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PU	Public	**X**
PP	Restricted to other programme participants (including the Commission Services)	
RE	Restricted to a group specified by the consortium (including the Commission Services)	
CO	Confidential, only for members of the consortium (including the Commission Services)	

Contents

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 Tornio 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

For researchers interested in the problems of cross-border cooperation /CBC/ the Swedish-Finnish border in general and the Tornio-Haparanda region in particular could be somehow uninspiring. Both regions have one of the smallest numbers of inhabitants per square kilometre in Europe. Both regions are somewhat quite remote being at the European periphery close to the power circle. The border was also relatively uneventful. Unlike other hard borders in the EU member states it was never meant to truly keep people away from each other and thus was never perceived to be a true obstacle to cross-border cooperation. Furthermore unlike other European cross-border regions the people living in Tornio-Haparanda and the surrounding regions always had a strong regional identity that certainly helped avoiding the national rivalries and sometimes bitterness that exists in other regions due to common history or different national cultures and values.

Yet these also constitute the main arguments that qualify the region to be an object of a cross-border cooperation study. What are the chances for CBC in a region that is heavily burdened with history and bitterness and rivalries? A region where the border was rather marking administrative jurisdictions than dividing people. A region where language barriers do not really exist.

In addition Tornio-Haparanda has quite diversified economy that only increases the research interest. There are big companies present as well as SMEs. There are two existing and two emerging business clusters that do not only have significant growth potential but also have clearly international (bilateral) mindset from the beginning of their activities. Last but not least the twin-city project Tornio-Haparanda is a well known role model for cross-border cooperation between twin cities across Europe.

All that clearly demonstrates that the region could provide invaluable lessons when exploring into the mechanisms of cooperation and entrepreneurship in cross border areas. This report aims to provide an in-depth overview of these mechanisms that is based on interviews with key informants from various institutions and business support organizations. Reaching to give a 360 degrees perspective the report also accommodates twenty interviews with various companies from the region.

On the whole, the Finnish Lapland is a scarcely populated area, even in Finnish terms. This is why a medium-sized town such as Tornio easily grows into an economically important centre. Also the fact that the twin cities, Tornio and Haparanda, combined have over 30 000 inhabitants, increases the Tornio's significance. The border is of course another contributing factor: it is mainly because of this geographic proximity to Sweden, that the industry in Tornio has such a remarkable role, especially if compared to some other inland towns of similar size. In terms of employment rates, second only to the municipality of Tornio come factories and innovation centres such as Nokia, Lapinkulta (Hartwall), Stora Enso, Metsä-Botnia, Rautaruukki, Outokumpu and Kemira (see table 1.1.).

Map 1.1. Bothnian Arc

(Source: A presentation held by Ritva Nousiainen on May 14 2007 in Tornio.)

In map 1.1 above you can see the most significant companies listed on both sides of the border and this image also gives you an idea of the consumer base in this Case Study Region. Within a radius of 130 kilometres from Tornio live approximately 500,000 people and their purchasing power and supply of labour force have a direct impact on the Tornio region. When this radius is increased to 300km or even 500km, there are nearly 1 million people living in this region. This, of course, represents a huge potential for industries and companies located in Tornio and also in the nearby regions.

In addition to this, as a logistics centre Tornio is ideally located. All this potential together with the geographical advantage could and should be considered when making plans for the future – the emphasis should be on finding ways of making the most of this competitive edge.

2.1 Economic Development: Characteristics and Key Issues

As previously mentioned, the economy of this case study region, especially on the Tornio side of the border, relies heavily on industry. The most significant branches are paper industry, metal industry and IT.

The largest companies in the region are domestically owned. These companies represent different industries and they are all internationally competitive and active in foreign markets as well. Some of the biggest are partially internationally owned, even if they have started as purely Finnish companies. In fact, the biggest companies in Kemi-Tornio have only their production facilities in the region, the head quarters and sales and marketing departments are located either in the capital region in Finland or they are located even abroad.

The biggest companies and employers in the region are Outokumpu, Metsä-Botnia, M-real, Finnforest, Stora Enso, Finnwear and Hartwall. At least Outokumpu, M-real and Stora Enso of these are, even from an international perspective, relatively large companies. Also the cities of Tornio and Kemi are important employers in the region. The number employed by each of these companies and organisations is listed in table 1.1.

On the Haparanda side of the border the economy is very similar to the Kemi- Tornio region. The following Swedish companies can be viewed as having a leading role in the Haparanda area: IKEA, Polarica, Billerud, LKAB, SSAB, SCA, the Setra Gorup and Kappa Kraftliner.

Table 1.1. The companies and organisations which employ the most people in Kemi-Tornio

Name of the company	No of people employed	Industry
Outokumpu (Tornio)	2400	Steel production/ company
City of Tornio	1450	
Stora Enso (Kemi)	1400	Pulp, paper & sawn timber
Educational institutions in Tornio	275	
Metsä-Botnia (Kemi)	230	Pulp
M-real Kemiart Liners (Kemi)	150	Packaging materials
Finnforest (Kemi)	N/A	Sawmill
Hartwall (Tornio)	100	Brewery
Nanso (Tornio)	130	Clothing

(http://www.kemi-tornioregion.fi/web/easypagepro/viewer.php?id=5).

The key issues for this economic area have to do with employment – and this is indeed a rather complex issue as currently there is a shortage of skilled labour (engineers and people with degrees in mechanics), but on the other hand the unemployment rate is somewhat higher than in the rest of Finland. For the educated young people Southern Finland has a strong attraction power. However, the situation is not yet alarming. Another key issue for the future of this Tornio-Haparanta region has to do with the development in the Barents Sea region – i.e. the economy in North-East Russia. If the growth in Russia continues as anticipated it will have a most positive effect also on the economy of the case study region.

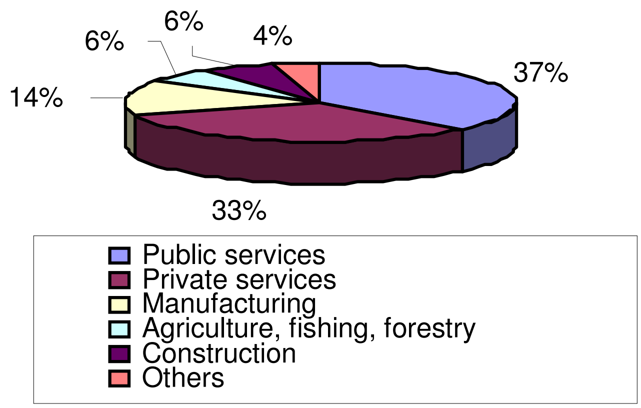
In addition to these big factories, tourism forms another important sector of economy in Lapland. The amount of enterprises in tourism is quite large, but most of them are micro size companies, that employ only the owners and/or their families. This is why the overall effect of tourism on employment remains rather modest. Tourism is especially important in the northernmost parts of Lapland.

Also Kemi has been quite successful in developing its tourist attractions. There are for example the “Kemi Ice Castle” and the “Icebreaker Sampo” that are both relatively well-known among foreign tourists. However, even if the tourism sector is fairly well-developed and economically important in the province of Lapland as a whole, this is one economic sector that is actually a bit underdeveloped in Tornio. Some of the key experts we interviewed argued that tourism is the sector that should be developed more in Tornio. They also felt that through investments it would be possible to invent and find attractions that the tourists find more appealing. The nature has a lot to offer in Lapland, and this special feature could be used more when marketing activities in Lapland – i.e. the tourist agencies in Tornio have not perhaps made the most of this opportunity.

One fairly recent positive development in tourism has been the increasing number of tourists who come to Tornio because of the shopping opportunities. This has raised the need for accommodation capacity and due to the increased number of people coming to the region now would be a good time to develop also other tourist services that the city has to offer.

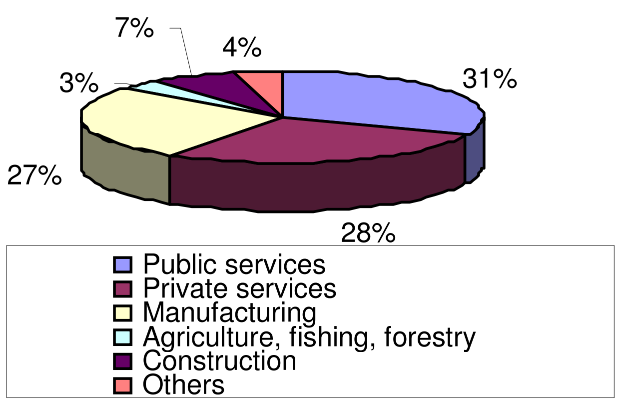
In figures 1 and 2 there are presented the percentage shares of different industries in Lapland as a whole in figure 1 and in Kemi-Tornio region in figure 2. It can be seen that the biggest employer in Lapland is the public sector with 37% of jobs in public services. The second biggest employer is the private sector with 33% of jobs and manufacturing is the third most important employer in Lapland with 14% of jobs in manufacturing. The division of industries in Kemi-Tornio region is quite similar to that of Lapland’s with the exception that manufacturing is a major employer there with 27% of jobs in manufacturing which is almost twice the average of Lapland as a whole.

