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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 Hochfranken 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 Hochfranken¹

2.1 Economic Development: Characteristics and Key Issues

Hochfranken is situated in the north of the federal state Bavaria in Southern Germany. In the east Hochfranken adjoins the Czech Republic with a joint border of approx. 25 km. As Hochfranken also borders the German federal states Thuringia and Saxony that belonged to the former German Democratic Republic (GDR), it has experienced a second border change in 1989.

The region Hochfranken is not an administrative district, but a regional voluntary association initiated by local development agencies and the University of Applied Sciences in Hof. The so-called 'Curatorship Hochfranken' which is behind this regional 'creation' was established in 1997, in order to solve economic problems connected to the structural changes in the traditional sectors of textile and ceramics. The Curatorship actively promotes the region as a trademark to foster new enterprise settlements into the region.

Hochfranken covers around 1,500 km² and consists of 45 communities, the rural districts Hof and Wunsiedel as well as the district free city of Hof. The region is situated approx. 240 km north of Munich and around 240 km west of Prague. Administratively, it belongs to the district 'Upper Franconia'.

Hochfranken has a well developed infrastructure which consists of highways, a number of railway stations as well as a number of airports close-by. However, the border region status is still visible in some of the infrastructural arrangements. In terms of transport infrastructure, the region has its own regional airport, where three daily flights to Frankfurt leave, and it is situated near two large international airports (Nuremberg, Munich). Three major motorways connect Hochfranken to large cities in Southern Bavaria and Eastern Germany. Interestingly, however, there is no major road connection to the Czech Republic. Direct train connections run to Regensburg, Nuremberg and Munich in Southern Bavaria or Dresden, Leipzig and Zwickau in Saxony, but only one train, this one a local connection, goes from Bayreuth to Cheb

¹ Some of the desk-top analysis refers to the case study of 'Hochfranken' executed by Welter et al. for another research project on cross border co-operations. Cf. Welter, Althoff et al. 2007.

(Eger) in the Czech Republic. The situation on the Czech side of the border is even worse. The border to Bavaria marked the border between two different political systems and was part of the Iron Curtain. In the Czech Republic this resulted in a totally neglected region, where no infrastructure leading towards the border was developed.

The natural values of Hochfranken lie in particular in the region's rich forest stands, many species of fauna and its diverse landscape. Due to its scenic location between the low mountain range Fichtelgebirge and the forest Frankenwald and its proximity to various natural monuments as well as its nearness to the famous spas of Karlovy Vary, Marienbad and Franzensbad in the Czech Republic, Hochfranken offers an attractive choice of leisure activities and recovery. The purchasing power of tourists, especially Russians, Italians and Germans constitute a great economic chance for the region. Therefore, several golf courses currently are build in the German – Czech border region.

Due to the high number of Sudeten Germans (approx. 1 million) who were banished from Czechoslovakia to Bavaria in 1946, the number of population in the border region at that time declined enormously.² Nowadays the population of Hochfranken equals about 232,000 inhabitants with a decreasing tendency and a similar age trend compared to all of Germany, namely that there are more elder people than young people. Since 2001, the population decreased by more than 12,000 people. Mainly the younger generation leaves the border regions and moves to major cities like Munich or Prague, Brno and Plzen, where big companies offer better working conditions, higher salaries and better career opportunities. The region Hochfranken therefore tries to attract younger people, especially in the below 30 years range, by developing local universities as well as by a systematic location marketing. Hochfranken is an interesting region especially for young people because of its manifold leisure activities. Although the level of income is below average in comparison with Germany, this is counterbalanced by the low costs of living in the region, which are also substandard.

² <http://www.asch-boehmen.de>

Hochfranken is an old industrial region,³ characterised by industry in the fields of textile, glass and ceramics. In the 1970s and 1980s the structural change began as Bohemia in the Czech Republic had a similar industry structure, but lower production and labour costs. Therefore, Bohemia was able to achieve a competitive advantage compared to Hochfranken. EU enlargement speeded this process, which in Hochfranken resulted in increasing unemployment, accompanied by low available incomes, as indicated by GDP per capita. For years, this has been below average compared to both Germany as a whole and the rest of Bavaria.

The development of the labour market reflects the regional pressure to adapt to the structural change and growing globalisation. In the course of decreasing unemployment throughout Germany in 2007, the number of unemployed people in Hochfranken fell below 10,000 people for the first time since ten years.⁴ Though, the unemployment rate of Hochfranken is still considerably higher compared to the federal state Bavaria and slightly higher than West Germany.⁵ Structural change is but one reason for unemployment. Moreover, the large number of commuters from the neighbouring administrative districts of Saxony and Thuringia as well as from the Czech Republic might add to the unemployment rate of Hochfranken.

2.2 Entrepreneurship Development

Hochfranken is an old industrial region and its main industrial resources can be found in the fields of ceramics and porcelain as well as textile. Even though the tertiary sector gains importance, the region is still dominated by industry. In Bavaria, Hochfranken is one of the regions with the largest representation of industry. However, the industrial sector of Hochfranken is characterised by shrinking trades which have mainly disappeared during the last 15 years. These problems, especially in the porcelain and textile industry, were reflected in the closure of many enterprises. In the 1990s, due to growing competition from Asia and other low wage countries, the region experienced an economic downturn, which forced many firms on the Czech side of the border and the German side to close down their operations. The gap that

³ Cf. Maier 2002.

⁴ Cf. Agentur für Arbeit Hof 22.06.2007.

⁵ The average unemployment rate of Hochfranken in 2007 amounted to 8.4%, while West Germany's unemployment added up to 7.5% and Bavaria's to 5.3% (Germany: 9.0%). Cf. Bundesagentur für Arbeit 2008.

these major enterprises have left could only partly be closed so far. However, during the last years, some innovative and dynamic companies have settled, for instance in the area of component suppliers. Today, one might even say that the region of Hochfranken is on its way from an old-industrial region to a 'new-industrial' region.

In Upper Franconia (the administrative district Hochfranken belongs to) the share of SMEs (< 500 employees) in the total number of enterprises amounts to 99.7%. Approximately 80% of all employees work in SMEs. In this respect the situation of Hochfranken is comparable to the one of Upper Franconia. Though, there also are some larger companies to be found in Hochfranken, such as 'Rehau' and 'Rosenthal'.

Hochfranken shows an average entrepreneurial propensity. The indicator for the entrepreneurial propensity is measured as the number of business registrations in relation to the employable population and therefore shows how much enterprises were newly registered per 10,000 inhabitants within one year. In Hochfranken, this indicator amounted up to the national level in 2006, but was lower than the indicator for the whole of Bavaria.⁶

Economic conditions in the region Hochfranken are problematic in terms of encouraging regional development. Today, companies still build up new factories in the Czech Republic, where they receive more subsidies than in Germany. The EU eastern enlargement has basically aggravated the region's structural weaknesses, although some businesses were able to remain competitive, as they could make use of the wage differential, shifting part of their production to the Czech Republic.

2.3 Social, Cultural and Historical Perspectives

Historically, the regions on both the German and Czech side of the border have a turbulent common history.⁷ Sudeten Germans began settling in Bohemia and Moravia in the 13th century. After the First World War, the Sudetenland fell to the newly created Czechoslovakia. Hitler used the persistent call of the Sudeten minority in the border region to the German Reich for self-determination to justify his

⁶ Levels of indicator: Rural district of Wunsiedel 152.8; rural district of Hof 159.5; district free city of Hof 165.5; Bavaria 176.6; Germany 161.9. Cf. Institut für Mittelstandsforschung Bonn 2007.

⁷ Cf. Pykel 2004.

occupation of Czechoslovakia in 1938.⁸ After the Second World War, Sudeten Germans living in the border regions of Czechoslovakia were displaced from the country, and their property was confiscated by the Czechoslovakian state.⁹ At the same time, Czechs and Slovaks as well as other minorities were resettled into the border regions, thus probably impeding the creation of a consistent border identity on the Czech side. Those Germans who fled the country after 1945 still uphold their tradition as becomes visible in the yearly 'Day of the Sudeten Germans' which until now was regularly attended by high-level Bavarian politicians.

After World War II all of the Bavarian regions bordering Czechoslovakia were socially and economically neglected regions – they can be regarded as typical border and peripheral regions. Before the fall of the Berlin Wall there did not exist any form of co-operation. Since 1989, after the abolition of the Iron Curtain and accompanied by the opening of the German – Czech border, the relationship between the former Eastern Bloc and its western neighbours changed fundamentally and co-operation began to develop. Hand in hand with the changing political and historical situation, long-standing relations were revived and completely new relations emerged. With the 'Velvet Revolution' in then Czechoslovakia the external border changed from a hard to a 'softer' border.

