland and Russia is an external one for the EU and thus certain restrictions and difficulties will remain

- the Russian counterparts do not always have sufficient authority for self-governance and thus often can not be neither initiators nor decision makers in the CBC projects
- history shows that one of the main Russian features (including economy) is unpredictability and that makes many Finnish officials and entrepreneurs vote for a more sceptical / conservative approach in exploring and utilizing the CBC perspectives.

In general the potential is great, also partly because it has been systemically underutilized. It seems, however, that both sides recognize this *gap* and are now making an effort at working together.

3. Institutional Cross Border Co-operation

3.1 Nature and Extent of Current Institutional CBC

There are several different levels involved in institutional CBC. One of the more regionally focused is the twin-city Imatra – Svetogorsk project. It started more than 10 years ago and did achieve some tangible results. On a higher level is the CBC between Lappeenranta and Vyborg; these towns being the two largest towns in the South Karelia and Vyborg districts. In 2007, together with Vyborg residents Lappeenranta launched “The Northern Dimension Cross Border City” that includes a steering committee, a management group and nine action groups with 10 people in each. The nine action groups are:

- business
- culture and leisure time
- social and healthcare
- education
- municipal and regional administration
- civil engineering (infrastructure)
- *good neighbourhood*
- *environment project*
- *third sector projects (Finland Russia society administered)*

3.2 Enabling Factors for CBC

Quite many interviewees joined the opinion of M.N. that *“The biggest support comes from the possibility to implement EU projects and financing.”* Another pushing factor is the attractiveness of Russia as a business destination and the en masse arrival of Russian tourists. Another interviewee comments that

“It is very difficult to measure results from the cooperation. CBC has been criticised heavily during the past years; is it rational to use the money of the Finnish organizations on cooperating with the Russians. When purely business based relations are considered, it is very easy to see if the business has been profitable. However, it has to be remembered that even in the business world it takes several years before the results can be seen. If the cooperation has been profitable it can be measured easily in terms of money. When it comes to public organizations, it gets more difficult to measure the results. Also the results are often indirect. For example, there have been projects to improve the level of education in the Russian side, but it is difficult to say if it has actually improved.” (A.P.).

3.3 Constraining Factors for CBC

The interviewees seem to be much more eager and informed to discuss the constraining factors, than the enabling ones. One problem has to deal with trust.

“People don’t believe in this progress. People don’t believe that anything will happen when working with the Russia. This won’t happen and this won’t work. It is not easy as they need all the time pushing and activating and motivating.” (M.N. / regional authorities),

Another clearly identified problem between the two is the

“Language barrier - that is problem on both sides of the border. In Saint Petersburg businessmen speak increasingly English, but not in the administration. That is a big problem,” (Ibid.). *“One big barrier for CBC is the lack of common language, since the cultural and language barriers are still existent. Even if there is a translator, the knowing and understanding of the counterpart’s operational environment is many times very difficult.”* (V. K / authorities).

Undoubtedly the problem with visas between Finland and Russia featured high in the interviewee’s answers. And it truly constitutes a problem albeit not the biggest one. The biggest problem for quite many was the way Russian crossings are organized and ran (P. R. / business support organization)

"We have to wait in queues every time we go. We can not understand why the Russian border never changed. May be they want to show the power of this big country. That is the reason not to have decent transportation between Vyborg and Lappeenranta. It takes 2 days if you go by bus. I believe that the border is controlled and governed by Moscow. I wonder if they know in Moscow the situation. By own car is much faster." (M.N. / regional authorities). The problem is confirmed by others saying that *"It is not easy to cross it. Especially by car. Long lines, too much bureaucracy and administrative red tape."* (H. L. / city government).

Others point to the issue of corruption in Russia and explain why it is a serious obstacle for CBC: *"The biggest barrier to institutional cooperation between the Finnish and Russian institutions is corruption. The Russian officials complain that it is impossible to do anything with the Finns because they do not have their own firms to do the projects. When the different barriers are being examined there might be other reasons as well...but the ultimate reason is always the corruption."* (H. L. / city administration). However other key informants think that is rather question of different business culture stating that *"The decision making process is completely different in Russia than in Finland. In Russia decision making is based on personal relations, whereas in Finland it is strictly based on facts,"* (J. B. & J. P. / business support organization, regional authority).

The issue of decision making has another quite interesting background. After the last reforms on municipality governance in Russia the prevailing trend is for vast centralization of decision making. That from CBC point of view has a very negative impact that many of the interviewees stressed: *"Also the lack of authority to make decisions in the Russian side is a problem. The city of Svetogorsk cannot really make any of the local decisions, but all the decisions are made either in Vyborg or in Moscow."* (P. L. / city administration). In a more elaborated fashion *"One every important factor in cooperation with the Russians is that almost all the decisions have to be made in the Leningrad oblast or even in Moscow. The local policy makers have very limited power to make decisions, and in the Moscow the regional issues are quite minor compared to national decisions. In practical issues, the inadequate legislation concerning the customs and the unpredictability has made some companies to stop doing business with the Russians."* (V. K / business support organization)

Interestingly quite many of the respondents discuss the problem of mentality and prejudices among Finns quite frankly. For instance according to J. B. (business support organization): *"Scepticism of the Finns towards the Russians can be a barrier sometimes."* Or even harder versions: *"One major problem with the cooperation is the biased*

attitude of the Finns towards the Russians. There are people who would wish to close the border if they could decide upon that.” (P. L. / city administration). J. K. (regional authorities) adds that “The biggest obstacle to increasing cooperation is that Svetogorks lacks the authority to make decisions.” Other clearly demonstrated the way prejudices are generated by saying that:

“CBC is funded by EU projects and the Imatra Region Development Company or by City of Imatra administer these funds while the Russians do almost noting.” (J. P. / business support organization)

A more macro view on the on the constraints suggests that *“One barrier to cooperation is that Russia is still quite a young market economy. Even if the legislation has been developing fast, there is still a lot to improve. There are some big questions, like the agreement on investment protection or Russia’s WTO membership. If these kinds of issues were okay, it would strengthen Russia’s importance as a business partner,” (M. P. / business support organization).*

A very interesting and very much straight to the point opinion, reveals a somewhat neglected point in Imatra – Svetogorsk CBC: *“In Finland people think that the Russian side benefits if a Western company sets up an affiliate company there and brings new jobs. However, a Western company means more competition for the local firms, who might also lose their employees to the Western firms,” (V. K. / business support organization).* That observation was very much confirmed in the interviews with enterprises.

3.4 Examples of Positive Experiences of CBC

For the people in Imatra in the beginning of the 1990s, projects in Svetogorsk gave them jobs when there were few in the country. Currently one informant says that *“Nowadays it is more about knowledge. Local people know how it works there (in Russia). We (one may say) know the Russians better than other cities in Finland. It put Imatra on the mental map of Russians” (H. L. / city administration).* Learning and trust are also underlined by P. R. (business support organization): *“CBC has had positive impact on the region’s economy. Positive experiences in CBC have been that the Finns have learned to know Russian people, culture, traditions, and there has been normal communication between people which is very important. Also one important outcome of the CBC is that today, it is normal to go the other side of the border, and it is not as exotic anymore as it used to be.”*

The clearest and most uniformly mentioned success in terms of CBC is the opening of the Imatra – Svetogorsk border crossing. It has worked since 2001 and operated 24 hours a day since from 2007.

A. P. (business support organization) points out that *“One positive thing that has been learned during the past years is that the way of thinking on the Finnish side has change, become more positive. The Finns have learned to understand the way Russian organizations and people in them operate. Again, it is difficult to actually say that this kind of development has happened, but it really has. Also many of the prejudices and negative conceptions of the Russians have disappeared. All in all, cultural, geographic and linguistic barriers have become lower. Arguments about impossible legislation or difficult customs officers on the Russian side are exaggerated.”*

Other interviewees brought up the clearly business alike benefits saying that *“Some South Karelian construction companies have found the markets in the St Petersburg economic zone. This was first made possible by the economic development companies of the region, who made valuable work in St Petersburg to find out what kind of a market environment the city would be for Finnish construction companies. Then they brought the message to Finland, and now there is a small construction consortium in St Petersburg. In my opinion, this is a very good example of the local cooperation between public and private sectors.”* (M. P. / business support organisation) Or that *“The increased trade between Russians has had positive effects on the region. The amount of duty-free trade is approximately 20 million euros a year in Imatra and Lappeenranta. The equivalent value for the South-Karelia is c. 100 million euros, which means over 1000 jobs in the region. When the fact that the raw material for the pulp and paper industry in the region is mainly imported from Russia, it can be said there are 10000 jobs with the help of the Russian side.”* (P. R. / business support organisation)

Others have difficulties in recalling any positive experiences and speak of very little tangibly achieved results (J. P. / regional authorities). Others do not agree and say that *“The impact of the closeness of Russia can be seen clearly, if Imatra is compared to some other city in Finland with the same number of inhabitants, but with no similar Russian tourist potential. In Imatra, the level of services and the number of shops have increased significantly, and the whole region has benefited from the closeness of the border.”* (V. K / business support organization).