Figure 1.1. Division of economic sectors in Lapland



(Source: Lapin Liitto)

Figure 1.2. Division of economic sectors in Kemi-Tornio region



(Source: Lapin Liitto)

2.2 Entrepreneurship Development

In the CSR there are some ten organisations that are actively involved in developing entrepreneurship. The organisations do cooperate, but many of them also have their separate agendas. We interviewed representatives from the most important organisations and received rather unanimous views on the weaknesses of this area – and how they are reflected on the enterprises.

The key informant from the Lapland Chamber of commerce was slightly concerned with the local development in entrepreneurship. His concerns resonate with most of the key informants.

"I am a bit worried about the entrepreneurial activity in the region. We have companies of all sizes, varying from self-employment to very big companies. However, there are approximately 9000 enterprises in Lapland of which 90 per cent employ only one person (the owner). We have looked for the companies that have potential for growth, and there are 250 of them and now we try to encourage these to grow. In Lapland, we don't have a tradition of entrepreneurship. The most important questions are now that how to get companies to grow and how to attract new companies to establish their business in the region.

In Tornio region, the most important economic sector is the steel industry. There are a lot of SMEs in subcontracting and in maintenance and (providing various) services for this industry. There is quite a lot of producing small-scale industry for the needs of the large-scale industry. However, one sector is still quite underdeveloped, and this is tourism - it could be exploited more in Tornio" (KI with T.R. 2007(Lapland Chamber of Commerce)).

2.3 Social, Cultural and Historical Perspectives

Tornio is a medium-sized town located near the Swedish border in Finnish Lapland. On the other side of the border is a Swedish city called Haparanda. The two towns have a rather elaborate plan to establish a mutual city centre, a more advanced form of the twin city, by 2012 (Helena Raunio, *Tekniikka ja Talous*, 12.10.2006). There is extensive collaboration between the two towns. Both due to the history of this region and the day-to-day cooperation between the Finns and the Swedes, the people in Tornio river valley share a regional identity which transcends the state border.[1]

In 2007, the population of Tornio was 22 374, and some 10400 people lived in Haparanda. A significant proportion of the Haparanda inhabitants (approximately 35%) are ethnically Finnish and many others are, for some reason or another, able to speak Finnish. The language policies on both sides of the border provide an interesting viewpoint on the mixed culture of this region: in Haparanda, the dialect of

[1] Tornio was originally a Swedish town, but in 1808 Finland was annexed to the Russian empire and the border was set West of Tornio.

Finnish called *meänkieli* has an official minority language status and it is indeed widely spoken among the Haparanda people, but although Swedish has an official status in Finland, it is not a commonly used language in Tornio and few people near the border are fluent in Swedish. On the whole, a great majority of the Swedish-speaking Finns live in the Southern part of Finland. Therefore it is fair to say that the Tornio valley is quite Finnish dominated, both in terms of language and culture.

On this matter one of the key informants stated the following:

"The biggest barriers for cooperation are mostly with legislation. Cultural or linguistic barriers are so minor that they do not affect the cross-border cooperation. Especially the culture is very similar on both sides of the border. (...)When it comes to languages, in most meetings people can speak in their mother languages. Usually it works very well, since people can understand each others languages fairly well. All in all, these cultural things can sometimes hinder the cooperation but are in no case a barrier to cooperation," (KI R.R., 2007(City of Tornio)).

There is also a historical link between Tornio and Haparanda: at the beginning of the 19th century, the area which later became known as Finland was annexed to Russia due to the Sweden's defeat in the war against Russia. This war was fought in 1808-9, and it is known as the *Finnish War*. Because in the peace treaty the Swedes lost the town of Tornio, they established another town, Haparanda, just across the bordering river.

With time there has been significant back and forth movement between the two towns. The distance between the town centres is only a few kilometres. Another town, approximately the same size as Tornio is Kemi. Kemi is highly important for this Case Study Region as it is linked with Tornio on several levels. Among others the two towns have a shared polytechnic and there is considerable economic cooperation between the two towns. Table 2.1. present some of the key figures for the economic area of Kemi-Tornio.

Table 2.1 Kemi-Tornio key figures 1995–2005

KEMI-TORNIO: KEY FIGURES

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Popul.	65500	65463	64935	64235	63590	63022	62396	61829	61589	61339	61355
Birthr.	70	196	131	106	144	136	36	7	57	59	
Jobs	22217	22320	22267	22835	22590	22875	23020	23547	23616		
Unempl.	25,8	25,1	24,4	22,8	22,3	19,8	18,9	16,5	15,5	15,5	15,6
GDP/ inhab.	22097	17902	18803	19667	19228	24540	22843	24135			

Gross value of production:

- ✓forest industry 1,4 B€ (7% of Finland´s production)
- ✓metal industry 1,4 B€ (20% of Finland´s production)

(Source: Kemi-Tornio Region - Industrial part of Lapland, TeRIS kick-off meeting)

According to some of the key experts we interviewed in 2007, Tornio region is actually facing a shortage of skilled labour in the near future. Some sectors of the local economy need qualified labour force, and the problem lies in that many young people leave Tornio because of their studies and never return. Some of the most important questions that need to be solved are how successful will Tornio region be in attracting these skilled young people to return back to Tornio?, and can Tornio offer them permanent jobs?

As a result of the major investments made in the region, together with the aging working force it has become increasingly clear that within the next couple of years there will be a genuine need to attract quite a number of new people to move to Tornio. In 2003, the town of Tornio estimated that by 2010 they will need approximately a thousand new people to fill the openings. According to some estimates, the number of jobs in the private sector will increase by up to 50 per cent, and it is clear that there are not enough people in Tornio to satisfy this demand for labour (KI S.V., 2007 (Team Botnia Ltd., a business development company)).

Sven-Erik Bucht's comment gives us an idea of the general development of CBC in Tornio-Haparanda area. He states that:

"*the amount of CBC has increased especially after both countries joined the European Union, when it became a lot easier to cooperate in many issues*", (KI S.B., 2007 (municipal counsellor, city of Haparanda)).

He views that the CBC will continue increasing also in the future. So the existing CBC will deepen and also new companies and organisations will introduce CBC policies and activities.

2.4 Policy Environment for Entrepreneurship and CBC

There are several institutions in the region whose main aim is to foster and develop entrepreneurship, give advice to new entrepreneurs and help in setting up new businesses. In general, entrepreneurship is promoted and supported extensively. Also CBC is promoted and supported by local authorities and organisations. The following institutions are the most central ones:

- Team Botnia Oy, a publicly owned company designed to develop and diversify entrepreneurship in the region.
- Kemi-Tornio University of Applied Sciences.
- The Regional Organization of Enterprises in Western Lapland.
- Cross-border Tornedalen.
- Digipolis and Mediapolis – a technology cluster between the enterpirses, public sector and educational institutes.
- Development Centre for Kemi-Tornio region, owned by 5 Finnish municipalities, designed to promote cooperation among the municipalities and with Haparanda.
- Lapland Chamber of Commerce, c. 400 member enterprises.
- Cross-border Chamber of Commerce, the main objective is to build a new joint cross-border chamber of commerce in Tornio-Haparanda.
- Employment and Economic Development Centre, designed to develop entrepreneurship and the labour markets in cooperation with the municipalities, business life and other public actors in the region.
- Regional Council of Lapland, key tasks are: coordination and supervision of the EU programmes in Lapland; defending the interests of the member communities and their citizens by promoting the social and economical welfare of the region.
- Information Centre in Haparanda Tornio.
- Provincia Bothniensis is a cooperation organisation fostering and developing cross-border activities between the two municipalities of Tornio and Haparanda.

2.5 Potential for Future CBC

There is definitely great potential in developing CBC in Tornio-Haparanda and this is something that all the key informants agreed upon. Whether the most promising sector is the steel industry or the tourism industry divided the interviewees' opinions. But the two sectors differ from each other so dramatically that they are by no means mutually exclusive.

As mentioned earlier, the unique nature in the region does provide great opportunities for further development of the tourism sector – and there is indeed room for such development. In addition the services and shopping attractions can further boost the expansion of the tourism sector. On the other hand, the strong traditions and special know-how the companies in Tornio and Haparanda have in steel industry create a solid base for the development of an international and innovative "Steel Valley".

One of the key informants pointed out that the sectors with the most potential do change from time to time.

"If the regional development is considered from our perspective, the economic trends in different sectors come in waves, and this is quite beneficial for us as a technology park; when e.g. steel industry is doing well, then electronics is not doing that well and these different "cycles" usually balance each other out. At the moment, micro electronics has been booming." (KI S.A, 2007 (Digipolis is an enterprise development company, which promotes development and internationalisation in SMEs)).

The twin city project is also something that will most likely boost the CBC. The new city with over 30,000 inhabitants will become an increasingly important centre for the region.

