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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 Ida Viru case study region, which is one of 12 regions included in the CBCED project for detailed empirical investigation. These case study regions are:

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

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

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

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

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

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

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

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

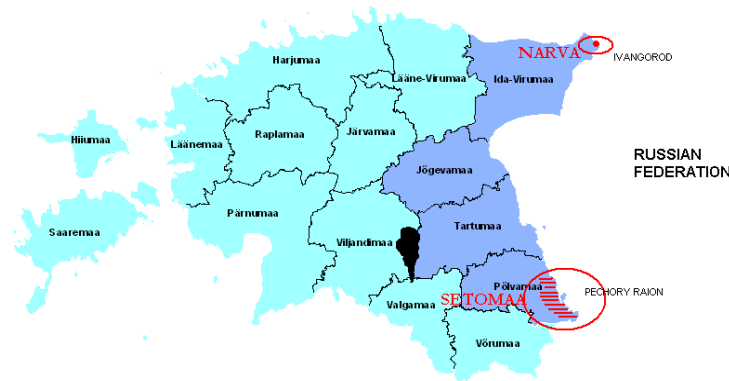
Section 6 contains a summary of the main conclusions. Following an overall Assessment of CBC in the region, the section summarises findings in the region in relation to each of the main substantive topics featured in the project. These are enlargement-related issues; clustering-related issues; identity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

2. Profile of the Cross Border Region

2.1 Economic Development: Characteristics and Key Issues

The aim of this section is to draw an introductory picture of the Estonian case study region of Ida-Viru County, which borders with Russia in east.

Figure 1. Ida-Viru county and the border town of Narva and Setomaa region in the South-East Estonia



Ida-Viru County is the second largest county by its population in Estonia and a previous industrial region. Changes during the last 15 years in political and economic life have had much a more serious influence on Ida-Viru County than for many other Estonian regions. Economic reforms (i.e. privatisation, restructuring of enterprises and reorientation to new markets) have taken more time than in other counties in Estonia. Therefore, the county is economically weak compared with other counties in Estonia. GDP per capita in Ida-Viru county was 66.6% of Estonian average in 2005 (Statistics Estonia). Unemployment problems, due to the disappearance and restructuring of large industrial enterprises, together with Estonian largest non-Estonian population have created a situation where conditions for the development of the region are more complicated than in other parts of Estonia. Nevertheless, the region has a good potential for further economic development (based on good location, resources, industrial traditions, latest positive development trends). Because of the economic development potential the county has been attractive for foreign investors.

The attractiveness of the county for investors is based on the stable development of the national economy, a well-developed infrastructure and banking system, sufficient stocks of production resources, cheap and qualified labour and local energy resources. In connection with Estonia's accession to the European Union, the county has become an object of interest for Russian investors. After double customs tariffs were removed, Estonian entrepreneurs are also interested in Russian markets (PHARE EBI 2003, 2005, 10).

In terms of economic structure, Ida-Viru County is the most industrial compared to other counties in Estonia, and the share of the primary and service sectors are below average in Estonia. The County has great industrial traditions. The largest part of Estonian production and power engineering potential is located here and about 16% of Estonian industrial products are produced in the region. Two large power plants are located in Ida-Viru County; which produce more than 90% of the electric power consumed in Estonia. Other major industries are: oil shale mining, production of oil from oil shale, textile industry, chemical industry, production of wood products, production of metals and machinery, mineral products. The border town of Narva (third largest town in Estonia) is currently based on the textile industry and power engineering. Traditional fields of activity also include clothing manufacture, metal-working and wood-working, as well as the production of furniture, building materials, controlling and measuring apparatus and industrial equipment. The presence of industrial infrastructure and further development perspectives are important priorities for the development of cross-border cooperation development with Russia, for this region. The export of manufacturing goods (e.g. construction materials, chemicals, packaging pots, lids and containers) to Russia and cross-border investment activities (e.g. building trade centres, plants, etc.) are examples of previous forms for cross-border cooperation.

Ida-Viru County is also an attractive region with breathtaking nature and a clean living environment. As a result, one of the main development priorities in the long-term regional development programme of Ida-Viru County is tourism. Recreation areas, medical treatment/rehabilitation resources and spas/health resorts are a good precondition for the development of tourism. The growth of entrepreneurship has contributed to the provision of accommodation and resort services and other service

sectors (e.g. retail and wholesale) have also developed. A common interest in tourism development on both sides of the border is confirmed by the fact that the town authorities of Ida-Viru county and St. Petersburg have negotiated about the future prospects of tourism development (Scott and Matzeit, 2006).

Being at the crossroads between the East and the West, close to large important cities, such as St. Petersburg and Tallinn, the geographical location of Ida-Viru county and the border town of Narva is perceived as an important asset for CBC, which was confirmed by experts and key informants interviewed in the county. The location and a potential for CBC are supporting the development of transport sector and transit activities in the county. Hence, an important strategic task is setting up a tourist and transit infrastructure. Opening the port of Sillamäe has created great opportunities for CBC. A free economic zone in Sillamäe is an additional factor for the border region (Ida-Viru County) to attract foreign investment and increase economic and social development.

The main weaknesses of the region from an economic development perspective, assessed by key informants and respondents of business support organisations, are:

- Insufficient use (including degradation of production buildings, ageing of technologies) of the production potential of the region (existing industrial and tourism resources);
- Insufficient development of transit and tourism infrastructure;
- Insufficient competitive strength of enterprises on international markets;
- Lack of qualified employees with technical education;
- Decrease and ageing of population, lower living standard than the Estonian average, therefore lower purchasing capability;
- Instability of relations between Estonia and Russia;
- Due to low entrepreneurship activity too few jobs are created, which causes many young people who have graduated from university or vocational school (including technical specialities) to leave, as they do not find employment in their home region. At the same time, developments during the last years have shown increase in the initiative of establishing new ventures;
- Enterprises do not have a habit to cooperate, but rather they want to do everything by themselves. As a result, key informants suggest it is necessary

to change attitudes towards seeing the benefits from doing things in groups. This could contribute to the emergence of clusters of enterprises;

- Low awareness of the Russian language speaking population of things going on in Estonia, such as new and amended laws and other matters. It is necessary to change this and improve the Russian language information system;
- State support for developing entrepreneurship and cooperation relationships is small, and use of support services is also modest due to low awareness of these measures.

In conclusion, Ida-Viru County is a region with good living environment and good potential for further economic development. The attractiveness of the region for local population and investors has grown; the image of the region as a tourist attraction has developed. Both the Living and entrepreneurship environments have improved through local government cooperation projects and the environmental situation in Ida-Viru County has improved through more effective environmental protection and less environmental pollution.

2.2 Entrepreneurship Development

As a result of the long industrial tradition of Ida-Viru County, the abundance of large manufacturing enterprises is a distinctive characteristic of the region. Hence, the development of small businesses has been slower than elsewhere in Estonia. This is confirmed by the firm formation rate in Ida-Viru County, which has been the lowest in the country for a long time. However, in the period 1999-2004 the number of enterprises set up has reached the average level of the country. Such an improvement allows one to suppose that business activity in the county will increase in the future (Venesaar, 2006).

Services in the region are weakly developed. Wholesale and resale trade of goods per inhabitant is relatively low, reflecting the limited local purchasing power. The main reserve for the growth of enterprises offering commerce, catering and, accommodation and leisure services is tourism.

Transit through the county has increased rapidly during the last years and its growth continues. The current servicing capacity of the network of roads and railroads and Narva Bridge is insufficient to satisfy the demand that accompanies the growing flow of goods and number of passengers. Nevertheless, the county has unused infrastructural capacity that offer good conditions for the development of entrepreneurship in Ida-Viru county.

Regardless of the low entrepreneurial initiative, start-ups in the county apply for start assistance from Enterprise Estonia. In addition to Enterprise Estonia, local governments try to develop local entrepreneurship (e.g. Narva town; Mäetaguse district). There are business incubators (Narva Vocational Education Centre, Sillamäe town) and industry parks (Jõhvi, Narva) in order to offer start-ups better opportunities for starting with their activities.

In the opinion of key informants and respondents of business support organisations:

- Reorientation and restructuring of a large enterprise is harder than in the case of a small enterprise. A reduction of production volumes in large enterprises has created a big social problem, in terms of increased unemployment. Employees of large enterprises are not willing to start their own businesses, needing time and training to change their attitudes and obtain relevant knowledge.
- Therefore, the county is characterised by a low entrepreneurial initiative and a weak small business sector, which also limiting cross border co-operation (CBC) activities.
- On the other hand, low entrepreneurial initiative in the county indicates weak competition on the local market and vacant niches for entrepreneurs exist, which could be a positive factor for setting up enterprises and also for attracting foreign investments.
- EU enlargement has brought new foreign direct investment into the region; a port was built and some industrial enterprises restored, which supports economic development in the region.
- Although the location of the county is good (near the Estonian-Russian border), entrepreneurs do not perceive these opportunities yet as every development takes time and entrepreneurs need to be informed better about

the EU. in two languages (i.e. Estonian and Russian). At the moment there is insufficient Russian language information.

- Local entrepreneurs are not able to use these opportunities on their own. There needs to be supportive measures for developing attitudes and skills.

Cross-border cooperation is inhibited by several factors (see section 3.3.). Encouraging it requires more efficient entrepreneurship policy and better information for entrepreneurs to raise their awareness of economic and institutional changes, entrepreneurship and innovation policy measures and related topics. According to the opinion of key informants, respondents of business support organisations and entrepreneurs, the actual situation of cross-border cooperation is strongly affected by the atmosphere of interstate relations and problems unresolved at the intergovernmental level, such as the absent state border treaty (between Estonia and Russia).

2.3 Social, Cultural and Historical Perspectives

In terms of cultural and economic relations between Ida-Viru county and Russia, more than 45 years of co-existence during the Soviet period have helped the regions to know each other, and facilitated the development of rich historical-cultural traditions. On the other hand, the events after Estonia regained independence have worsened relations between Estonia and Russia and caused tensions and instability in the relations.

However, as practical experiences of cooperation between Narva and Ivangorod showed, having population in both towns speaking the same language and sharing the same or a close ethnic and cultural identity, helps to overcome the distrust and tensions and redevelop cross-border cooperation. A common language of communication is a good precondition for cooperation, but it also creates problems of integrating local people to Estonian society and causes kind of isolation of the region (PHARE EBI 2003, 2005, 7).

In terms of current cross-border cooperation between Narva and Ivangorod, the most popular activities are music and sports. Boating on Narva River is very popular and

many competitions between Narva and Ivangorod teams have been organised. It is important to stress that without grass roots networking, the organization of cultural activities, including the grand events and festivals between the cities would not be possible. The participation of a wide spectrum of society in Narva and Ivangorod in the cultural cooperation is a positive sign for a peaceful development in this border region (Roll & Susi).

Cultural activities play an important role in promoting dialogue and preventing conflicts and a wide range of methods and approaches have been effectively used in Narva by different groups of people to overcome difficulties associated with unstable development and fears connected with the border position of Narva. Efforts of the local municipality, the educational institutions and people of Narva aiming to support the revival of the historical cultural heritage of Narva are planned and over time, this should help to improve the image of Narva in Estonia and in Europe.