3.5 Examples of Negative Experiences of CBC

Some of the informants had quite strong words claiming that *“There cannot be any experiences of CBC since there is no cooperation. The funding is spent on the corruption of the*

Russian state officers. All the state officers in the Russian side run businesses of their own, which in turn take care of different kinds of tasks. Positive side of this is that the Finnish state officials see the reality of the Russian way of making business through experience. (P. R. / business support organisation).

The same person continues with an even gloomier statement: *“...it can be said that the effort put into different projects does not equal the results. The firms think that all the CBC projects have caused more harm than good. All the projects are aimed at the Russian side of the border. One example is the development of the frontier crossing point in Imatra – Svetogorsk: A lot of effort and money has been put into that and still the same development would have happened even if all that had not been done.”*

However this is strictly subjective as another interviewee says that *“When it comes to business, Russian colleagues are not any more problematic than in some other countries. There has been a significant improvement in this sense, since five years ago I would not have said this. However, the Finnish businessmen have used to the Western business culture, and there is still a lot to learn when they enter the Russian markets, even though the Russian businessmen have also learned the Western business culture” (M. P. / business support organisation).*

In line with what was discussed above non-discussed competition between Imatra and Svetogorsk features as a negative experience. One of the informants frankly describes it: *“The cooperation has not changed much. Svetogorsk does not want to have Western companies, because the prices go up and they steal the best local work force. This is the Russian attitude, so no one has any great expectations from the cooperation. In general, the cooperating is very difficult, which is partly caused by the fact that decisions are made in St Petersburg or even in Moscow. The local cooperation does not really have any significance.” (J. P. / regional authorities)*

3.6 Evidence of Cross Border Clusters

It is particularly important to stress that it seems that most key informants including those representing business support organizations had very different ideas what cluster is.

Most of them correctly noted that *“The forest industry is the most important cluster in the region. It has been developing over a hundred-year-period. The biggest companies are Stora Enso,*

UPM Kymmene and M-real, all in the pulp and paper industry. Lappeenranta University of Technology and South Karelian Polytechnic both produce research for this forest industry cluster. Stora Enso has a research centre located in Imatra, and the research it makes in the field of the packing materials is of very good quality.” (J. K. / regional authorities). The cluster has a national priority and P.L. (business support organization) describes that “South Karelia is the coordinator in a national forest cluster project. There are plans to increase the research and innovation activities in the forest industry. Especially the development of packing technologies is very important in the region, and the aim is to invest more in this field of research.” The more informed quote also numbers stating that “Wood processing industry in South Karelia produces 2 per cent of all pulp in the world, which a great amount. The importance of this cluster is significant for the regions economy. The value of its production is 5 billion euros, and the cluster is important both measured in cash flows and also by employing local labour force. First wood processing factories were built in 1872, so its importance to the region has a long history. Lappeenranta University of Tecnology and South Karelian polytechnic both offer research services for the need of the forest cluster. Also Stora Enso has its biggest research center in Imatra, and UPM Kymmene’s research center is in Lappeenranta. Research employs currently c. 500 people. All these research centres are focused on doing applied research, instead of basic research, and they are trying to commercialise their products.” (P. R. / business support organization)

While all agree that the forestry cluster is the biggest, some of the informants had also pessimistic expectations regarding its dependence on Russian raw materials. J. K. (regional authorities) says that “...the threat by Russia to raise the tariffs on timber exports may cause a serious threat for the forest industry in the region.”

In the words of V. K. (business support organization) “All the biggest companies in the forest cluster are big multinational companies, so they all have international connections. The cooperation with the Russians limits mostly to importing timber from Russia. If Russia will increase its duty on timber imports, it will complicate the operations of the Finnish wood processing companies. On the other hand, it could help companies in setting up affiliate companies in Russia.”

M. P. (business support organisation) directly puts it as “...the biggest threat facing the forest industry is the availability of raw materials, and the future of the timber imports from Russia.” Another interviewee also comments that “The future for the forest industry looks a bit uncertain. In the long run, it is probable that some of the production will be transferred to other locations” (J. B. / business support organisation).

The scepticism of forestry being in the hands of big multinational companies is clearly seen in some interviews; *“All the big companies are international in the sense that they are multinational corporations, so even the head quarters are not located in the region. Stora Enso has on the other side of the border an affiliated company, which takes care of the wood processing on the Russian side. Also the other companies have saw mills in Russia that produce raw material for the pulp and paper plants. One problem with the firm level CBC is that since all the firms are big multinationals, the CEOs in the headquarters have no idea of developing CBC.”* (I. L. / business support organisation). A. P. (business support organisation) also mentions that *“... the forest cluster could have more cooperation with the Russians. So far, the big companies have not been too interested in Russia, , but lately they all have had plans to invest there, and thus they have been forced to find out more about the Russians as business partners.”*.

Still there is also a positive trend: *“The forest industry cluster is a new thing in a sense that the big companies have always been in the region and competing with each other, but the idea of cooperation in that sector is fairly recent. Forest Industry Institute has been promoting this cooperation, and during the past few years it has gotten a more significant role.”* (V. K. / business support organisation)

3.7 Enlargement-Related Effects on Institutional CBC

Originally it was expected that the interviewees will speak of no big effects with the exception of less financing for various EU projects. However, even that was not mentioned and basically all were EU enlargement neutral in their answers.

3.8 Policies for Institutional and Enterprise CBC

“In South Karelia, we have an economic policy strategy aimed at developing the entrepreneurial activity in the region, which was made in cooperation with local enterprises. The purpose of the strategy is to inform policy makers of which concrete actions the welfare of South Karelia could be improved. In addition to economic welfare, also social aspects are taking into account. This is a good example of how the corporate sector has been able to influence its own operational environment. In my opinion, there is quite a good support structure for local enterprises and entrepreneurship in the region. There is a network that provides information for both new and existing companies and the aim is that all the available information would be easily shared.” (M. P. / business support organisation)

The informants appeared to have somewhat conflicting interpretations on the policies supporting CBC do exist and the level to which they are efficient. A. P. mentions that

“There have been a lot of different proposals and projects aimed at the development of the entrepreneurship. However, it is difficult to assess the results of these projects; i.e. have they been able to create anything concrete to foster entrepreneurship in the region.”

Other interviewees describe the typical projects to foster entrepreneurship to be too ambitious and because of that fail! (I. L. / business support organisation)

The same source argues that *“The support structure for entrepreneurship is good, but often there are more supporters than firms needing the support, and it should be considered if these supporters are there for themselves or for the firms.”* (I. L. / business support organisation).

The cure according to him is: *“When the entrepreneurs are being listened to, it is possible to make firm specific possibilities instead of projects”* According to J. B. (business support organisation) *“Mostly the entrepreneurship is developed by projects funded by public money. There are all kinds of projects, seminars, proposals and counselling aimed at the development of entrepreneurship in the region. The cooperation between public and private sectors is good, but there could be more open dialogue between them.”*

Some interviewees see improvements as *“The dialogue between policy makers and enterprises has increased during the last three years. Before, there was no dialogue at all, but today, the mayor of Imatra organizes once a month a meeting with local entrepreneurs and there they can talk about issues that are bothering them. One concrete example of the increased dialogue is that the entrepreneurs are now taken into the decision making process. The entrepreneurs’ viewpoint should be taken into account in all the important decisions made by the city.”* (J. P. / regional authority)

In Imatra *“There have been projects to encourage people to become entrepreneurs, and the city of Imatra has been systematically fostering entrepreneurship. The amount of available support for starting up a new business is good.”* (P. L. / city administration)

However some informants argue that the coordination between various organizations supporting entrepreneurship could be better: *“The division of labour and responsibilities between different organizations in the development of entrepreneurship is not very clear. A large number of the projects are highly uncoordinated, and different actors are doing whatever they invent to do. This is one huge problem, and there is a great need for more adequate coordination.”* (J. K. / regional authorities). Furthermore the same source argues that *“... there seems to be so many on-going projects that the majority of the local entrepreneurs are a bit tired of all these projects. In order to get local entrepreneurs to attend these different meetings and seminars, there has to be something actually new and interesting, otherwise they are too fed up to take part in these.”*

A certain need is perceived for improvements aiming to support more networking with the other side of the border: *“The level of encouragement for local enterprises to network and cooperate with the Russian side could be better. Entrepreneurs used to network more in the 1990s, during the “Wild East” period when the amount of available information was very limited. Back then, networking was crucial in able to survive in Russia. Today, the willingness to network has diminished, mainly because enterprises want to protect both their customers and business secrets from their competitors.”* (Ibid.)