Map 2.1. Haparanda and Tornio

(Source: A presentation held by Ritva Nousiainen on May 14 2007, in Tornio.)

3. Institutional Cross Border Co-operation

3.1 Nature and extent of Current Institutional CBC

The Regional Council of Lapland is a regional developer that is responsible for all EU projects aimed at regional development. Mainly its role is to act as a coordinator, and in some cases it is also an operational partner. The regional EU objectives are channelled by Regional Council of Lapland. It has an important role in developing Lapland's international relations. The Interreg-programmes of the European Union form an important area of their operations.

As a coordinator, Regional Council for Lapland is not active in the operative side, but its role is more to provide conditions for cooperation with neighbouring countries. One important cooperation partner is Sweden, and there is a lot of potential to cooperate with them.

According to Raimo Ronkainen (City of Tornio) the results of the cross-border cooperation from the mayor's point of view have been very good: there have been clear and concrete benefits for the citizens, and in general many public services have been developed. For example, when the sewage treatment plant (which is located on the Swedish side) was built, the Swedish government financed 70% of it, and the cities of Tornio and Haparanda both contributed by 15% each. Later, when the fire service needed new machinery and equipment, the Finnish government financed 60% and Tornio and Haparanda 20% each. The interviewee finds that these two examples are the most concrete cases where cooperating has been beneficial. Both sides benefit, but costs are smaller when both contribute to financing.

Ronkainen also admitted that there have also been some problems and negative experiences along the way. In 2002, the city council in Haparanda had a referendum on deepening the cross-border cooperation with Tornio. 52% of the voters voted that they should stop the "Rajalla – På gränsen"[2] project, which has started in 1996. So the public opinion was quite heavily against deepening of the cooperation. However, despite the result of the referendum, the city council decided to continue cooperation. The interviewee thinks that the people in Haparanda voted against cooperation because they fear that since the city of Tornio is bigger than Haparanda, they would take over all the control from them. Last year, the public opinion was completely different and the majority of local were supporting the continuation of cooperation. The positive attitudes are largely affected by the large investments made in the region, most importantly the arrival of Ikea (KI R.R., 2007(City of Tornio)).

The interviewee from the **Kemi-Tornio Polytechnic** stated the following:

"the strengths of this area from an economic perspective have to do with the border. And the weakness in my opinion is that we have not been granted a free-trade area status or any regional policies that would promote cross-border trading. And also the fact that the units that implement regional policies are still very Helsinki centred – the only unit that has been placed here in West Lapland is the customs district. This unit will in future be granted more authority. The natural dealings with people e.g. in Sweden is something we can do well – the person to person contacts are good. And we are also good at finding partners and networking. So the international activities at our school have been successfully run – and we have partners also is some far away countries, such as Uruguay and Australia so we can also function outside the Nordic countries," (KI L.A., 2007(Kemi-Tornio Polytechnic)).

When interviewed Leena Alalääkkölä (Kemi-Tornio Polytechnic) explained that*:*

*"The attitudes in this region towards CBC activities are polarised or to be more precise, the attitudes have recently **become** polarised. In the past almost all entrepreneurs agreed on that the border can only create opportunities and it was viewed only positively, but now that the new IKEA was built in Haparanda some of the entrepreneurs feel that the IKEA is making them loose their customers and because of this these companies are no longer interested in any CBC activities. They are really annoyed by the IKEA, but as we have investigated this matter at our school the conclusions we have reached are that the real problem is that the companies in Tornio have not been able to "pull" or*

[2] *På Gränsen - Rajalla* is co-operative project of two cities located in two different countries, Haparanda (Sweden) and Tornio (Finland). In the middle of the border line we are building a centre where you can find - besides commercial services - also apartments, educational possibilities, jobs, culture, and free-time options." (http://www.pagransen.com/eng/engstart.html)

attract the customers who are on their way to IKEA. And it is expected that the new IKEA will boost our tourism industry."

"But I'd say that for the most part entrepreneurs view CBC to be a positive thing – the way they look at the situation is that they have potential customers all the way from Tornio to Luleå. The masses that shop at IKEA should be relatively easy to attract to Tornio as well with the right kind of advertising. I feel that once these companies get some positive experiences things will start running smoothly", (KI L.A., 2007(Kemi-Tornio Polytechnic)).

About the longevity of CBC Alalääkkölä (Kemi-Tornio Polytechnic) states that:

"the CBC among the entrepreneurs is continuous in nature. People do not want to waste money on short-term experiments. The contracts between these firms are long-term".

The outcomes of the CBC were mostly regarded as positive and beneficial to the general economic development, but in some cases the results had not been as grand as expected. The twin-city project is and will probably be the most notable outcome in the next few years. Another high profile development has to do with the shopping centre that will be built near the Haparanda IKEA. The majority of the entrepreneurs we interviewed had a positive outlook on the economic development of this region. They anticipated that the Haparanda IKEA could start off a kind of a chain reaction – i.e. gradually more and more companies could develop an interest in this region and follow the "pioneering IKEA" and establish themselves in Haparanda, Kemi or Tornio.

3.2 Enabling factors for CBC

Jarmo Lokio (City of Tornio) mentioned the EU membership, the long history of cooperation between Tornio and Haaparanta, and the EU funding as CBC enabling factors (KI J.L., 2007 (City of Tornio, City architect)). Another interviewee states that the decision IKEA made about investing in Haparanda has had a huge mental effect on the local people; it has brought a lot of belief into the future of this region (KI J.J., 2007(Regional Council of Lapland)).

"The potential for developing CBC is the greatest in tourism. Also the traditional construction industry has a lot of potential. There are big construction projects in both Sweden and Norway that need all the capacity this region has to offer. These projects are so gigantic that all the companies in the construction industry should prepare together since no company can deal with them alone", (KI J.J., 2007(Regional Council of Lapland)).

"As for the steel industry, the small and medium sized companies could utilize Outokumpu's high profile research centre in Tornio that is specialized in steel industry", (KI J.J., 2007(Regional Council of Lapland)).

3.3 Constraining factors for CBC

Lokio mentioned the lack of funding and the nationalistic views both Finns and Swedes hold as factors hindering CBC (KI J.L., 2007 (City of Tornio)). The fact that there is relatively small amount of private investment aimed at the cross-border cooperation and its development is one thing which Ronkainen views as a constraint for the cross-border cooperation. He states that *"Sometimes it can be quite challenging to get support to develop CBC, but in my opinion, during the last ten years, we have been granted funding and other type of support quite well",* (KI *R.R, 2007).*

"The number of local companies in this industry has been modestly increasing and we hope that the steel industry will cluster and this could become a new strength for this region. But at the moment there is one structural problem regarding this industry. We have the top class refined steel, but the number of small refineries is growing too slowly. This region has potential to become a "steel valley" but so far the development has been too slow", (KI J.J, 2007(Regional Council of Lapland)).

"Outukumpu Stainless in Tornio and the paper mills Stora Enso and Metsa Botnia have in Kemi form the "backbone" of the regional economy. So the economy relies quite heavily upon the 3 plants and this is also a threat, as the economy is somewhat one sided. People are used either to working for the large plants or for their subcontractors. From the SMEs' point of view these large companies have extensive clusters of subcontractors and that certainly creates opportunities for the SMEs", (KI J.K., 2007(Kemi Tornio regional development agency)).

Alalääkkölä (Kemi-Tornio Polytechnic) views that one of the problems with developing CBC is that*" there are not enough medium sized firms, but hopefully this is about to change and the organisations can encourage small firms to grow".* She continues*:*

"Apart from the lacking confidence there are also other factors that hinder entrepreneurship in this region. As I am not originally from this area I do view the situation with a slightly different perspective, and this is how I have noticed that the local entrepreneurs seem to have this problem of extreme self-reliance. By this I mean that everything has to be done alone without much or any external help and the people take pride in being completely independent. The downside of this mentality is that the entrepreneurs do not necessarily find the know-how or the funding – so they in a way miss opportunities and the help that the society could offer."

According to Kankaanranta (Regional Organization of the Federation of Finnish Enterprises in Western Lapland) one big barrier for cross-border cooperation is that the regional policies are made nationally and too much on the terms of the Southern Finland. In his view there should be more emphasis on the regional distinctiveness and the local entrepreneurship should be taken more into account. In his opinion there are also some problems with foreign bureaucracy and with different policies in different countries, and it takes its time to learn these (KI M.K, 2007).

Another key informant evaluated the cultural issues affecting CBC:

"On the Swedish side the problems are different; they find it difficult to make any decisions – they discuss and discuss but reach no conclusions. And now I am beginning to think that this problem has also become common among the entrepreneurs in Tornio – they are too hesitant in their development projects. This is not solely a problem among the entrepreneurs – also the municipality is quite slow in reaching any decisions and I think that many great opportunities have been missed because they have not "leapt on the opportunity"", (KI L.A., 2007(Kemi-Tornio Polytechnic)).