In connection with the EU eastern enlargement the border turned into an internal border in 2004. Due to the EU-extension border crossing rules were eased, and cross border traffic improved. However, according to regional experts in Hochfranken, the EU enlargement can not be seen as the main trigger. In fact the growing economic orientation to the Czech Republic and the east in general is a process which has begun during the 1990s and which still continues.

2.4 Policy Environment for Entrepreneurship and CBC

The policy environment for entrepreneurship is characterised by a wide range of support programmes on federal, state, and regional level as well as a variety of offers from business support organisations to foster entrepreneurship. On federal and state

⁸ Cf. Prauser 2004.

⁹ For a detailed overview cf. Pykel 2004.

level, for instance, regional entrepreneurship development is fostered through the GA 'Improvement of the regional economic structure' (Gemeinschaftsaufgabe Verbesserung der regionalen Wirtschaftsstruktur). The GA was established in 1969. It is an instrument by which the German government strategically plans, co-ordinates and structures German regional policies. Moreover, the GA is also used for co-ordination with other policy areas which contain regional elements. One such example refers to the EFRE funds. Federal and state governments jointly determine those regions which are to be supported within the GA as well as areas of support. Planning is done on a yearly basis. Within the GA, Hochfranken belongs to those regions with severe structural problems (so-called 'C regions'). For Hochfranken special rules apply: enterprises are entitled to 20%, 30%, or 40% (depending on firm size) subsidy rates respectively for investments aimed at starting, expanding, restructuring or stabilising a business.¹⁰ The GA is complemented by the Bavarian 'Regional Support Programme for the Economy' (BRF).¹¹

Similar to the federal level, the Bavarian Ministry of Economics also offers different programmes aimed at fostering entrepreneurship and small business development.¹² Entrepreneurship policies in Bavaria are well developed and cover a wide range of problem areas. Measures include support for starting a business, programmes supporting investments, consultancy, research and development and innovations, energy and environmental-friendly measures, programmes helping crises businesses, etc. Financial support is administered by a public bank, namely the LfA Förderbank Bavaria.

As Bavarian border regions face severe problems because of the cheaper labour and production costs beyond the border (cf. also section 3.7), the Bavarian state especially supports these economically underdeveloped and structurally weak areas – such as Hochfranken. For instance, Bavaria created the 'Ertüchtigungsprogramm' (ETP) (Bavaria Strengthening Programme). The ETP aimed at fostering the economic development of border regions of Bavaria in the context of the EU Enlargement. This programme was remunerated with 100 Mio € from the Bavarian State. The aims were to encourage new institutions and enterprises to settle in the

¹⁰ Cf. Bundesministerium für Wirtschaft und Technologie (BMWi) 2007. Usually, C-regions are only entitled to 15, 25 or 35% subsidy rates.

¹¹ Cf. Bayerisches Staatsministerium für Wirtschaft 2002.

¹² Cf. Bayerisches Staatsministerium für Wirtschaft, Infrastruktur, Verkehr und Technologie 2004.

border regions. Furthermore, support policies were included for consulting, qualifications, location marketing, increasing innovations and enterprise networks.¹³

The aforementioned policies are supplemented through services offered by public and private organisations, some of which might be supported through federal or state level programmes (also cf. section 3.8). The general business support infrastructure is well developed, with several business development agencies, the Chamber of Commerce and Industry, the Chamber of Crafts as well as several consulting firms. Moreover, Hochfranken has one University of Applied Sciences in Hof, with a sector-specific research centre and an innovation and start-up centre.

The main actors in local administrations involved in fostering economic development and entrepreneurship in Hochfranken are the business development agencies of the districts and cities. They are responsible for offering services for start-ups, enterprises and investors. Because of the well developed business support infrastructure there are, for instance, manifold training and further education activities offered by the CCI, Chamber of Crafts, business development agencies, AGI (Arbeitsgemeinschaft der Industrie e.V.), bfz (centre for vocational training of the Bavarian economy) and the University of Applied Science (FH) Hof. Most training activities are dealing with management topics of how to set up a business. Moreover, a potential entrepreneur also can access programmes at state and federal level. At state level, for example, this refers to FLÜGGE, supported by the State Ministry of Science, Research and Arts: young university graduates are supported in the seed and start-up stages of realising their venture by a part-time job at the university.¹⁴ A similar programme (EXIST) exists at federal level, although to our knowledge the University of Applied Sciences Hof has not participated in this programme so far.

All these policies reflect the political interest in terms of fostering the entrepreneurship development on national and regional level and to strengthen to German border areas. With regard to entrepreneurship policies focused on potential entrepreneurs, cross border co-operation issues are at most indirectly addressed.

¹³ Cf. Maier 2006.

¹⁴ <http://www.fluegge-bayern.de>

The friendship contract between Germany and the Czech Republic, dating back to 1992, sets the political framework for cross border activities.¹⁵ In 1999, collaboration in terms of state development was agreed upon between Bavaria and the Czech Republic, i.e., regional plans of the border areas could be coordinated. With the 'Karlsbader Declaration' in 2001 both states declared their political will to work closely together in order to use the regional development potential. This is reflected in political programmes. For instance, the Bavarian Federal State Development Programme (Landesentwicklungsprogramm - LEP) especially refers to cross border co-operations and their increasing importance in the course of the diminishing meaning of borders in an enlarged Europe. In the past, several cross border development concepts were introduced at state level.¹⁶ For more specific policies for CBC please refer to section 3.8.

In general, Hochfranken, as overall Germany, is characterised by an elaborated governance system, which has developed over decades and works quite well. The federal state and district divisions are set out clearly (at least in theory). This is complemented by various working groups representing elements of the ongoing policy dialogue between district administrations and enterprise representatives. Institutional profiles show that several of these representative organisations are also concerned with cross border issues, thus contributing not only to developing entrepreneurship within the region, but beyond (cf. section 3.1).

2.5 Potential for Future CBC

With the enlargement of the European Union in 2004, the structural change within the region, which had started in the late 1980s, was accelerated. In this regard, cross border co-operations constitute but one requirement to foster economic and entrepreneurship development within Hochfranken. Overall, the Bavarian state government realises the important role markets in the east play for Bavarian enterprises.

¹⁵ Cf. Zenk 2000.

¹⁶ <http://www.landesentwicklung.bayern.de>

However, although regional politics obviously recognise the importance of the Czech Republic for Bavarian border regions, regional experts also criticised an implicitly arrogant attitude of the Bavarian state government towards the Czech Republic. Despite manifold institutional and informal cross border initiatives at state level such as joint planning agreements and the like,¹⁷ official agreements between the Bavarian government and the Czech Republic do not exist, reflecting the different government levels involved here. Only recently, the Bavarian state has started negotiating a state contract with the Czech Republic, which also might facilitate the manifold cross border partnerships in Hochfranken and its neighbouring region in the Czech Republic. Moreover, since Beckstein became head of state (Ministerpräsident) in 2007, relations between Bavaria and the Czech Republic have been starting to change, as for example illustrated in that the Czech language will be supported in Bavarian schools. Just recently, Bavaria's minister for economic affairs together with a delegation of economy and government representatives visited the Czech Republic in order to intensify the Czech - Bavarian relationships.¹⁸

3. Institutional Cross Border Co-operation

3.1 Nature and Extent of Current Institutional CBC

Institutional co-operation at regional level goes back to the early 1990s. Already in 1994 the Bavarian 'Landesentwicklung' (state development) of the Bavarian Ministry of Economic Affairs, Infrastructure, Transport, and Technology initiated regional cross border development concepts.¹⁹ Principally, institutional co-operation falls into different categories. We can distinguish between socio-cultural activities, projects to boost local administrative capacities and business-related co-operation.

Actors in institutional cross border co-operation include both public and (semi-) private organisations. Public actors are the administrations of the cities (for example Hof, Wunsiedel, Selb, Marktredwitz), district administrations, the business development agencies of the rural districts of Hof and Wunsiedel, the University of Applied Sciences in Hof and the University of Bayreuth. (Semi-) Private actors refer

¹⁷ <http://www.landesentwicklung.bayern.de/landesentwicklung/bereiche/fragen/doku5.htm>.