4. Enterprise Cross-Border Co-operation

4.1 Types of Current CBC Identified

The cross-border cooperation at an enterprise level is focused in the following areas:

- tourism
- logistics
- selling Finnish products and services to Russia
- subcontracting works and services in Russia

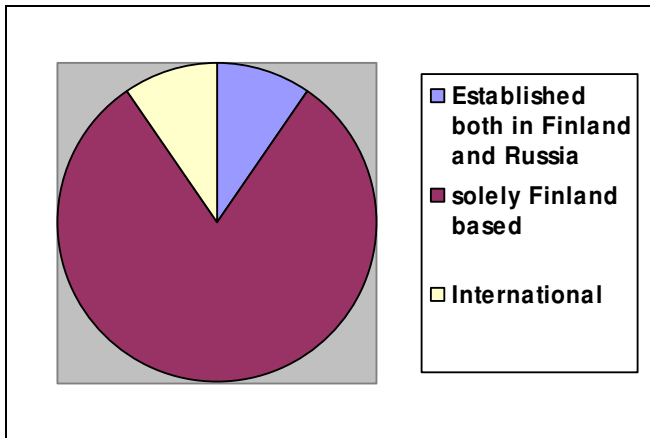
These are the three dominant areas. Interestingly tourism is mostly meant by the companies as bringing in and catering to Russian tourists in Finland. Very few (two companies) have as their business bringing Finnish (and not only) tourists to Vyborg. Two of the companies are in the business of subcontracting in Russia.

As will be discussed below for most of the interviewed companies the CBC is either of primary importance or is very important in their overall activities.

4.2 Characteristics of enterprises involved in CBC, including foreign partners

The following diagram, Figure 4.1, helps understand the companies' degree of internationalisation. What is notable here is that the great majority of the companies we interviewed operated across the border but had not established themselves in Russia.

Figure 4.1: The companies' degree of internationalisation



N =21 companies from the Imatra-Lappeenranta region

The main characteristics of the interviewed companies are summarized in the following two tables 4.1 and 4.2. The first one illustrates the companies' dependency in their activities in Russia and/or with Russians, in terms of annual turnover. Notable here was that one in four company interviewees estimated that over 85% of their turnover came from CBC.

Table 4.1: CBC Impact on the companies' turnover

CBC impact on annual turnover	Less than 5%	5-10%	11-25%	Over 25%
Total 100%	13%	25%	6%	56%

N=16 interviews (23,8% of the interviewees did not provide any figures)

Table 4.2 is a more detailed summary of various characteristics of the interviewed companies. Based on these characteristics, it is possible to sketch an image of the typical South-Karelian company with CBC activities. The interviewees came from Imatra, Lappeenranta and some of the smaller municipalities nearby.

Table 4.2: Key characteristics of the companies in Imatra and Lappeenranta interviewed for this project

ATTRIBUTE	ALTERNATIVES IN ORDER FROM MOST TO LEAST FAVOURED			
Company size	62% small	33% medium	5% large	-
EU enlargement impact	90% neutral	5% positive	5% negative	-
Main markets abroad	62% cross border country	24% cross border region	9% other country	5% not applicable
Main sectors of activity	62% services	24% industry	9% retail and distribution	5% transport
Membership of business organisation	71% yes	29% no	-	-
Number of foreign partners	67% More than two	19% One	9% Two	5% not applicable
Ownership of the enterprise 1	81% private	9% mixed ownership	5% state/ Public owned	5% other
Ownership of the enterprise 2	86% wholly domestically owned	9% majority foreign owned	5% minority foreign ownership	-
Regulation of the cross-border cooperation	62% formal agreement	19% informal agreement	19% not applicable	-
Experience of CBC	62% currently involved	38% currently and previously involved	-	-
Firm's age	52% Over 15 years	24% 5-15 years	19% 1-5 years	5% less than a year
Relevance of staff background	57% help	24% irrelevant	19% hindrance	-
Total sales turnover in 2006	24% 2-10 million €	24% less than 2 million €	14% 10-50 million €	5% more than 50 million €

N= 21

4.3 Evidence of Change in CBC over time

The changes in cross-border cooperation at the level of an enterprise closely mirror the economic situation in Russia. It can be divided into 3 periods:

1) The wild Russian capitalism of 1991-1995

These were the times when Russia opened up to world and the Finnish border was the closest from which the Russians could gain their first hand foreign experiences. As the Russian market was hungry for products, the most entrepreneurial Russians and Finns were eager to explore and utilize the existing opportunities.

2) The “golden era” for Finnish exporters 1995-1998

These times were again determined by the developments in Russia. Strong rouble in combination with underdeveloped markets and an industry still in the midst of privatization fights and restructuring, made imports both a profitable and lucrative business. Russians would come to South Karelia with suitcases filled with cash and buy everything: citruses, bananas, mustard, mayonnaise, dairy products, home appliances, clothes, automobile spare parts etc. The times were “golden” as the Finnish companies had to do nothing: just wait for the Russians to come, pay in cash and ship the goods. The “golden era” came however at a price. Finnish companies and entrepreneurs gained little knowledge or experience of how things work in Russia as they were happy with the situation as it was.

3) The Russian economic revival after the 1998 crisis

The Russian default of August 1998 came as a surprise to most Finnish companies and more importantly to their Russian customers. It is worth noting that even the International Monetary Fund (IMF) that was tutoring the Russian economy at the time was caught by surprise as the organization was praising the Russian government only months before the crisis. The immediate result of the crisis was that many Russian importers went bankrupt and their significant pre-paid purchases in Finland in general and South Karelia in particular stopped overnight.

Nevertheless the 1998 default marked the beginning of an industrial revival in Russia. Fuelled by the high oil prices, raising standards of living, and consumer spending, the new Russian economy offered new business opportunities to Finnish companies and entrepreneurs. The most prominent among them was the arrival of the Russian tourists, which as shown below, had a significant impact on entrepreneurship in South Karelia.

Basically the stories told by the company interviewees confirm such a broad division of the distinctive periods in the CBC. It should be highlighted that many companies did not manage to adapt from one period to another. For instance initially tourism was an area that no one expected would become important for the South Karelians. On the other hand companies who initially build their business on the presumption that cheap labour in Russia constitutes their competitive advantage in Russia did not manage to adapt to the shifts in the business environment.

4.4 Costs and Benefits of CBC to Enterprises

In most cases the costs of CBC are not clearly understood and distinguished from costs related to running the business generally. Still the conducted interviews left the impression that companies reluctantly invest in activities related to further development of the CBC. They rather prefer to utilize their existing capacity to a maximum and ride the good times the Russian economy has at present. Some aim to increase their market share in Russia and are ready to make some daring investments (E21). Interviewee E11 also reports that they plan *"...to further develop our conference services and market them to also Russian companies. We invested quite a sum of money (200 000e) into a new building where we have all the up to date conference equipment."* Others observe that the *invisible costs of expanding their CBC* are the result of the risky nature of cross-border cooperation: *"The fact that we are so dependent on the Russian markets does create some particular risks for our business, but my opinion is that all these risks are decreasing as Russia becomes better integrated to the European economy."* (E18).

Same feelings are expressed by Interviewee E13 who says that *"The downside of having concentrated so much on Russian markets is that in many respects it is still a risky country to do business in – let's say the border was closed for some reason that would end our business operations. There are also other risks: if there are changes that endanger our clients' business operations we are also in trouble as then we will have no customers. The only way to handle this risk is to do our work strictly according to the Russian laws and regulations; this is the best way to ensure that our customers can continue their business in Russia. The risks involved in the economic situation, or the other larger risks we cannot handle or prepare ourselves for, nor can we help our customers with possible risks influencing their business."*

Companies are much more specific and aware of the benefits they have out of CBC and particularly its growth rate. *“At the moment this CBC accounts for some 33% of our turnover, and the percentage of Russian tourist is increasing quite rapidly – in 2000, only 5% of our turnover came from Russian tourists.”* (E21).

Interviewee E20 states simply that *“All our company’s activities are somehow tied with CBC.”* So the Russian share of company’s turnover varies from 100% in the case of interviewee E20 to 90% (E13, E18, E2), 70% (E4), 50% (E8) and with the exception of 3 companies with diminishing CBC for the rest the range is between 15 and 35%.

Besides being a source of revenue a tangible impact of CBC could be in offering self-employment opportunities for the Russian immigrants living in South Karelia: *“Our CBC business started basically because I am trained as a Russian teacher, a translator and an interpreter, but here in Imatra I was unable to find full-time work as a teacher/translator/interpreter, so I had to find alternative ways of making a living. Our future plan is to market our services personally and directly to Russian customers. So we wish to expand our “customer base” to include people who can contact us directly instead of finding us only through a travel agent. This summer we have built new cabins, and this project has kept us very busy.”* (E12).

4.5 Positive and Negative Lessons from CBC

It seems that the interviewed companies have had difficulties to identify the positive lessons learned and they therefore paid more attention to the negative lessons. However that is somehow understandable and considering the benefits described above for most of the interviewed companies CBC can be a significant source of revenues – perhaps the most important positive lesson. Some entrepreneurs describe it in the following way:

“The most important thing we have learned through our experience in CBC is that the markets are growing in Russia at an amazing rate. The growth is great and seems continuous. This experience has naturally affected our interest in this market, and we have made long-term plans to expand our CBC.” (E4).