This respondent views that

"*the matters that hinder CBC are not necessarily policies, but rather the "invisible" differences between Finns and Swedes that become visible only when something goes wrong. It is quite a tough job for the local companies to take all these matters into consideration – and often it is the small things that can make the difference between success and failure. An easy example for this would be the food industry – Finns are not perhaps aware of how different the eating habits are in Sweden*" (KI L.A., 2007(Kemi-Tornio Polytechnic)).

Ahola views that the language barrier and the differences in the enterprise cultures between Finland and Sweden are the most prominent factors hindering CBC (KI S.A., 2007 (Digipolis, an enterprise development company)). Also other key informants noted that the way decisions are reached in Finland and in Sweden are processes dramatically different from each other – whereas the Finns are happy to make also quick decisions, the Swedes can sometimes be almost *excessively* democratic.

3.4 Examples of positive Experiences of CBC

Educational institutions have had cross-border cooperation since 1978, and in 1987 a shared institution, **Provincia Bothniensis**, was founded to actively pursue cooperation (KI R.R., 2007 (City of Tornio)).

Ronkainen mentions also trust as a positive experience. He explains:

"Trust has been quite strong on both sides all the time that they have been cooperating. One indication of strong trust on cooperation is that the areas on where they cooperate have been increasing all the time. The two cities are making shared purchases and they are constructing together" (KI R.R., 2007(City of Tornio)).

One interviewee mentioned the following pattern in CBC:

"The companies on the Finnish side of the border could take example of some Swedish companies: on the Swedish side there are many companies that wish to expand their businesses to Finland. These companies establish a unit in Haparanda and then do business to Finland. This same pattern could be exploited by the Finnish companies. It would be important that the local policy makers in Tornio could find Finnish SMEs that are interested in doing business in Sweden, and then attract

them and their production units to Tornio. These companies would be physically located in Tornio, but still they would be as close to Sweden as possible and thus it would be easy to expand their business to Sweden. This would give a boost to the region's economy."

Kankaanranta points out that the experiences their member enterprises have had of CBC have been mostly very positive; almost all the companies that have some kind of cross border business activity, are doing better than local companies on average. This general picture is based on a survey about enterprise CBC, which the Länsi-Pohjan Yrittäjät (the local entrepreneurs' association) conducted together with students from the Kemi-Tornio Polytechnic (KI M.K., 2007 (Regional Organization of the Federation of Finnish Enterprises in Western Lapland)).

3.5 Examples of negative Experiences of CBC

None of the key informants reported any negative experiences with regard to CBC. However, they did point out that sometimes the cultural differences can prove problematic and that often people make the mistake of assuming that the Finns and the Swedes in this region and exactly alike. But on the whole even the barriers for CBC were regarded as quite insignificant.

3.6 Evidence of Cross Border Clusters

The steel industry in the region has international contacts, since the leading company Outokumpu is a global company, with units in several countries and other connections around the globe. At present, there is no steel industry on the Swedish side of the border. The only impact Outokumpu has on the Haparanda side, is that some of their workers come from the Swedish side (KI R.R., 2007(City of Tornio)).

Ronkainen states that

"the city of Tornio has a very central role in fostering and promoting economic development and entrepreneurship. Almost in all cases, when some organization or institution is planning to cooperate with Swedish partners, the city of Tornio is helping them to establish cooperation", (KI R.R., 2007(City of Tornio)).

Kujala mentioned that the impact of the three big companies is quite significant in terms of clusters. Digipolis is another example of an attempt to create an innovation cluster. The Digipolis companies have partners across the border and they cooperate also with Swedish and Norwegian organizations. Their primary goal is to broaden their market areas (KI J.K., 2007(Kemi Tornio regional development agency)).

3.7 Enlargement-related effects on Institutional CBC

It is not easy to estimate whether the EU enlargement has had any affect on the CBC per se, but on a more general level there have been some changes. Namely the criteria for granting EU funding for various projects changed when regions poorer than the Finnish Lapland were annexed to the EEA. When the Baltic States and some of the former Soviet countries joined the EU, the economic status Tornio held was altered – what used to be an area in need of special economic assistance became quite average with in the new EU.

3.8 Policies for institutional and Enterprise CBC

The mayor of Tornio commented that:

"Besides the town of Tornio, also other organisations such as Team Botnia (which is partly owned by the city), Regional Organisation of Entrepreneurs in Western Lapland and its local association in Tornio are involved in economic development. Also the chamber of commerce in involved to some extent and then there is the Information centre in Haparanda and Tornio. When it comes to economic development and promoting entrepreneurship in the cross-border region, there are also the equivalent organizations on the Swedish side. When the two countries joined the EU, there was a lot of enthusiasm to develop economic structures on both sides. Policy makers believed that once the borders are opened, it would become possible for enterprises to do business freely on both sides etc. but soon they noticed that the legislation was still too restrictive. The spirit was very good at the beginning but quite soon it was quelled by legislation", (KI R.R., 2007 (City of Tornio)).

There were also a couple of organisations that were critiqued by the key informants: namely, **the Bothnian Arc** and the **Tornionlaakso Council**, which comprises of municipalities located on the Tornio River. The respondents felt that the input these institutions have on the development of local entrepreneurship is trivial, and stated also that their operational goals are very obscure (the implication being that the organisations might not even have any real operational goals), (KI J.J., 2007(Regional Council of Lapland)).

The main goal of the **Kemi-Tornio Regional Development Agency** is to promote cooperation between the municipalities. In various aspects such as social affairs, education, technical issues, ICT, economic development, marketing etc. We also make project proposals and proposals to state bodies. So we have quite a wide range of activities. Most of our work is done in teams of which we have altogether 10: economic team, ICT team etc. The Haparanda officials also take part in these teams because they tend to speak Finnish. We cooperate mainly with other officials and as a whole we are part of the Bothnian Arc association (KI J.K., 2007(Kemi Tornio regional development agency)).

Kujala (Kemi Tornio regional development agency) also emphasized the importance of cooperation between the local institutions[3] (Bothnian Arc; Kemi-Tornio Development Agency; Länsi-Pohjan yrittäjät (a local entrepreneurs' association); Chamber of commerce; and the Tornio Laakso council) – working together would, in his opinion, yield better results than if the organisations just continue with separate agendas.

Ahola commented on the policies with the following statement:

"I suppose there are several kinds of policy measures aimed at development of the entrepreneurship in the region. Sometimes there might be even too many; and lately we have tried to harmonise these policies. One specific measure is our R&D activator project in the region, where "activators" go to companies and mainly their task is to identify R&D projects which could be financed by TEKES (Development Centre for Technology and Innovation)", (KI S.A., 2007 (Digipolis, an enterprise development company)).

[3] i.e. the Bothnian Arc, Kemi-Tornio Development Agency, Länsi-Pohjan Yrittäjät (a local entrepreneurs' association), Chamber of commerce, and the Tornio Laakso council.

4. Enterprise Cross-Border Co-operation

The enterprises we interviewed in this region can for the most part be placed into two categories: service providers and industries. In the first category we had logistics companies, earthmoving services, bus services, engineering offices, an event organizer, a crane rental and a fireplace and masonry service. In the second category there were the large paper mills, construction element factories, a beer brewery and two mills specialised in stainless steel products and construction materials. In addition, there were a couple of companies whose main sector is best described as retail.

The key characteristics of these companies are presented in table 4.1. In this sample of companies from Tornio, Kemi and also Haparanda the general characteristics of entrepreneurship are quite evident (apart from the size of the companies, which was regulated when selecting the companies whose representatives we would interview). The lack of enterprises whose sector would be tourism is quite striking – especially if you compare the data with the data from the other case study region (Imatra) from Finland.

In many respects the border in Tornio is not and has not been a barrier for the CBC and this is illustrated in the longevity of the companies' CBC experiences. In several interviews CBC had existed even prior to the countries EU membership. However, quite many of the interviewees stated that joining the EU was a kind of an incentive for their CBC activities. Perhaps this change occurred more on a psychological level.

Table 4.1. Key characteristics of the companies in Tornio interviewed for this project

ATTRIBUTE	ANSWERS IN ORDER FROM MOST TO LEAST COMMON			
Company size	50% small	28% large	22% medium	-
EU enlargement impact	67% neutral	22% positive	11% negative	-
Main markets abroad	61% cross border country	22% other country	17% cross border region	-

Main sectors of activity	44% industry	33% services	17% retail and distribution	6% transport
Membership of business organisation	61% yes	22% not applicable	17% no	-
Number of foreign partners	72% More than two	17% One	6% Two	6% not applicable
Ownership of the enterprise 1	72% Private	22% Mixed ownership	6% Other	-
Ownership of the enterprise 2	61% Wholly domestically owned	17% Minority foreign ownership	11% Majority foreign owned	11% not applicable
Regulation of the cross-border cooperation	83% formal agreement	17% informal agreement	-	-
Experience of CBC	56% currently and previously involved	44% currently involved	-	-
Firm's age	83% Over 15 years	17% 1-5 years	-	-
Relevance of staff background	50% help	44% irrelevant	6% unassigned	-
Total sales turnover in 2006	33% more than 50 million €	28% 2-10 million €	17% less than 2 million €	6% 10-50 million €
Use of business support infrastructure	89% yes	11% no	-	-

The end of this section 4.0 includes two rather typical descriptions of the companies' CBC experience including information about: how the cooperation began, what sort of activities they currently have and an overall estimate of the negative and positive aspects of CBC.

