BUILDING A STRATEGY DOCUMENT BASED ON INTERNATIONAL PROJECT “INNOVATION IN REGIONAL POLICY” STUDY CASE

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ABSTRACT

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The aim of this thesis was to analyze the current situation of the Baltic Sea Region after year 2008, when the global crisis has hit the economy. The thesis described the socio-demographic and economic aspects of the eight European countries having a direct access to the Baltic Sea and three non-EU members (Norway, Russia, Belarus) who also play a supportive role because of their closeness and interest of keeping the entire Baltic Sea area clean, prosperous and safe place to live. The thesis was prepared for the purpose of the EU Baltic Sea Region QUICK project and the results were presented on the Hanseatic Conference in May 2012, in Hamburg.

The theoretical framework included practicalities regarding international integration, strategic policies, their progress and development. The thesis covered topics related to management and challenges of building a strategy document based on European Union-financed projects.

The study case research was conducted through quantitative methods and driven by the constructive feedback of the managers from the Baltic Institute of Finland as well as partners of the QUICK project with leading Hanseatic Parliament. The research followed the mission of the Baltic Sea Region Programme 2007-2013 and included indicators of Europe 2020 Strategy as well as European Strategy for the Baltic Sea Region.

The outcome of the research indicates that building an international policy document is a time-taking process because of the challenges related to the geographical scope of the project. Moreover, it requires constant assistance of the interest groups in order to make the final strategy transparent, understandable and in favour of all the participating parties.

Keywords: strategy, policy, European Union project, Baltic Sea Region QUICK, lobbying

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LIST OF ABBREVIATIONS

BIF: Baltic Institute of Finland
BSR: Baltic Sea Region
BSR QUICK: Baltic Sea Region QUICK project
EUSBSR: European Union Strategy for the Baltic Sea Region
EUSDR: European Union Strategy for the Danube Region
GCI: Global Competitiveness Indicator
ICT: Information and Communications Technology
NUTS: Nomenclature of Units for Territorial Statistics
SME: Small and medium size enterprises

1.INTRODUCTION

1.1 Thesis background

“Innovation in Regional Policy” is a strategy document of an European Union project called BSR QUICK. The BSR QUICK acronym stands for Baltic Sea Region Qualification, Innovation, Cooperation and Key business for small and medium-sized enterprises (SME). According to the Hanseatic Parliament data, SME is the most common enterprise structure in the Baltic Sea Region and fills 99% of the market giving up to 70% of all available jobs.

So far, Baltic SMEs have coped with the crisis better than most of their neighbours and, even though few of the Region’s economies have nearly collapsed, they miraculously raised up with great results proving their flexibility, strength and potential. However, the crisis still influences the markets (predicted average EU 0%GDP growth in year 2012), and there is a strong need to monitor and analyze the future trends and opportunities for all the Baltic Sea Region countries and their SMEs.

The strategy “Innovation in Regional Policy” writing process had been outsourced to the Baltic Institute of Finland (BIF) during the time when I have served there my practical training period (September to December 2012). Since January until May 2013 I have been working on the strategy as an external researcher.

The Baltic Institute of Institute of Finland operates since 1994 as non-profit organisation acting in the form of a foundation. The core activity is to promote cooperation and concrete projects between organisations around the Baltic Sea region and throughout Europe. The mission is to create and enhance international cooperation networks between citizens, researchers, experts, authorities and businesses in their efforts to identify new partnerships and activities with added value. BIF is a main partner in the BSR QUICK project and the strategy was outsourced to them upon agreement of the project action plan. BIF is also a successful figure in the Baltic Sea Region Programme projects scheduled for year 2007-2013. The Lead Partner of the BSR QUICK project is the Hanseatic Parliament from Hamburg, which role is to coordinate and supervise progress and development of the research.

1.2 Thesis purpose

The aim of this thesis is to find out an order of a policy building process, based on an international project. The BSR QUICK assimilates eight EU and three non-EU countries and therefore, the cooperation is exposed to many challenges of managerial and cultural characteristic. One of the objectives is to record them and describe their influence on the process.

The goal of the study case is to create a summarizing document for the BSR QUICK project ending in December 2012. The partners wish to continue the cooperation after year 2013, and have requested a policy paper including analysis of the current as well as predicted state of the Baltic Sea countries, including the economical and socio-demographical factors.

The study case is continuation of researching the competitiveness of SMEs and consequently, it describes the partner countries according to the relevant topics. However, the study case is the first one comparing the outcomes with using much smaller territorial units (NUTS2 and NUTS3). Large part was devoted to describe the strengths and opportunities of the regions according to their industrial specialization.

Since the BSR QUICK is partially EU-founded project, belonging to the Baltic Sea Region Programme 2007-2013, it was an objective of the highest priority to keep the policy content along the mission of the EU Strategy for the Baltic Sea Region and Europe 2020 Strategy. The final stage of the “Innovation in regional policy” aimed to gather the ideas and reflections of all the partners based on the background research. They were formulated into a strategy list, in order to ensure a transparent and clear direction for the future in favour of everybody. So thoroughly stated strategy might perhaps influence the upcoming projects and legislation acts helping the development of the Baltic Sea Region.

1.3 Research methodology

The thesis was conducted through both quantitative and qualitative methods. The study case was mostly based on evaluation of the statistical data, in order to collect background information for further assessment, which was used later on by the project partners to create a content of the policy. The strategy was created based on their feedback and professional opinion of the project managers from the Baltic Institute of Finland.

2. THEORETICAL FRAME

2.1 Integration of European Union members

The Baltic Sea cooperation associates countries with enormous differences in GDP, social security systems and education. It has not been that long time ago after last EU extension, so Europe is still in an on-going process of integration. Its fundamental management problem is to create a bond gluing all the pieces together. Keeping it as a whole for a longer time will come next (van Schendelen, 2005, 22).