Cultural activities have received support from the Estonian government, which has a policy to support the activities of cultural associations, their connections to the ethnic homelands, on one hand and also the integration of the multicultural processes into the cultural life of Estonia.

2.4 The Policy Environment for Entrepreneurship and CBC

The activity of local government bodies in Estonia is regulated by the Local Government Organisation Act, although this does not provide advantages to local governments along the border, allowing only those problems of border areas that are imperative for survival to be addressed. Border and customs laws regulate all communication issues of border regions and these are the responsibility of central government. In order to improve CBC between Estonia and Russia, there is a need to develop multi-level cross-border mechanisms and remove the obstacles generated at the state level.

The national level is associated with obstacles rather than opportunities for cross-border cooperation. In Estonia, the major problem involves cold political relations between Estonia and Russia. This has led to an over-politicisation of CBC, and as a consequence, unfavourable trade conditions, visa regulations and a lack of legal

bases for CBC. In Russia, there are serious bureaucratic obstacles at the state level that limit the freedom of action of regional, and especially local, authorities in the use of financial mechanisms provided by the EU.

EU-level policies appear to be crucial for the development of CBC between Russia and Estonia. However, the pace with which the two countries appear to adopt EU policies is rather slow, as cold political relations between the two countries hinder the process. The EU provides legal and institutional templates for CBC as well as mechanisms of financial support.

Entrepreneurship policy and business support services are determined by government programmes, and as policy activities are managed on the national level. This means that the business support services offered to entrepreneurs are similar in all counties, where business development centres are located. The main business support services related to CBC are for export support, such as funding for participation in exhibitions and trade fairs in Russia and other countries. Cultural programmes and co-operation between schools of different levels are assessed important activities for facilitating CBC (e.g. change of students; concerts, theatre etc)

According to the opinions of key informants, respondents of business support organisations and entrepreneurs, entrepreneurship policy is rather well regulated in Estonia and the entrepreneurship environment is supportive towards the enterprises. At the same time, there is a view that specific support services are overly directed at small enterprises and start-ups and consultants delivering services often lack entrepreneurship experience themselves. In Ida-Viru county, where the industrial potential is good, entrepreneurs need more assistance for renewing technologies, and counselling for re-organising strategies of enterprises. In addition, policies for developing and supporting cross-border cooperation are totally absent.

2.5 Potential for Future CBC

Ida-Viru County has become a gateway to Russia for the EU. The county is a favourable area for the development of trade between the EU and Russia and the

leisure complex of the county is sufficiently developed to service a growing number of visitors. The main strengths of the region from an economic development point of view, as assessed by key informants and respondents of business support organisations, are:

- A favourable geographical and geo-political location near the EU and Russian border, good preconditions for the development of tourism, cross-border trade and transit;
- Good tourism potential on the outskirts of the county, beautiful nature, a gradually cleaner natural environment; the development of accommodation possibilities, catering and leisure time services;
- Considerable potential of resources, including raw materials, existence of energy resources (electric power plants); large industrial potential; free production premises and resources;
- There are local potential production partners: chemistry, metal, textile and wood enterprises;
- The transport infrastructure is well developed, e.g. Sillamäe port, and a planned new bridge over the Narva river;
- Existence of favourable investment and entrepreneurial environment in Estonia;
- Experience of cooperation between local governments and enterprises both historically and currently;
- Existence of colleges of two universities in the region, i.e. possibility to get good education; availability of educated people in the county and high employment rate;
- Existence of entrepreneurship support structure and its development;
- The potential for a cluster of enterprises is developing in three areas - chemicals, manufacturing and tourism sector. At present, these clusters are at an early stage of development i.e. negotiations and getting to know each other;
- Price of real estate is (still) favourable;
- Large-scale public sector investments have been made;
- There are a large number of consumers in the area.

New opportunities for cross-border cooperation with Russia will open up with development of Via Hanseatica, a so-called “Crete Corridor” within the pan-European transport network between Lübeck - Gdansk - Kaliningrad - Riga - Valga - Tartu - Narva – St. Petersburg. In Estonia, the Via Hanseatica transport corridor (Valga - Tartu - Narva section) is a priority according to national planning. It presumes the development of an international transport corridor and transit traffic between Riga and St-Petersburg via Estonia, which would have a positive impact on the development of the tourist sector in Estonian eastern and southern regions (Narva ettevõtlusinkubaatori uuring, 2006).

3. Institutional Cross Border Co-operation

3.1 Nature and Extent of Current Institutional CBC: institutions involved; forms of CBC; longevity; outcomes

Cross-border cooperation involves vertical and horizontal networks of actors, where the vertical network include actors at the local, regional, state and European levels, and the horizontal network refers to various actors at the local/regional level such as public authorities, business, NGOs and universities. Various organisations are involved in cross-border cooperation, including municipalities, educational and cultural organisations, entrepreneurship support organisations, unions of enterprises and municipalities, as well as enterprises mainly from the manufacturing, transport and tourist sectors, through international projects also other countries and EU institutions. The enterprises that cooperate with institutions come mainly from the production, transport and tourism sectors.

Forms of institutional co-operation identified include:

- Meetings between local governments, cooperation negotiations and legalising it. A positive aspect in this area is the signing of contract between two towns - Narva and Ivangorod - by the leaders of town governments and planning measures for developing this kind of cooperation in the future.

Meetings with representatives from Ivangorod were regular, not less than once a month. It ended with signing a cooperation agreement, which states our priorities in entrepreneurship development. (Key informant 02, county government)

- Institutional cooperation through international projects (e.g. Lake Peipsi international water basin – Euroregion; EXLINEA; City Twins etc);

Participation in projects helps us to make contacts and meet key persons from the neighbouring region, which contributes much to future cooperation. (Key informant 11, city government)

Participation in projects (e.g. "City-Twins") has provided an opportunity to cooperate with specialists from other countries and learn from their experiences. From this project an idea developed to write an entrepreneurship development strategy for two towns - Narva and Ivangorod – in the framework of which the development possibilities and perspectives of towns were analysed and activities were planned to develop entrepreneurship. (Key informant 02, city government)

- Organising trainings and counselling. Cooperation partners in this case are representatives of Russian town and district governments, who wish to hear about the experiences of Estonian administrative reform.

In Russia there are plans to carry out their reform of local governments in order to lower the „right of making decisions“ a bit from the level of general managers, which requires also changes in the way people think. Several local municipalities in Russia (e.g. Kingissepa town) are interested in the Estonian experiences); the second topic of counselling is connected to the development of entrepreneurship support structure. This area is of interest for the representatives of Russian border region local governments, third sector organisations and small entrepreneurs. This is actual topic at the moment. Estonia also counsels about the questions of Russian third sector development, as these developments in Russia are still very new. Russian interest for the trainings is great. (Key informant 06, business support organisation)

In addition, ... meetings have been organised with the representatives of housing and utilities enterprises, where Estonia can share the experiences of forming apartment associations. (Key informant 08, business support organisation)

- Mediating business contacts, which includes organising meetings for business delegations, in which both Estonian and Russian institutions are interested. Problems for this type of cooperation have been difficulties in obtaining visas and recent political events, which have somewhat slowed down the making of new contacts.

Good example about entrepreneurs' meeting and activity supporting entrepreneurship is the organisation of contact forums during the past 3-4, where entrepreneurs from five countries

participated (Estonia, Russia, Finland, and Sweden) and where practical tips not general knowledge was discussed. Through a partner found at the meetings an enterprise in Ida-Viru realised its production to England. (Key informant 09, business association)

- Cooperation in organising transit through ports and via railroad.
- Preparing cooperation networks and making contacts between parishes of Ida-Viru county and districts of Leningrad oblast located on the coast of Gulf of Finland (in Russia). There are still unused possibilities in this regard..

Although intergovernmental relations are not the best, we can cooperate from person to person, from business to business, from local government to local government without big politics in order to show that we are not enemies, but we develop economic relations. (Key informant 06, business support organisation)

- Cooperation between schools and other forms of cultural cooperation, which are preconditions for developing economic relations.

Ida-Viru county is a lucky county, we have higher education in humanities and technical areas (colleges of universities). (Key informant 04, county government)

We have organised trainings for Russian entrepreneurs in Russian, who are interested in business in Estonia and EU. There is an interest for trainings also from Finnish businessmen, who want to go to do business through Estonia to Russia. (Key informant 10, business support organisation)

Since we have a well-developed centre of vocational education, we can cooperate with Russian vocational education institutions, who also plan new developments. (Key informant 01, city government)

3.2 Enabling Factors for CBC

Different levels of development of Estonia and Russia provide possibilities for cooperation in terms of exchanging experiences. Since Estonia has already been through most of the economic and social reforms, Estonian experiences are potentially helpful in planning similar reforms in Russia, e.g. administrative reform; building entrepreneurship support structure; founding apartment associations; developing third sector; developing educational system, etc.

Estonian accession to the EU was accompanied by institutional harmonization with EU requirements. As a result, Estonian experience in the implementation of EU legislation and norms has elicited interest in Russia, which favours cooperation between institutions and also enterprises. In addition, Estonian specialists are able to

carry out consultations and trainings in Russian, which makes it easier for the neighbours to participate in them. Estonian practical experience is an additional value in giving an overview of the EU requirements.

Production pours from the neighbouring country into Estonia. One reason for that is the desire to obtain EU certificate with what to go to the European market. (Key informant 04, county government)

EU financial resources supports cooperation in international research and cooperation projects, and in developing entrepreneurship and cooperation in cross-border regions.

The need to legalise and support cross-border cooperation demands agreements between Estonian and Russian institutions, in order to improve business environment to encourage for cooperation between enterprises to take place and develop. These agreements can develop into contracts and development plans between local governments. For example cooperation agreement between Narva and Ivangorod also contains development plans for the towns.

In the framework of this cooperation there have been developments on both sides of the border. For example on basis of Narva investment passport (www.investinnarva.ee) there are plans to establish such a web-page also for Ivangorod. Documentation for logistic centres in Ivangorod was developed; Narva side is developing the industrial zone. There are plans to create a joint incubator between Narva and Ivangorod. (Key informant 02, city government)

The desire of local authorities to support cross-border cooperation of enterprises is realised through mediating business contacts and organising meetings of business delegations. For this purpose, institutions work to establish contacts and prepare cooperation networks. For example:

The activities of Ida-Viru county governments are directed at creating a cooperation network between Ida Viru county parishes and districts of Leningrad oblast located at the coast of Gulf of Finland (in Russia). (Key informant 04, county government)

The growth of trading and tourism activeness foresees a need to develop cooperation in the areas of ports, railroads and transit.