Not only have markets grown, but according to some of the interviewees the attitude of Finnish managing directors evolved and *“...the fact that the business has become more reliable and more professional has to do with the fact that a new generation is now running the firms, the MDs from the nineties who were often former military officers, have now retired or moved on to other positions. The MDs today are well educated and know about business, so the change has been dramatic – trade in Russia does no longer necessarily involve drinking vodka.”* (E14)

A very interesting positive lesson is to learn and observe the border as an opportunity instead of an obstacle. One of the big companies interviewed states that *“It is exactly the border that makes our activities meaningful and productive – we are able to buy technology from Finland and raw materials from Russia – and as we are located so close to the border exporting to Finland is easier. I don’t know about the percentages, but we have tens of articulated trucks that take products from our factory and also bring chemicals back to the company across the border every day.”* (E15).

Not surprisingly a positive lesson was the effect hiring a native Russian or a Russian speaking employee on the company CBC dimension (E17).

The positive impressions and lessons from having Russian tourists are particularly telling. Frankly explained (E9) *“We like having Russian tourists around – they pay well and there are hardly ever any problems with them. They hold a certain respect to the rules we have and also they respect our property. Some sort of control is good to have – in Russia it’s easy to find people to forge documents and much of this is done – and the social problems i.e. crime etc. are quite clearly at a different level from what we have here in Finland. As a point of comparison, hotels and hostels in St. Petersburg need to employ an armed guard to assure protection to their customers. I have learnt much about the cultural differences between Finns and the Russians. I would say that the average Russian customer we receive is someone who is very lax about changes and rearrangements we have to make, , but when s/he has a problem this problem should be dealt with immediately and it is ALWAYS very, very important to them that we attend to their needs.”*

The foreign (including Russian) tourists gave the local entrepreneurs another positive experience: *“I feel that what I’ve learnt from CBC is that a foreign tourist is often an easy customer compared with the Finnish ones – they drink too much alcohol on board, , but the foreign tourists never get drunk – at least I can’t remember seeing any of the Russians/ Germans/ Italians drunk during the cruise.”*(E5).

Again it should be clearly stated that all companies experienced some learning curve that was undoubtedly full with positive lessons, but were not able to clearly distinguish them. The companies were somewhat much more eager to share the negative lessons. That is perhaps natural as people tend to have a better memory for the problems and setbacks.

One is that *“The border and the customs really do restrict our activities. Sometimes, like this morning, we have trouble even getting to our workplace in time as crossing the border can involve delays. The 10km drive from Imatra to Svetogorsk can take up to 1½ hours! The paperwork with customs also takes a lot of time. We have been granted the right to use electronic clearance systems for goods that come and go in bulks such as paper and chemicals. This does save a lot of time as the goods are registered already at the border and therefore they can be taken into the production unit immediately after they arrive. We have been able to make rather good contracts with the Russian customs. With machines and equipment things are not as easy. All imports are based on agreements, and we are not allowed to install any new equipment before it has been cleared and the custom fees have been paid. Sometimes, this process can take (depending on the goods) anything from just days up to a month.”* (E15)

Quite interesting and, based on the collected interviews, correct opinion is the one dealing with the willingness of companies to explore the business opportunity across the border. Thus one of the interviewees says that:

“Especially the courage to take the first step is something that many company leaders do not seem to have, they would probably benefit from some sort of training that would make them more confident with the Russian market prospects and business culture.” (E16). For some though the first step is poorly calculated and managed. *“Also a couple of years ago (in 2004-2005) we had a project together with nine other companies from our region. The idea was that together with this export group we will hire a consultant (someone from Russia) who would run a small office in St. Petersburg and find us contacts i.e. new customers. The plan I think was viable, but for various reasons it did not work as we had hoped. There was an issue with the office facilities. Also we were quite disappointed with our consultant’s results – no-one really benefited from this project apart from the consultant and the person owning the flat. So gradually the project died out as export group members one by one opted out of the project.”* (E11)

Considering the way Russian border-crossings work, it is only natural that the companies reflected it in their interviews among the negative experiences:

"...the distance from Joutseno to St. Petersburg is actually 10km less than from Joutseno to Helsinki one could easily presume that driving to St. Petersburg would be easy, , but the reality is such that the trucks will have to queue at the border sometimes for 3 or four days. So the border formalities are one thing that could be greatly improved." (E14)

Another problem deals with the availability of human resources:

"Language is one of the most important things for us when we look for new recruits, and another thing that we look at is the educational background – someone who speaks Russian and has studied business and ideally even has some experience is most suitable for these units in Russia. With time we have noticed that there are not that many people in Finland who would have all these qualities." (E13). Among the same lines *"The language is always an issue – it is not a very popular subject to study in this region not a language people really want to use."* (E9)

The companies involved in tourism have had their own negative experiences mainly with rules and regulations in Finland. Thus according to one

"There is one thing that I find very bureaucratic and problematic for our business, the so called visitor card. From 2007 onwards this document has become obligatory also to cabin rentals. The card needs to be filled in when the tourists arrive at our cabins. It takes quite a lot of time for the tourists to fill in the form (A4 size), and it is also quite annoying as they have just filled in a similar form asking for passport numbers, addresses etc. at the border. So every time I receive Russian tourists I have to go and meet them (we have to agree on what time precisely they arrive etc.)– no matter what time they arrive and then make sure they all fill in these forms, and then drive them to the police station in Imatra (E12).

Complaining about the same visitor registration procedure Interviewee E9 also observes that

"I was myself on holiday in Germany and there was only one place in which I stayed, where I had to write down my name in booklet – the fact that the practice is so very different in Germany which has also signed the Schengen Agreement makes me wonder if the Finnish officials are too officious. They repeat these words "the EU necessitates...the EU law provides..." , but as I can clearly see, the practice is not the same in all EU countries – in Finland we are excessively thorough in following all the guidelines." (E9).

He also adds that *"As an example our employees need to have a certificate that tells that they are able to handle food products in a hygienic way and another certificate is required for people who sell alcohol."*

Quite telling is his overall evaluation of the existing regulations:

“The situation in Finland was very controlled already prior to these changes, e.g. the legislation about alcohol sales etc. worked just fine. From these practices I get this feeling that the officials think that entrepreneurs are slightly stupid and prone to illegal activities unless there is this immense control over every aspect of our activities. Even practices that I think are good can become problematic when you are dealing with a company our size – when organising the evening shifts we must make sure that there is always someone with the license to sell alcoholic beverages on the counter. I’ll give you an example: before these regulations came into force we were able to hire workers for the summers from educational institutes focusing on tourism. This had several advantages – these workers were people interested in this industry, they themselves gained work experience which was useful to them in future, and we received workers with ideas and some general understanding about tourism, people who were skilled in informing (this company is like a second information service point in Lappeenranta so it is important that the people working here know about the tourism and activities in this region and are able to give advice to our customers), and who perhaps had better than average language skills. , but now, with these new regulations, we have to look for summer workers from the restaurant sector as it is a necessity that they hold the above mentioned certificates (food hygiene and alcohol sales), as they have received these certificates as a part of their studies. I am very pleased with all our summer employees, but I think that the educational interest and background does reflect on us.” (E9).

Another tourism area company also complains about senseless regulations: *“As it is now, we have to quickly get 80 passengers on board, disentangle the boat from the dock and only then we can distribute the glasses of sparkling wine that are included in the cruise. I would much rather give out these glasses of wine before the passengers come on board, but that is illegal. , but on the other hand I do think that the legislation regarding alcohol is necessary and does serve a public need – I find it is a good thing that you need to have had some training in order to sell alcohol etc. it is much safer for everyone this way. I did ask for a change in our right to dispense alcohol so that we could sell some drink before the cruise has actually begun, , but the answer was a strict no. They said that exceptions cannot be made, because the law is the same in all of Finland. So at the moment we are allowed to sell some alcoholic beverages, with less than 4.7% alcohol (and the alcohol must be a product of a fermentation process only), to those customers who have bought their tickets for the cruise at least one hour prior to departure (so it is quite funny that we are allowed to sell cider and beer, but not gin based long drinks although they have the same amount of alcohol).” (E5).*

The 20 hours rule on alcohol imports (see above) has been also been criticized as hurting cruises to Russia unnecessarily and giving Tallinn a significant competitive advantage (E8). A tourism business entrepreneur also points out that *“The problem with*

tourism industry is that so many of the people in this industry are really doing it to supplement their wages or other businesses – there are few who really try to make their living out of just tourism.” (E5).

Perhaps the single most negative experience was caused by the perception of the Russian bureaucracy:

“We have noticed that the Russian officials are not always easy to work with and the paperwork is not in a sensible ratio with the activities that necessitate the paperwork. Just handling a small matter can take ages, as the permissions have to come from Moscow. Also the officials expect bribes and if you refuse to pay them everything takes forever and ever. Also if we want to bring something from Russia to Finland or the other way round and even if it’s just temporary – the importing/exporting, we will have to buy the license for the entire year. The rules that we try to follow change all the time. And most importantly all this bureaucracy takes up too much time.” (E10).