The Baltic Sea Region is also at the stage of integration, after all the neighbouring countries decided to commit and collaborate with each other, despite of the differences. However, the fact that old EU members (Nordic countries and Germany) are eager to integrate with new members is not coincidental. The Nordic countries have a long history of developing nationalisation and decentralisation programs supporting capitalism. As wealthy and economically stable representatives, they are known in lobbying communities for their watchful budget spending, especially for focusing on integrating and environmental policies (van Schendelen, 2005, 126).

2.2 Role of policy

The name of the study case “Innovation in regional policy” includes an important key word- a policy. According to Cambridge dictionary it means “a set of ideas or a plan of what to do in particular situations that has been agreed officially by a group of people, a business organization, a government or a political party”. Enlargement of EU coalition has placed all the members in a new situation, and therefore there is a need for a new strategy. Even though the first programme framework 2007-2013 has been nearly fully implemented, it has been a trial phase for the Baltic Sea Region and time to get to know new partners. The BSR QUICK project is heading to its final stage in December 2012 and therefore, there was a necessity for a summarizing cooperation policy.

2.3 Lobbying

European Parliament has published calling for the Strategy for the Baltic Sea Region already in year 2006, noticing the need for cooperation. In 2004, after retrieving new European Union members (Lithuania, Estonia, Latvia and Poland), the barriers for international teamwork have became smaller and common goal, the Baltic Sea, became more important for everybody. Eight EU partners have become a strong interest group. Rinus van Schendelen in his book “Machiavelli in Brussels: The Art of Lobbying in EU” states that the different kind of players, organized and somehow subdivided (locally or regionally) create the interest groups in order to lobby the EU governance.

Lobbying is a formal, legal form of influencing the authorities to draw an attention to a certain issue related to the public affairs. Lobbying party can be represented by companies, trade unions or other interest groups, in majority however, non-profit organizations. Van Schendelen (2005, 51) compares the EU to the machinery, the out-coming legislation to a product integrated from handful of practices and interest group to stakeholders. The group, similarly to the company stakeholders, tends to visit and intervene the production line in order to make sure the outcome, the product, will be suitable for them. And so do different organizations which try to lobby the European Union institutions to make sure that the legislation which will be established, will be in favour of their interest target area.

Van Schendelen claims that the influencing process can occur in both directions. The first one comes from the European authorities to the domestic level, like in the case of treaties, that the member countries have agreed on to obey over their own national law. In the opposite direction, the idea can arise among domestic group (or a region, as in case of BSR), and the issue can be taken up the hierarchical ladder and influence a binding decision or a policy proposal at the EU level (van Schendelen, 2005, 32). The Strategy for the Baltic Sea Region is a perfect example of a bilateral influence. At the beginning, after retrieving enough of EU partners which has strengthen the interest group, the members have showed that they are capable of being the first EU model of regional co-operation by integration of single community policies. This has resulted in stating by the European Commission in 2009 an official European Union Strategy for the Baltic Sea Region influencing nowadays the BSR countries with the policy development proposals demands.

The European Union tends to support the newest members, as they are the ones who need the help in order to become even players on a continental market. The financial aid is donated through international projects which have to fit into specifically defined framework. Since the new members do not have yet enough of experience in preparing the project proposals, they are willing to make coalitions with older members, who have already knowledge and skills in international cooperation, its management and lobbying at the EU institutions. Apart from benefits like extending network and markets, the old EU members gain a positions of consultants who obviously also get a share of an income, even as non-profit organizations. It is definitely a win-win situation for both parties, creating a perfect symbiosis as one has the management and marketing skills and other one has the resources to run the project.

3. STUDY CASE

3.1 Introduction to the study case

In this research, by the Baltic Sea Region we define the Nordic countries (Denmark, Finland, Norway and Sweden), the Baltic countries (Estonia, Latvia and Lithuania), entire Poland and Belarus, western Russia (Oblast Kaliningrad, Oblast Pskow, Oblast Leningrad, St.Petersburg, Republic Karelia) and the northern parts of Germany (Hamburg, Mecklenburg-Vorpommern and Schleswig-Holstein).

All the economies are aiming at sustainable growth and a safe future, which however, requires constant development, frequent investments and innovations. The concept of innovation has been inseparably accompanying the economical strategies as an investment for the future and an indicator of development. The results show that countries focusing on R&D and other kind of innovations seem to be more competitive on a global market. The question is how to measure the competitiveness and state what are its factors.

The concept of clusters is definitely an outcome of an innovation. Companies, institutions and governments have found it important to cooperate and support each other to make their regions more prosperous and attractive. However, the European clusters have also noticed a need to create an alliance to face economies from other continents. Unfortunately, Europe is still quite behind the USA and Asia with creating and implementing innovations. Therefore, it should be a common goal for all the countries to develop them locally and internationally.

The European Union Strategy for the Baltic Sea Region is a phenomenon among the macro-regional economical focus. It has inspired other regions to collaborate in order to reach goals bringing welfare to all the partners. Natural environment elements like sees, rivers or lakes do not distinguish political borders: Therefore, everybody should be involved in protecting them to be able to ensure a safe and clean milieu for their children. Because of that, the fourteen countries of the Danube Region have become inspired by the Baltic Sea initiative and started to create a similar strategy, also supported by the European Union. The collaborating countries should be truly proud to be the pioneers in Europe on such a scale.

3.2 Mapping the Baltic Sea Region

The Baltic Sea Region is populated by 96,4 million inhabitants out of which, 76% is represented by European Union countries. The average density is 198 inhabitants per km^2 which, despite the low amount of inhabitants in the Nordic countries, is still higher than the European average of 116 inhabitants per km^2. Among the BSR, the most densely populated areas are in Poland and Germany (figure 1).