¹⁸ <http://www.stmwivt.bayern.de/presseinfo/pressearchiv/2008/01/pm13.html>

¹⁹ Cf. Zenk 2000.

to business associations, consulting centres and chambers and private companies. The most important are the Chamber of Commerce and Industry, the Chamber of Crafts Upper Franconia, a.i.m. Consulting Agency (privately lead consulting firm that was established in the course of the project ARGE28 (see below) and aims at supporting and consulting small and medium-sized companies on their way to Eastern Europe), AGI, the Curatorship Hochfranken, the bfz, the East-West Competence Centre (institution for international economic exchange of experience and know-how – in particular with the Czech Republic), and the Euregio Egrensis.

Examples of socio-cultural activities include 'IDOR' (German-Czech centre for documentation and information about regional co-operation), the 'Border cinema days' (a borderland film festival in Selb/Aš) or the Cross Border State Gardening Exhibition set up in 2006, which proved to be a huge success in tempting the Bavarian and Czech population in the border regions to visit their neighbouring countries. Since 2002 a project on 'Good neighbourhood in the Bavarian-Czech border region' executed by the chair for regional development and Raumordnung at the Technical University Kaiserslautern and supported by the Bavarian 'Landesentwicklung', is aimed at developing positive neighbourly relationships between Bavarians and Czechs, for example, through model projects such as a multicultural kindergarten.²⁰ Projects to boost local administrative capacities can be found, for instance, within twinning partnerships. Such agreements exist between the cities of Hof and Cheb (Eger) and between the University of Applied Sciences Hof and the University of West Bohemia in Plzen. Another example concerns a municipal cross border partnership, namely CLARA@eu (cf. section 3.4). All of these activities are aimed at developing the 'softer' elements required for successful cross border activities.²¹

Business-related co-operations of institutions refer to initiatives assisting business development across the border. This includes co-operations between chambers in Hochfranken and the Czech Republic (both the CCI and the Chamber of Crafts have

²⁰ <http://www.gute-nachbarschaft.org>

²¹ Another institution driving socio-cultural co-operations is the Czech-German Fund for the Future, mainly focusing on supporting the understanding between Germans and Czech and to foster German-Czech relationships. The Fund is a result of the German Czech declaration, registered as inter state organisation under Czech law in Prague. Cf. <http://www.fondbudoucnosti.cz/Defaulten.aspx?lang=en>.

such co-operations), set up to develop capacities in the Czech chambers; or the co-operations of the bfz which cooperates with institutions and several contact persons in the Czech Republic where it has a main office as well, namely in the city of Cheb. In most cases, the co-operation with Czech partners takes place informally and mainly through personal contacts. In this context, co-operation within Germany (regional policy, other institutions) is partly necessary as well in order to find a common ground for successful cross border co-operation. Several initiatives also work on topics how to improve communication and logistics between east and west. One example refers to a centre for logistics (Logistik-Agentur Oberfranken e.V.).

Many companies or interested people who are willing to set up a cross border project with the Czech Republic address the 'Euregio Egrensis Arbeitsgemeinschaft Bayern e.V.'²² for help because the latter does not only dispose EU subsidies but know-how in the area of cross border co-operation as well. This society of common law has been created in 1993 and is sponsored by the European Union. It is co-operation not only across borders with the Czech Republic, but also between three German states, namely Bavaria, Thuringia and Saxony. Euregio Egrensis is an association comprising nearly all groups of the society, local authorities, policy and industry and interested individuals, thus being of large importance for cross border partnerships in the region, although its acting manager also concedes that Euregio is not a 'mass movement'. The organisation fosters cultural co-operation, in order to establish a mutual understanding across borders as well as to support the awareness towards the neighbouring population and culture. Euregio Egrensis is the main driver for socio-cultural cross border co-operation, both on regional level (examples include the recently established 'language initiative') and at the level of single projects. Its aims are furthermore to support and to revive existing relationships and networking, to reduce mental and linguistic barriers and to contribute to the integration of the Czech Republic in the European Union. Furthermore, it is often the case that employees from the Euregio act as consultants. Arrangements and mutual information exchange are fundamental for networks like the Euregio Egrensis to function. Such networks tend to be rather informal, not very large and rather well arranged. Accordingly, those people interested in cooperating with the Czechs are always the same contributors.

²² <http://www.euregio-egrensis.de>.

Another example in the context of institutional cross border co-operation aimed at improving the business environment is the 'Working Community of Chambers of Economy in the EU regions bordering the Central and Eastern European Candidate Countries (ARGE28)'. It is an interest group consisting of 28 chambers of trade, industry, commerce and economy from Austria, Germany, Greece and Italy. The aim of ARGE28 is supporting the integration of the regions on either side of the accession border for several years through a wide range of activities, initiatives and cross border projects. From 2002 to 2005, a pilot programme 'Growing Together with Europe' - support for small and medium-sized enterprise (SME) was initiated by the ARGE28 and supported with EU co-financing.²³ The aim was to encourage the competitive capacity of the SMEs in the border regions in comparison to the new EU member states.

3.2 Enabling Factors for CBC

Goodwill and interest on both sides of the border are of importance for institutional cross border co-operations. The overall picture emerging from interviews with key experts and institutions is one of a large interest in institutional cross border partnerships on behalf of the German side. Institutional partnerships often are a result of longstanding personal relationships and a general interest in the neighbouring country. Moreover, enthusiasm and energy of the participants come across as a major enabling factor for cross border partnerships.

Apart from enabling factors at individual level, economic factors also might trigger institutional cross border co-operations, as Hochfranken and the neighbouring Czech region have been facing similar economic developments over the past decades.

3.3 Constraining Factors for CBC

Main barriers or problems are obvious at the socio-cultural level, at political level due to differences in the administrative structures and at the level of personal interest and engagement. For example, elections at regional and local level in the Czech Republic

²³ <http://www.arge28.de>.

frequently change the political landscape, thus impeding institutional cross border co-operations because responsibilities and political interests in the Czech Republic are forever changing. Moreover, institutional partnerships, especially on the level of local administrations, are also rendered difficult because the administrative reforms in the Czech Republic, in particular the regional reforms, are not finalised. All this leads to contact partners being constantly shifted, so that there is a lack of continuity hindering the development of longstanding institutional cross border partnerships.

Institutional partnerships are mainly driven by the initiative and enthusiasm of single persons or groups, although the initial kick-off could have been established top-down, as for example in the case of the Euregio Egrensis. Especially partnerships on administrative level appear to be mainly initiated by the German side both because of a lack of capacity of Czech administration and low interest. Personal interests play an important role in driving institutional partnerships: The twinning agreement between the University of Applied Sciences Hof and the University of West Bohemia in Plzen represents a good example of the importance of personal linkages in ensuring continuity within institutional partnerships: The co-operation between the universities was originally initiated in 1995, and a co-operation agreement was signed, only to being 'rediscovered' in 2006. The person responsible for initiating the agreement in 1995 obviously had left the FH Hof which resulted in the partnership being stalled.

Several constraining factors are related to socio-cultural aspects such as language and differing mentalities. For instance, from a German perspective the Czech character is seen as erratic and often irrational, thus hindering a longer-term strategic development of institutional cross border co-operations. This can be illustrated by the example of the recent and on-the-spot decision of the Czech town Cheb to sign a twinning agreement with Hof, although Marktredwitz had conducted initial talks (cf. section 3.5). For more details and examples on constraining factors in this regard see also section 4.4.

Constraining factors are not only to be found on the Czech side of the border, but also on the German side. From a political point of view, local administrations in Hochfranken appear to acknowledge the potential of cross border partnerships as well as their necessity and importance in further developing their region. This differs

with regard to the local development agencies which, in accordance with their main task, are mainly interested in developing the economic base of their district, often excluding or neglecting the potential of cross border partnerships in boosting economic development within the home region. Or, as one key expert put it: 'We need an official 'order' from above to be able to explore possibilities of cross-border partnerships with our Czech neighbours.'

Moreover, currently, there exists no regional strategy for cross border partnerships of the different municipalities. On the contrary, cross border activities are frequently restricted to project-based short-term partnerships because financial resources are lacking and there is a lack of interest both of large parts of the population in the Bavarian border region as well as of the Czech population and administration.²⁴ Overall, this results in a lack of sustainability concerning cross border partnerships.

3.4 Examples of Positive Experiences of CBC

The State Gardening Exhibition is a good example for a very successful co-operation between the Cities of Marktredwitz and Cheb at socio-cultural level, but with wider implications regarding the mentality of the border population. For 450 years, Marktredwitz has been part of the nowadays Czech city of Cheb (Eger). In the year 2000, the city was allocated the state garden exhibition (Landesgartenschau), which was carried out as a cross border project, triggering large cross border movements of the German and Czech population: usually, 25% of the population crossed the border, while during the exhibition, this figure went up to 60%.