Enterprise interview 14 - Characteristics of CBC

"The CBC has existed for at least 5-6 years, perhaps even longer than that. The Swedes initiated this CBC. They buy from us mostly this by-product called green lye. The buyers are end users – they use

the green lye for water purification, because the lye removes copper from the sewage and also adjusts the ph-level.

The buyer company is some kind of a copper foundry. And at the moment this is our only customer (interested in the chemical by products) in Sweden. The pulp we sell to Sweden is bought by our sister companies/ factories in Sweden. We ourselves buy lime from Sweden, the partner who sell this to us is located in Northern Sweden but we have several suppliers across Sweden and Finland.

We make annual contracts. The CBC has remained the same over the years I have been involved. The effect of the EU enlargement is not easy to estimate – our company has grown and increased its market share simultaneously with the EU enlargement, but I do think that this growth would have occurred even without the EU enlargement. The internationalisation of trade is just so typical of this time.

The latest EU enlargement has not affected my work – it may have had an effect on the pulp sales but I do not know for sure. It is easier to sell pulp, so I would imagine that when the Baltic countries joined the EU the sales to these countries would have increased; but on the whole the sales to Baltic States are very marginal to our business and company, not much global significance.

The chemical itself is very cheap, so in our case what costs them the most is the logistics – and this is why the Swedish customer prefers to buy it from as close as they can.

The cultural differences are not important at all – they have no affect. And it just happens so that as there are so many people in Northern Sweden who are either ethnically Finns, Finnish immigrants or for some other reason just know Finnish, so these people are often given jobs that require keeping contact with companies in Finland. So we do not even have to communicate with them in Swedish, unless we want to. The cooperation between our company and the copper foundry or the Swedish railways has always been very easy – there is always a Finnish speaking person taking care of these things. But I do not think that we would have a problem if the contact persons would be Swedish speaking – it is not our choice, but theirs to have Finnish speaking personnel for these jobs."

Enterprise Interview 3 - Characteristics of CBC

"We have done business across the border for quite some time. This is how we realized what great potential there was. We have established also a firm in Luleå in 1999. This is also a limited company in which the mother company owns 40% of the stocks and the interviewee personally owns an

additional 20%, so 60% (the majority of stocks) is owned by their family. The rest, 40%, is owned by the company employees.

So in 1999 we rented appropriate facilities from Luleå and set up our business there. We started running the shop with only two employees and at the moment the shop provides work for a staff of six. There is nothing special as to how this shop in Luleå has grown – it is just regular retail. Before we had this shop in Luleå, the Swedes came to Finland to buy car parts from us.

We have recently establisher a partner company in Sweden. For this new company in Sweden, thepreviously established firm in Sweden is also a shareholder. The new company does exactly the same kind of business as we do here in Finland and also as the company in Luleå. The third company is located in Arvidsjaur. The reason for establishing yet another company in Sweden is that I have now gained some reputation in Northern Sweden – they know that our company sells quality parts for a good price - and I think this is why a Swedish person, who lives in Arvidsjaur, contacted me. They wanted us to be their partner because we have the necessary know-how and a good network of contacts and suppliers.

This town Arvidsjaur is located some 170km from Luleå, so I felt that it was a good idea to work with this man, since the new business would not really even affect our market share in Luleå. And I liked the fact that we would be one of the first people to establish companies in that part of Sweden – Arvidsjaur is practically already part of the Swedish Lapland and there are not really many companies in that area. There was this sort of pioneer spirit to establishing this firm. I do not expect great profits from this company in Arvidsjaur as the town is really very small and cannot be characterized as a trade centre, but that does not matter to me – if this Swedish partner proves himself as a reliable and suitable partner I am sure he can make a living with this business of his.

We own 50% of the company in Arvidsjaur, and I am the chairman of the company board. At the moment, now that the firm is still very new, we have had to lend some of our workers from Luleå and from Tornio to Arvidsjaur, but in the long run we do not intend to continue sharing employees. It is not very cost efficient as today the terms of employments are such that they could not really run a business if the workers would come all the way from Tornio, so this is only a way of handling situations when there is a absolute necessity to have someone there. The costs of living, per diem allowances, the costs for the movement of staff all together amount to quite a lot of money.

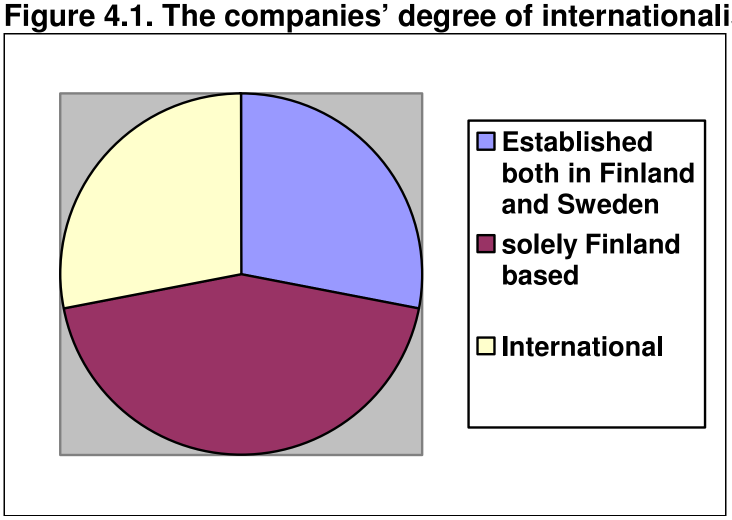
Our cooperation is based on an agreement, that is mutually binding and I would describe it as a franchising contract (although that is not really how the situation is, but that is the closest equivalent). If there should be any problems with this partner of ours, I do not know how the courts/legal system *would interpret the agreement we have signed…this is something I do not know as I have never studied the law and sometimes I feel I do not even know my mother tongue.*

Our future plans are still quite open. If this experiment in Arvidsjaur proves to be a functional way of expanding our business, then I do not see why we should not try out a similar agreement in some other towns in Sweden. We have received two similar requests from Sweden, and they seem to be serious with their proposals, but I have to think things through first. So far I have not made any promises to them – I think it is best to see how this current experiment starts off before starting new businesses/partnerships."

4.1 Types of Current CBC Identified

The CBC in this region in predominantly such that a Finnish company has suppliers and/or customers in Sweden but no facilities on the Swedish side of the border, but on the other hand there were several companies which had truly established themselves in Sweden and had either one or several facilities in Sweden. The breakdown is shown in figure 4.1 below.

Figure 4.1. The companies' degree of internationalisation



N =18 companies from the Tornio region

A vast majority (72%) of the enterprises involved in CBC had more than two foreign partners. And a number of the companies had partner organisations and companies also from a more distant region in Sweden.

One of the most common types of current CBC in our sample was that the Finnish company had Swedish customers – private persons, companies and also municipalities. Another fairly common form of CBC was that the Finnish company worked as a subcontractor for some Swedish enterprises.

4.2 Characteristics of enterprises involved in CBC, including foreign partners

Some of the key characteristics of the enterprises involved in CBC are presented in table 6. There was great variety among these enterprises despite the relatively small sample. Although there are exceptions, in general the profile of an average company involved in CBC is the following:

The average company involved in CBC is located in Tornio and it has also been established in Tornio. The company employs approximately 240 people (a weighted average), and it is a limited liability company. The company's age is approximately 42 years (a weighted average), and it is most often either a manufacturer or a service provider. The average company has over 15 years' experience of CBC and the management of the company views all of Sweden as a second market, i.e. not concentrated solely on the border markets.

The foreign partners are typically large production units that buy services from the Finnish partner because the Finns either have some special know-how or are able to offer products and or services that cannot be found in the North of Sweden. Often the Swedish partner is also a company larger than the Finnish (subcontractor/ partner) company. Many of the interviewees stated that a significant portion of their activities in Sweden does not, in fact, fit the criterion for CBC. In other words, although they do have clients and partner companies in Haparanda many of them also have partners in the Southern part of Sweden.

4.3 Evidence of Change in CBC over time

In a little over half of the enterprises, 56%, there had occurred some changes with time regarding their CBC activities. The following examples illustrate these changes:

"In 2005 or in 2006, there was a change: the sewage treatment plant was renewed and we also built a direct drainpipe from our factory to the plant. So now they prepare our sewage separately from the household sewage. This also makes it possible for them to collect the methane which is generated as a by-product of the anaerobic process. The methane is then used for heating the sewage treatment plant.