According to Eurostat Statistics Database (May 2012), most of the European countries in the Baltic Sea Region are predominantly rural regions, located close to the city which follows also the European average. The biggest dispersion is noticeable between two neighbouring countries: the highly-urbanized Germany and the mostly rural-based Poland, which has only a few totally urban regions cumulated around the biggest cities. Due to the small amount of inhabitants, the Nordic countries have urban accumulation only around the capital and then some intermediate rural regions with close distance to a city.

There is only few metropolitan areas with high population density. In most of the cases, they are accumulated around the capital cities, like in Oslo, Copenhagen and Stockholm. Otherwise, they are located in areas with access to substantial logistical points, like Hamburg and St. Petersburg. Minsk region, even though it has on average 46 people per km^2, gathers in the Minsk City 1,8mln people, covering each kilometre with 5974 inhabitants. Second city with such high rate is St. Petersburg with 3265 people per km^2. On the Western side, Hamburg area accumulates 2345 per km^2 (figure 1).

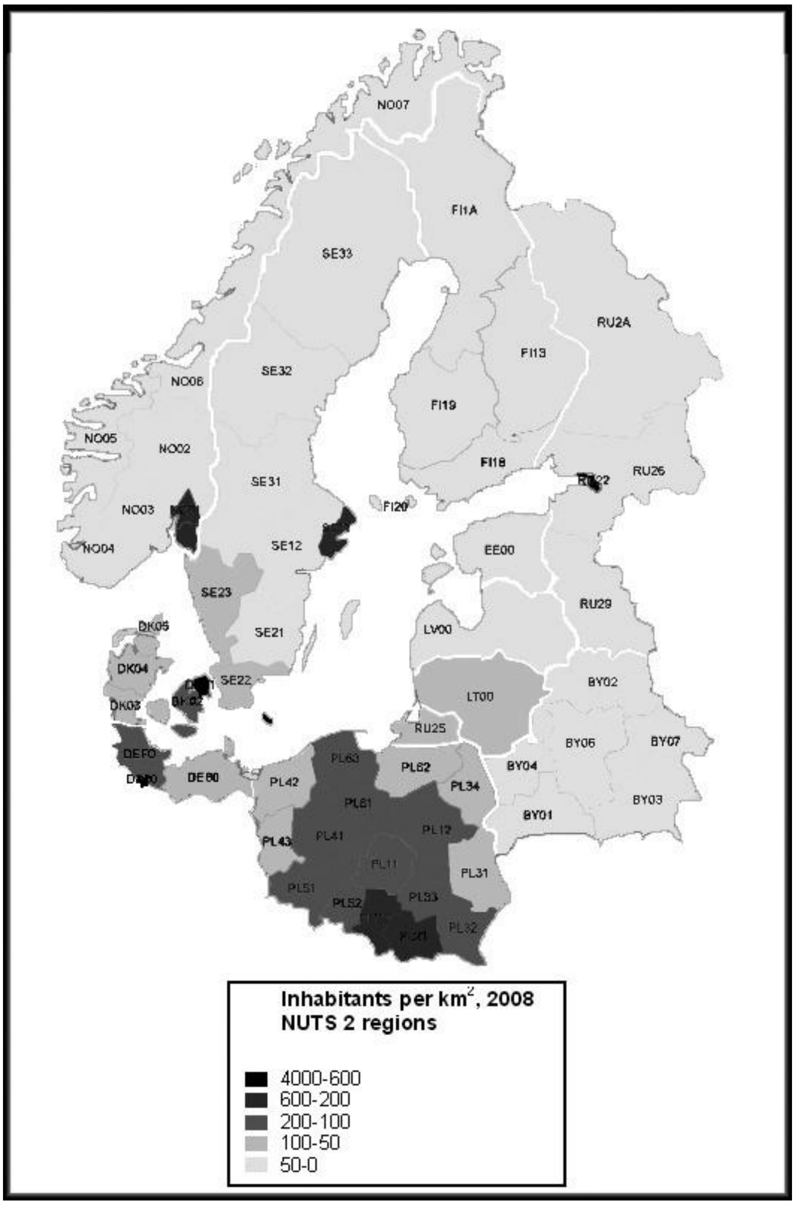


Figure 1. Inhabitants per km^2 2008, (Map: GFK MACON, Regionen NUTS 2, modified. Data: Eurostat, National Statistical Committee of the Republic of Belarus, 2010 Statistical Yearbook, Rosstat)

The urbanisation process (figure 2) is steadily becoming a more visible issue in the future-orientated growth strategies of the European regions. Cities offer more opportunities for economical development, employment, innovation and education. High population density may also be a good solution for minimizing the cost per capita of providing infrastructure and social services like healthcare, but also other basic services like electricity or sanitation.

After the industrial revolution in the 17th century, a global trend of urbanisation is speeding up. The most populous cities in the European Union in 2007 were London and Paris with areas of more than 10 million people. In the Baltic Sea

Region, the most densely inhabited regions (NUTS2) in 2010 were four regions of Poland: Mazowieckie (5,2 million), Slaskie (4,6 million), Wielkopolskie (3,4 million), Malopolskie (3,3 million), and Lithuania as a whole (3,3 million). The least populous is Hedmark og Oppland in Norway (375925) and Mellersta Norrland in Sweden (369 708).