Furthermore (E8) another interviewee adds that

“The most important thing that I have learnt from doing business across the border is that it is best not to make too extensive plans based on previous agreements – what is agreed today, may not be a valid agreement the next day. There is always a certain amount of unpredictability when doing business with Russian officials and partners.”

That leads to a complete rejection of the Russian way explained as

“The problems include customs, the law and especially the way the local authorities’ interpretation of the law – they are not consistent in this way, the interpretations seem to change every day (if not every hour). We are helpless in this way, the only way to deal with this matter is to just let it be – if we were to take these matters into court and look for compensations for the financial losses that have been caused by these changing interpretations, it would take at least 6 months and we don’t have that kind of time to spare. The most important thing I have learnt from my experiences in CBC with the Russians is not to trust them too much” (E6).

4.6 The Role of Trust in Enterprise-Based CBC

If there was one topic that entrepreneurs and company managers simply loved to discuss during the interviews, it was the role of trust in the Finnish-Russian CBC.

Very often it will be during their trust related monologue when they reveal much more information required (but not answered) by other questions in the interview.

It is also worth noting that the bigger the companies are the more reserved and neutral were their “trust statements”. Thus one of them states shortly that *“In all forms of cooperation, trust is very important. I suppose there are experiences of the lack of trust on both sides of the border. In everyday life there are good and bad days with all cooperation partners. We try to do business as usual and to follow international standards in tourism, and maybe we have been teaching the Russian partners some these. There are also experiences of the gaining of trust. Problems in CBC are the lack of mutual language and the fact that cooperation partners get to meet too seldom.”* (E1).

Another feature is that entrepreneurs with significant experience with Russian business do not find trust to be an issue in their CBC related operations. *“The majority of our partners are such that we have no trust issues with them. , but the lack of trust is rarely the reason why CBC with some partners had not been continued – when trading is no longer profitable for both partners the collaboration is not continued. “Trust is no more an issue in Russia, than it is with a Western European partner – risks exist on both sides.”* (E2)

The lack of skills and expertise has a direct impact on the trust level as *“In South Karelia, the entrepreneurs are willing to seek their way into the Russian markets , but unfortunately many of them know too little about the markets and possibilities. Prejudices and lacking language skills are also a problem as in Russia you have to be able to communicate in Russian.”* (E2). Interviewee E4 says that *“In my opinion, trust is one of the most important prerequisites for CBC.”* And then adds that, *“...in our economic region, South Karelia, the attitudes about CBC among entrepreneurs are quite polarized. Others are happy to do business with the Russians, but some do not essentially want to cooperate with Russians.”* The way to build trust is perceived by the same interviewee as *“It is important that in the meeting and in other contact situations, the persons involved are able and willing to discuss matters beyond business.”*

Meetings are vital to building trust (E5). According to the same source positive changes in the mutual trust led to changes in general attitudes *“There used to be a K-market in Lappeenranta that had a note on the front door saying that they only take in one Russian customer at a time! ... today the situation and attitudes are different, although some prejudices persist.”* , but according to another entrepreneur *“I feel that the prejudices against Russians have greatly become a thing of the past, they are no longer really a problem or something that could hinder*

our business. Alto the fact that there are so many Russian immigrants in Lappeenranta has made it very unremarkable that there are Russians about.” (E9)

However, some of the companies have quite biased and negative approach: *“You cannot trust Russian partners or Russians in general. They trust us. We do not express our distrust overtly to them, , but we are always very careful and keep an eye on things. The business culture is clearly different in Western European countries.” (E6).*

One of these differences is described as *“...the only way to build trust is to have very close and personal relationships with the people involved – you have to be almost “friends” before you can assume that things will work as promised. Building relationships like this takes time and you really have to make an effort, and whenever there are changes e.g. officials are replaced by new ones or you find yourself a new partner you have to start all over. There are really no short-cuts or other ways of building this trust – you can send letters etc. , but they will not do the trick. You have to meet the people in person – once they are your personal friends, the Russians are very trustworthy and they do everything in their power to help you, , but this friendship is not built overnight.” (E8 & E9).*

Interviewee E14 elaborates further: *“There is a saying about business in Russia, that before you know your partner thoroughly there is no point in starting business with him – and this is quite an accurate statement. But there is also another side to this business culture – although it takes time to build trust, once you know your Russian partners they are quite loyal to you and your company – if there is trouble, they do not turn your back on you. So it is worth spending years to build such a relationship.”*

“The cooperation with Russian entrepreneurs has not been easy. The problems arise mostly from the fact that the Russians do not understand what western companies expect from them – these misunderstandings about the „rules“ of doing business cause the most common problems. The Russians’ commitment to doing business is not always very great – I think this is something that the local culture does not emphasize and this will surely be a problem also in the future.” (E18)

Others (e.g. E20) state that *“Our cooperation with the partner company has been very easy from the very beginning. We have in fact been quite surprised by this – perhaps we had anticipated that it would be harder...The cultural differences have become very evident during the years and sometimes we have had some trouble, , but nothing in particular comes to my mind right now. We have sometimes had trouble understanding why Russians do business the way they do, e.g. “.*

4.7 Enlargement-Related effects

“I do not feel that the EU expansion would have affected our CBC in any significant way. We have perhaps received more tourists from Estonia and Latvia. From Latvia we have received also larger groups who come to Lappeenranta on a bus-tour. The Estonians on the other hand tend to stay closer to the Baltic Sea – they do not often come up North, event to Lappeenranta, but this is slowly changing – the Estonians are becoming more visible as our customers. I think that we do not really compete over the Russian tourists/customers with e.g. the Estonians. We still are able to offer rather distinct services and also the shopping opportunities in Estonia and Finland, which is really one key reason why the Russians decide to come here, are not comparable. Anyway, the influence of Baltic countries joining the EU on our business was not great” (E9).

“I think that the EU enlargement has had some positive affects on our business: as we have had quite many passengers from the Nordic countries – so when the obligatory visas were introduced as these passengers are also EU citizens they can apply for the group visas which are significantly cheaper than the personal visas. , but there is also a downside to the EU enlargement, the tension between Russian and the Union is clearly reflected on our business through these visa practices (and perhaps also to the problems the trucks are having at the border, , but this is not relevant to this interview). The fact that the Baltic countries joined the EU has not harmed our business in any way – these cruises we have are really something special, a unique experience: the Saimaa canal is really a very beautiful attraction. The route is very special with eight locks and to the passengers it is really extraordinary to see lakes like Saimaa – as there are so few people and houses on the shores of this lake the surroundings are really exotic to people coming from cities –so the route goes through the wilderness. This is partly why I am so disappointed to see that it is this difficult to make these cruises a productive product – at the moment this business is only barely profitable (E8).

“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.” (E4).

4.8 Use of External Assistance and Participation in Public Policy Programmes (a) in general (b) in relation to CBC

6 of the 21 interviewed companies did not use any external assistance. 4 of them were never interested in it, and stated that *"these (support) organizations have to inform more about the available support"* (E1), applied but did not get it and 1 said that *"... there could have been some support mechanisms that we could have utilized, , but at the time we were so busy that we did not have them time to map out such opportunities"* (E18).

Others clearly state that they used external help with various levels of gratitude and evaluation of its scale and usefulness: *"We have received assistance for internationalization (on more than one occasion). Also our participation in fares and exhibitions organized in Moscow and in St. Petersburg has been supported financially. In addition the local T&E Center and Etelä-Karjalan Yrittäjät actively promote exports to Russia – from them we have received some advice and help. For our company this assistance has not been crucial and our involvement in such projects has been rather small due to the fact that we were able to start business in Russia on our own."* (E4). The same interviewee evaluates that *"For a smaller enterprise with less knowledge about the Russian markets or CBC, support like this could prove decisive."* That is also confirmed by Interviewee E6 who says that *"We have received assistance for an internationalization process which we used to map the Russian markets in the late 1990s. This was very important for us – had we not received the assistance, we would have not conducted this market research"*.

The initial thrust was also externally received by E13 as *"...when we started this CBC business we did receive financial assistance, but the amount was not very big – I think it was 40 000 Finnish marks (= 6700 euros). At the beginning we did receive help and advice from the Finnish Ministry of Trade and Industry"*. The same initial assistance is highly evaluated by Interview E14: *"In the early days we did receive some internationalization support for marketing/advertising. We attended some fairs and other like events and we did receive support for our participation fees. At the beginning, these fairs were probably quite necessary for our company – also a good way of promoting our products."*

Interviewee E2 *"have received help from Foreign Ministry, from Finnvera (a specialised financing company offering financing services to promote the domestic export operations of Finnish businesses and to further their exports and internationalisation) and others. The financial support is also very important, but also general advise have proven useful and we have been able to find new partners with the help of these consultants and institutions."* Still according to the interviewee

“...although the services are good, the extent in which help is made available is still too limited. He felt that the best way to develop such collaboration and sharing of information is through networking – enterprises should work together on this matter as they are familiar with the entrepreneurs’ needs.” and that “... funds allocated by the Foreign Ministry etc. should not be limited to development projects that do not deal with marketing and sales. I think it is important that also sales and marketing are not excluded from the assisted functions.”