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

"Our CBC has in the last 30 years changed in two respects: we have now increasingly noticed that it is in our best interest to try and sell as much of our products through our subsidiary company in Torshälla rather than use a Swedish dealer; and the other change over time has been that the products we export have diversified", (E10).

"With time our CBC has changed towards a less price oriented way of doing business – today, it is the logistics that we find important. So we have learnt from our experience", (E1).

"The CBC has remained very much the same over these years (nearly 2 decades), but the world has changed so that the cooperation these days is much more intense than it used to be. Many of the client companies have outsourced their personnel and work closely together with external organisations, such as our company," (E13).

"During the years the CBC has not really changed. The only change in our business that I can think of is that today we have a wider range of products and services than we did at the very beginning. Especially the number of different services and products for power plants has increased. You could say that the trend has been that we now offer more sophisticated and special parts to these pipe systems.

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

"During these three years that we have had this shop in Sweden, I've noticed that Swedish companies are much more interested in doing business with us than they were when we only had the shop in Tornio and only worked on the Swedish side of the border. I do not think that this is really because of the distance, we were so close to the border also in Finland – but I think that the people here in Sweden have now heard of us through the grapevine.

The entrepreneurs who notice that we have a shop in their town perhaps discuss about us more – and it could also have something to do with the language barrier: they might think that it is risky finding a partner from Tornio as the people in Tornio do not necessarily speak Swedish, but now that we have this shop in Sweden they are convinced that they will get the service also in Swedish! One thing that might have also boosted our business in Sweden is that the Swedes can now perhaps view us as a domestic company, and also when they come to our shop I think that they are happy to notice that we sell also Swedish products", (E4).

"During these 15 years the CBC has changed in today it is only normal to have everything on paper – the agreements and conditions etc. The activities however have not changed that much; the only significant change is that today we take on more projects where we organize everything from planning to installation," (E9).

In addition to these comments three interviewees noted that the main change for their company had been the significant growth in CBC, which for two of them had resulted in establishing subsidiary companies in Sweden (E2, E11 & E5).

4.4 Costs and Benefits of CBC to Enterprises

All the companies in this study had received some economic but also some other benefits from their CBC. When asked about the economic impact of the cross-border activities, the respondents gave the following estimates:

Table 4.2. CBC Impact on the companies' turnover

CBC impact on annual turnover	Less than 5%	5-10%	11-25% of	Over 25%
Total 100%	15,4%	15,4%	30,8%	38,5%

N=15 interviews (27,7% of the interviewees did not provide any figures)

The benefits that are not as easily quantifiable include: (1) increased understanding of the Swedish markets, (2) eminence, (3) stability in the company's annual profits, (4) the possibility to take advantage of the price differences (use both Swedish and Finnish suppliers accordingly) and (5) bring in certain goods from Sweden to Finland or vice versa VAT-free.

Each interviewee felt that they had gained something form the CBC experience even those for whom the economic impact was small.

4.5 Positive and Negative Lessons from CBC

Realising that there are in fact some rather tangible differences between the two cultures is perhaps the most commonly mentioned negative lesson. Namely the fact that speedy decision making is not characteristic of the Swedes, while in Finland for many entrepreneurs it is *the* preferred way of doing business. A number of interviewees admitted that the time-consuming discussions with the Swedes had at times gotten on their nerves, but in the end everyone felt that it was a cultural difference to which they could quite easily adapt themselves to.

One interviewee also mentioned that in Sweden engineering skills are perhaps not as highly valued as they are in Finland – and the fact that people without sufficient know how on e.g. making blue prints will however produce them is a downside also for the interviewee's company as most of the time the blueprints have to be modified all over in Finland.

Some also mentioned that there are prejudices in Sweden against Finns. One mentioned that his business was virtually hounded out from Haparanda and the competing companies would go to great lengths to assure that he could not operate in Sweden. Another interviewee felt that there are no prejudices against Finns in Haparanda, but that in areas where there are not as many Finnish immigrants the attitudes are much more cautions.

As for the positive lessons, the interviewees mentioned the like-mindedness of the Finns and the Swedes. Honouring what has been agreed upon is very important to both people. Those interviewees who had contacts with the Swedish officials had very positive experiences.

4.6 The Role of Trust in Enterprise-Based CBC

The great majority (88 percent) of the enterprise interviewees agreed that trust has not been an issue in their CBC history and they also viewed that there were no special risks in their CBC. The 12 percent who claimed either some problems with trust or that the CBC activities involve special risks had the following comments:

"Trust is something we assumed was there in this EU project, but the Swedish company withdrew from the project immediately after the support money came to an end, leaving us in a rather complicated situation," (E8).

"The Swedes are a bit slow in making their payments. The collection charges of unpaid bills (there is always a small risk that the customer does not pay) and the possible changes in the taxation are the most central risks fro my business. With changes in the taxation I mean new practice that would conflict with existing practice," (E11).

4.7 Use of External Assistance and Participation in Public Policy Programmes

4.7.1 Programmes in general

Altogether 89% of all enterprises we interviewed had used some forms of external assistance. Of those 11% who had not used any external assistance, one company had tried to contact local authorities but he felt that the attitude the authorities had expressed towards his plan had been so negative, that he immediately decided not to apply for external assistance or advice. The other company that had not used any services or forms of external assistance and the interviewee admitted that they had almost no idea about what kind of services would even be available to them.

4.7.2 Programmes in relation to CBC

Only 11% of the enterprises in this sample reported that they had received public assistance aimed directly at their cross-border activities. The two companies were both service providers and they both viewed the assistance and services from the society in a very positive light. They also emphasized how important it is to have contacts also with the support organisations, such as the entrepreneurs' associations and the unions /associations for their specific branch of activities.

In the following passage the interviewee (from a buss company) explains the focus of their CBC programme, and also the unfortunate outcome:

"Our CBC in a way started in the 1960s. For the most part we only drove to Haparanda, which is only 2-3km across the border, but in the late nineties we became interested in the possibility to drive our passengers to Luleå, roughly 100km along the Swedish coast. In the mid 1990s we had become involved in an EU and TE-Centre funded project called Båttensvik Bågen, which in practice aimed at a similar service, but in that project there was a Swedish company that would take the passengers from Luleå to Haparanda and vice versa, so we only took them across the border. But when this project was ended we applied for permission to operate the route on our own busses. Finally we were granted a permission to use Swedish buss stations for a fee, but at the same time there was immense pressure from the Swedish bus services to limit our activities", (E8).

4.8 Policy issues identified

Some 28% of the interviewees did not mention any policy issues regarding their CBC – some of them even pointed out that the regulations and practices in Sweden and Finland are so similar that CBC activities involve no *extra work*.

However the great majority – 72 percent – did point our one or more policy issues they had identified in their CBC experience. These issues contain a wide variety ranging from very technical and often rather insignificant matters to ones with possibly a dramatic affect on the CBC.

Among the more trivial ones the interviewees listed: translation costs from necessary documents, filling in taxation forms (for two separate and divergent systems)[4] (E3), differences in the driving licences that interrupt the transports, the regulations regarding the use of company cars, insurances, documentation for documentation purposes, customs clearance ("a waste of time"), unclear legislation regarding wages and taxation when operating in Sweden, and the paradoxical role of the Chamber of Commerce – in principle their focus is in promoting CBC and dealings with countries abroad, but at the same time they necessitate pointless documents that, de facto, provide a major income for the institution (E6).

One third of the interviewees (n=18) stated that the local support system was too focused on certain types of CBC or that their enterprise would not qualify for the assistance. One such example was to do with FINNVERA; interviewee 9 states that despite numerous attempts they have failed to utilize with supposedly good support mechanism – he viewed that the entire export guarantee system was "self-contradictory" in that in order for a company to receive the guarantee it must first guarantee the export itself (E9).

Other interviewees listed the following five limitations: (1) the services are mostly aimed at new entrepreneurs, (2) internationalisation activities are viewed very blinkered way – it need not happen only in Helsinki, (3) risk funding for small and medium sized companies is difficult to find both in Finland and in Sweden, (4) the

[4] The purchase taxation system and the SE-numbers were mentioned in particular.

CBC support packages place too heavy restrictions on the companies' activities – so, the way the packages are designed does not meet with entrepreneurs' needs / the entrepreneur has to adapt to the conditions even if his/her business or CBC idea is far better than the ideas proposed by the representatives of the support organisations, (5) the general poor quality of the services (unprofessional consultants and training staff) together with discouraging attitude from some representatives of support organisations(E1,E2,E3,E8,E11 & E13).