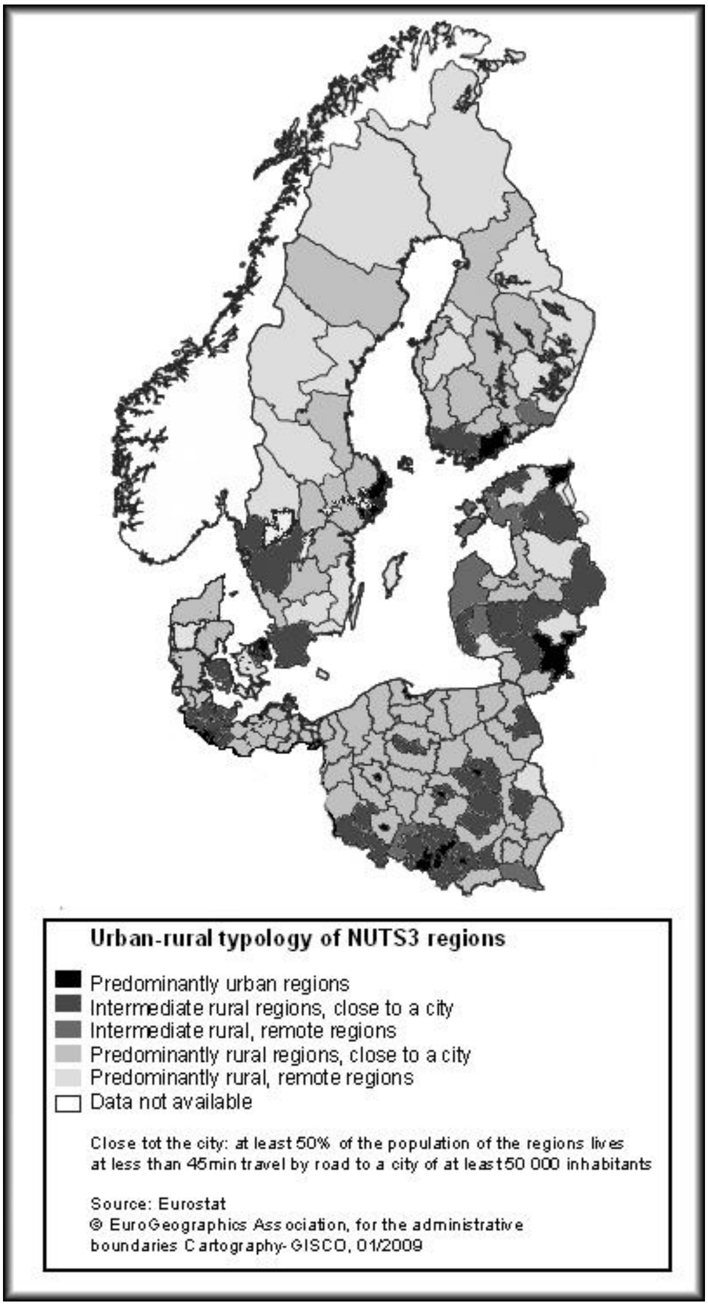


Figure 2. Urban-rural typology, Eurostat, 2009

The table (table 1) below shows the detailed division of regions on the NUTS2 and NUTS3 level. According to Eurostat, out of the 173 European Baltic Sea micro-regions, 25 areas have over 80% of population dwelling in the cities, 68 areas are intermediate regions and the remaining 80 regions are rural with more than half of the people living in the countryside.

In Russia, 100% urban region is St. Petersburg, which is gathering yearly more and more inhabitants, causing depopulation in other regions. The same trend appears in Belarus, where big percentage of inhabitants is moving to the capital, and all the other regions are heading towards urbanization. Norwegian statistics do not let to analyze the urban-rural typology as efficiently as wished because of the data missing, however, most of the regions seem to have an intermediate character, even though few of them is still on the edge of rural type as Hedmark, Sogn og Fjordane, Nordland and Oppland (55-57% urban). Regions of the three previously mentioned countries are divided according to their own national system.

Table 1. Urban-rural typology, (Data: Eurostat, Statistics Norway, The Demographic Yearbook of Russia 2011, National Statistical Committee of the Republic of Belarus, 2010 Statistical Yearbook)

Regions by NUTS2	Predominantly urban regions; rural population less than 20 % of total population, NUTS3	Intermediate regions; rural population between 20 % and 50 % of total population, NUTS3	Predominantly rural regions; rural population 50 % or more of total population, NUTS3
DE60 Hamburg	1. Hamburg		
DE80 Mecklenburg-vorpommern		1. Greifswald,Kreisfreie Stadt; 2.Neubrandenburg, Kreisfreie Stadt; 3. Rostock, Kreisfreie Stadt; 4. Schwerin,Kreisfreie Stadt; 5. Stralsund,Kreisfreie Stadt; 6. Bad Doberan, 7. Ludwigslust; 8. Mecklenburg-Strelitz 9. Ostvopommern	1. Wismar, Kreisfreie Stadt 2. Demmin; 3. Güstrow 4. Müritz 5. Nordwestmecklenburg; 6. Parchim 7. Rügen 8. Uecker-Randow
DEF0 Schleswig-Holstein	1. Pinneberg	1. Flensburg, Kreisfreie Stadt; 2. Kiel, Kreisfreie Stadt; 3.Lübeck, Kreisfreie Stadt; 4.Neumünster, Kreisfreie Stadt; 5.Herzogtum Lauenburg; 6. Ostholstein; 7.Plön;Rendsburg-Eckernförde; 8.Schleswig-Flensburg; 9. Segeberg; 10. Stormarn	1. Dithmarschen; 2. Nordfriesland; 3. Steinburg
DK01 Hovedstaden	1.Byen København; 2.Københavns omegn	1. Nordsjælland	1. Bornholm
DK02 Sjælland		1. Østsjælland	1. Vest- og Sydsjælland
DK03 Syddanmark		1. Fyn	1. Sydjylland
DK04 Midtjylland		1. Østjylland	1. Vestjylland
DK05 Nordjylland			1. Nordjylland
EE00 Eesti		1. Põhja-Eesti 2. Kirde-Eesti	1. Lääne-Eesti 2. Kesk-Eesti 3. Lõuna-Eesti
FI13 Itä-Suomi			1. Etelä-Savo