An interesting and recent example of a municipal cross border partnership refers to CLARA@eu. The acronym stands for 'Co-operation of Local and Regional Authorities AT the moment of Enlarging the Union'²⁵ and has been supported by the EU from 2004 to 2006. CLARA@eu was a trilateral project of the regions of Chemnitz, Upper Franconia and Karlovy Vary (Karlsbad), in which the Euregio Egrensis as well as the cities of Karlsbad and Bayreuth and the Vogtlandkreis have been involved as partners. The project aimed at establishing a transnational network of competence of public administration in the involved regions in order to help administrations to build

²⁴ Also cf. Troeger-Weiß, Spannowsky et al. 2002.

²⁵ <http://www.clara-eu.info>.

up their know-how and competencies. The project partners worked together in seven areas: citizen administration, health and tourism, youth, education and culture, spatial law and planning, environmental protection, transport, civil and disaster management.

3.5 Examples of Negative Experiences of CBC

Regarding the case of the twinning partnership between Hof and Cheb, this can be used to illustrate a frequently mentioned dilemma of institutional partnerships with the Czech Republic, namely the impulsive decisions of Czech partners which render political and institutional decision-making processes difficult. Marktredwitz, a small town in Hochfranken, had started talks to finalise a twinning agreement with Cheb, as both cities have joint historical roots. The agreements were ready for signing, when all of a sudden the Czech side decided to go ahead with Hof. This was mentioned as ‘typical Czech behaviour’ by some interview partners.

3.6 Evidence of Cross Border Clusters

In the 1980s, several clusters existed in the region Hochfranken, and even cross border clusters could be found. Mainly in the fields of ceramics and porcelain as well as in the textile sector, numerous clusters had been established across the border, across the whole value chain. The situation changed fundamentally in the 1990s, when the region experienced an economic downturn due to growing competition from Asia and other low-wage countries.

The Bavarian Cluster Policy identified 19 clusters for Bavaria as a whole; 13 of these clusters can be found in Upper Franconia.²⁶ Regional clusters in Upper Franconia enable an optimal usage of all resources in the region. Moreover, the Cluster Initiative Upper Franconia identified six potential clusters in Upper Franconia, which show a different intensity of development and have not been identified by the Bavarian Cluster Policy.²⁷ These potential clusters can be found in textile/ garment, glass / ceramics / porcelain, machine construction, furniture, design as well as health / wellness / tourism.

²⁶ Cf. Bayerisches Staatsministerium für Wirtschaft 2006.

²⁷ Cf. Hunger 2006.

Though only few clusters currently exist in Hochfranken today, four of these six first approaches of potential clusters can be found here. As the regional strength mainly lies in the sectors of ceramics / porcelain, textile and machine construction as well as for several years in the sector of automotive supplier, four potential clusters are in the fields of textile / garment, glass / ceramics/ porcelain, machine engineering and health / wellness / tourism. The clusters textile / garment as well as glass / ceramics / porcelain are already well developed, in the field of health / wellness / tourism beginnings of a cluster can be found in particular in the administrative district Wunsiedel. The same situation is found concerning machine engineering.²⁸ Moreover, over the past years, beginnings of another two clusters could be observed in the fields of new materials and logistics, whose future development experts in the region consider as very favourable.

In line with Bavarian cluster policies, the region also has developed several networks and instruments to foster cluster emergence, such as CORIS (Cluster-Orientated Regional Information System for Upper Franconia), OfraCar.org (professional network initiative for automotive suppliers) or OfraTex (core-competence directory of the Upper Franconia textiles industry). Most cluster initiatives build around traditional and existing strengths such as textile or try to develop upcoming sectors which gained importance after enlargement such as automotive suppliers or logistics.

Since 2006 the cluster policy of Bavaria is a new element within the strategies for the development of Bavaria as a location for economy and science. Bavarian cluster policy defines itself as an initiator for an open structural process of self-organisation. The intention is to trigger inner- and inter-operational dynamics as well as to identify possibilities for co-operation.²⁹ Therefore, the cluster policy of Hochfranken is assigned by the Bavarian government, and is less applicable for cross border development. The Cluster Initiative Upper Franconia with its activities ties in with the Bavarian cluster policy. It ensures in particular the integration of regional clusters into the Bavarian Initiative.

²⁸ Cf. Hunger 2006.

²⁹ Cf. Bayrisches Staatsministerium für Wirtschaft 2006.

Regional experts from Hochfranken indicated that this cluster policy is not accepted by the enterprises of the region because they have not been involved from the start. Moreover, there are hardly any enterprises to be found in the Czech border region with which clusters could be built. It is questionable whether a cross border cluster policy would make sense at all regarding the differing economic structures of the two countries. In this regard, regional experts emphasized that both countries need to develop their border regions also 'bottom up' and synergies can only be built in the case of common interests.

3.7 Enlargement-Related Effects on Institutional CBC

Enlargement-related effects on institutional co-operations mainly concern administrative border controls. Enlargement accelerated border crossing traffic, and this might help direct exchanges and visits. Because of the simplification of border crossing rules it is easier for regional actors to intervene into the mutual development of the region.

3.8 Policies for Institutional and Enterprise CBC

There are several policies designed especially for fostering cross border co-operation. Bavaria participates in European programmes financed by the structural funds such as the European Social Funds (ESF) and European Regional Development Fund (ERDF). Within the ERDF programme, Bavaria will support two main aims, namely increasing regional competitiveness and employment and fostering European territorial co-operation (INTERREG IV, 2007-2013), which is focused on international co-operation and exchange of experiences aimed at integrated territorial development.³⁰ Aims of the new programme are the development of the border area towards a joint, sustainable living, natural, and economic space as well as strengthening the area's competitiveness. The emphasis of the programme lies within economic development, human resources and networks (e.g., tourism, labour market, science) as well as spatial and environment development (e.g., environment and nature protection, infrastructure). Hochfranken, in particular the rural districts Hof and Wunsiedel as well as the district free city of

³⁰ Cf. Bayerisches Staatsministerium für Wirtschaft, Infrastruktur, Verkehr und Technologie 2008b.

Hof, belongs to the respective development area.³¹ From 2007 until 2013, 115.5 million Euros are reserved for projects within the Bavarian-Czech border region.³²

At state level Bavaria has several programmes and respective organisations aiming to support enterprises settled in Bavaria to go east, but apparently no explicit policies fostering institutional cross border partnerships. Enterprise cross border policies are not specifically aimed to foster partnerships with neighbouring regions. For example, a 'Virtual East-West Excellence Network Bavaria'³³ has been launched under the auspices of the Bavarian State Ministry of Economic Affairs, Infrastructure, Transport and Technology. Partners include the Bavarian State Ministry for Sciences, Research and the Arts; the Bavarian Chambers of Commerce and Industry and the Chambers of Crafts; regional and local governments and universities.

One specific programme fostering cross border co-operations of enterprises in Central and Eastern Europe is the ETP (cf. section 2.4): Within the framework of this programme, chambers offer seminars, workshops and training courses for enterprises interested in Central and Eastern European markets.³⁴ Another programme, carried out by the chambers and supported by the Bavarian state, is 'Fit for Foreign Markets – Go International', offering mentoring to SMEs aiming to internationalize, although without a specific focus on Central and Eastern Europe.³⁵ In general, most of those organisations involved in fostering entrepreneurship also offer services for cross border partnerships of enterprises such as business trips and the like. The business development agencies of the districts Hof and Wunsiedel occasionally arrange events on the following topics: EU enlargement, Eastern Europe, consultancy of your business men, innovation consultancy and encouragement programmes. Furthermore, they offer informative meetings regarding markets and institutional structures in the Czech Republic.

4. Enterprise Cross Border Co-operation

³¹ Cf. Regierung von Oberfranken Bayreuth.

³² Cf. Bayrisches Staatsministerium für Wirtschaft, Infrastruktur, Verkehr und Technologie 2008a.

³³ <http://www.bavaria-cee.com/EN/aboutUs/>.

³⁴ <http://www.bavaria-cee.com/EN/knowledge/chambers.html>.

³⁵ <http://www.go-international.de/index.php>.

4.1 Types of Current CBC Identified

We have identified various forms of cross border co-operations of enterprises. Pretty common are longstanding co-operations, often with capital investments, where for example German enterprises have founded a subsidiary company in the Czech Republic or at least hold shares of the Czech partner firm, or where signed co-operation contracts exist between the independent German and Czech partners. The subcontracting model is a common form of co-operation. This is especially profitable because of high labour costs in Germany: Labour-intensive activities are outsourced to the Czech Republic, while the finishing of products takes place in Germany. Besides lower labour costs, high quality demands on the part of the German enterprises usually constitute the reason for this division of labour.