Especially the last problem came up in several of the interviews and it is fair to say that the entrepreneurs as well and people working for companies hesitate taking advice from someone who does not have personal experience of entrepreneurship. This "mistrust" is nicely illustrated in the following quote:

> *"In my opinion the advice and the support the society gives to entrepreneurs can be a double-edged sword; the people who give these advice are "only working there", so all the responsibility lies on the entrepreneurs' shoulders. So, their motivation for helping entrepreneurs may not be very high as they will always get paid no matter what the advice are like. And this is easy to notice when you look at their activities – they are not committed to fight for the entrepreneurs rights.*
>
> *So, personally, I feel that it is better to network with other entrepreneurs than to ask for advice from an office – the entrepreneurs are in the same situation as you are, and they are equally motivated to keep their businesses running. Company leaders are more innovative, they have a broader idea of how things could affect their business and this is why they are better at coming up with new ideas than some municipal officials who give advice to companies," (E11).*

There was also an interviewee who stated the following:

> "*In my opinion the support the Finnish society offers to the small and medium-sized companies is not admirable – or at least in the countries that we have exported our goods to, the situation is better than in Finland. Sweden and Norway support the local entrepreneurs among other things by giving more financial assistance to exports than the Finnish state. This discrepancy in the amount of support also makes it harder for us to compete against Swedish and Norwegian firms. I know the situation in Sweden also personally, as when we bought that factory in Sweden in which we manufactured roof tiling, there we received significantly more external support.*
>
> *The Swedes and the Norwegians also receive export assistance in the form of transportation supplements until the goods are at their final destination. For us, only the transportation within Finland is supplemented. This, along with the other differences, has a direct and considerable impact on our*

ability to run a successful cross-border business. The current quite un-equal situation has become worse over the last couple of years", (E9).

5. Informal and Household-Based CBC

This section is based on two interviews: one made with a representative of the Tornio Police force, and the other with a representative of Tornio Customs. We decided to take this approach because (1) the economic disparities between Finland and Sweden are too small to encourage extensive household CBC, (2) in Finland such activities are regarded as quite shameful so finding interviewees would have proved next to impossible.

To elaborate the later argument: selling goods for a profit in Finland without an entrepreneurs licence is not legal. Operating with a license means that all profits are subject to relevant taxes.

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

Both the police and the customs official agreed that large scale household-based CBC does not exist on this border. This is because the border is so easy to cross, that anyone can go shopping on the other side. In other words, there is really no business niche as it is both easy and highly common that people cross the border when looking for a better price – even with everyday consumer goods such as food products. The police noted that:

"*The Swedish newspapers and the advertisements are distributed also on this side of the border, so people know when and where to go shopping".*

To summarize the situation, in order for household CBC to exist there should be a product that is either difficult or time consuming to buy / import or one that is not available in the Finnish markets. The police we interviewed suggested that bringing in cars from Sweden to Finland is probably *the only* form of household CBC that could possibly generate a *real profit*. The customs official explained that snus[5] is a product that goes into the latter category – it is illegal to sell snus in Finland, but it is quite common that people in Finland use it. So there is a market for imported snus. It is also commonly used among the young, who are not old enough to buy tobacco products that are legal in Finland. Sweden is currently the only EU country in which snus is not banned.

However, both interviewees agreed that in general trafficking goods from Sweden to Finland or vice versa does not involve selling it to a third party. People cross the border in order to buy goods for personal use, without the intention of selling them in Finland. But household-based CBC does exist and this is a commonly known phenomenon in all Finnish border regions.

You can always find some people who find a way of cheating the system. The customs official explained that:

"…we have noticed that as the people with e.g. sole-trader status are allowed to bring in goods without paying the VAT in Sweden (they are exempt from the Value added tax) – there are always certain individuals who exploit this opportunity by e.g. bringing in several sets of car tires for "personal use" and from the taxation details we will see whether they have included the tax-free imports in their tax form. But it is a jungle to define all the possible malpractice of this kind, so it is usually our final choice."

Despite the fact that making money with household-based CBC is not a "great business plan" (i.e. would not really create profit) these activities cannot be regarded as entirely marginal. The police official describes the situation: "*sometimes you even see advertisements in the newspapers, but I cannot imagine that they would really make enough money on such business to support themselves like that.(…) The biggest change was when Finland and Sweden joined the EU. After that there were no limitations to the imports and exports. "*

The policeman continues on the economic impact of CBC activities for a single household:

[5] Snus is a moist powder tobacco product that is consumed by placing it under the upper lip for extended periods of time.

"Perhaps some people can support themselves by doing business like that, but they must be few and far apart. They can at best make perhaps a thousand euros, or so, per month that is if they are able to sell e.g. cars. With other products I deem it unlikely."

5.2 Background and characteristics of participants, including foreign partners

The two interviewees had slightly differing views on the type of people who would be involved in a household based CBC. And also on whether or not the people involved in such activities were part of an organized group or just random individuals.

The police concluded that the activities are not organized and he stated that:

"I do know there are some guys who bring in great many cars, but that must be about the only people who make a profit worth mentioning." By '*guys*' he referred to are youngish men with slightly shady businesses.

The customs official on the other hand did believe that both individuals and organized groups are involved in household CBC. He said:

"My guess is that activities like these are quite wide-spread among the people from the border region – it is a forbidden fruit and as we all know it is human nature to be attracted to things like this."

He mentioned that there are some businessmen with e.g. sole-trader status who misuse their right to buy goods from Sweden VAT-free. With products such as snus he estimated that if someone really tried to make money by bringing in snus from Sweden, they would have to bring in quite large quantities of the goods before their CBC would have any economic effects.

So the fact that men (not women) are more involved in household CBC is just about the only conclusion we can make from these interviews. Neither of the interviewees mentioned the possibility of a foreign partner being involved in household CBC. On the whole it seems that the activities they reported were quite insignificant both in occurrence and in terms of money – and this is why it is only natural that it does not really make sense to have an elaborate network of people involved in this household-based CBC.

5.3 Enabling and Constraining Forces

The single most enabling force for CBC activities on the Finland-Sweden border is the EU membership of both countries – so the imports are not restricted nor is it illegal to bring in goods with the intention of later selling them (assuming that the income is subject to the relevant taxation).

The constraining forces are much more evident. First of all the distance between the two towns Haparanda and Tornio is very short, only some 7 km. Secondly, the products are not significantly cheaper on either side of the border. Thirdly, selling snus in Finland is illegal. Fourthly, bringing in e.g. cars involves quite a lot of paperwork.

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

In 1995, when Finland and Sweden joined the EU and the principle of the free movement of goods was applied, the prospects of household-based CBC changed dramatically. It became so easy for anyone to cross the border and bring in goods from Sweden – so virtually the whole idea of someone bringing goods from Sweden (travelling only 7km both ways) and selling them in Finland for a profit became obsolete and even ridiculous. The border itself had been a very open one for decades prior the EU membership.

Nonetheless there is a history of CBC in this region. After the Second World War the shortage of goods in war-ravaged Finland was immense and just across the border the situation was noticeably different – after all Sweden had not taken part in the Second World War. And the disparities in the standards of living remained quite obvious until the late 1970s – especially if compared with the situation today. This of course meant that the variety of goods offered on the Swedish side was different, much more varied than in Finland. But on the other hand, the juxtaposition between ‘poor Finland’ and ‘rich Sweden’ was not as simple as this, as in both countries the people in the North could be regarded as fairly poor, at least when compared with the people in the large Southern towns.

Even today, economic disparities between the two countries exist, but the differences are not as visible as in the past. The standards of living, wages and for example social security in Finland remain lower than in Sweden. Also the economic growth is quite concentrated in the southern parts of both countries.

Before the EU membership and the consequent subsidies on e.g. food products, the price differences in Finland and Sweden for a particular product could be quite significant. The policeman recalls that:

"A few years back there was great enthusiasm about margarine – Finnish people would buy lots and lots of cheap margarine from Sweden, but I doubt that it was even done with the purpose of selling it to anyone."

The customs official explains that after the EU membership one group of products which became notably cheaper for Finns to buy from Sweden is washing machines.

5.5 The Role of Trust

It is difficult to assess the role of trust with reference to the household CBC as there are no foreign partners and on the other hand the number of people involved in such activities is rather small.

But on the whole the idea that people do not bring in goods as a business like activity, but that the products they buy and bring across the border are for personal use, ties in with the role of trust. On the Tornio-Haparanda border perhaps one car out of a hundred is stopped and searched, so if someone wants to bring in massive amounts of e.g. alcohol or snus across the border with the intention of selling it with a profit they will most likely get away with it.

5.6 Policy Issues Identified

There are no specific policy issues on this border. The household "imports and exports of goods" are entirely legal and there are hardly any restriction on the movement of goods, apart form the illegal substances. Although it is illegal to either sell or deliver snus in Finland, it is not illegal to use it. The use of snus in Finland has increased significantly since the 1990s (Stakes, 2003).

6. Conclusions

6.1 Overall Assessment of CBC in Region

Tornio – Haparanda has certainly dynamic, fruitful Cross-Border Cooperation that more importantly has still a huge potential. This very potential and the importance of CBC was underlined in almost any interviewee in the region no matter if he/she was a key informant, policy maker, business support organization official, manager or entrepreneur.

The achievements of CBC between Tornio and Haparanda mainly in the form of twin-city cooperation are truly remarkable and thus constitute a fact the locals are rightly proud with.