			2. Pohjois-Savo 3. Pohjois-Karjala 4. Kainuu
FI18 Etelä-Suomi	1. Uusimaa	1. Varsinais-Suomi 2. Kanta-Häme 3. Päijät-Häme 4. Kymenlaakso 5. Etelä-Karjala	1. Itä-Uusimaa
FI19 Länsi-Suomi		1. Pirkanmaa	1. Keski-Suomi 2. Etelä-Pohjanmaa 3. Pohjanmaa 4. Satakunta
FI1A Pohjois-Suomi			1. Keski-Pohjanmaa 2. Pohjois-Pohjanmaa 3. Lappi
FI20 Åland			1. Åland
LT00 Lietuva	1. Vilniaus apskritis	1. Kauno apskritis 2. Klaipėdos apskritis	1. Alytaus apskritis 2. Marijampolės apskritis 3. Panevė¸io apskritis 4. □iaulių apskritis 5. Tauragės apskritis 6. Tel□ių apskritis 7. Utenos apskritis
LV00 Latvija	1. Rīga 2. Pierīga	1. Kurzeme	1. Latgale 2. Vidzeme 3. Zemgale
PL11 Lodzkie	1. Miasto Łódź 2. Łódzki		1. Piotrkowski 2. Sieradzki 3. Skierniewicki
PL12 Mazowieckie	1. Miasto Warszawa	1. Radomski 2.Warszawski-wschodni 3.Warszawski-zachodni	1. Ciechanowsko-płocki 2. Ostrołęcko-siedlecki
PL21 Malopolskie	1. Miasto Kraków 2. Krakowski	1. Oświęcimski	1. Nowosądecki 2. Tarnowski
PL22 Slaski	1. Rybnicki 2. Bytomski 3. Gliwicki 4. Katowicki 5. Sosnowiecki 6. Tyski	1. Częstochowski 2. Bielski	
PL31 Lubelskie		1. Lubelski	1. Bialski 2. Chełmsko-zamojski 3. Puławski

PL32 Podkarpackie		1. Rzeszowski	1. Krośnieński 2. Przemyski 3. Tarnobrzeski
PL33 Swietokrzyskie		1. Kielecki	1.Sandomiersko-jedrzejowski
PL34 Podlaskie		1. Białostocki	1. Łomżyński 2. Suwalski
PL41 Wielkopolskie	1. Miasto Poznań 2. Poznański		1. Pilski 2. Koniński 3. Kaliski 4. Leszczyński
PL42 Zachodniopomorskie		1. Koszaliński 2. Miasto Szczecin 3. Szczeciński	1. Stargardzki
PL43 Lubuskie		1. Gorzowski 2. Zielonogórski	
PL51 Dolnoslaskie	1. Miasto Wrocław 2. Wrocławski	1. Jeleniogórski 2. Legnicko-Głogowski 3. Wałbrzyski	
PL52 Opolskie			1. Nyski 2. Opolski
PL61 Kujawsko-pomorskie	1. Bydgosko-Toruński		1. Grudziądzki 2. Włocławski
PL62 Warminsko-mazurskie		1. Olsztyński	1. Elbląski 2. Ełcki
PL63 Pomorskie		1. Słupski 2. Trójmiejski 3. Gdański	1. Starogardzki
SE11 Stockholm	1. Stockholms län		
SE12 Östra Mellansverige		1. Uppsala län 2. Södermanlands län 3. Östergötlands län 4. Örebro län 5. Västmanlands län	
SE21 Småland med öarna		1. Jönköpings län	1. Kronobergs län 2. Kalmar län 3. Gotlands län
SE22 Sydsverige		1. Skåne län	1. Blekinge län
SE23 Västsverige		1. Hallands län 2. Västra Götalands län	
SE31 Norra Mellansverige			1. Värmlands län 2. Dalarnas län 3. Gävleborgs län
SE32 Mellersta Norrland			1. Västernorrlands län 2. Jämtlands län

SE33 Övre Norrland		1. Norrbottens län	1. Västerbottens län
RU Russia (NUTS2)	1. St.Petersburg	1. Kaliningrad 2. Pskow Oblast 3. Leniningrad 4. Republic Karelia	
BY Belarus (NUTS2)	1. Minsk City	1. Brest 2. Vitebsk 3. Gomel 4. Grodno 5. Minsk region 6. Mogilev	
NO Norway	1. Ostfold 2. Akerhus 3. Oslo 4. Vestfold 5. Rogaland	1. Hedmark 2. Oppland 3. Buskerud 4. Telemark 5. Aust-Agder 6. Vest-Agder 7. Hordaland 8. Sogn og Fjordane 9. More og Romsdal 10. Sor-Trondelag 11. Nord-Trondelag 12. Nordland 13. Troms Romsa 14. Finmark	

Definitely the most urbanized city in the Western part of Baltic is Hamburg with its 1,74 million inhabitants. The other regions are mostly intermediate regions with a strong tendency towards rural character, except areas around Hamburg. In Schleswig-Holstein (table 1), the only clearly urban municipality is Pinneberg. However, it is located only 18 km from the Hamburg border, which is why it is probably becoming a suburb of the metropolis.

All Scandinavian countries have their predominantly urban zones only around the capitals. Exactly the half of the regions in Denmark are rural and other half urban. Finland, because of the small population, is described as a typically rural area, except for Southern Finland, where the amount of cities and infrastructure is much more developed than in the North. The same pattern is visible in Sweden, where the only metropolitan area is scattered around the capital Stockholm.