3.3 Constraining Factors for CBC

As for development of CBC, key informants and respondents of business support organisations mentioned the following problems in the county:

- Due to the presence of large enterprises in the region people are not experienced in starting their own business, because they are used to having employment in large companies;
- Entrepreneurs in the region do not yet feel the opportunities for CBC because of their lack of knowledge. Each development takes time and requires the development of attitudes and skills and entrepreneurs need to be informed more in Russian language.
 - Russian entrepreneurs often abstain from fulfilling technical norms and the application process for certificates is sometimes too complicated for them;
 - There is limited interest on the part of entrepreneurs in Ida-Viru County in attending courses and sending employees to training programmes, compared to other Estonian regions. Experts explain this in terms of an undercapitalisation of enterprises in Ida-Viru county as enterprises have not enough resources for training,
 - Shortage of specialists with technical education, which would support development of enterprises
 - Different entrepreneurship culture of Estonian and Russian entrepreneurs, which requires a good mutual knowledge of the others way of working before starting cooperation,
 - Insufficient knowledge and skills on the part of enterprises, municipalities and the public sector generally for cooperation. This has improved, but there is still a long way to go to reach efficiency. It was suggested that the thinking that one's neighbour is always a competitor must be changed; he may also be a partner;
 - Cooperation problems between Narva-Ivangorod stem from their different possibilities, different size and financial possibilities, as well as dependence of Ivangorod on the central power in Russia. Entrepreneurs' lack of experience of international cooperation is an additional factor;
 - NGOs are weakly developed in Russia and also in Ida-Viru county;

- The visa regime remains by far the most serious problem for most of the Russian as well as the Estonian NGOs, universities and cultural associations, as well as for the individuals (e.g. tourists). The situation for entrepreneurs is rather better as they are able to obtain a long-term visa for business reasons.
- Border crossing problems, long queues, bureaucracy, cost of visa for individuals, bureaucracy of preparing visas;
- The large size of the market across the border in Russia is an important issue for the Estonian side. It has always been a motivating factor for economic interaction with Russia, although the low consuming power of the population in the border regions, low capacity of the firms and low differentiation of the local economy in the border regions are obstacles to CBC (e.g. Narva-Ivangorod).
- Institutions and also enterprises are worried about the self-financing part of the Interreg programme projects (5-25% and more) and this limits participation in such projects.
- Low skills and ability of enterprises and public sector (including local government) to cooperate. Things have improved but there is still a long way to go to achieve significant change. The way of thinking has to be changed with respect to neighbours not always being competitors, but also partners, providing a basis for co-operation.
- Differences in way of thinking, administrative organisation, and the right to make decisions at the local level, all inhibit the possibilities for cooperation.
- The actual situation for cross-border cooperation is strongly affected by the atmosphere of interstate relations and problems unresolved at the intergovernmental level (e.g. the absent state border treaty between Estonia and Russia; and other).

3.4 Examples of Positive Experiences of CBC

Cooperation between Narva and Ivangorod culminated in the signing a joint agreement by the heads of both towns in 2007. At the same time, this is just a beginning and the operational plan for CBC is still to be developed.

Formal papers are very important. This agreement has been signed by mayors, which gives each side the rights to develop cooperation. This document is very important for our activities. (Key informant 11, city government)

The experts evaluated cooperation in EU programmes to be positive, such as the “City Twins” project and “EstRusTur”. In the framework of the first project, two surveys were carried out among enterprises, which identified their wishes, problems and business possibilities in terms of CBC between the two towns. A brochure was completed about entrepreneurship development in Narva and Ivangorod. In the framework of second project:

... joint tourism product was developed: route for visiting the castles of Narva and Ivangorod, several institutions participated in this work. (Key informant 02, city government).

3.5 Examples of Negative Experiences of CBC

Due to political problems between Estonia and Russia, some negative political attitudes have formed in Russia against Estonia, due to which investment has been frozen. In addition, it is hard for the Estonian businessmen to conduct their activities in Russia, when the media all over Russia encourages people not to buy Estonian goods. This reduces cooperation meetings also at the level of institutions, and increased border-crossing difficulties are also a constraint (visas).

Problems related to border crossing have to do with bureaucratic processing of visas and low capacity to let transport through, which is limited by Russia. According to customs officials the Estonian side is ready to increase the capacity of border control. (Key informant 11, city government)

3.6 Evidence of Cross Border Clusters

Cooperation between enterprises is currently still at the level of meetings and discussions. Entrepreneurs are not yet ready to engage in deeper cooperation. However, discussions about the need for cooperation have developed as a way of thinking and understanding the need to cooperate, especially when going to foreign markets. In Ida-Viru county, the potential for clusters of enterprises is identified in three areas: chemicals, manufacturing and tourism.

There are various projects under way for the development of clusters, e.g. Phare CBC SPF INNOCLUS, an innovative cluster development in the Metals-Machinery-Electronics Sector¹. Workshops have been held in Ida-Viru county for metal industry enterprises. The project “EstRuCluster” has also started.

3.7 Enlargement-Related Effects on Institutional CBC

Estonia’s accession to EU brought changes in institutional development with respect to several functions, including carrying out consistent entrepreneurship policy; managing finances of structural funds; monitoring and evaluation of policy. In connection with EU accession, support services to enterprises and benefits have become more easily developed. The Estonian experience has increased interest in non-EU countries (including Russia, Georgia) for consultations about EU legislation and other requirements that concern the activities of institutions and enterprises.

Increased opportunities to participate in cross-border programmes is a positive feature of EU enlargement and entrepreneurs wait for new possibilities to participate in regional programmes with Russian institutions and enterprises.

EU enlargement has affected the strengths of the region in a number of ways:

- The environment for entrepreneurship has become more stable; and entrepreneurship policy principles are unified;
- Due to accession to EU, the support services for enterprises and finances can be better planned. Local government can draw up development plans that increase the effectiveness of measures.
- Although the level of economic development in Ida-Viru county is below the average in Estonia (e.g. GDP per capita), which has probably limited cross-border cooperation with Russia, during recent years the economy has started to grow faster, with increased growth prospects predicted. This can be linked to accession to the EU;
- Interest of Russian entrepreneurs and institutions includes the exchange of experiences and reaching European markets through Estonia.

¹ <http://www.emliit.ee/innoclus/index1.html>

- In connection with EU accession, support services to enterprises and benefits have become more easily developed.

3.8 Policies for Institutional and Enterprise CBC

There is currently no specific policy in Estonia for supporting CBC. Only EU policies have supported that area. There is a proposal to increase participation in EU programs with Russia.

In INTERRREG programs there are certain limitation for cooperation priorities and forms, but new programs have to be found without these limits. (Key informant 10, business support organisation)

Since a key problem in Ida-Viru county is the lack of Russian language information about entrepreneurship policy measures and also EU programs, measures to address this deficiency would raise the awareness of people about changes in Estonian legislation, entrepreneurship policy measures and CBC possibilities in border regions.

There are about 10 million persons living here EU and Russia border triangle (Eastern-Finland, Eastern-Estonia and Leningrad oblast), which is a big number and could offer various cooperation possibilities, but at the moment a lot of these possibilities are not used. It takes time until we move towards better cooperation. A lot depends on Russian language information. Business support organisations have to take this into account that the ethnic composition in Ida-Viru county demands more Russian language information. (Key informant 4, county government)

The most crucial policy need would seem to be improvement of the bilateral relations between Estonia and Russia. Key informants share the opinion, that the facilitation of the crossing of borders and reducing bureaucracy in visa regime will benefit institutions and entrepreneurs in both sides.

4. Enterprise Cross-Border Co-operation

4.1 Types of Current CBC Identified

The forms of cross-border cooperation of the interviewed entrepreneurs were mainly:

- Export of goods (construction materials; chemical products; packaging products)

- Investment abroad (building trading malls);
- Services for enterprises (transport; etc)
- Services for customers in cooperation with enterprises across the border

4.2 Characteristics of enterprises involved in CBC, including foreign partners

Characteristics of enterprises involved in CBC are based on the interviewed enterprises, which were selected mainly from manufacturing, service and transport enterprises, which are engaged in CBC to varying degrees. Of the owners and managers of enterprises that were interviewed, 3/4 were men; and mainly of working age i.e. 36-50 years old (65%) (see Appendix 4.1.). The interviewed persons were mainly Russians by nationality, which is also the dominant language of the cross-border region. They mostly lived in the same border region. There were no special links to the other side of border for most interviewees; only two had family links and one had previously migrated.

Most enterprises were well established: 55% had existed for 5-15 years and 30% more than 15 years; only 3 enterprises had existed for less than 5 years. 70% of the enterprises were growing, but in 20% of enterprises the number of employees had not changed during the last year and in 2 enterprises the number of employees had decreased. Enterprises were mostly in private ownership and mainly wholly domestically owned. Legal form was divided between two forms: limited liability and joint stock companies. In terms of sales turnover (2006), most firms were small, with less than 2 million Euro. 19 enterprises were currently involved in CBC and one had been previously been involved. The main market was located in the cross border region, and more than two foreign partners were typically involved in the CBC. Partners came mainly from a more distant region.

4.3 Evidence of Change in CBC over time

Changes over time are mainly connected with Estonia becoming independent in 1991 and moving towards market economy, which has involved developing and adjusting the legislation that regulates economic activity, as well as cross-border activities. These processes have undoubtedly been accelerated by accession to EU. This has contributed to the emergence of differences in the development of the two

countries (reforms); in documentation (requirements that have to be followed at the border and that the partner from another country has to take into account as well); as well as in the business cultures (keeping one's word, trust, and deadlines).

Estonia's rapid development has caused differences in the level of prices, which favoured and still favours the interest of Estonian entrepreneurs for CBC in certain type of goods, although the price difference has been diminishing. In many cases, the decrease in price difference has reduced Estonian interest in Russian goods (e.g. buying of raw materials), although the large size of the Russian market remains attractive for Estonian entrepreneurs. The accession of Estonia to the EU has increased the flow of goods across the border through Estonia to Russia.

Below are some examples of opinions of the interviewed enterprises about the changes in CBC:

When talking about changes then with every year life in Estonia and environment for entrepreneurship improves. The legal base strengthens and improves. There is more order. European assistance can also be felt (roads, communications, and infrastructure). Historical landmarks are being restored. Very important for firms, especially for hotels is that the regulations for getting visa would be simpler, but on the other hand they understand that it's EU border. When compared with Finland then it's much easier to get a visa there than to Estonia, why? It could be an artificial situation. (E11)

Changes in CBC have also occurred in relation to abolishing double tariffs after Estonia joined the EU.

If earlier the proportions of export were small then after the tariffs were abolished goods started to move more, e.g. construction materials. Less business has been done with foodstuffs as it requires more work. In the past it was more difficult to work as the customs regulations were complicated and solving several questions took a lot of time. Now the legislation is more operative and simpler. Russian legislation corresponds already to modern requirements. If you transport ordinary goods then there are no problems. (E12)

Some entrepreneurs are of the opinion that there have been no changes following entry to the EU, since most changes began earlier when Estonia became independent (political border problems, bureaucracy, and strong competition).

The process of harmonization of technical norms has started some years before enlargement and most part of firms have improved their conditions according to the EU standards. For example, these standards were not problems for hotels, the staff is experienced and can speak foreign languages (Russian, English, and Finnish). But a number of new hotels have been opened in better

environments (towns, nice places) making the competition stronger: the environment (location) and political situation has decreased the competitiveness of the hotel under study. (E02)

The economic development and growth was rapid in Estonia, which has increased differences btw two countries (prices, institutional, decision-making). (E03)

The cooperation hasn't changed much over the years, what have changed though, are bureaucracy and the regulations for issuing visas (E04) and customs documentation. The changes have occurred in connection with difficulties in getting Estonian visa (e.g. high prices, especially for groups), also with problems in international relations between the two countries. In Russia a lot of tourism firms are not interested in cooperating with Estonia. In the opinion of experts, this is influenced by the political tensions btw two countries. (E5).