The limited funds and are also picked up by Interviewee E5 who also goes deeper commenting that according to him the funding is also misdirected: *“My opinion is that the Finnish society has a rather unfavourable attitude towards the tourism industry on the whole. They have made it very difficult for an entrepreneur in this line of business to find any forms of financial assistance. We have received 300 or 400 euros assistance for our participation in the workshops held in Russia, basically that was part of funding made available for the internationalization of Finnish companies – unless the company has internationalization as their agenda they cannot really find any funding whatsoever.”*

It would not come by surprise that some interviewees complained by the bureaucracy involved in applying and receiving external support *“We have received support funds but they have been granted to a cluster of tourism companies in which we have been a member. I feel that the services do meet the entrepreneurs needs , but as a criticism to these support mechanism I can say that at times there is quite a lot of bureaucracy involved and also many of these support mechanisms are meant only for projects, , but it can sometimes feel that the whole operation is lost in all the project proposals and other paperwork needed to get the funding.” (E9).*

Interviewee E12 praises the The Imatra Region development Company (Imatran Seudun Kehitysyhtiö Oy): *“...they have offered us advice and also financial assistance. And we are members of that company. My assessment of the membership benefits is that they are good.”.* Some participants favourably evaluated the support given to them by industry centred associations or companies such as South Karelian Tourism Ltd or Car Tyres Union. (E16 & E17). While other clearly identify indirect assistance:

“The local organisations have not given us any advice or services, but they do give financial support to what we are trying to achieve here. We have received some external funding for the investments we have made and the fact that we have international business activities is one reason why the money was granted to us. In my opinion the support mechanisms are adequate – or at least I have never felt any other way.” (E21).

4.9 Policy issues identified

One of the immediate facts that becomes highlighted is the little perceived support and usefulness of organizations such as the local chamber of commerce and the local branch of Finnish Entrepreneurs. One may think that CBC does not belong to their priorities, but still it is difficult to understand their alienation from CBC, provided that the Russian vector is evaluated by most as one of the most positive factors for regional entrepreneurship and economic development.

Another clear issue is the importance of assistance at the start of company internationalization. Such assistance may represent a significant help not only to companies who are interested but lack the knowledge and experience to start operations in Russia but also to companies who may have very good opportunities but are unaware of them or need some small initial push to stimulate their interest.

In line with the latter argument some interviewees are correct to point out to the need for company networking. Unfortunately such networking is not done regularly and when it is done, it includes Finnish companies only. While sharing Russian experiences among Finnish companies is good, it may be too narrow an activity to induce others to seek cross-border expansion. In this respect more frequent entrepreneurial social events including both Finnish and Russian entrepreneurs could be an essential improvement.

In order to achieve the above mentioned steps the business support organizations and authorities have to implement two basic steps that seem to be missing at present:

- 1) better monitoring of the actual needs of companies and entrepreneurs in the region
- 2) a more simplified way of offering assistance

It may be worth having these two discussed in more detail. The first one is clear. Often the authorities and the business support organizations have pre-made programs that, according to them, match the needs and the interests of these companies. That is not necessarily correct as: 1) the concrete needs may change

over time and thus need constant monitoring, and 2) the Russian market conditions and business landscape are still in a process of quite dynamic formation and operating in Russia needs ongoing adjustments with the corresponding needs for the companies.

The second argument is equally important as it reflects quite well reality and presents an obstacle for the companies. There should be one stop where a company may learn in a quick, practical and target oriented way what kind of support is available, when aiming to develop cross-border activities. Whether that should be a website or an office, is a matter of technicality, but its is true that at present one needs to invest significant time and efforts to understand who offers what support on what conditions and following what bureaucratic procedure.

5. Informal and Household-Based CBC

As informal issues are not a subject that private individuals in Finland will publicly discuss and as such private individuals are not easy to find this chapter is based on several interviews with officials from customs and police as well as a review of the local press for the last 15 years.

5.1 Characteristics and Types of Informal and Household-Based CBC Identified

Predominantly all sources state that the main goods that Finns bring from Russia are gasoline, cigarettes and alcohol. There are conflicting views on how many people may do it as a small business versus personal consumption only, but most agree that there are indeed some people who do it in order to earn money. According to Nuijamaa custom official, other items Finns occasionally bring from Russia are *"...crystal, rubber boats, clothing etc."* The Imatra police source points that Finns do not really use Russian labour force both legally or illegally. The person also mentions that as many Russians have bought cottages in South Karelia they may be using illegal workers for the renovation. But according to him that is very difficult to prove as the line between friends helping the owner and paid workers.

5.2 Background and characteristics of participants, including foreign partners

Based on the interviews the average person involved in such cross-border trade is older than 50 years, male and more often unemployed. As an Imatra custom official describes:

“In my opinion it is probably only the pensioners and perhaps some middle aged people who do a little business with the goods they have bought. Very few young people even cross the border – most people are middle aged.”

Such a person will sell the goods to his friends and neighbours and, often, could receive orders from them. In most cases there are no foreign partners involved – the Finns just try to find shops, gas stations and kiosks that have cheaper prices for the main products of interest: alcohol, cigarettes and gasoline.

When it comes to Russians shopping in South Karelia, the picture is much more diverse. Here the colour pallet is richer and Russians may buy second hand home appliances, ironing boards and everything else that the Finnish retail industry will manage to sell cheaper than similar products in Russia. The trade was enabled by the rule of the Russian custom, which allows private individuals to bring in Russia custom free 50kg of luggage worth less than 60 000 roubles (approx. 1857 eur). Later in 2006, the rules were changed and the weight limit was lowered to 35 kilos. These somewhat peculiar rules have a very favourable impact on the South Karelians, as Russians do plenty of shopping that often involves small wholesale operations. However, it is very difficult to estimate to what extent the Russians do it as individuals or as companies.

5.3 Enabling and Constraining Forces

In reality the biggest enabling force is the price differences in the key product groups: gasoline, cigarettes and alcohol beverages. The price of gasoline in Finland compared with the price in Russia is about twofold. With cigarettes the difference is even greater, the Finnish retail price is six times as much as in Russia. Informal trade of alcohol beverages is typically centred around vodka, with a difference in price levels of about five times and to a lesser extent beer and long drinks being

some two to three times cheaper in Russia. Another attractive commodity for Finns in Russia in the past has been the pirated music CDs, movie DVDs and computer / videogames. Inevitably such tangible price differences would attract people in utilizing them.

However, there are several factors that constrain the opportunities significantly. To start with there is an official limit on the values of goods to be brought by Russia. Currently it is at 175 euros. At this level it can not be an obstacle for bringing alcohol, cigarettes and gasoline. But later the Finnish authorities passed a law allowing imports of alcohol only when the journey in Russia had lasted for over 20 hours. That made the shopping tours much less economically viable. In addition, several widely publicized cases of Finns being poisoned with bootlegged Russian vodka somewhat limited its demand in South Karelia. Furthermore private persons can import gasoline on the rule “full tank plus 10 litres canister”, but as Imatra customs official puts it “few will be troubled to get the gasoline out of the tank and sell it”. The demand for Russian gasoline is further diminished by its unsteady quality, a fact that is carefully underlined by Finnish gasoline retailers. In 2006, not only distributing, but also using pirate products was made illegal in Finland and this is why bringing items such as movie DVDs, music CDs, software programs and computer/vidé games from Russia became a *dangerous business*.

That will summarize the biggest constrains of all: while bringing in within the limits is lawful, selling is illegal and can not be carried in a legal way. This combined with the law abiding nature of the Finns and the sufficiently high living standards of South Karelians in general, petty trade has never picked up on a wider basis and it never became the main occupation for Finnish private persons with only very few exceptions.

5.4 Evidence of Change over Time, including Current Trends and Future Prospects

The informal cross-border cooperation originates in the times of the Soviet Union when, as a result of the bilateral trade relations between Finland and the Soviet

Union, Finnish tourists would go on organized tours in Russia (mainly Saint Petersburg then being called Leningrad). The total amount of Finnish tourists to the Soviet Union was some 200,000 in the mid-seventies and 300,000 in the late eighties, which was not especially high in terms of international tourism.

However, the Finns comprised the largest group Western tourist in the Soviet Union. In addition, tourism to the Soviet Union was by nature quite heavily seasonal. The most active months of travel were from April to August, connected with certain celebrations and festivals. Most typical were the trips to Leningrad (St. Petersburg) during Easter, May Day celebrations, and the October Revolution festivities. The summer holidays in Finland naturally had an effect on the timing of these trips.