Similarly as in the Nordic countries, Lithuania’s only urban area is the capital Vilnius. The only two intermediate areas are Kaunas and Klaipeda (table 1), and others are described as purely rural. All of Latvia’s urban area is gathered around the coast. The further towards the land, the more rural the area is. In Estonia, there are no regions classified as predominantly urban in the Eurostat typology.

Poland has as much as 7 urban areas out of 16 (NUTS2). The biggest accumulation of urban district is Slaskie. Other relatively urban areas are Dolnoslaskie, Lubuskie, Malopolskie (Cracov), and Mazowieckie (Warsaw). The most rural regions are Opolskie, Warminsko-Mazurskie, Lubelskie, Podkarpackie and Podlaskie.

3.3 Current state and development potential of the Baltic Sea Region

The closeness of the countries in the Baltic Sea Region seems to support the trade between them. Location is a major factor when choosing the trade partners and the transportation routes. The percentage of exports and imports to the target countries is always the biggest with the neighbouring markets. In some cases, it reaches even 33 % (Lithuania’s import to Russia). None of the states are exporting more than 5,9 % of goods to the USA or China. Imports from the USA to the Baltic Sea Region reach the level of 4,2-5,4 % and from China between 4,9-6,8 % (CIA The World Factbook, April 2012).

Among the Baltic Sea Region countries, secondly biggest trade partners are Poland and Germany (exports and imports between 27-29 %), and Germany and Denmark (exports and imports 17-21 %) (CIA The World Factbook, April 2012). Surely, the situation will improve after opening the Via Baltica – a highway starting in Warsaw and going through the Baltic States until Tallinn, enabling also a faster transport to Scandinavia. However, because of the more intense trade, the countries have to face more challenges regarding international safety by improving communication between each other and making law clear and transparent to everybody.

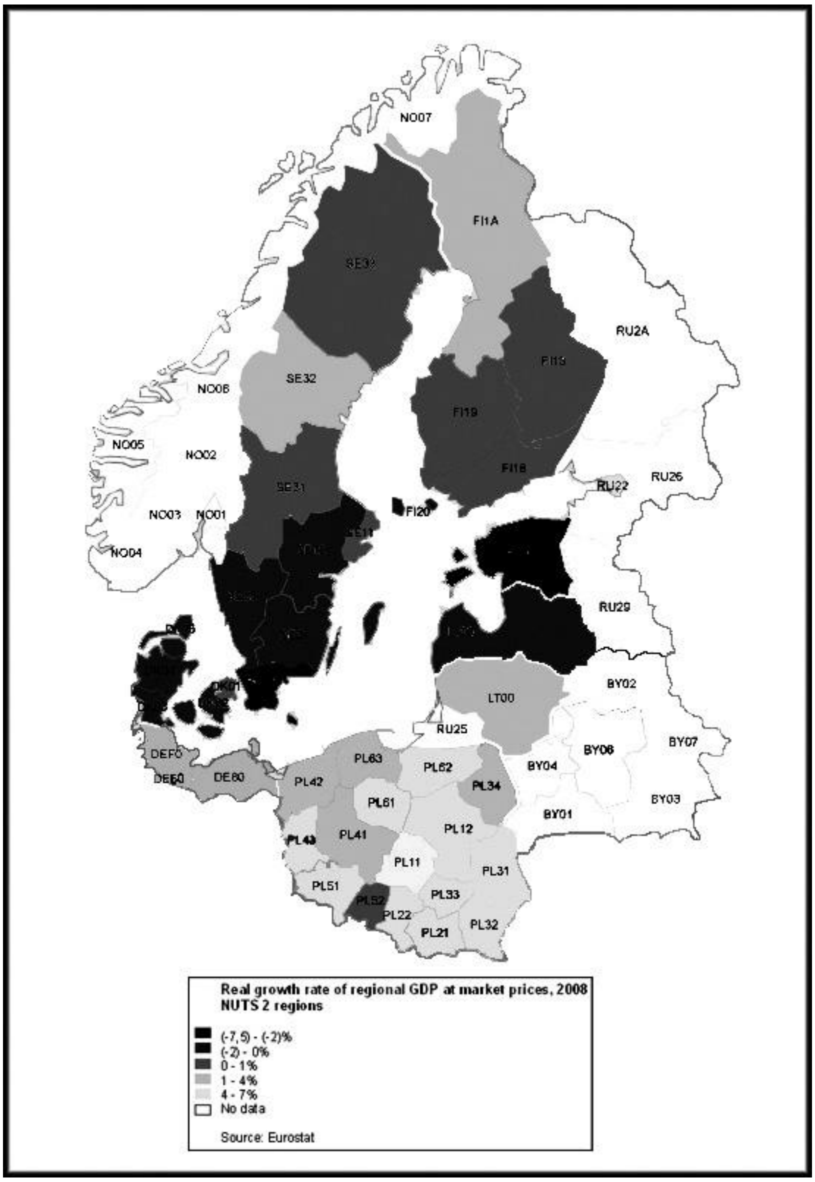
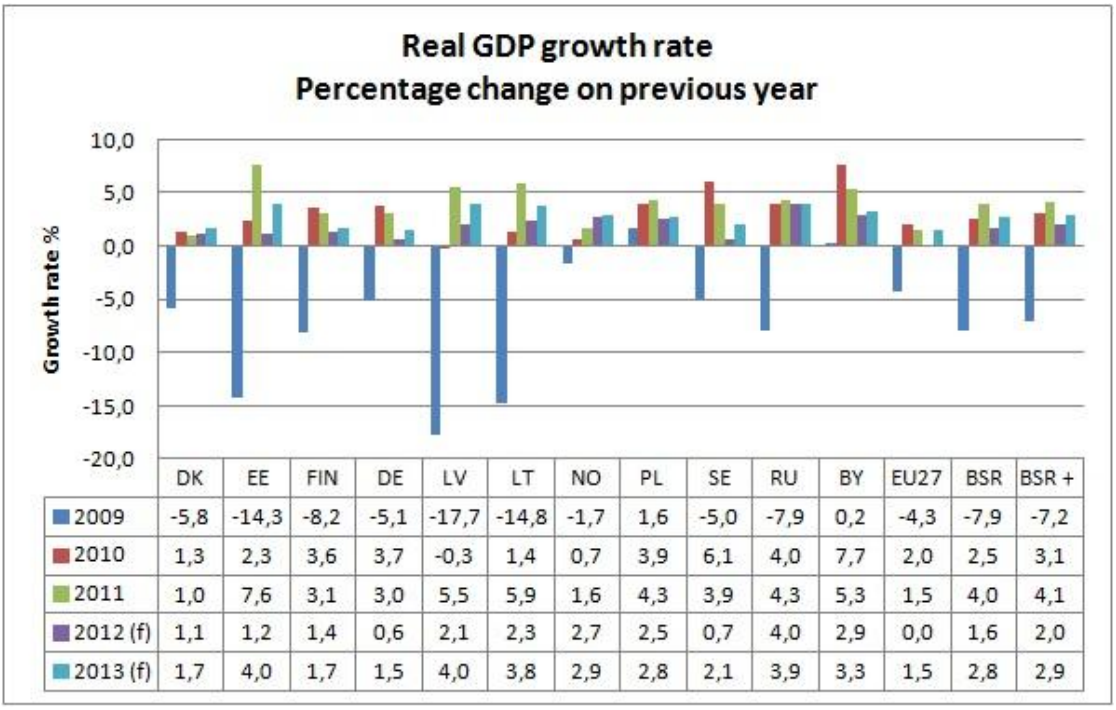