Even where the Czech firm is an independent enterprise, one can observe that the German partner often had a large influence on the foundation of the Czech partner and still has a main impact on the firm's development. For example, in one case the German enterprise actually founded the Czech firm with the intention of later co-operation. In another case, the Czech and the German firm both were founded in the 1990s at the same time, with the intention of sharing their tasks, i.e. the German enterprise is responsible for marketing and sales and construction while the Czech firm carries out the basic product development as well as the production itself. The Czech partner enterprises operate either as 'extended workbench' because of lower production prices, or as sales departments for the Czech market.

Also, there is project or order related co-operation. For example, one firm has longstanding relationships since the 1970s with several Czech firms that buy its products (producer's goods for the textile industry). This form of co-operation can be classified as a classical supplier – consumer relationship. For the German firm, the underlying intention for such co-operation is, of course, the associated turnover and market share.

Another type of cross border co-operation concerns the employment of Czech people drawing on their knowledge in order to develop the Czech market. For example, one

German enterprise employs a Czech who works as a key account manager for the Czech market and attends to the clients there on site.

4.2 Characteristics of enterprises involved in CBC

The analysed German enterprises are active in all kinds of economic sectors and are of different sizes and structures. Therefore, they represent the manifold economic structure of Hochfranken. Amongst them, one finds multinational companies with some ten thousands of employees worldwide, bigger enterprises with subsidiary companies employing more than 300 people, medium-sized companies employing 10 – 250 people, as well as smaller enterprises with up to ten employees and even solo-self-employed people with associated partners. Some of the enterprises export their products to different foreign countries while others only work for the regional market. Most of the enterprises, especially the small- and medium-sized ones, are family owned, but some German enterprises are owned by others firms / holding companies themselves: One such example refers to an enterprise that is owned by an American holding company employing 3,000 employees worldwide. The enterprises work in the fields of industry (e.g., automotive, production of grinding heads, ceramics, aluminium products, and textiles), trade and services (e.g., consulting, lawyer).

The Czech partner companies are located in different parts of the Czech Republic. For instance, there are companies settled in towns in the border regions like in Cheb, Aš or Sokolov, but also enterprises that are located in other parts of the Czech Republic (e.g., like in Prague, Plzen or Šumperk in Moravia). Comparable to the German firms, the Czech enterprises represent a variety of different sizes. On the one hand, there are solo-self-employed people working for the German partner and smaller limited companies, on the other hand, there are enterprises employing up to 400 persons.

4.3 Evidence of Change in CBC over time

Our interviews do not show much change in the cross border co-operation of the interviewed enterprises. Cross border co-operations, once they have been set up and are functioning, appear to work rather smoothly, also improving over time, as partners come to know each other better.

Many of the analysed co-operations were already established before the fall of the Berlin Wall or at least the German firms already had made contact to the Czech economy. For example, one company already sold its products to a then state-owned Czech chemistry firm before 1989. Another instance refers to a German company that has hold business contacts to the Czech Republic since the Prague Spring in 1968. At that time, the firm collaborated with a then-combine employing 8,000 – 12,000 employees. After the fall of the Berlin Wall, the combine resolved into several individual companies which were managed by Czechs. Collaboration with these new companies became steadily more difficult because of structural and economic changes there and finally ceased completely two or three years ago.

4.4 Costs and Benefits of CBC to Enterprises

Interviewees from institutions emphasized that motivations for enterprise partnerships differ on the Bavarian and Czech side. Especially in the early 1990s, German enterprises were looking for cheaper labour on the Czech side. Nowadays, new markets are gaining importance. Czech enterprises are interested in knowledge, customer orientation and marketing know-how. Regional enterprises name 'production', 'distribution' and, a little less frequently, 'the buying department' as important areas of cross border activities.

Though the price level in the Czech Republic is increasing, the labour cost advantage is still the main benefit for German enterprises that internationalise across the border, especially for those enterprises that are active in industrial fields. The importance of this aspect can be illustrated with the following example: One interviewed German entrepreneur explained that employees in his German enterprise could only be maintained because of the Czech labour cost advantage. If this way of production via mixed calculation did not exist, the German enterprise would not be able to manufacture several of its products.

'The sites in the Czech Republic are of enormous importance for the enterprise, as many work steps can no longer be realised with German wages. 450 working places newly created in the Czech

*Republic have only 'cost' about 100 ones in Germany and the remaining ones could only be maintained because of the Czech labour cost advantage.*³⁶

The Czech market and its turnover potential is the other main benefit from co-operation. The Czech partner companies ensure the local sales market for the German enterprises. In one example, the Czech firm may also provide the possibility to dispose a contact point for a future shift in production levels, i.e. the German parent firm sees the opportunity to outsource some of its production to the Czech subsidiary company.

Besides the benefits in terms of the development of new markets and noticeable cost savings there are of course constraints that could hinder cross border activities. Main barriers or problems of cross border co-operations to enterprises are obvious at the socio-cultural level. In this respect, *Ehm*³⁷ states as main problems in developing cross border activities in Hochfranken the language barrier, differing mentalities and diverging socialisations as well as the historical background of both nations. For example, only few Germans make an effort to learn the Czech language, which is only partly due to the difficult linguistic and grammatical structure of the Czech language. The willingness on both sides of the border to learn each other's language differs. Partly this may be explained with German being a compulsory subject (or at least an optional subject) in Czech schools, while in German schools mainly languages like English, French or Spain are offered.³⁸ But there is also some kind of presumptuousness: Regional experts summarised the typical attitude of the Bavarian population in the border region as one of not needing to know the Czech language as Czechs do speak German.³⁹ Entrepreneurs interviewed within a different project also frequently mentioned language barriers.⁴⁰ For example, the Czech side keeps talking in Czech during business meetings even when interpreters are present, which often has resulted in unpleasant situations.

³⁶ Cf. interview Hochfranken_E01. All quotations within this report are excerpts from interviews with German entrepreneurs, representatives of institutions or key experts which have been translated by US.

³⁷ Cf. Ehm 2002.

³⁸ Cf. ConM Gesellschaft für Marktforschung und Regionalanalysen 2006.

³⁹ Cf. Weigl, Zöhrer 2005.

⁴⁰ Cf. Welter, Althoff et al. 2007.

Moreover, different mentalities render business meetings and enterprise cross border partnerships difficult. For example, Czech people tend to create a personal atmosphere even in business relationships, while Germans tend to see this as waste of time. For the Czechs, personal connections play an important role. According to one interviewee, Czechs think, even stronger than Germans, in networks.

*'In the Czech Republic, everything concerning network building is an open house and only has to be pushed forward.'*⁴¹

*'Czech people pay more attention to human beings than to positions.'*⁴²

German 'punctuality' and their abiding by formal agreements are interpreted in a different way by Czech partners. Therefore, the main challenges regarding a company's activities in the Czech Republic often concern the quality and the delivery reliability of Czech companies. Indeed, in recent years partnerships failed because of a gap in quality standards on the Czech side, which is a common complaint of entrepreneurs who ventured into cross border partnerships.

*'The biggest problem is to clarify to the employees that quality and service are the most important things. This, I have to tell the Czechs again and again and make it clear to them. I have to write a to-do-list for them every week. In Germany, this would not be necessary.'*⁴³

*'In case of a halt of a production line, for instance, alarm is raised immediately in Germany. The Czechs, on the other hand, had to be trained to call early in such a case. The collaboration works better when the German management is on site, as the Czechs act according to the motto 'if I do not have items, I cannot send them.'*⁴⁴

Therefore, many of the interviewed entrepreneurs installed several mechanisms in order to better control the work of the Czech partner firm. For instance, an enterprise active in the automotive sector considers formalised and detailed agreements necessary before the delivery transactions in order to avoid product liability and call-backs. Another enterprise had to establish safety stocks in order to solve problems with interrupted productions in the Czech Republic. Moreover, one interviewee finds it

⁴¹ Cf. interview Hochfranken_E09.

⁴² Cf. interview Hochfranken_E15.

⁴³ Cf. interview Hochfranken_E10.

⁴⁴ Cf. interview Hochfranken_E19.

necessary to document everything agreed on in form of emails, by sending these emails to the partners themselves and by letting them confirm these issues.

However, another entrepreneur also believes that the biggest problem of German entrepreneurs is their intention to transfer a system which is working well in their own country, to all other countries regardless of different mentalities and working cultures. Another issue raised in many interviews referred to an apparent lack of interest on the side of the Czech business partners, who were said to show less initiative in making the first move towards cross border partnerships. In particular these soft constraints appear to hinder trust-building in business relationships.