The problems started in the summer of 2006 with long queues at the Estonian-Russian border. Since Russia started to buy many different European goods, the flow of goods to Russia increased many-fold, which is one reason for long queues at the Estonian-Russian border.

As all the borders inside the EU are open, then a dominant part of all transport of containers that used to be by sea is now by land with vehicles. So a lot of trucks coming from Europe to Russia go there through Estonia. On the other hand the problems with transfer capability at the Russian border crossing points at a time when the flow of goods has increased have contributed to the situation. The problems at the border exist only with trucks, not with ordinary cars. The entrepreneurs think that the ability of Russian border-crossing point to process goods is influenced by tensions in bilateral relations between Estonia and Russia and Russian wish to create obstacles for flow of goods from Estonia to Russia. (E01)

Nothing has changed in Russian legislation; there isn't even a border agreement between Estonia and Russia. The relations used to be different in the past also without the border agreement. In order for the relations to normalise again, it takes time and the process is long-term and difficult. (E17)

CBC is very important for Estonia. Many companies use Russian raw materials, especially wood, although the establishment of a pricing policy in Russia for raw materials has introduced new barriers for this kind of CBC.

Russia has increased the price of raw wood and wants to stop export to Estonia entirely. There were even plans for railroad transport stopped until the end of the year 2007, 60% of transport takes place by cars; and also by ships. Russia has adopted state fee on the export of birch wood. Decreasing import of raw material or increase in its prices may influence that the paper industry may come to a

halt in Estonia. In the opinion of experts and entrepreneurs, the reasons for problems with trade are connected political events in Estonia in April 2007. (E01)

But other opinions refer to major changes in Russia with implications for CBC:

EU and Russia need cooperation and both are looking for those possibilities. When we look at the location of Estonia on EU map, then we are on the border of Europe, on the border two economically vast countries and due to that cooperation for Estonia is very important. It is now necessary to look forward, how to re-establish normal relations. I don't see many differences in Russia. „I have worked in Russia and have had contact with them for 15 years and those who say that there is a big difference, have usually not been in Russia. Also Russia has changed much, business culture has developed from soviet society. The connectedness of politics and economics is another thing and it has to be taken into account, but it is possible to conduct business with Russia in the Western way, we don't have to talk about cowboy capitalism.” (E14)

4.4 Costs and Benefits of CBC to Enterprises

Main benefits of CBC for enterprises are connected with opportunities to find a large market for goods, services and investments, increase turnover and profit, as well as increasing the number of clients coming to Estonia for tourist trips, and/or to enjoy health/medical services. So CBC is of vital importance for Ida-Viru county and Narva town. This is illustrated by the opinion of one entrepreneur:

“The problems of the border regions should be taken into account, e.g. in Narva about 70% of people live rather poorly (low wages, unemployment; at the same time prices increase for gasoline, food, electricity, etc). Bigger enterprises are closed down as production is not profitable any more when production costs increase. This is a very complicated issue. CBC is beneficial for poorer population, also for smaller entrepreneurs. Therefore it's necessary to support this kind of cooperation”. (E01)

The manager of enterprise offering health services stated: *“The clients are the benefits what have come from cooperation with Russia. In total 10% of Russian clients or about 30 persons per day is relatively important. Another thing is that we foresee the growth of the Russian market in the future, and the decline of the Scandinavian market. The no of Finnish clients has declined for one reason only – Estonian prices are almost the same as in Finland. Russian clients are not influenced by that, because in Russia, in Moscow and St. Petersburg, the prices are higher. They come to a relatively cheap place” (E16).*

Another important aspect is the economic stability that Estonia has achieved, which makes it attractive to invest in:

This is essential in border region where Russian citizens have it easier to invest as there are no language problems and information can be reached; and above all the investments are in the EU territory, there is no need to go further. For example if you want to invest in Spain, there are at once language problems and other customs. But at the moment investments have stopped due to the political situation. In order to improve the situation the relations between countries have to be friendly.
(E11)

At the same time, the costs of CBC for enterprises are unpredictable, particularly considering the bilateral problems in Estonian-Russian relations and the unstable environment for entrepreneurship in Russia. The main costs are connected with increases in transport costs; the time wasted in crossing the border; and the costs incurred in following customs procedures and visa documentation requirements. In the following paragraphs, some examples of this are provided:

The firm is interested in selling to Russian market. "We want to increase the sale to Russia. But transport creates big problems. We communicate constantly with railroad in order to remedy things. We need higher special wagons for loading our goods, but there are no wagons. There was a proposal to take the goods by car to Paldiski (to Russia) and try to load the wagons there. But transport to Paldiski and reloading costs a lot; it raises the price quite a lot. Road transport has become due to queues at the border very expensive. Our goods are very cheap; there is no point in transporting by road." (E06)

The enterprise is referring to the problem about a new rule by Russian customs, according to which loads that go to Estonia need to be checked. This is difficult technically as a number of customs officials need to be found and taken to the place of loading. There is wood, agreed price, agreement with English partners – but it's impossible to bring materials to Estonia!

(E08)

The problem of transport and queues at the border has already lasted for half a year:

The trucks stand 5, 6, 9 days at the border in order to reach St. Petersburg, then take a load from there and then drive back for another 4 days. The transport to St. Petersburg doesn't cost that much as it's near, but one has to stay 10 days at the border. Further transport costs more. When with further transport the truck drives for 10 days in Russia then it compensates the stay at the border. "We are fighting here already for a month, the only solution seems to send goods directly from St. Petersburg port to England." The trucks ordered in Russia take the goods directly to the port, at the

port there are different agents that service shipping lines. They upload the goods. Everything that could be done in Estonia is now done in St. Petersburg. The company loses money as it would be cheaper to transport via Estonia. But in this situation the firm is ready to sacrifice something to save the main business. In terms of fish products, the problem is with veterinary requirements and tariffs that emerged in Russia and the company had to stop. (E08)

At the moment the quantities of goods are good, actually they are maximum that the partners can offer. But since August 2008 (already for 3 months) the firm has received no trucks! The Russian partners cannot solve the issues of customs, overview that has to be organised now at the spot. This is a total catastrophe for the firm!!! It's necessary to cooperate with Russia as it's a vast market. "Unfortunately it seems that the opinion of entrepreneurs doesn't influence the situation, everything depends on politics.." (E08)

The problems of CBC are connected to the organisation of transport, which is made difficult by the problems of border crossing. Long queues result in not keeping the deadlines. Also the issuing of road permits is limited. At the moment (December) all permits have been used both on Estonian and Russian side. CBC is difficult, but the firm manages. (E19)

The Russian market is important as a destination for Estonian products, but there are problems especially at the end of year.

..., the shortage of road permits as this year the trade between Estonia and Russia has been livelier. The problem is also long queues at the border that delays the deadlines and raises the prices. (E20)

CBC is important for the turn-over of the company; the objective of the company is to prepare visas for going to Russia. The problems are connected with Estonian and Russian political relations that effect negatively also tourism between the two countries. (E04)

Problems are also associated with different requirements for different passports (different nationalities).

For „blue” passports (for person with Estonian citizenship) the processing takes 3 days, for „grey” passports (for person without citizenship) a quick visa is made in 5 days. If there is a need to speed things up, i.e. if there is „last minute” tour, for which all documents have to be ready in one day, then it's difficult. The Russian embassy doesn't issue visas that fast. So the company is unable to offer these kinds of tours as it's impossible to prepare the documentation for it. (E04)

When Estonia joined the EU, the Russian visa became more expensive, which had implications for CBC.

The company used to organise a lot of excursions for the school-children, as crossing the border was free for the children. So the children used to have more possibilities to go to Russia. At the moment the visa costs 550 EEK (the same as for grown-up). Not every parent can afford sending his child on a trip for such a price. Also other costs are added to it: bus ride, food, accommodation. This is a negative change. These issues related to fees should be discussed and solved bilaterally between countries. Estonia is of course interested in arranging tours to Russia. (E04)

In comparison with 1995, CBC and visits from Russian tourists to Estonia have diminished.

The main problems have to do with political relations between Estonia and Russia, due to which Russian clients come to Estonia less than before. The fact that Estonia joined the EU hasn't played a role here. (E05)

Some managers of hotels are of the opinion that at the moment their company is not interested in Russian clients because of a number of problems with them:

There are no tourist groups from Russia. They come as single clients and stay for a longer period (e.g. 10 – 15 days). But for example people from Latvia come more in groups. The Latvians and Lithuanians have a lot of excursions. They visit Tartu, Tallinn and other places (e.g. Ida-Viru county). During their rounds they stay at the hostel. People come also from Poland; they have a tour: Latvia, Lithuania, and Estonia. They also stay at the hostel. Russians have no such tours. (E03)

CBC could enliven a lot hotel business and tourism in Estonia, also activities in the hotel being interviewed. Problems are connected with bilateral relations between Estonia and Russia, political events in Estonia, due to what several Russian travelling agencies refuse to send tourists to Estonia. The hotel is trying to cooperate with partners in Russia, but is unable to solve problems related to politics, so it advertises itself if Estonia and in the rest of the Baltics. (E11)

The problem is connected with the worsening of political relations. Russian citizens observe the actions of their political leaders. Entrepreneurs can do nothing here. The border is a national issue and the state has to take care of it. The number of cars at the border is ~500. People live in horrible conditions: they can't eat properly, wash, etc. (E12)

4.5 Positive and Negative Lessons from CBC

Positive experience of CBC in enterprises is mostly connected with cases (e.g. manufacturing enterprises), where the entrepreneur has had long-term relations with partners in Russia. In the opinion of entrepreneurs, any problems are connected with political relations between Estonia and Russia that negatively affect relations in

different areas as well as economic cross-border cooperation. An example of such an opinion:

Today both Estonia and Russia have come to a stand-still. I know entrepreneurs here in Ida-Viru County who have frozen or sold their business projects in Russia. And the same applies to Russian businessmen who have wanted to come here to Sillamäe port to develop their projects, today there is time-out. (E13)

Negative experiences of CBC are also caused by a certain degree of uncertainty and problems in the entrepreneurship environment in Russia, as well as differences in technical standards and the required documentation and in business culture. An example from previous CBC experience:

The company was first engaged in making furniture, then wholesale, production of foodstuffs and real estate. Today there is no furniture manufacturing and the part of wholesale activity has diminished. CBC was beneficial for the firm (furniture industry, exporting production and having a plant located in Russia) at first. The lessons learned show that the following problems wait for Estonian businessmen in Russia:

- *Estonian small firms have limited capacity for production due to which the prices for products are high. So it's complicated to compete with Russian firms as their production is as a rule bigger and price per unit of production is lower than for Estonian firms.*
- *The tariffs in Russia on imported goods are high.*
- *The exchange of information between Estonian and Russian customs is poor.*
- *Corruption is blooming in Russia, bribes have to be given daily to different officials (fire-fighting, veterinary, employment, etc). (E18)*

The same firm has an experience when there was a danger of losing trust.

Trust is very much valued in business relations by entrepreneur, and it emerges in personal relations after long periods of joint activities. But there have been set-backs even here, e.g. payment deadlines were agreed with a partner that worked well at first, but in the end the partner misused trust and disappeared with goods. In order to reduce risks the trade was on the principle „goods-money“. (E18)

The experience of another entrepreneur is that when clients come from Russia, one needs to ask for 100% advance payment before the clients arrive here.