Figure 3. Real GDP growth rate 2008, (Map: GFK MACON, Regionen NUTS 2, modified. Data: Eurostat, City of St.Petersburg, 2012)

The figures show (figure 3 and 4) that the crisis has harmed the Baltic Sea Region most severely in 2008 and 2009. Only Poland survived the crisis with a positive result as the only country in the European Union. Belarus also recorded minimal growth with 0,2%. Estonia, Latvia and Lithuania hold the three last rankings among all European countries. However, their recovery the following year was just as impressive. In 2010, the real GDP growth rate of Estonia increased 16,6 %, Latvia’s 17,4 %, and Lithuania’s 16,2%. The Baltic Sea Region countries have shown the strength by recording great results already year after the crisis. The estimates show that the general economical situation is improving and the members of the Baltic Sea Region can expect taking the lead in Europe in the future.



	DK	EE	FIN	DE	LV	LT	NO	PL	SE	RU	BY	EU27	BSR	BSR +
2009	-5,8	-14,3	-8,2	-5,1	-17,7	-14,8	-1,7	1,6	-5,0	-7,9	0,2	-4,3	-7,9	-7,2
2010	1,3	2,3	3,6	3,7	-0,3	1,4	0,7	3,9	6,1	4,0	7,7	2,0	2,5	3,1
2011	1,0	7,6	3,1	3,0	5,5	5,9	1,6	4,3	3,9	4,3	5,3	1,5	4,0	4,1
2012 (f)	1,1	1,2	1,4	0,6	2,1	2,3	2,7	2,5	0,7	4,0	2,9	0,0	1,6	2,0
2013 (f)	1,7	4,0	1,7	1,5	4,0	3,8	2,9	2,8	2,1	3,9	3,3	1,5	2,8	2,9

Figure 4. Real GDP growth rate 2009-2013, Data: Eurostat, IMF, 2012

Due to the recession, the employment situation has been really tough for all the nations in Europe. First improvements were noticed in 2011 (figure 5), merely two years after the economy had collapsed. The Baltic States have suffered the most with range 13,7-17,1 % in 2009, 16,9-18,7 % in 2010 and recording a slight improvement in the third quarter of 2011 with range of 11,3-15,3 %. The Norwegian Agder og Rogaland area had the best results in the Nothern area, where the level of unemployment has been kept stable between 2,5 and 3,2%. Despite the small distances within Northern Germany, there was a high dispersion between Schleswig-Holstein region (6,8 %) and Mecklenburg-Vorpommern (12,4 %).

It seems that East Europe countries have taken proper steps towards unemployment problem. In Belarus, in 2009% the smallest ratio was in Minsk City (0,4%) and its surrounding region (0,8%). Overall national registered unemployment level did not exceed 1,1%. In 2010, in Russia, the biggest unemployment ratio was recorded in Oblast Pskow (8,1%) and in other regions between 3,8-5,2%.