The language barrier and a lack of cultural competencies add to an often negative (or at least neutral) attitude of wide parts of the population in the region Hochfranken regarding the Czech neighbour. Although the state gardening exhibition organised in 2000 boosted cross border contacts of the Bavarian and Czech population, prejudices against the Czech population continue to prevail. This is partly due to the historical developments such as the expulsion of Germans after the Second World War. On the whole, this contributes to persisting prejudices on behalf of parts of the regional population towards the Czechs across the border.

'Germans living in the region are very reserved instead of approaching the Czechs openly'.⁴⁵

On administrative level, German enterprises have to face bureaucracy in the Czech Republic. For example, in the Czech Republic not one but several building authorities exist: An enterprise working in the construction sector had to deal with '25 authorities with three people each', which had to provide their permit for the final acceptance of a building site. Another example in this respect refers to an entrepreneur who had difficulties in getting the necessary documentation for his intended co-operation. According to him, the processing of the documents for the activities in the Czech Republic took nine months at the consulate in Dresden (Germany) and was very complex, as he always had to appear in person.

⁴⁵ Cf. interview Hochfranken_E09.

4.5 Positive and Negative Lessons from CBC

Most interviewees hardly made any negative experiences during their co-operation. Personal background and professional experiences help in this regard, fostering a 'prejudice-free' attitude.

*'The company has made very good experiences regarding trust to the Czech partners and has never been 'cheated' so far.'*⁴⁶

Still, some of the interviewed entrepreneurs also reported negative experiences with their Czech co-operation partners. Mainly these are connected to issues related to quality and mentality, such as the above mentioned differing perception of quality of the Germans and the Czechs.

*'The standards in Western and Eastern Europe are separated by 'worlds'.'*⁴⁷

Another example concerns a German entrepreneur who wanted to start co-operation with Czech enterprises but abandoned this idea. His experiences give a snapshot picture of all possible barriers connected to setting up a successful co-operation. In his eyes, the language barrier has been too big; the day-to-day business in Germany has been too time-consuming while the establishment of a co-operation with Czech companies also took a long time. Furthermore, he thought Czech companies were very cautious regarding investments; especially the former state-run firms which do not possess adequate financial resources. Finally, he mentioned the differing mentalities as a potential problem, assessing the Czechs' mentality as polite, but also reluctant and distrustful.

Another example reflects problems that can occur within every co-operation no matter with which nationality one is working, but which also indicate a lack of respective control mechanisms. In this case, a joint venture, the Czech partner, over a period of one year, withdrew money from the joint venture's account on the first day of every month and used this money to sustain his own company, which experienced financial problems at that time. It took the German partner some time to realise these actions. After the fraud was discovered the Czech partner was given the choice to

⁴⁶ Cf. interview Hochfranken_E09.

⁴⁷ Cf. interview Hochfranken_E12.

either sell his enterprise or to be brought to trial because of defalcation of money. The German entrepreneur calls the fact that the partner could obviously not understand 'which things belonged to him and which ones not' to have been the main problem. However, he also adds that such an incident could as well have occurred in Germany or in another Western European country and that it is not typical of the Czech Republic.

4.6 The Role of Trust in Enterprise-Based CBC

The German entrepreneurs rank the role of trust very high. In general, when asked to describe and assess the role of trust our interviewees stated a similar understanding of this on both sides of the border. Trust is seen as an indispensable basis for a successful co-operation, although conversations with the Czech partners are said to be 'long-winded until trust is established'.

*'People have to have trust and it must be verified. Without trust it is not possible to do business.'*⁴⁸

Especially knowing people is important in terms of trust-building. Longstanding co-operations help to build up trust. In the case of a textile producer who co-operates with a Czech firm tailoring textiles, trust has now existed between both partners for a long period of time. The respective entrepreneur thinks that trust building has been supported by treating the Czech partner as totally equal and by maintaining the Czech permanent staff; several employees already are working in the enterprise for 15 years.

Interviewees pointed out that trust building is facilitated by language knowledge (at least some words) and intercultural soft skills. In this regard, German entrepreneurs need to respect cultural distinctiveness, e.g., conversations should always start with small talk before people actually 'kick off' formal negotiations and business talks. Moreover, Germans should meet their Czech partners at 'eye level' and treat them as partners. For trust to emerge, partners have to communicate honestly and open with each other, and business relations have to go hand in hand with personal relations. Trust emerges through personal relationships, but also through favours:

⁴⁸ Cf. interview Hochfranken_E17.

*'People have to establish a relationship with the Czech partners. They have to get to know each other and they also need to do each other some favours.'*⁴⁹

*'Egomaniacal behaviour according to the motto 'I show you how things work' impedes the building of trust between the Czechs and the Germans.'*⁵⁰

*'People should plan much time in the collaboration with them, because when the Czechs realise that people are interested in serious work, everything works. People should visit them regularly and display interest.'*⁵¹

4.7 Enlargement-Related effects

Enlargement-related effects for enterprise cross border co-operations are related to administrative procedures and perspectives for enterprise development. Most interview partners stated that they did not have any special expectations towards the EU-Eastern Enlargement and that their border crossing activities have not changed much since 2004. Though, the reduction in customs border controls facilitated movements across the border. According to one interviewee, formerly, there have been again and again discussions between the German and the Czech custom offices. Furthermore, the cross border traffic has been simplified due to the abolition of border controls.

*'It was super – no waiting for hours, movement of goods without a delivery note, no customs traffic and hardly any bureaucracy.'*⁵²

Enterprise development also is positively affected by EU enlargement. Some German enterprises want to develop their export markets further in the course of the EU enlargement. For instance, one German manufacturing enterprise is going to try to develop other markets located in the East, such as Slovakia. In this respect, one interviewee mentioned that the effect of a collapsing economy, which many feared for Germany, in particular its border regions, before enlargement, did not occur. Instead, the economic boom in the Czech Republic leads to exactly the opposite development: The pent-up demand of Czech companies consequently resulted in the engagement of German companies.

⁴⁹ Cf. interview Hochfranken_E03.

⁵⁰ Cf. interview Hochfranken_E15.

⁵¹ Cf. interview Hochfranken_E18.

⁵² Cf. interview Hochfranken_E17.

However, enterprise development also could be negatively affected by EU enlargement. One interviewee, owning both a German and a Czech firm, had to increase and therewith adapt the wages and salaries of the Czech enterprise's employees since 2004 due to approximation of price levels. This of course diminished the cost saving effects for his German company that were associated with the cross border co-operation.

4.8 Use of External Assistance and Participation in Public Policy Programmes

Concerning the use of external assistance and participation in public policy programmes the picture emerging is a non-uniform one. Only some entrepreneurs made use of external assistance. Mostly they took offers from the respective Chambers. Some of the entrepreneurs were very satisfied while others criticise the services offered. The following selected statements illustrate these contradictory assessments:

*'The CCI has been very helpful for our company. Through the CCI, I have also found legal advice regarding the Czech market. I have received everything I had demanded from the CCI.'*⁵³

*'We have contacted the CCI for addresses of companies in the Czech Republic but have not heard anything new there.'*⁵⁴

*'We have enquired about contact persons in the Czech Republic from the Chamber of Crafts and have indeed received respective information, which has not helped on at all. The Chamber of Crafts does not have sufficient experiences regarding our sector.'*⁵⁵

Indeed, by far most of the interviewees simply rejected these offers for assistance, stating that they just did not need any support because they 'get along well on their own'. Instead, tax reductions and less bureaucracy are their main policy requests:

*'External support is unnecessary. It would be better to release people in the organisations, to 'abolish' the institutions and to reduce taxes with the saved money. It would be best to gain free spaces for the entrepreneurs, so that they can decide on their own where to go with their company.'*⁵⁶

⁵³ Cf. interview Hochfranken_E15.

⁵⁴ Cf. interview Hochfranken_E14.

⁵⁵ Cf. interview Hochfranken_E12.

⁵⁶ Cf. interview Hochfranken_E02.

*'When a problem occurs, each country solves this problem on its own, without help from or intervention by the partner. Our enterprise has not made use of external support, as this does not lead to anything.'*⁵⁷

4.9 Policy issues identified

Firstly, it has to be stated that Hochfranken is economically underdeveloped in comparison to its Bavarian neighbour areas. The loss of working places in the porcelain industry has resulted in a noticeable decrease of purchasing power in the region. This problem is aggravated by the decline in subsidies fostering enterprise settlements after the border to the Czech Republic was opened and after German reunification.⁵⁸ On the one hand, this concerns state subsidies which surprisingly are lower in Bavaria compared to Saxony and Thuringia and, on the other hand, EU subsidies in comparison to the Czech Republic. In fact, only a few kilometres away, considerable higher funds are offered, although key experts pointed out this being mainly a 'problem' of perception. Therefore, many companies settle in Saxony, Thuringia or even directly in the Czech Republic. For example, 'Playmobil', a renowned enterprise producing toys, has established its new factory in the city of Cheb.