„Because we book meals and accommodation for them and if there are hold-ups on the border, it interrupts the entire house. It creates instability for us and we don't need it“. (E15)

Another company tried to export fish to Russia, but failed:

The situation got more and more complicated over time and the activities had to be stopped because of special veterinary requirements in Russia, tariffs, and other requirements, which has made a work with Russia too complicated. (E08)

For Russian entrepreneurs, Estonia can be an intermediate step towards the European market. Estonia is attractive to Russian enterprises, when production can move from Russia in order to obtain EU certification for products they wish to sell in the EU market. In this process, a large part of production takes place across the border in Russia, but the finishing touch is given in Estonia, as with an EU certificate the product sells better in Europe. This is a positive cooperation experience, but there are cases when such cooperation has had negative results. The problem in these cases is that the standards of products manufactured in Russia differ from the EU requirements, which means that many things made in Russia have to be changed in Estonia. Because of this, obtaining the certificate becomes costly and it is accompanied by vast bureaucracy, which scares Russian entrepreneurs and causes them to leave the process unfinished. Some Estonian entrepreneurs have been losers in this process, if they have been cooperation partners.

“In terms of risks, I would like to use my friend’s example who has already for three years a factory near St. Petersburg, but who hasn’t so far managed to have electricity installed. ... the biggest dangers come with working your way through the Russian bureaucracy. Today we don’t have this skill any more. Second thing is a different business culture. Third aspect is the subjugation of Russian entrepreneurship to political decisions. And also the legislation has holes in it in European sense, e.g. land issues, property issues and trade rights – you take a big risk when you go there.” (E13)

4.6 The Role of Trust in Enterprise-Based CBC

In most cases, the initiative for CBC came from the Estonian side. CBC was positively influenced by common history, culture and language as initial motives for selecting partners, but there were also numerous opinions that these factors were not so important (Table 4.1). Most interviewed entrepreneurs had not experienced cultural problems during CBC. Language and cultural proximity of employees had contributed to CBC, as had EU enlargement. In the case of both Western and Eastern partners, CBC is regulated on the basis of formal agreements, in order to

guarantee that the agreed transactions take place and increase trust between partners.

Table 4.1: Managers' opinions about identity and trust issues

WP3 Initiation of CBC	
From this side of the border	14
From the other side of the border	6
WP3 Common history, culture and language as initial motives for selecting partners	
Yes	12
No	2
Irrelevant	6
WP3 Cultural problems arisen in CBC	
Always	1
Sometimes	
Never	19
WP3 Relevance of staff background in CBC development	
Hindrance	
Irrelevant	4
Help	16
WP3 EU enlargement impact	
Positive	14
Negative	2
Neutral	4
WP4 Regulation of cross-border cooperation	
Formal agreement	17
Informal agreement (e.g., handshake)	3
WP4 Origin of main cooperation partner	
Western Europe	2
Eastern Europe	18

Most of the entrepreneurs interviewed thought that trust was not an issue in CBC between Estonian and Russian partners:

"Trust is not an issue, if there is interest to cooperate, and then trust will follow". (E02)

"There have been no problems with trust; it depends on the activities of the partners". (E03)

Entrepreneurs emphasise certain forms of behaviour that have to be followed in order to gain trust in the eyes of the partner, such as the importance of personal relations and other factors influencing the emergence of trust between partners.

"Personal relations come first, then business dealings. The company is trying to act honestly and correctly and not to fail its partners. If there are inevitable obstacles (force major), then they try to

notify the partners, find compromises, even if money is lost. The business and the name of the company is important; only honest business.” (E08). It’s very hard to do without personal contacts; we have to establish more personnel contacts with Russian partners. (E05)

Trust is a part of every-day work, there have been no problems. The firm is communicating regularly with partners, and has a respect for them. Trust is supported by cultural (historical background, language), economic (growth, business environment, stability) as well as institutional (regulations) factors that are influencing CBC between Estonia and Russia. (E07)

Trust is most important when working with partners, they haven’t let the company down and the company hasn’t let its partners down. It’s important to keep ones promises and pay the bills in time. Certainly, the common language (Russian) of staff helps to communicate better with partners in Russia. (E04).

Trust has to be gained, which means behaving correctly and keeping agreed deadlines. One has to communicate to get to know one’s partners, which is necessary to guarantee business success.

Personal contacts are important; therefore the entrepreneur visits often its partners in Russia. (E12)

There is total trust with the Russian partner, it’s based on personal contacts and on the fact that both sides keep the deadlines and problems are solved in cooperation. Main problems have to do with crossing the border. Biggest issue is the mistrust of Russian customs. (E19)

Trust is also born also through good service and positive experience for the client, in which case the firm (e.g. hotel) gains a good reputation that is spread among one’s acquaintances. For example the following experience has been described:

The client trusts the administrator, trusts his safety, the safety of his car, the cosiness of his room. In the same way the hotel trusts the client that he pays for services. It is important that the client is satisfied; It’s important to get the clients and that Russian tourism agencies interested in the hotel. (E05)

Trust is often created through long-term contacts:

Trust is important and long-term cooperation adds to trust. In case of new partners their background is checked carefully in order to avoid problems. The economic environment inside the country and the stability of economic relations between the countries is important. This is a point to consider and Estonian leaders should work in order to improve the relations between Estonia and Russia. (E06)

Trust is very important for firm and can become stronger during long-term connections. It is influenced by many factors (economic, cultural, business regulations, political relations). Political relations are rather negative at the moment and it has decreased trust of some partners. (E11)

In addition to trust entrepreneurs emphasised the need to keep the documentation in order and reduce risks in cooperation with partners:

There are no problems with trust; the main thing is that documents are prepared correctly. Certainly, the competence of staff (language, knowledge) helps. (E01)

Trust is important, but agreements and other documents have to be in order. The firms need several guarantees like export guarantees; protection of investments as it's strategically important to reach different markets. For example for food industry Russia has always been a big potential market. At the time of political risks there should be protection against it. Perhaps the state could create some guarantee fund. (E09)

The importance of trust was emphasised several times by the managers interviewed. For example, in order to gain trust, once orders are prepared and before sending them, representatives of partners check the goods on the spot. This is important, especially for new clients in the early stages of a relationship. The partner has to be able to see that promises and actions are the same.

They check a few times and in the future don't have to do that anymore. And if there are some problems, some questions, then the director of commerce drives to oversee the situation in Russia. (E10)

A big part of trust are personal contacts and very specific agreements, which means that both sides know what has been agreed upon, how to do things and that neither parties can back down. This is work for lawyers so that there are no grey places, which one or other side could use to their benefit. To build your business in Russia purely on oral promises is very difficult, except when you cooperate with a person whom you know really well. (E13)

In some cases, trust has changed over time, influenced by changes in the business environment and culture, but also on the basis of experience of long-term cooperation. For example:

During 10 years the entrepreneur hasn't seen all its Russian partners in person, they work mainly by using the phone and e-mail. In 1997 there was a lot of mistrust (e.g. not paying for goods). In Estonia there are few such cases as the state is small and everyone fights for his name. Today also the business culture has changed in Russia, but there could be some problems in both directions - east and west. (E12)

Trust is something which changes all the time. „Our trust with the clients and shareholders of the port has grown every year. When we started our work, there was much less trust, now we have

cooperated for 4 years, we know and trust each other, and we don't have hesitations in this respect. (E14)

Several interviewees described how to reduce risks and how to behave in a situation of mistrust.

The problem is the instability of political environment, which influences e.g. the speed of crossing the border. In order to minimize risks down payment is asked from Russian clients, and those who have come, have agreed to that. (E15)

In order to reduce risks the trade was on the principle „goods-money“. The part of trust in business relations is important, but it occurs in personal relations after long periods of joint activities. But there have been set-backs even here, e.g. payment deadlines were agreed with a partner that worked well at first, but in the end the partner misused trust and disappeared with goods. (E18)

We sell beforehand, meaning that clients buy the voucher before they come here. So we have the money first, and there are no big risks. (E16)

4.7 Enlargement-Related Effects

The opinion of managers and owners of enterprises about the impact of EU enlargement on CBC was mainly positive (e.g. larger flows of goods, meeting technical standards and increase of quality, growth in turn-over), and mainly direct impacts on enterprises), but some opinions expressed were that the influence was both direct and indirect. A small number of respondent stated that the impact was negative or that it did not exist at all (Table 4.2.). A majority of respondents suggested that EU enlargement has contributed to increasing the differences between regions and competition increased.

Table 4.2. The opinion of managers on EU enlargement issues.

WP1 Influence of EU enlargement on existing CBC	
mainly positive	8
mainly negative	1
both positive and negative ²	5
mainly direct ³	11
mainly indirect ⁴	
both direct and indirect	5
no notable influence	4
other ⁵	
WP1 Influence of EU enlargement on CBC during the existence of the enterprise (in retrospect)	
mainly positive	8
mainly negative	2
both positive and negative	5
mainly direct	11
mainly indirect	
both direct and indirect	6
no notable influence	3
other	
WP1 Influence of EU enlargement on disparities between two border regions in terms of legal and institutional environment	
differences increased	13
differences decreased	1
no notable influence	6
WP1 Influence of EU enlargement on border type	
created a 'soft' border	20
created a 'hard' border	
no change	
WP1 Influence of EU enlargement on the competitiveness of the cluster	
increased competitiveness	
decreased competitiveness	
no notable influence	
WP1 Influence of EU enlargement on the competitiveness of the enterprise	
increased competitiveness	14
decreased competitiveness	3
no notable influence	3

² e.g. removal of tariff and non-tariff barriers substituted by production standards

³ i.e. monetary, regional

⁴ i.e. symbolic, national

⁵ e.g. changes expected in the future

Entrepreneurs see both positive and negative consequences from the EU enlargement. The EU offers support directly for enterprises and indirectly for infrastructure (constructing roads). In addition, EU membership has brought more order and efficiency through EU technical norms, which the enterprises consider as positive.

The enlargement of the EU has brought more order to the countries that have joined it, roads have become better, nice shops have been built, and pensioners are more contented. If you drive across the Narva River to Russia then everything is the same. Tourists come here and see the changes, this is very important. (E11)

The EU brought more order in the organisation of work. The so called Euro norms are beneficial for the firm. It's not easy to follow them, but once they are fulfilled, the firm benefits (e.g. safety at work, sanitary requirements). (E18). Following EU technical norms have contributed to the increase in quality of production. The firm has received a required certificate. The increased quality of products (and certificate) has increased the competitiveness of the firm in Russian market. (E06)

Entrepreneurs emphasised that the increase in economic stability has created good investment conditions in Estonia. They also noted an increase in Russian interest for cooperation with Estonia, which effectively means co-operation with the EU.