On the negative side CBC is not all inclusive and visibly there is no urge to spread the benefits of CBC to a wider area. For instance the city of Kemi is somehow a more passive bystander in the CBC process even if that is only 20 km from Tornio. The reasons are twofold. The twin-city project of Tornio-Haparanda turned to be a huge success bringing tangible benefits to the city – success and benefits perceived in Tornio as city's own achievement that should not be shared with others, The other deals with the envy of other cities and municipalities that wrongly choose the strategy of insulting themselves from the CBC process or alternatively having their own separate way.

6.2 CBC: Enlargement Related Issues Emerging

There were no tangible differences occurring in the regional CBC after Finland and Sweden joined the EU in 1995 and after the EU enlargement of 2004.

Joining the EU brought some results in the form of complete dissolution of the border. However many entrepreneurs and policy makers argued that the expectations for improvement were much higher than the actual results. This being said one should stress that EU regional development funding is used quite intensively in the region in various forms (Interreg etc.). Such funding would have not been available if the two countries were not members of the EU.

The EU enlargement of 2004 brought two visible changes: 1) beer prices went down as retailers were afraid of "beer wars" with cheaper imports from the Baltic states, and 2) some companies decided to invest in machinery and equipment as to be better prepared in addressing the cheap labour of rival companies from the Baltic states that was perceived as their biggest competitive advantage.

It is possible perhaps to argue that the EU enlargements somewhat reduced the overall funds available to regional development in Finland but none of the interviewees confirmed that.

6.3 Co-operation and Clustering Related Issues

The region has two existing and two emerging clusters. The existing clusters are centered on the mining and metallurgy giant Outukumpu and the two pulp and paper factories operating in Kemi - Tornio. One of the two emerging clusters are in high – tech with the core being Digipolis and Mediapolis – technology parks located in Kemi and representing something between science parks and business incubators. The other is in cervices and rose around the presence of an IKEA shop in Haparanda. The IKEA shop created a serious inflow of visitors from all around the region. The Tornio-Haparanda authorities recognized the opportunity to build a services cluster that will consists of tourism, shopping, catering and leisure activities. After feasibility study was made and investors found the construction of the 13th biggest shopping centre in Finland is going on the border between Sweden and Finland.

What certainly is interesting to observe is the fact of asymmetry in communications and discussions within the different clusters. Thus both key experts and business support organizations had little or no knowledge who are the persons in the big companies that can be contacted and who participate in discussions regarding regional development and / or cluster policies. Even if they all said that the giants use huge networks of regional SMEs as subconractors it seems that the giants do not really cooperate or communicate but rather dictate based on their understanding of their size and corresponding bargaining power. Such “imperial” attitude is even less difficult to understand as of forestry giants in the region abruptly closed its facility in Kemi. Had there been some more inclusive communication process the effects of that closure could have been controlled and minimized with joint efforts by regional authorities and other employers.

On the other hand the services cluster emerging in Tornio-Haparanda is an example of exactly the opposite. Everything (or almost everything is openly discussed) including the authorities (city mayor, city architect etc), future shop owners, catering industry etc. This open communication is not limited to the Tornio side but involves from the outset Haparanda authorities and welcomes all Haparanda entrepreneurs interested in the discussion.

6.4 Identity and Perception-Related Issues

The region has a strong regional identity and interestingly enough it is a common one. Both Finns and Swedes living in the area somehow look to be very aware of their region first and only then of their countries. That can be further proved in the interviews as number of interviewees pointed out that it was the national governments who are the biggest impediment for further cross-border cooperation and integration as they have (despite all unifying EU and Nordic countries slogans and policies) a very national stance on many issues (sometimes ridiculously miniscule in their importance).

Such common identity is certainly among the biggest advantages of the region in its attempt for a closer and better cross-border cooperation.

6.5 Trust- and Learning Related Issues Emerging

Trust is certainly there but it should be stressed that it came as a mutually learning process. This process gave both sides a firm believe that trust is generated only through:

- open communications
- parity in policies and action plans
- mutual understanding and respect for national cultures

The first deals with the simple fact that almost any idea regarding cross-border cooperation can be freely discussed not only among authorities but also (often) in public debates. Many of the key informants stressed that discussions and policies behind closed doors breed suspicion and inevitably obstruct the cooperation.

The second deals with the very correct observation that cooperating with your neighbours on issues that are of no interest to them or with a pace or scale that are not feasible to them is no good. Thus there should be a parity of policies and action plans even if their overall speed is sometimes slower that the originally desired.

The third deals with the mutual respect for nationally cultural specifics. Swedes are known for more discussion oriented consensus building approach to making decisions whose main weakness is that is sometimes painfully slow. The Finns learned that this is not something that can be changed but rather something that should be accommodated in the joint work.

Another important moment is the inadequate knowledge of Swedish on the Finnish side of the border. Even if Swedish is the second official language in Finland very few people in Tornio know it and speak it well. En mass the interviewees discussed that this is not an issue as most of the Swedes living in Haparanda and the surrounding areas do speak Finnish. That situation however should not be taken as adequate. Tornio could have better chances to become a business gateway to Sweden if its people had the language skills.

6.6 Policy and Governance Related Issues

Taken as a whole the authorities have relevant, pro-active and seemingly efficient way of making policies and governing the region. That can be proved by population incomes, living standards etc. that do not seriously deviate from the national figures. Furthermore Tornio-Haparanda cross-border cooperation has been set up as an example for many other cross-border regions in Europe.

There are however some points that deserve better understanding and perhaps improvements. One is the absence of some “master plan” fro cross-border cooperation on a larger scale. Thus Tornio-Haparana have their own plans. On a Kemi-Tornio level there could be other strategy. On a higher level (several municipalities) there may have another vision and strategy. Then there is the regional level (Lapland) and then the national. That is excluding the Swedish side where the situation is somewhat similar. It could prove beneficial for all n this variety of levels with their corresponding strategies, action plans, projects, financing etc. are somehow not controlled but coordinated in a more coherent manner. That will allow for more efficient allocation of resources and more harmonious regional development versus the appearance of some “pockets of prosperity”.

The second partially stems from the first. Quite few interviewees pointed put that the cooperation between Kemi and Tornio is not very good because of history, rivalries, different administration styles etc. In region where scarcity of people is one of the main economic disadvantage and where the distance between Tornio and Kemi is more or less 20 km such rivalry looks awkward. But awkward as it is it gives a valid argument for another consideration in cross-border policies. A CBC success should not be about creating “pockets of prosperity” that breed envy among the neighbours but should aim at higher results that benefit wider audiences. That means widening the CBC discussion, initiatives and projects.

The third deals with the mentioned above impediments caused by the national governments, Clearly at a national level there should be more understanding towards the integrationist sentiments of regions with similar identities, cultures, problems etc. such as Tornio-Haparanda and the surrounding areas.

6.7 Future Prospects for CBC

The Tornio-Haparanda cross-border cooperation project has every right to be proud with its success. There is every reason to believe that the cooperation will get deeper.

There is however certain scepticism if the tradition of this effectively twin-city cooperation could be elevated to a bigger level (municipal or regional). That will be somewhat longer and rocky process as more diversified interests and governing styles must be considered and accommodated.

Certainly the emergence of a services cluster looks very promising and with clearly spelled benefits for participants from both Sweden and Finland it has every chance to become a prominent player in the regional economy.

The bigger risks are in isolating the CBC success to Tornio-Haparanda that may create the feeling of exclusion among other cities and municipalities in their regions and eventually bring some back clash. However that is unlikely and some may argue that instead their success may be the right stimulator to activate policy makers in other cities and municipalities to more actively seek the advantages of cross-border cooperation.

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Figures, tables and maps

Figure 1.1. Division of economic sectors in Lapland
Lapin Liitto
www.lapinliitto.fi

Figure 1.2. Division of economic sectors in Kemi-Tornio region.
Lapin Liitto
www.lapinliitto.fi

Figure 4.1. The companies' degree of internationalisation
Figure compiled by Saara Louko from the enterprise interviews data, CBCED-project, 2007-2008.

Table 1.1. The companies and organisations which employ the most people in Kemi-Tornio
Kemi-Tornio alueen kehittämiskeskus
www.kemi-tornioregion.fi/web/easypagepro/viewer.php?id=5

Table 2.1. Kemi-Tornio key figures 1995–2005

Kemi-Tornio Region - Industrial part of Lapland, TeRIS kick-off meeting 1.-3.2.2006, p.4.

Table 4.1. Key characteristics of the companies in Tornio interviewed for this project

Table compiled by Saara Louko on the basis of enterprise interviews in the CBCED-project, 2007-2008.

Map 1.1. The Bothnian Arc

Nousiainen, Ritva. A presentation titled “Tornio Haparanda kansainvälinen kohtauspaikka”, held in Tornio on May 14 2007.

Map 2.1. Haparanda and Tornio
Nousiainen, Ritva. A presentation titled “Tornio Haparanda kansainvälinen kohtauspaikka”, held in Tornio on May 14 2007.