As regards public financial support, some entrepreneurs would welcome more subsidies as well as more support from investment and business development agencies. Problems mentioned are related to time-consuming procedures and a lack of information.

*'An enterprise has to engage an extra employee for filling in the applications as this is very complicated.'*⁵⁹

Some entrepreneurs also brought forward the idea of having only one business development organisation in Hochfranken instead of the many different agencies settled in the two districts and in some of the cities as well.

⁵⁷ Cf. interview Hochfranken_E13.

⁵⁸ Before 1989, those parts of Bavaria bordering former GDR and Czechoslovakia profited from the so-called 'Zonenrandförderung', i.e., special subsidies and programmes of the West German government for peripheral border areas.

⁵⁹ Cf. interview Hochfranken_E16.

Another policy issue identified refers to physical infrastructure. Though the region is indeed well connected to the rest of Germany via motorways, there still exists no connection from west to east (e.g. from Nuremburg to Plzen across the border).

Finally, some interviewees stated that the region should improve its regional marketing. For instance, one entrepreneur said that the media and the politics should no longer talk about the region 'as if it were located in the middle of nowhere in Germany', but instead realise its favourable position in the middle of Europe.

*'The institutions do not manage to present the region in a favourable light.'*⁶⁰

5. Informal and Household-Based CBC⁶¹

When looking at the informal entrepreneurial activities at the border of Hochfranken, activities like 'shadow entrepreneurship' or 'petty entrepreneurship' could not be identified for the German side. In fact, informal and household-based cross border activities are not of an entrepreneurial character but they have to be categorised as one-sided consumer activities: German customers cross the border because of cheaper shopping possibilities in the Czech Republic.

German people shopping in the Czech Republic

People living in the Hochfranken border area quite often use the shopping opportunities in Cheb or Aš in order to do their shopping. The buying behaviour of Germans in the Czech Republic (at least that of border area inhabitants) is private supply orientated. Petrol, cigarettes, alcohol, and groceries are the main products in which the Germans are interested. Furthermore, there are some classes of goods that are also cheaper and therefore interesting for the German customers, such as fresh fruits and vegetables, beverages, and over-the-counter medicines. Proximity

⁶⁰ Cf. interview Hochfranken_E15.

⁶¹ As informal cross border co-operation on a larger scale could not be identified in the Hochfranken border area we have passed on the intended chapter structure and give a condensed overview instead. The information on criminal activities is mainly based on interviews that we conducted with representatives of the customs offices in Selb and Regensburg. For information on cross border shopping activities we refer to an empirical analysis executed in 2006. Cf. Förster 2007. Furthermore, we draw on personal observations and interviews conducted with German customers that we met in and in front of supermarkets in Aš / Czech Republic and the Vietnamese market in Cheb / Czech Republic.

and cheaper prices for many goods are the main motives for crossing the border. Most customers link their normal shopping with the refuelling of their cars.⁶²

The sales clerks on the Czech side often speak German and the possibility to pay in Euro is given. At the petrol stations (there are a lot of them across the border) the names of the different petrol sorts and further inscriptions are also given in German.

There also exist numerous so-called 'Vietnamese markets' in neighbouring Czech regions, which are determined by the fact that about 5,000 Vietnamese, coming from the former GDR, live in the border area near Cheb and its surroundings. They push the retail trade enormously. The Vietnamese are focused especially on German customers and do not align their offers to the needs of the domestic people. Therefore, they offer products that are more expensive in Germany because of higher taxes (cigarettes, alcohol, petrol), cheap faked branded goods (e.g., clothes, perfume, CDs, DVDs), as well as goods and services that are cheaper due to the common price and living standard differences like groceries. The normal currency is the Euro and prices are usually negotiable.⁶³ On the market most of the signs are written in German and the Vietnamese salespeople speak German.

Interestingly, German bus tour operators from all over Southern Germany organize shopping tours to these Vietnamese markets, for prices of 17-25 Euros. While the bus driver waits several hours the Germans do their cheap shopping, predominantly stocking up on clothing, CDs, alcohol ('schnapps') and cigarettes. According to one of our interviewees she saved more than 200 Euro compared to Germany for all the things she bought that day in the Czech Republic.

Nevertheless, a large part of the population from the region is not interested in the neighbouring country at all. This may be due to their troublesome joint history, although retentions are fading away with the younger generation. This attitude is supported by the media which, according to the opinion of one of the experts, often publish negative reports on events in connection with the Czech Republic. This situation and attitudes did not change to a major extent since EU enlargement.

⁶² Cf. Förster 2007.

⁶³ Cf. Köppen 2000.

Regarding the general attitude of regional institutions and enterprises towards cross border co-operations some individuals make use of the proximity to the Czech Republic and the local low price level, without being really interested in the country as such.

Czech people shopping in Germany

Interestingly, cheaper prices are also mostly the motivation for Czechs to come across the border. There are some special products, such as washing and cleaning agents, special groceries, and sweets / chocolate, entertainment electronics that are cheaper in Germany. Furthermore, the Czechs appreciate very much the wide range of products offered in Germany as well as the high product quality. The main motives for Czechs to go shopping in Germany have changed over time. While in the beginnings of the 1990s product quality was the main motive, nowadays it is the cheaper price of special products. Obviously, adaptation and modernisation processes have already taken place in the Czech Republic.⁶⁴

According to one interviewee, the German retail trade still has not fully recognised the potential of the Czech buying power due to a certain stubbornness and inertia in the region. Shop owners could, for instance, prepare better for Czech clients by introducing Czech inscriptions on the shops. The municipality might also consider organising a shuttle bus from the Czech Republic to Hochfranken.

Illegal cross border activities

Until 1989, the Czech – German border in the densely wooded northeast of Bavaria could be seen as rather insuperable. However, after the fall of the Iron Curtain Bavaria experienced a real boom of smuggling and human trafficking activities as well as organised crime across the border.⁶⁵

One major issue in this regard concerns smuggling of various products. In general, there are no limits on what private persons can buy and take with them when they travel between EU countries, as long as the products purchased are for personal use

⁶⁴ Cf. Förster 2007.

⁶⁵ Cf. Anonymous 2004.

and not for resale, with the exception of new means of transport. However, special rules apply in the case of goods subject to excise duty, such as alcoholic beverages and tobacco products. If a private person purchases such products in one Member State and takes them to another Member State, the principle that no excise duty has to be paid in the Member State of destination only applies if the goods are for the own use of the traveller or his family and are transported by himself. For tobacco there are special rules for travellers returning from one of the Member States that joined the EU on 1 May 2004. Since 1st January 2008 these special rules do not apply anymore for the Czech Republic. Here, like in all the 'old' Member States, there is a limit of 800 cigarettes per person which can be imported to Germany.⁶⁶ Because of enormous price differences smugglers benefit when selling smuggled cigarettes in Germany (or other Western countries).

In order to control the traffic of such goods across the border mobile custom groups (MCG) were established. By this, the customs controls were relocated from the border crossings to the road. The tasks of the MCG include the surveillance of search for non-common, excisable goods such as cigarettes and alcohol, brand articles and prohibited goods such as drugs and weapons. Moreover, the customs authority draws on an international system, which the officers can also use when on the road in order to test whether a controlled person has customs debts. The MCG from Germany and the Czech Republic do not collaborate. The office for customs tracing of the two countries indeed cooperate, but people 'did not think of the MCG within the EU-extension contract', according to our interviewees.

In most cases cigarettes are smuggled across the border because of price differences. There are no special nationalities which are specialized in smuggling certain products. Our interviewees emphasized that people from the region smuggle rather less, as they prefer crossing the border several times to taking the risk to be caught with amounts larger than the official limits. Smuggled cigarettes are destined for all European countries, in particular for Great Britain, as cigarettes are very expensive there. The interviewees also knew of cases where Czech employees bring along cigarettes for their German colleagues and resell them, which is not allowed.

⁶⁶ <http://www.zoll.de>.

However, such cases are difficult to uncover, unless somebody files a charge against an offender. Such cases can also occur with German truck drivers who supply their German colleagues with cigarettes. The customs officers assume that about half of the smuggled cigarettes are faked. They are produced in illegal factories abroad with tobacco of minor quality under known brands. In the region Hochfranken, two bigger border-crossing actions have been carried out in co-operation with the Czech customs office, on which occasions two illegal factories were uncovered in proximity near Cheb.