The traffic on the border became less regulated only after a rather long period – this is because this was greatly subject to political decisions making. Also the smallish capacity to accommodate the western tourists had an impact on this (<http://www.genealogia.fi/emi/art/article263e.htm>). Soon the Finns realized that on their trips to the CCCP they could make good money out of selling trivial products such as shoes, clothes and even polyester socks to the Russians. Furthermore there were more than enough Russians (“farcovschiki”) who would be awaiting the Finnish buses in order to facilitate such an informal trade. The Finns would in return take currency (Finnish marks) or roubles and buy the few interesting products available in the Soviet shops.

After the collapse of the Soviet Union the informal trade could be divided in several phases:

- *Initial fill of the Russian market with products and services (1990 – 1994)*

These period deals with the first arrival of Russian tourists in Finland. They will bring vodka, champagne, cigarettes and caviar to Finland and buy from Finland second hand cars (especially Russian Ladas), home appliances and everything that is perceived to be cheap or easy to be resold in Russia. That was often possible, as Russia was taking its first steps towards capitalism and free markets. There were not really established retailers and / or distribution and thus price levels for the similar products varied greatly. This situation made almost any product marketable and

easy to sell. Interestingly, the Finns did not take active part in this cross-border trade. One reason could have been the fear of doing business in this murky environment.

- *The stable rouble of 1995 – 1998*

The artificially super strong and stable rouble in Russia in the period from late 1995 to August 1998 brought commercial *heaven* to Finland in general and to South Karelia in particular. Again, there were very little Finnish activities on the Russian side. Russians would come to Finland and either as companies or as private individuals would buy almost anything: oranges, soft drinks, ironing boards, mustard, clothes, home appliance, car spare parts etc. etc.

In both periods Finns would be more passive with regard to household CBC. Nevertheless an increasing tendency to visit the immediate border cities became prominent as Finnish tourists would come to 1) buy alcohol, 2) cigarettes, 3) pirate CDs, DVDs and computer / videogames 4) cheap gasoline. It was not uncommon to see huge queues of Finnish cars on the border and Finns pushing the cars as to save the very little gasoline they have left for their trip to Russia. As an Imatra police official says

“When the petrol/alcohol trafficking was at its worst over five years ago we estimated that one person crossing the border as often as he could, would gain some 10 000 marks (1680euros) of additional income. These people could really live off this business, and this of course made the phenomenon even more popular. At that time trafficking was very common indeed – it was like a national sport – even usually law-abiding citizens would get involved and try to bring their own secret bottles of vodka across the border. Those who managed to “cheat” the customs were treated like national heroes. It was really quite worrying and strange how people seemed to completely forget that what they were doing was in fact against the law and the most unpleasant consequence of this trafficking was that as there was so much alcohol in almost every household, it was easy for kids and young people to get hold of alcohol. Whereas the trafficking today is a marginal phenomenon and done by marginalized people. In those days there were no clear “groups” or “types” of people who would bring in the alcohol: even highly educated people with good jobs would do it.”

- *The new Finnish legislation featuring vodka and cigarettes*

In 1997 the Finnish authorities applied the 20 hours rule. It states that a person residing in Finland who arrives in Finland from outside the European Economic Area by other means than flight is allowed to import alcoholic beverages only if the journey

has taken more than 20 hours. If the journey took more than 20 hours the limits are set as:

- 1 litre of strong alcoholic beverages (over 22 percent by volume)

OR 2 litres of aperitifs (max. 22percent by volume)

OR 2 litres of sparkling wine

In addition: 2 litres of light wines AND 16 litres of beer

(http://www.tulli.fi/en/02_Publications/02_Customer_bulletins/Tullin_ohjeita_matkustajille_2007_engt.pdf)

That greatly discouraged the Finns' trips to Russia as alcohol was perhaps the most fast moving product involved in the informal trade. Lappeenranta police source praises the 20 hours rule with very strong words:

"...I must say that it is a VERY good thing they did pass this law, as otherwise, I am sure, the people in Lappeenranta would have practically drowned themselves in vodka."

In addition he refers to tightened visa practices in Russia:

"... the Russian officials have become much stricter in their visa practice (but the activities are still very random in that there is not necessarily much logic in the way in which visas are cancelled and who is not granted a visa) – so in the past few years the number of long-term visas granted to Finns has decreased significantly and also the officials seem more apt in cancelling visas if there are malpractices."

- *Current period*

After the 20 hours rule came into force the incentives of Finns to go to Russia significantly decreased. Further blows were caused by the sudden raise of Russian third-party-automobile-insurance which increased the costs of visiting Russia, and the Finnish legislation which made illegal the use of pirate products, namely music CDs, movie DVDs and computer / video games. As the Imatra police source explains

"The 24h limit had a drastic effect. Another thing that also calmed down the situation was when Russia suddenly raised their third-party motor insurance costs to almost up to 200 euros (for the cars with more powerful engines). Later on the insurance costs have been lowered, but, still the effect remains."

Thus at present Finns willing to engage in cross border informal trade have to obtain visa, pay significant amount for car insurance, spend considerable time for waiting at the border (sometimes up to 5-6 hours). In addition, if they wish to bring alcohol they should stay in Russia for longer than 20 hours, which effectively means that they would need accommodation. Then they are able to bring gasoline, cigarettes and alcohol, but the demand is restricted by several factors. Selling them is illegal and can be done basically only to friends. Russian gasoline has been receiving some bad publicity and probably it is for a reason.

Still, as a source in Imatra police says:

“Some five years ago there was a group of people (operated by themselves) who imported petrol, cigarettes and alcohol from day to day. These men worked alone – were not organized in any way. And typically the goods were sold to a friend or an acquaintance that had placed the order to begin with. It was a very common thing among some people, especially people with very little income such as those who were on the dole. Today the situation is different, but the business has not disappeared. I’d say that it is the petrol that motivates people the most: they buy it, empty their gas tank and sell the petrol to someone. The profit margin can be quite good as one litre of petrol in Russia costs some 60-70 cents and they can easily sell it for about 1 euro/ litre. I’d say that today only a very small amount of the alcohol sold in Imatra comes from individual people who have brought it from Russia. At most we are talking 2-3- percent. The local people are no longer as excited about the alcohol and this is very much due to the increase in car insurance costs. And also the petrol is not as lucrative any more. Some people have had car trouble after fuelling up with Russian petrol, and this may have also changed people’s attitudes.”

Another positive development is that some entrepreneurs find ways of utilizing the price differences in a legal way. Thus one of the sources reports on

“...a different selection of products. In Lappeenranta there are a couple of shops that sell Russian products. There are two articles that I know are quite profitable: 1) coal and 2) construction materials (especially limestone bricks). There are both Russian and Finnish entrepreneurs who sell these goods in their firms/shops.”

This can be already *not informal*, but still on an embryonic level.

If before some estimated possible income out of informal trade was up to 1680 euros per month, at present according to Lappeenranta police force:

“Well, I did make some estimates with a colleague of mine about the possible financial advantage of buying your petrol in Russia. And we came to the conclusion that an average car in Finland has petrol

costs of some 2000 euros per year and if someone did buy all they petrol from Russia, where it is half the price – they could save up to several hundreds of euros (when the car insurance and the cost of a visa are taken into account). And of course if someone does sell it, I do not know that anyone does, but if they did, then the advantage would be even greater than that..., but I am certain that the money from petty trading is not enough for anyone to live on.”

Still according to an Imatra custom official:

“One article that the Finns do buy is petrol, but it is somewhat difficult to sell – you can easily sell the 10 litres that you are allowed to bring in addition to a full tank, but in order to someone really profit from the sales they would have to pump the petrol tanks etc. It is simply too much of a hassle for most people, and not enough financial profit to build the motivation. The people who buy petrol tend to cross the border maybe 1-2 times a week and I think only a few of them try to cheat the customs by bringing in a little more than they are actually allowed to. Another thing that is easy to bring in is cigarettes – a tourist or a visitor can bring in 200 cigarettes with the condition that the cigarettes are meant for personal use or as a gift to a friend, and there are also other regulations. There have been some court cases about what is “incidental” and based on these trials they ruled that what can be regarded as “incidental imports” can only occur three times a week. So if a person buys a carton of cigarettes from Russia it will cost them 6 euros and in Finland the same amount of cigarettes costs over 40 euros – and as you cannot really sell for more than 10-15 euros in Imatra, the profit is about 50%. And in one month, someone who would maximize this opportunity could maybe make some 450 euros. Very few people bring in alcohol anymore as the limits are strict and the fines/custom fees for excess alcohol are high. And also as some people have suffered from methane intoxications, the local people are not that keen on buying Vodka imported from Russia.”

Even if only 450 euros could be made this money is considerable supplement to say the unemployment benefits.

5.5 The Role of Trust

Interestingly enough, the question of trust in the case of Finnish – Russian cross-border trade is not so much between Russians and Finns, but between Finns and Finns. As reselling all products of interest is basically illegal, it is important that buyer and seller will have a sufficient level of trust in each other.