Another important aspect is economic stability that Estonia has achieved, i.e. it's beneficial to invest. This is essential in border region where Russian citizens have it easier to invest as there are no language problems and information can be reached; and above all the investments are in the EU territory, there is no need to go further. For example if you want to invest to Spain, there are at once language problems and other customs. But at the moment investments have stopped due to the political situation. In order to improve the situation the relations between countries have to be friendly. (E11)

But there are also reverse opinions, in which case the impact of EU enlargement is viewed as negative, mainly because of problems in Estonian-Russian bilateral relations:

After joining the EU the relations between Estonia and Russia have worsened. "We have worked with Russia our entire lives, transported goods to Ivangorod, Kingissepa – milk, bread and meat. A lot of people have come from Ivangorod to work in Narva and vice a versa. Now everything is closed down. The worst is that relations between people are unfriendly and they are not improving. (E17)

Estonian-Russian border is there already for 15 years, but there is still no border agreement! It's necessary to live in friendship with your neighbour, but it takes interest on both sides. (E17). The

politicians should see that political relations with Russia are better than at the moment. There is a need to end blaming each other and start a dialogue. There is a need for political agreements that would support also CBC. There should also be agreements between the Estonian and Russian customs that would contribute to the movement of goods. There is a direct connection with worsening the intergovernmental relations and growth of illegal activities. Trade doesn't disappear, the question is, who and to what extent uses legal and illegal means. (E18)

Other opinions expressed by key informants and representatives of business support organisations were:

- Competition increased, which forced entrepreneurs to raise the quality of their products and services to compete in international markets; global competition will involve relocation of enterprises in worldwide division of labour.
- Increased enterprises' access to EU markets, hence increasing enterprises' business opportunities, at the same time forcing them modernise production (new technology, compliance with technical norms, quality management etc) to increase enterprises' competitiveness; this increased enterprises' opportunities for cross-border cooperation.
- The opportunity to participate in cross-border programmes is positive and entrepreneurs wait new possibilities to participate in regional programmes with Russian institutions and enterprises.
- The abolition of double duties provided better opportunities for Estonian exporters for exporting goods to Russia, but many other obstacles (absence of agreement between the states; border crossing difficulties) still do not enable to use these opportunities, though Estonia is interested in the large market of Russia.
- Access of enterprises to EU markets was widened, this increased business opportunities of enterprises, which forced them at the same time to up-date production (new technology, following technical norms, quality management, etc) in order to increase competitive power;
- As a result of cross-border cooperation, Estonian enterprises wish to enter Russian market, but Russian enterprises wish to enter the EU market through Estonia.

4.8 Use of External Assistance and Participation in Public Policy Programmes

Few enterprises have used external support, and none had received support especially for CBC activities (Table 4.3.). Most respondents stated that their enterprises would need external help in the future. Half of the enterprises had joined different umbrella associations in order find support there. In spite of modest use of external assistance, the general support system in Estonia and its availability was considered to be good or average. One respondent had thought that the external support was very good; the rest thought it was either average or not good.

Table 4.3. Managers' opinion about policy issues.

WP6 Use of business support infrastructure	
Yes	5
No	15
WP6 Assistance Received with regard to CBC	
Increased awareness of opportunities	
Partner search facilities	
Business to business contacts	
CBC support programme	
other	5
WP6 Membership of business associations	
Yes	10
No	10
WP6 Support needs	
Yes	16
No	4
WP6 Availability of business support services (in region)	
Services not offered in the region	
Services offered in the region	17
Do not know	3
WP6 Quality of business support	
Very good	1
Average	13
Not good	6

The entrepreneurs, who used external assistance, typically evaluated it positively.

The company has received support for two projects: in 2002 for reconstructing the pumping station in the amount of 230 000 EEK; and in 2006 for exchanging the heating tubes in the amount of two million (the self-financing was 50%), both were for the techno-park, but it's also necessary for the leather processing. In the techno-park the number of tenants has increased greatly, it has to keep functioning. (E10)

We have received assistance through Enterprise Estonia, also through SAPARD (pre-accession programme for the support of agriculture) and later through PRIA (administers EU agricultural funds). We have used one training support; others have been investments for building something. There has been no other support, no support to visit trade fairs, except for the St. Petersburg trade fair. (E15)

Although some entrepreneurs were critical about external support.

The assistance from Enterprise Estonia can become more expensive than paying for some services, consultants or events. "It can be often heard that in order to get support from Enterprise Estonia then there are rules, requirements that limit so much that it's easier to give up assistance as there is no flexibility. The entrepreneurs don't expect so much that their projects are co-financed, but they would want the state to see things in a complex way." (E07)

We have done one thing with external assistance – Enterprise Estonia and PHARE2000 have supported the establishment of the incubation centre. But today we haven't much to do with EU assistance. In general we talk very much about soft projects, but it's time to do something more specific, to help with investments." (E13)

Today external assistance could cover the administrative costs of the incubation centre - heating, phone, electricity. To compensate for this part of the centre that is at the moment empty. But there are specific rules and regulations. You can write another project, buy some sort of computers, those you can renew, but this is not important. (E13)

If there is support for developing a strategy or for specific activities (like going to trade fairs), then this is good and necessary. But some things are too bureaucratic. Doing these things costs more than in this case when we invest our own money. Writing a project and administering it has become quite complicated. So there is no point to prepare a project for just printing information materials. But if it includes trade fairs and other things, which cost quite a lot, then this is notable support. We consider that there is no point to prepare a project that costs below million. When the sums of money are bigger, then it makes more sense. (E16)

4.9 Policy Issues Identified

The overall environment for entrepreneurship and entrepreneurship policy was evaluated by entrepreneurs positively, overall. Negative aspects were the absence of specific policy for CBC and a lack of information about external support available in the Russian language, as in Ida-Viru county entrepreneurs and inhabitants are mostly Russian language speaking.

General entrepreneurship climate and policy in Estonia can be evaluated positively. The legal environment is well regulated and legal aid is accessible. Regulations are not obstacles for developing the cross-border cooperation. (E19)

There are no external measures for CBC: those who want, cooperate. May-be there is a need for simplified visa regime; this is an only thing that could be better. But it doesn't depend on our government as we are a member of the EU. (E03)

The company is contented with the entrepreneurship environment. At the same time there is no belief in the entrepreneurship support as there is little information about it's being divided (in Russian at least). (E02)

Estonian policy that supports entrepreneurship by dividing the EU support (aid to start-ups or export support) should be more transparent. At the moment there is a lack of information who gets the support and on what grounds. The information about providing support is in Estonian and reaches Russian businessmen with a delay. The call for projects and its conditions should also be in Russian as more entrepreneurs could then take part. (E18)

Entrepreneurship policy is directed more at start-ups and small enterprises. Larger enterprises have fewer opportunities to receive support for technological innovations, for example. In addition, some other aspects, such as taxation, are problematic:

"Those young consultants can tell little new and help. The consultants are incompetent in helping a working enterprise. I have seen it in a bank, where I had to explain to a consultant what to do. Unfortunately it's so." (E08)

We need to support those private entrepreneurs who are looking to modernise their production; as has been done in Latvia. No such decision has been made in Estonia. We need to raise productivity. The development of production could create more production capacity in order to go to the Russian market. (E01)

There are unfortunately no such measures that would help to renew production and enable it to be sustainable. The Enterprise Estonia finances relatively small and soft things. (E07). We should end soft support and talk about certain finances for certain things, e.g. investments for enabling the firm to use modern technology. Renewing technology, innovation could be the area where the state participates with entrepreneurs. (E13)

Something should be done with taxes, e.g. they should be differentiated according to the size of the company. It's also somewhat harmful to invest in the social sphere or become a sponsor as there are special taxes that have to be paid from these payments. (E12)

In addition, entrepreneurs emphasised the need to solve political problems at the state level, as this is the biggest obstacle in organising CBC. Entrepreneurs can do little about this themselves:

Ida-Viru County is lagging behind and needs more investments. And the political problems btw two countries need to be solved by governments, enterprises cannot do anything here. (E02; E04). Estonian leaders should work in order to improve the relations between Estonia and Russia. (E06)

When local environment is normal for firms, then the problem is with political relations and events. The company has a lot of investors in Russia and after the "April events" they aren't very interested in continuing the cooperation. Some projects have come to a halt as Russian investors don't want to invest just due to the political situation. (E10)

5. Informal and Household-Based CBC

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

Household based CBC includes:

- buying goods in Russia (with cheaper price than in Estonia for personal needs, for friends and acquaintances);
- Buying goods in Russia and selling them in Estonia for earning additional income;
- Working in Russia.

People buy different goods from Russia, including alcohol, cigarettes, fuel, and medicines. They buy gifts for their family, friends or acquaintances. They buy goods across the border from Ivangorod, Kingissepa and those with cars go further to St. Petersburg. People buy goods mainly for personal needs, for acquaintances and friends. The quantities of goods are limited according to the customs regulations. If someone brings goods from Russia in order to sell them, then those are cigarettes and alcohol (vodka). In the opinion of household interviewees, one has to start to buy cigarettes after 1st of January 2008 as the excise on cigarettes is raised in Estonia and therefore the prices rise. It's not allowed to bring across the border food-stuffs and other goods that contaminate quickly; the customs confiscates these.

The prices in Russian towns are also different - in Ivangorod and Kingissepa they are much higher at the same time when in Slats, which is only at a 75 km distance, the prices are cheaper. (H10)

She buys clothes from St. Petersburg. The prices of goods have been raised so much in Russia that it's impossible to buy cheaper from there anymore. On Nevskii prospekt the prices are so high that for us in Tallinn they are much lower. If one buys then it's worth choosing something very special that isn't available in Estonia. These are special goods from Russian firms. The price difference is not important for the interviewee, but the specificity of Russian goods in order to buy for one's family and to a lesser extent for friends, but definitely not for sale. (H03)

A number of people who have obtained a visa on favourable terms can go to Russian more easily and more often in order to bring cheaper goods for families, although this possibility has diminished with Estonia joining the Schengen visa area.

The interviewee visits Ivangorod and Kingissepa border regions on week-ends about once in every 2-3 months. Crossing the border takes place under favourable conditions as her relatives live in Ivangorod. She crosses the border on foot, then takes a bus to Kingissepa town (30km from the border). On the other hand she also takes gifts from Estonia to her relatives, mainly clothes. (H04)

Since people buy goods in Russia from markets and shops, then there are usually no prior agreements.

The goods are bought from main malls near the border, there are no previous agreements. Sales in Estonia take place unofficially from hand to hand. (H05)

People who live in Estonia and have Russian citizenship can cross the border more easily than others, which they can also use for going to work in Russia. It is easier to come to work in Estonia illegally as there are entrance quotas.

(...) the work-force moves across the Estonian-Russian border, some specialities are paid in Russia better than in Estonia. Local Russian-speaking people who live in Narva (Estonia) can go to work across the border if they have the possibility to obtain the visa on more favourable conditions (i.e. yearly visa or Russian passport as they are Russian citizens). Russian citizens have no great obstacles in terms of movement over the border. With people also goods move within the allowed limits, the more people go over the border, the more the goods move. (H06)

As Russia doesn't limit people coming or if come to work for a firm then the possibility of unofficial work is bigger and easier. But we in Estonia have quotas for residence and work permits as far as third countries are concerned – so coming from the East is more difficult. Today we have the opportunity to move to the West and people can come here from the West easier than from the East. (H06)

5.2 Background and characteristics of participants, including foreign partners

The individuals active in cross-border trade are mainly:

- Persons who have relatives on the other side of the border and who have obtained a visa on favourable conditions for crossing the border. They are mainly of working age, but also include pensioners and unemployed, who economise in their family budget by buying goods for their own use, and/or selling them to friends and acquaintances and obtaining additional income in this way. There are more women and Russian speakers.
- Businessmen whose partners are located in Russia and who buy Russian goods on business-trips for their families due to lower price or other differences (tradition).