In the area of brand protection, the customs officers do not intervene when people bought fake articles in the Czech Republic for their own needs, but the reselling of such articles is criminal. They have heard about cases where such products were sold in eBay, but such cases are difficult to trace.

Textile goods from Turkey and China are also offered on the Vietnamese markets in Cheb and Aš. The German customs office does not have any authority there. One of the prerequisites for EU membership of the Czech Republic had been the condition to abolish these markets. The Czechs have achieved, however, permission for the market stands to stay, provided they are anchored to the ground because in this case they officially are no longer regarded as market stands but 'shops'. According to our informant, the Vietnamese traders have solved this creatively by 'building little walls on both sides of the stands'.

6. Conclusions

6.1 Overall Assessment of CBC in Region

Cross border co-operations between German and Czech enterprises initially were mainly driven by cost motives. This has changed over time towards a more strategic approach, aiming at profiting from the potential of the Czech market. Cross border co-operations are most successful where partners manage to create a win-win situation for both sides.

Cross border co-operations at enterprise level have to cope with several challenges at local level as well as arising through Poland's EU membership; these include

challenges at administrative, economic, organisational and individual level. At administrative level, this refers to time-consuming procedures, a lack of competencies and information in Polish local administrations, and oftentimes changing clerks. Additionally, some entrepreneurs pointed out the lack of specialised organisations offering support for cross border co-operations.

From an economic point of view, Poland's EU membership resulted in increasing costs and prices within the country, partly also because of an increase in bureaucracy, thus challenging the cost motive of Hochfranken enterprises entering or planning to enter a cross border partnership. For the time being, this is being offset by the favourable influence of spatial and cultural proximity in Hochfranken, although experts also mentioned a lack of knowledge about one's another mentality. At individual level, cross border co-operations are impeded by a lack of respective skills and mentalities (e.g., intercultural skills, stereotypical thinking).

Although cross border co-operations of enterprises contribute to both enterprise and regional development, there appears to be a lack of overall regional strategy of how best to use this potential for the region's enhancement.

6.2 CBC: Enlargement Related Issues Emerging

German reunification positively influenced the region only during the early 1990s. A similar trend can be observed regarding EU eastern enlargement. It has basically aggravated the region's weaknesses, although some businesses were (at least initially) able to remain competitive because of enlargement, as they could make use of the wage differential, shifting part of their production to the Czech Republic. The EU enlargement has indeed acted as trigger for enterprises to look for partners in the Czech Republic, especially as the entry of the latter resulted in decreasing bureaucratic obstacles. Interview partners emphasized that the extension of the trans-European infrastructure and the eastern enlargement could provide a solid basis for future cross border co-operation, but they also stressed that on enterprise level this is not restricted to cross border activities with the neighbouring Czech region. Instead, enterprises, especially the larger ones, generally are interested in moving east, which might contradict regional administrations interested in developing

the region for which cross border activities with the neighbouring regions would be favourable.

6.3 Co-operation and Clustering Related Issues

Although clusters exist in Hochfranken, none of them is in any way connected to cross border co-operations. An overall assessment of key experts in the region is that border-crossing clusters do not seem to be possible, as there are no comparable companies on the Czech side of the border no matter what economic sector one is talking of. Moreover, interviewees and participants of the final regional seminar assessed the Bavarian cluster policy as a policy without a genuine basis in the region, as enterprises do not benefit from 'pre-defined clusters'.

6.4 Identity and Perception-Related Issues

The years where both regions were sealed off because of the Iron Curtain hindered keeping up contacts and developing new ones, while the history of resettlements and displacements remained in the regional collective memories, only fading away with the younger generation. This missing history of cross border networks, both at institutional and individual level, still has to be seen as a major constraining factor for collaboration in many areas.⁶⁷ Only where entrepreneurial identities of German and Czech entrepreneurs are converging (although this mainly refers to Czech managers adapting to German standards) they manage to overrule national stereotypes, thus facilitating cross border co-operations. However, as (perceived) differences in mentalities are one factor hindering the initiation and development of cross border co-operations, workshops or seminars for entrepreneurs interested in co-operating with the Czech Republic could help in this regard as are already offered by Chambers and other actors within the region.

While entrepreneurial identities are converging, the regional identity appears fuzzy and mainly non-existent: Although Hochfranken was created as association with the aim to foster regional development, many people within the region lack interest, which might be explained by the turbulent history of the region and its still large share

⁶⁷ Cf. ConM Gesellschaft für Marktforschung und Regionalanalysen 2006.

of inhabitants resettled during and after the Second World War. The lack of domestic regional identity obviously also is a restriction for the development of a joint region (and regional identity) across the border. Instead, the institutional Hochfranken appears more inclined to turn towards the newly created 'Metropolis region' Nuremberg, neglecting the region across the border.

6.5 Trust- and Learning Related Issues Emerging

Trust plays an important role in cross border co-operations, both as trust in institutions as well as trust on personal level. Trust in institutions is facilitated where those institutions are functioning and vice versa, also influencing trust building on personal level. Trust on personal level depends on the willingness and openness of individuals in learning about their partners and their respective culture.

However, a closer look also reveals the complexities of analysing trust: Although most entrepreneurs explicitly state the importance of trust, this often is restricted to being a 'calculated risk' supported by control mechanisms and supervision. In this regard, this form of trust is facilitated by geographical proximity, allowing for frequent meetings and visits across the border. Regarding learning, the question remains when and in which situations individuals (and institutions) 'learn to trust', which needs further analysis.

6.6 Policy and Governance Related Issues

At enterprise level, the following recommendations emerge from our interviews and the final regional workshop:

- Train German entrepreneurs in soft skills required for successful cross border co-operations. This should not be restricted to language knowledge, but include information on mentality differences and workshops on how to work with Czech partners.
- Promote good practice examples of cross border co-operations, illustrating how partners overcame difficulties and which are the benefits for both sides from such a partnership.

- Illustrate the benefits of attracting Czech customers to the German region through setting up meetings with entrepreneurs from other Bavarian regions who are actively promoting their goods to Czech consumers interested in high quality products by offering Czech language courses to their employees etc.

Currently, the German and the Czech border regions have to be both characterised as economically and structurally underdeveloped regions. With greater economic dynamics, the intensity of cross border relationships might increase, but in order to offer adequate support, regional politics need to acknowledge cross border partnerships at enterprise and institutional level as a major benefit for regional development and realising the favourable position of Hochfranken in the middle of Europe instead of complaining about its (perceived) peripheral situation. This also asks for a co-ordinated regional strategy across municipalities and business development agencies as emphasized by several interviewees, but one of the main problems is a lack of common interests of both sides at institutional level. In this regard, INTERREG IV may speed up the co-operation process as well as the interest of the Czech partners in initiating cross border partnerships as the EU only allows for applications of joint (in the sense of cross border) projects.

6.7 Future Prospects for CBC

Due to its today's situation in the middle of a united Europe as well as its proximity to the Czech Republic, Hochfranken plays an important role within the process of Eastern European market development. Especially cross border orientated businesses value its location advantage. The extension of the trans-European infrastructure and EU enlargement provides a basis for further future cross border co-operation.

There still exist many opportunities for German enterprises located in the border region regarding activities on the neighbouring side. In fact, larger enterprises and groups skip these border regions and move to Prague and Brno, so that many opportunities and market niches remain to be explored. However, as mentioned by one of the interviewed experts from Hochfranken, it will be difficult to develop a common economic area between the rather traditionally organised small and medium

enterprises on the Bavarian side and the partly not yet privatised large old industries on the Czech side. Opportunities exist through exploitation of costs and wage differentials, which will be used principally on the Czech side to build up the as yet poorly developed service sector on both sides of the border.

*'People should also become aware of the fact that the Czechs constitute a potential purchasing power.'*⁶⁸

On institutional and political level, the main challenge for the region is to develop a clear vision of its further development plans, also with regard to cross border co-operations at different levels. Despite its favourable location the region obviously lacks a clear regional identity, which would assist in fostering an overarching regional strategy in the long run. While successful institutional initiatives such as Euregio Egrensis exist, at political level strategic cross border partnerships do not (yet) appear to play an important role, despite single individuals propagating its benefits for the region. This attitude until recently was aggravated by the reluctant and arrogant attitude of the Bavarian state towards the Czech Republic. In this regard, Hochfranken will have a long way to go as the region 'is still in its transformation phase'.

⁶⁸ Cf. interview Hochfranken_E09.

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