5.5 Enlargement-related effects

The biggest enlargement effect is that after Estonia joined the European Union, Finns can go on trips to Tallinn and bring as much alcohol as they please. Even if it is about two times more expensive than in Russia the Estonian alcohol prices are still considerably lower than the ones in Finland. In short, for Finns, Tallinn became a place to which one could travel without a visa, a destination with a tourist value, cheaper price levels and which offered the opportunity to bring back cheap alcohol without any limitations. This change perhaps did not convince the die-hard petty traders, but it did have a considerable impact on the middle class – people willing to buy and bring in cheap alcohol in a more convenient way and without breaking the law. According to an Imatra custom official:

“In 1995 when Finland joined the EU the imports of alcohol were completely unregulated and at that time the trafficking was quite shocking. The EU banned the imports of 100% alcohol, was it 1998 or 1997 (the EU did not even know that there was such a thing as “pirtu”, the 100% alcohol). In the past some people did buy convenience food, meat and milk etc. – and there were rumours that such products were sold, but today this is already a thing of the past.”

5.6 Policy Issues Identified

There are no visible policy issues that can be extracted from the empirical evidence received through interviewing relevant officials. The Finnish authorities seemingly managed to prevent their citizens from being attracted to the idea of making smuggling and petty trade their main or side business.

6. Conclusions

6.1 Overall Assessment of CBC in Region

There are several ways of evaluating the cross-border cooperation status in South Karelia. One is based on matching the existing CBC against the opportunities. Using this system one may conclude that the results are far from satisfactory.

Another way is to take a historic perspective. Then the situation looks much better as from almost zero (18 years ago) the CBC has picked momentum, gained visibility

and started winning supporters among policy makers, companies, entrepreneurs and the general public.

Depending on the adopted method, it is possible to have very divergent opinions on the situation – and in some ways it can resemble the famous rhetorical question “is the glass half full or half empty?” In other words this is not really an educated assessment, but rather a matter of opinion. However, in both cases it should be noted that the CBC has significantly higher potential than previously noted. Yet a risk could be observed in the way CBC is often seen as “for the moment existing” opportunity, instead of as a long-term project. The reason for this attitude is the perceived (and somewhat historically justified) general “unpredictability” of policies, attitudes and moods of Russian central government.

The CBC has become increasingly institutionalized, but this process seems to develop in a sporadic way. One good thing is that after the modest success of Imatra - Svetogorsk twin city project, the cities of Lappeenranta and Vyborg are having bigger ideas and plans for cross border cooperation that bring the process to a higher (or at least bigger) level.

6.2 CBC: Enlargement Related Issues Emerging

The European Union enlargement brought little changes to the CBC in the region. It could be argued that it slightly postponed the enterprises cross-border cooperation effort, as some enterprises preferred the Baltic States as a business destination in the short term. However this was not a prevailing trend and could be argued just in the case of few. There are two tangible impacts that could be identified as a result of the executed field work.

The EU financing became slightly less available, as the general amount of funds assigned to Finland diminished. That again was not really stressed by the interviewees and thus can not be described as a tangible change.

The other impact has to do with the EU membership of Estonia which made it a destination with comparatively cheap alcohol prices but within the EU zone. In a combination with the 20 hours rule restricting import of alcohol from Russia the Estonian EU membership gave competitive advantage to cruise makers focusing on Estonia. Again this change can not be considered ground breaking, as it did not have a tangible impact on the South Karelian economy.

6.3 Co-operation and Clustering Related Issues

The region is clearly dominated by the forestry cluster. That is in a way blessing in disguise. While representing some five billion euros annual turnover the cluster is clearly a dominant one and this fact is uniformly mentioned by all interviewees, as the main reason for the apparent lack of entrepreneurial traditions among the South Karelians. In addition there seems to be some dependence on the import of Russian raw materials. After Russia introduced customs on the wood exports there is a lot of fear among the regional authorities and policy makers what will be the future of the forestry cluster. If the result is huge Finnish investments in building plants and factories in Russia it is for sure that the cluster including logistics, research, services etc. will promptly follow and thus experience internationalization.

Emerging clusters are ICT and tourism. These are at a rather embryonic level but the growth rate of revenues from tourism is impressive while the ICT cluster has all the credentials to grow and gain more visibility. The tourism cluster has its growth thanks to Russian tourists and thus one may speak of cluster internationalization. Still the initiative is rather on the Russian side and the Finns so far seem to have just enjoyed the advantages they have without much of an extra effort. The ICT cluster is so far mostly domestic and only the first steps are made in order to launch its international expansion in a CBC context.

6.4 Identity and Perception-Related Issues

In a sharp contrast to the region of Tornio - Haparanda it is very difficult to speak of regional identity. The difficult history clearly divides people into us (Finns) and them (Russians).

Currently there is a talk of Lappeenranta – Vyborg as a growth area between Helsinki and Saint Petersburg that somehow tries to diminish the national element. Still it will take a great amount of effort and time to build bridges that will make people in the future to have some regional identity. A much easier strategy, one also conforming to the opinions of the authors of this summary report, would be to build on the Northern identity – something that both the Finns and the Russians living in North-Western Russia would gladly admit.

6.5 Trust- and Learning Related Issues Emerging

Interestingly enough, all the interviewees were more than happy to share some experiences, thoughts and ideas dealing with trust. Ironically, the most negative among them were the ones with the least experience.

The typical interviewee with a negative attitude and mistrust to the “other side” would be older (45+) with limited experience or with a brief and negative experience of CBC. The negative experience will be often the result of rather bold (or reckless) market entry or business concept, that was ill-designed and badly implemented or, alternatively, of too naïvely and unreasonably given credit of trust to partners from the other side. The entrepreneurs who followed rational ways of thinking have much more positive experiences and much faster learning curve, which made some of them even argue that apart from the little cultural differences, the issue of trust is just as in any other business relations they had.

All interviewees confirmed that Russians have learned a great deal about the way of doing business and their professionalism and reliability as business partners has greatly improved. The evaluations were far less kind when it comes to Russian officials and bureaucrats - in respect to those, trust is still a deficit commodity.

Thus it may be concluded that the companies who have intensive interaction with Russians and their Russian counterparts, learned a great deal about each other and some even claim that trust is not a problem in their business ventures. As cross-border cooperation at an institutional level, in reality, requires much less interaction between the two sides and as it is a somewhat newer tendency. Trust in this respect is still to be established as both sides will be learning each others' practices and working ethics.

Interestingly, while language featured as one of the most significant problems in the interviews, very little is done to bridge this gap. Russian is not a language popularly studied in South Karelia, and the same could be said for Finnish on the other side. Furthermore many web sites (of both governmental administrations and companies) are monolingual. A simple translation in the neighbour's language could have a great impact.

Another interesting point is that for all the talk on how different the Russian business culture really is, neither authorities nor companies had any plans of organising training regarding this matter. Similar training but about Finnish business culture would have been very useful also on the Russian side of the border.

6.6 Policy and Governance Related Issues

Policies and governance are two areas that require significant improvements. On the Finnish side there is apparent desire to plan and execute policies fostering entrepreneurship and economic development that increasingly acknowledge the cross/border factor. Yet these policies are often designed by various players at different levels of governance and because of that, they lack coordination and often compete with each other. In addition, institutional CBC (with the exception of the Imatra - Svetogorsk twin city) is only gaining momentum. Thus one may hope that in future the Russian side will be part of the CBC policies design and consequently their implementation.

The biggest problem on the Russian side of the border is the apparent centralization of authority, which turns many important policy makers and officials in the cross-border regions into mere administrators without a budget or much of a say, in even some trivial issues. Thus Svetogorsk belongs to the Vyborg district which in turn belongs to the Leningrad region which is part of the Northwestern federal district. That makes many otherwise simple steps in CBC a sophisticated issue involving several layers of decision makers. In a highly inefficient bureaucracy such as the Russian one that means that often many otherwise interesting initiatives will be stack.

6.7 Future Prospects for CBC.

There are several good news that will confirm the excellent prospects for CBC. One is that both sides (even the most sceptical) realize that there is enormous potential in cooperation. The second is that both sides had sufficiently comprehensible learning curve and know more about each other than ever before.

There are several issues that should be promptly addressed. One is the time needed to cross the Russian border crossings. That was one of the most frequently repeated examples of why wider and deeper CBC is not possible at this stage. With all due respect to the fact that the Russian border is external for the EU, the matter should be pressed and addressed. Judged from the key informants' views, such pressure should be put on Moscow as the customs and the border patrols are federal services.

Another problematic issue is the certain asymmetry in CBC. One example of this is the asymmetry of interests. CBC should be mutually beneficial business in which both sides know what is *in it for them*. At present it seems that the Finns pursue their own practical and pragmatic agendas. There is nothing wrong with this, but it does somehow put the Russian side in a "take it or leave it"-position. Another asymmetry is found in the capabilities. For various reasons (EU funding, lack of interest among Russian federal authorities towards border regions etc.) the Finnish side has more financing available for CBC. This fact breeds some wrong attitude that "we pay for

the CBC” so we pursue what is best for our interests” among the partners on the other side. The other side should be invited and stimulated to generate ideas, share them and to participate in the funding of applications and in project implementation.

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