Individual members of households engaged in this activity may be visiting relatives and mainly buy goods for family needs and/or for friends and acquaintances.

She visits her relatives in Ivangorod and brings goods for the needs of her family, but also gifts for friends. At the same time takes gifts from Estonia also to her relatives in Russia. She has travelled across the border regularly. (H04)

Person has place of residence near the border. He has travelled in Russia and done business also at earlier times. Now he isn't directly involved in petty trading, but has filled the tanks of his car when coming from Russia and bought also cigarettes and vodka for his own use. (H05)

Pensioners go across the border to do shopping once a month, after they have received pension. This was more frequent (before the EU) when it was allowed to bring food-stuffs as they were usually almost half cheaper than those in Narva. The main articles were bread, vodka, cigarettes, macaronis, grouts, but also clothes and footwear. People have also bought furniture. (H07)

There are some people who cross the border several times a day (5-6 times), although proving that they bring goods in order to sell them is difficult. The border controls are supported by the government regulation of 1999, according to which goods can be taken across the border only during the first border-crossing of the fortnight (still some cross the border several times in a day).

To cross the border twice per day is normal as people might work in another country; some have a sick mother there, some families live on both sides of the border. Sometimes those wait due to traders in a long queue for whom it's very important to get across (to visit a sick relative). (H07)

One Russian, living in Narva, in the border-town has previous contacts in Russia and is working in a transport firm offering services for delivering goods to and from Russia.

He buys gifts and necessary goods for his family when coming back from Russia from a business trip, from a meeting with the partners of his firm, etc. The person doesn't go to Russia especially to buy goods, but this is a side product so to say of his business trips. (H01)

Businessmen who are travelling to Russia for meetings with partners are buying goods and gifts for family needs (e.g. H02; H03)

Person living in the border town; has contacts in Russia from previous times, travelling in Russia connected with job responsibilities. (H03)

5.3 Enabling and Constraining Forces

Favourable factors of cross-border trade include:

- Economic motivation, i.e. price difference of goods and the possibility to buy cheaper goods from Russia; and wish/ need to earn extra income;
- Historical aspect, i.e. wish to buy so called traditional goods from Russia that were consumed during the Soviet period;
- Personal factors, in case of people who have relatives across the border (in Russia) and can therefore obtain visas on more favourable conditions according to the agreement between Estonia and Russia;
- The time factor is relevant for people who have the time to cross the border in order to buy goods (pensioners, unemployed).

Trade is influenced mostly by economic factors (price difference, need to earn), but there are also cultural reasons (traditional Russian goods that were consumed when there was no 'hard' border). (H06)

Those who want to earn from cross-border trade are mainly those who have time (e.g. pensioners, unemployed), in order to earn some extra money for living. However, the proportion of these people has diminished due to the obstacles at the border. In addition, at present there are better opportunities to find official work than

in the past. Additional income from cross-border trade may provide support for those with small income (pensioners and unemployed).

Additional income from cross-border trade is positive for those with small means and who have the possibility to cross the border (time, visa). (H07)

People living near the border have more favourable conditions to cross the border than those living at a distance. Although a mainly Russian speaking population lives in Ida-Virumaa and also in Ivangorod, the areas across the border belonged in the past to the (first) Estonian Republic, so there are also some Estonian citizens by birth.

There is a simplified way to cross the border for people to whom it's necessary to visit relatives, take care of the sick, manage property, attend weddings and funerals, but not for developing cross-border trade. These people have benefited from being able to obtain visas more easily by bringing Russian goods (cigarettes and vodka) across the border and selling them. However, there is no such regulations for simplified visa procedures in the EU. The fact that, for example, in 1999 about 5000 Estonians and 2000 Russians could cross the border more easily was just a concession agreed by the two countries. Steps have been taken on both sides to simplify the regulations for obtaining a visa.

"It's some sort of relief for the family budget if one goes more often to Russia (e.g. in terms of cigarettes, alcohol), but its importance decreases." (H02)

"If one brings goods from Russia for one's own use and as gifts, then there are no obstacles as the quantities are not big. Of course it's not allowed to bring food-stuffs." (H03)

There are few people who live only on cross-border trade, for most people it's a way of earning extra income. (H05)

Inhibiting factors for cross-border trade identified are:

- Quantitative limits of goods for individuals;
- Bureaucracy and time that is spent on crossing the border;
- Disappearance of price difference between Estonia and Russia, but every increase in prices in Estonia motivates people to buy from Russia.

Main difficulties occur with limitations on quantities of goods at customs. This is solved by persons by crossing the border more often, which is possible for Russian citizens who can cross the border more freely. (H01)

All problems have to do with Russia. There is bureaucracy there, all is delayed and takes a lot of time. On the Estonian side everything has always been open to trade. (H05)

The allowed limits are sometimes a problem when friends ask sometimes more than the customs allows bringing across. (H04)

As a private person, the interviewee would not risk bringing in raw materials for firms, as preparing the necessary documentation is complicated and the time spent in border queues is very long.

The quantities of goods that can be taken across the border are limited, crossing the border takes time. The number of people who have a yearly visa (as relatives, grave in Russian border region) has decreased. (H09)

The biggest problem is that the state doesn't pay enough attention to its state border. This has to be a concern for the state, one can't blame the local government for everything. (H02)

To cross the border by car in Narva is even more difficult, as the queues depend on the work capacity of the Russian border guard. On the Estonian side, it takes 2-4 minutes to examine a car, check the number and the persons in it, but for the Russians it takes about 20 minutes. However, the Russian side allows pedestrians to cross the border more easily. There is no queue for diplomats, state vehicles, buses, and cars with children under 3-years-old or with elderly over 80.

Massive queues at the Estonian-Russian border emerged in June 2007 (bronze night was in May). The Tax and Customs Board was told by the Russians that from 1st of July, the Russian customs will insert into their computers all the insurance details of those crossing the border, which takes about half an hour. In the opinion of one household interviewee:

"This is essentially Russian economic blockade towards Estonia. Also for private persons it's more difficult to cross the border." (H08)

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

The main changes identified over time are:

- A decrease in price differences that will continue until the price level has converged. This has decreased interest in CBC, as the possibilities for earning extra income decrease, i.e. the number of people engaged in CBC has decreased;
- Restrictions in crossing the border, tightened border control.

People from Estonia have gone to Russia to buy goods since the time when a price difference emerged. For example, the difference for a litre of fuel is 3.5-4 croons without value-added-tax, although the difference is decreasing. Russia has introduced several taxes in terms of insurance, registration and roads, which has increased the cost of undertaking these trips. Also the quantities that can be taken across the border are limited, and these have also decreased over time. In terms of amendments to laws, every rise in Estonian excise or other taxes increases the potential benefits of buying in Russia and vice versa.

The price difference for some goods still exists, it's worth to buy them (e.g. gold). But the price difference for fuel has decreased; this is not beneficial any more. (H02)

When at some point in Estonia the reason for increasing prices had to do with economic growth, then there are no such concerns any more – economy is cooling down, but the prices still rise, food-stuffs, fuel, etc. A number of excises will increase – vodka 24%; cigarettes 43%; car fuels 10%. This is again another reason to look more towards Russia as the price difference is increasing. How is this possible? It's possible partly by legal trading. Part of individuals with Russian passport will continue bringing goods for their own use, the quantities being sold have diminished. (H08)

Household level CBC activities have become more complicated as the control at the border is tighter and it takes more time to cross the border. The flow of goods going through Estonia has increased many times after Estonia joined the EU but the capacity to process these goods in Narva, Luhamaa and Koidula has reached its limits and queues are inevitable. All EU-Russian border points face the similar problems.

The activity of bringing goods from Russia to Estonia has decreased as the price difference has decreased and it's not so beneficial any more. At the moment it still pays off to bring a package of cigarettes and 2 bottles of vodka. Other goods cost as much as in Estonia. It's not economically worth any more to trade across the border due to limits on goods and queues. (H10)

There is no point to bring clothes. People don't drive also for fuel any more. People can bring for the own use a bit, but is it worth it? Firstly you have to pay 100 rubbles for entering the country and even if the fuel is cheaper it doesn't have better quality. There is no such situation any more that you can buy things 2-3 times more cheaply in Russia. Bread will become now more expensive in Estonia. May-be old ladies will start to buy it from Russia, but for themselves, not for selling it. (H10)

5.5 The Role of Trust

Since there are few formal agreements involved in this type of activity, the issue of trust is not so important. However, those who cross the border regularly also have certain places that they visit regularly to buy goods.

There are certain shops and sellers whom she trusts and from whom she buys. (H04)

The characteristics of households involved in CBC show that cultural and social barriers are not influencing CBC communication to any great extent. CBC is initiated mainly from Estonian side and interviewees estimate that EU enlargement will negatively affect CBC. Some households have previous family experience relevant to CBC. Households are using informal handshake agreements and their activities are not registered.

Table 5.1. Households' opinions about identity issues

1	Cultural and social barriers in CBC communication Yes No	0 10
2	Initiation of the CBC From this side of the border From the other side of the border	10 0
3	EU enlargement impact Positive Negative Neutral	0 7 3
4	Previous family experience relevant to CBC Yes No	4 6

5.6 Enlargement-related effects

Enlargement of the EU has brought a number of changes, such as an acceleration of economic growth and increased prices in Estonia; changes in customs rules and stricter controls at the EU's external border. In addition, several political problems have become more serious (between Estonia and Russia) which has reduced the expected benefits of CBC at the level of households and decreased the number of households engaged in cross-border trade.

At the same time, interviewees think that there have not been many changes in personal relations at interpersonal level:

Since 2004 trading on individual level has decreased due to several reasons (price difference decreased; rules of customs; difficulties for crossing the border; political problems – bilateral relations between the countries). (H08)

Joining the EU changed the rules of customs. (H05) But...joining the EU hasn't much changed cross-border trade on individual level. (H01)

On the individual level joining the EU hasn't influenced cross-border activities much, neither did the April events in Tallinn in 2007 as trading takes place between persons and here the price difference not politics is important. At least on the Narva-St Petersburg direction it's so as there is Russian nation on both sides, that's favourable for trade. (H02)

Some households estimated the impact of EU membership as positive as it decreased illegal trade.

The impact of the EU for cross-border trade is negative for legal trade, but positive as it decreased illegal activities. (H07).

Additional income from cross-border activities has decreased after joining the EU. (H09)

5.7 Policy Issues Identified

In terms of policy issues, households typically referred to the function of the state in regulating intergovernmental relations and the organisation of cross-border cooperation. The biggest problems in this respect are the obstacles for crossing the border (bureaucracy, time delays, and cost of visa).

The Customs and Tax Board has paid more and more attention for strengthening the border control, including using the state-of-art technology. A precondition for the Schengen area is good quality border control at the external borders. (H09)

Local authorities cannot do much for CBC if government is not supporting. (H02)

CBC doesn't play a role in the family budget. Also the local government can't influence it as it's a question to be regulated at the national level. (H03)

6. Conclusions

6.1 Overall Assessment of CBC in Region

The current assessment of CBC involving households in Ida-Viru county is that it seems not very active, although cross-border cooperation involving municipalities, educational and cultural organisations, entrepreneurship support organisations, unions of enterprises and municipalities, as well as enterprises mainly from the manufacturing, transport and tourist sectors, is more prominent.

Institutional CBC includes:

- participation in different international projects,
- organising training and counselling,
- meetings between local governments and cooperation negotiations,
- mediating business contacts and organising meetings for business delegations,
- cooperation in organising transit through ports and by rail
- preparing cooperation networks and making contacts between parishes in Ida-Viru county and districts of the Leningrad oblast located on the coast of Gulf of Finland (in Russia),
- cooperation between schools and other forms of cultural cooperation.

The most supportive action recently (in 2007) has been the signing of a contract between the two border towns (Narva and Ivangorod)- by the leaders of the town governments and planning measures for developing CBC in the future.

The forms of cross-border cooperation reported by the interviewed entrepreneurs included the export of goods; investment abroad (building trading malls); services for enterprises (e.g. transport etc); services for customers in cooperation with enterprises across the border; transport services.

Both key informants and entrepreneurs assessed the current possibilities of CBC with Russia to be rather moderate between the border regions of two countries as there are a number of obstacles. The most important of these are obstacles connected to the cold bilateral political relations between Estonia and Russia, due to which there is no border agreement between two countries. In addition, several other legislative acts are missing that could influence CBC activity. In spite of considerable interest from institutions and entrepreneurs to cooperate in the border regions, and generally supportive social, economic and cultural factors, there are political problems that need to be solved at state level.

Cultural activities can play an important role in promoting dialogue and preventing conflicts. In this regard, a wide range of methods and approaches have effectively been used in Narva by different groups of people to overcome difficulties of the unstable development and fears connected with the border position of the town. Efforts of local municipalities, educational institutions and people of the county have aimed to support the revival of the historical cultural heritage of the region and develop CBC with Russia.

Cross-border cooperation involving enterprises is inhibited by several factors, which requires more efficient entrepreneurship policy and better information for entrepreneurs to raise awareness of economic and institutional changes, entrepreneurship and innovation policy measures. According to the opinion of key informants, respondents from business support organisations and entrepreneurs, the actual situation with respect to cross-border cooperation is strongly affected by the atmosphere of interstate relations and problems unresolved at the intergovernmental level.

6.2 CBC: Enlargement Related Issues Emerging

EU enlargement has positively affected the strengths of the region. The environment for entrepreneurship has become more stable and the principles of entrepreneurship policy more clearly established. Due to accession to EU, support services and finance for enterprises can be better planned. In addition, local government can draw up development plans that increase the effectiveness of measures.

The level of economic development in Ida-Viru county is lower than the country as a whole, on average, (e.g. GDP per capita), which has limited cross-border cooperation with Russia. However, during recent years the economy has started to grow faster and growth is foreseen to grow further in the future, associated with accession to EU. Access of enterprises to the EU market was widened, this increased business opportunities of enterprises, which forced them at the same time to up-date production (new technology, following technical norms, quality management, etc) in order to increase competitiveness..

Estonia's accession to the EU brought changes in institutional development, in terms of carrying out entrepreneurship policy more consistently; managing finances for Structural Funds; monitoring and evaluation of policy. An important effect on entrepreneurship is that Russia was forced to abolish double customs tariffs. As a result, Estonian enterprises wish to enter the Russian market, but Russian enterprises also seek to enter the EU market through Estonia. The interest of Russia is increased by the opportunities to obtain consultations in Estonia about EU legislation and other requirements (e.g. certification) that concern the activities of institutions and enterprises. The opportunity to participate in EU cross-border programmes is another positive benefit and entrepreneurs wait new possibilities to participate in regional programmes with Russian institutions and enterprises.

Entrepreneurs see both positive and negative consequences of EU enlargement. On the positive side, EU support (direct) for enterprises and indirectly for infrastructure (constructing roads), but also more order and efficiency as EU technical norms offer enterprises. More negatively, other views are that the impact of EU enlargement has contributed to worsening bilateral political relations between Estonia and Russia.

6.3 Co-operation and Clustering Related Issues

Enterprise clustering in Ida-Viru county is still at an early stage of development, namely at the level of meetings and discussions. Entrepreneurs are not yet ready to engage in deeper cooperation. Nevertheless, discussions about the need of cooperation have helped to develop a way of thinking and understanding of the need

to cooperate, especially for enterprises going to foreign markets. In Ida-Viru county, the potential for a cluster of enterprises is forming in three sectors: chemicals, manufacturing and tourism.

6.4 Identity and Perception-Related Issues

Cultural and economic relations between Ida-Viru county and Russia have existed for more than 45 years. Co-existence during the Soviet period helped the two sides to know each other, facilitating the development of rich historical-cultural traditions. On the one hand, events after Estonia regained independence have worsened relations between Estonia and Russia and caused tensions and instability in the relationship. The establishment of the border regime resulted in social stress in the border community, particularly for the inhabitants of Ivangorod who were formerly employed in Narva, as Ivangorod is a small town with few possibilities for employment. Tensions have also arisen connected with the unregulated use of the shared infrastructure (e.g. water supply, telephones). Also, families, who happened to be on different sides of the border, were divided. However, as practical experiences of cooperation between Narva and Ivangorod have shown, having population in both towns speaking the same language, sharing the same or a close ethnic and cultural identity, helps to overcome any distrust, reduce tensions and redevelop cross-border cooperation. A common language of communication is a good precondition for cooperation.

6.5 Trust and Learning Related Issues Emerging

Most of the entrepreneurs thought that trust was not an issue in CBC between Estonian and Russian partners, e.g. *“Trust is not an issue, if there is interest to cooperate, and then trust will follow”*. They had no problems with trust; and referred to the dependence of trust from the activities of partners. Trust can be based on good service and positive experience for the client, in which case a firm’s (e.g. hotel) good reputation is spread more widely. Trust is also created through long-term contact. Trust can be changed over time, influenced by changes in business environment and culture.

In the opinion of entrepreneurs, trust between individuals is facilitated by cultural (historical background, language), economic (growth, business environment, stability) as well as institutional (regulations) factors that are influencing CBC between Estonia and Russia. Entrepreneurs referred to certain types of behaviour that have to be followed in order to gain trust in the eyes of a partner, emphasising the importance of personal relations and other factors (such as clear agreements and keeping to deadlines). But they also emphasised the need to keep documentation, which reduces risk in cooperation with partners.

6.6 Policy and Governance Related Issues

According to the Local Government Organisation Act, no advantages are provided to local governments along the border. The Act only allows local government to allocate resources to deal with those problems in border areas that are imperative for survival. Border and customs laws regulate all communication issues of border regions and these are the a competency of central government.

Cross-border cooperation is institutionalised at different levels of governance. There are multiple agreements that regulate Estonian – Russian intergovernmental activities and cross-border cooperation and cooperative structures may be established at the intergovernmental, as well as the municipal levels. This has provided a good foundation for cross-border cooperation in the Narva-Ivangorod area. Nevertheless, in order to improve CBC between Estonia and Russia, there is a need to remove the obstacles generated mainly at the state level. The cold political relations between Estonia and Russia have led to an over-politicisation of CBC, reflected in unfavourable trade conditions, visa regulations and a lack of legal bases for CBC. In Russia, there are serious bureaucratic obstacles at the state level that limit the freedom of action of regional, and especially local, authorities in the use of financial mechanisms provided by the EU. EU-level policies appear crucial for the development of CBC between Russia and Estonia. However, the pace with which the two countries appear to adopt EU policies is slow, as cold political relations between the two countries hinder the process. The EU provides legal and institutional templates for CBC as well as mechanisms of financial support.

6.7 Future Prospects for CBC.

Based on the views of key informants, representatives of local governments and business support organisations and entrepreneurs, there is good potential for CBC in the region. Being at the crossroads between the East and the West, and close to large important cities, such as St. Petersburg and Tallinn, the geographical location of Ida-Viru county and the border town of Narva is perceived as an important asset for CBC. The creation of the free economic zone and the opening the port of Sillamäe in the county has created additional opportunities for CBC. In addition, good industrial (metal, chemistry, construction materials, textile, and wood) and tourism potential, as well as historical and cultural factors, a stable external environment and the existence of a business support structure are contributing to the CBC development. Perhaps the most important aspect is the desire and motivation of the border regions (Ida-Viru county in Estonian side and Leningrad oblast in Russian side) for cooperation at an institutional as well as at an enterprise level.

Ida-Viru county is region with good living environment and good potential for further economic development, which develops in a sustainable way. The attractiveness of the region for the local population and for investors has grown; and the image of the region as a tourist attraction has developed. Both the living and entrepreneurship environments have improved through local government cooperation projects and the county's environmental situation has improved through more effective environmental protection and less environmental pollution.

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Appendix 4.1. Characteristics of enterprises involved in CBC

1.	Region	Ida-Viru county
2.	Age of Interviewee 18-35 36-50 51-65 Over 65	2 13 5
3.	Position of interviewee in enterprise Owner Manager Employee	8 12
4.	Gender of Interviewee Male Female	15 5
5.	Ethnicity/nationality of Interviewee Estonian Russian	7 13
6.	Language skills of Interviewee Dominant language of cross border region Minority language of cross border region Other languages	13 7
7.	Place of residence of Interviewee Same as region Outside region	17 3
8.	Links to the other side Family origins Migration patterns (i.e. studies, work, former residence) No links	2 1 17
9.	Current total number of employees of enterprise less than 10 employees 10-49 50-250 more than 250	4 9 7
10.	Employment change over last 12 months: Increase Same Decrease	14 4 2
11.	Firm's Age Less than a year 1-5 years 5-15 years Over 15 years	3 11 6
12.	Legal status of enterprise sole trader partnership limited liability company	9

	joint stock company other	11
13.	Ownership of enterprise Private state/public owned mixed ownership other (municipal)	18 1 1
14.	Ownership 2 Majority foreign owned minority foreign ownership wholly domestically owned equally owned	17 3
15.	Main sector(s) of activity Agriculture Industry Services Transport Retail and distribution (i.e. trade) Other	5 11 4
16.	Main markets (abroad) Cross border region Cross border country	15 5
17.	Total sales turnover in 2006 less than Euro 2 million 2-10 million 10-50 million more than 50 million.	14 5 1
18.	Experience of CBC of enterprise currently involved previously involved attempted but failed to be involved	19 1
19.	Number of foreign partners One partner Two partners More than two partners	5 1 14
20.	Location of foreign partner Adjacent region A more distant region Capital	2 18

Appendix 5.1. Characteristics of the households involved in CBC.

1	Region	Ida-Viru
2	Age of Interviewee 18-35 36-50 51-65 Over 65	2 5 3 0
3	Gender of Interviewee Male Female	7 3
4	Ethnicity/nationality of Interviewee Estonian Russian	4 6
5	Language skills of Interviewee Dominant language of cross border region Minority language of cross border region Other languages	6 4 0
6	Number of foreign partners One partner Two partners More than two partners	NA
7	Nature of arrangements for CBC Handshake agreements Formal contracts Guarantee by third party	10 0 0
8	Intentions of registering their activity Yes No	0 10
9	Location of foreign partner Adjacent region A more distant region Capital	NA