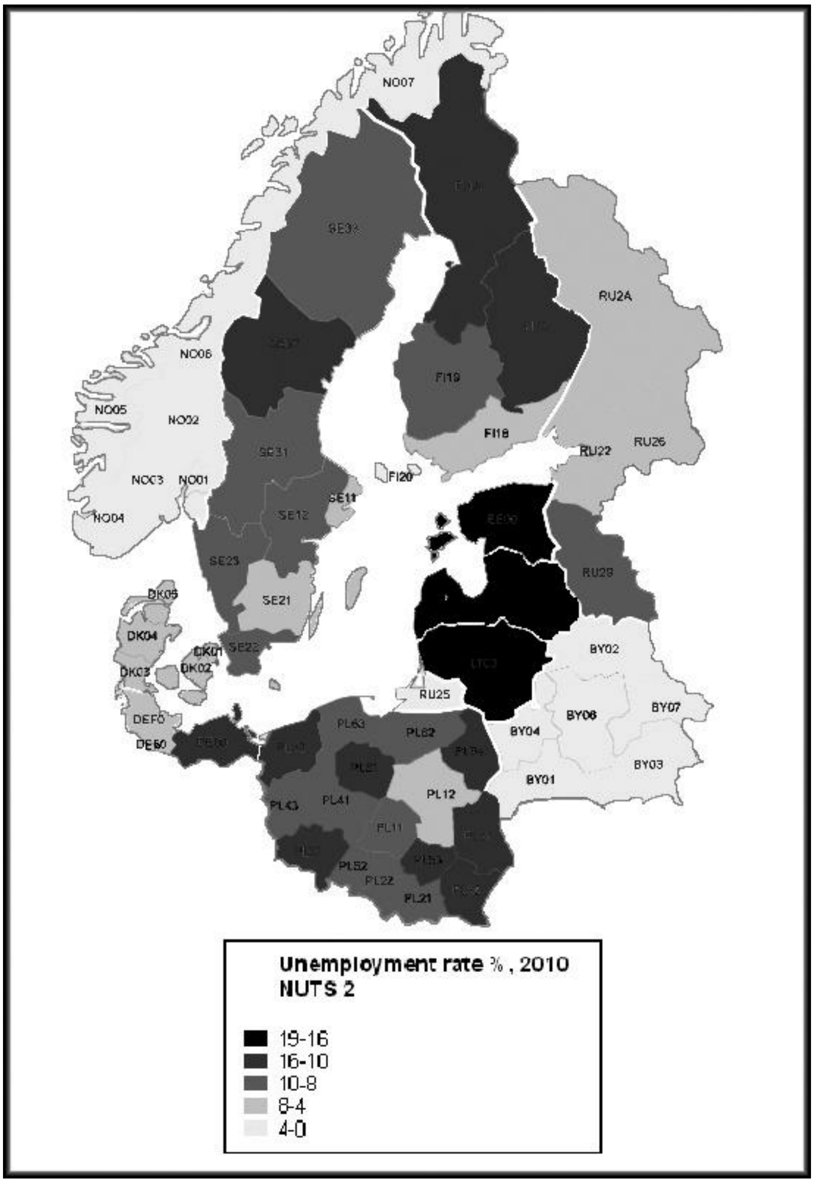


Figure 5. Unemployment rate 2010, (Map: GFK MACON, Regionen NUTS 2, modified. Data Eurostat: IMF, Current Statistical Survey Federal State Statistic Service, National Statistical Committee of the Republic of Belarus, 2010 Statistical Yearbook)

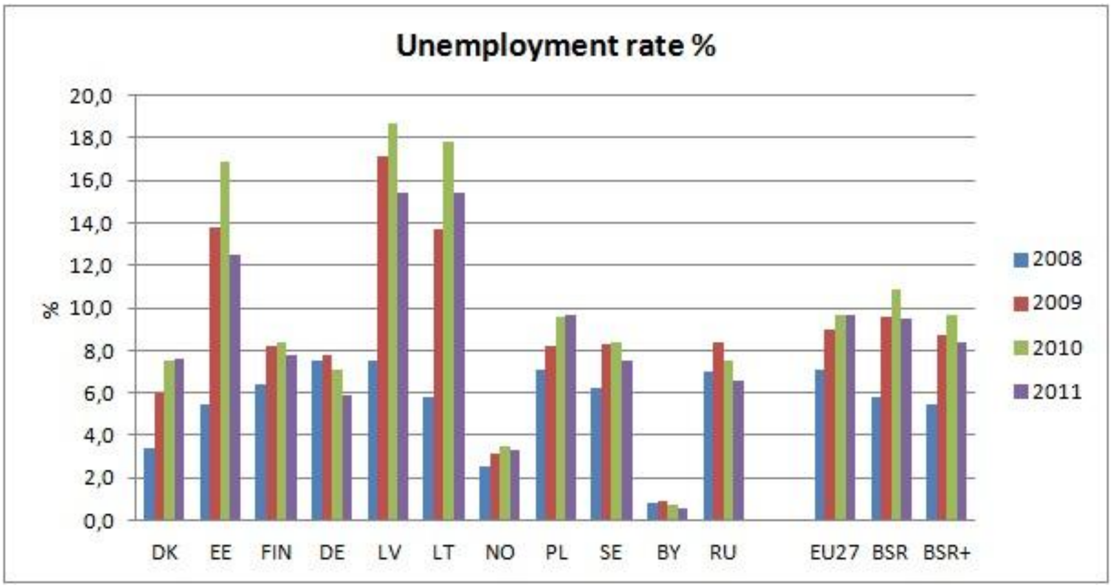


Figure 6.Unemployment rate 2008-2011, (Data: Eurostat, IMF, 2012)

It has been noticed that the biggest group of unemployed people are the ones in the age between 15-24 (figure 7). Almost in case of every country there is around 4 % dispersion between the genders, in this age class. In most cases, the bigger percent of unemployed appears among males, except Poland (4,5 % for disadvantage of females) and Latvia (3,7 %). However, in the other age class 25-74, the differences are much smaller, often just a fraction not exceeding 0,4 %. The exception is Lithuania and Latvia, where much more males are unemployed, comparing to women (4,8 %-6,2 %). In Belarus in 2009, out of all unemployed, the biggest group touches the women between 20-24 years old, where one-fifth is jobless. That also is a problem for 15% of women in the age 25-29. Among men, the smallest unemployment is in the group 16-19 (6,9%) and the highest between 20-24 –15,7 among all unemployed.

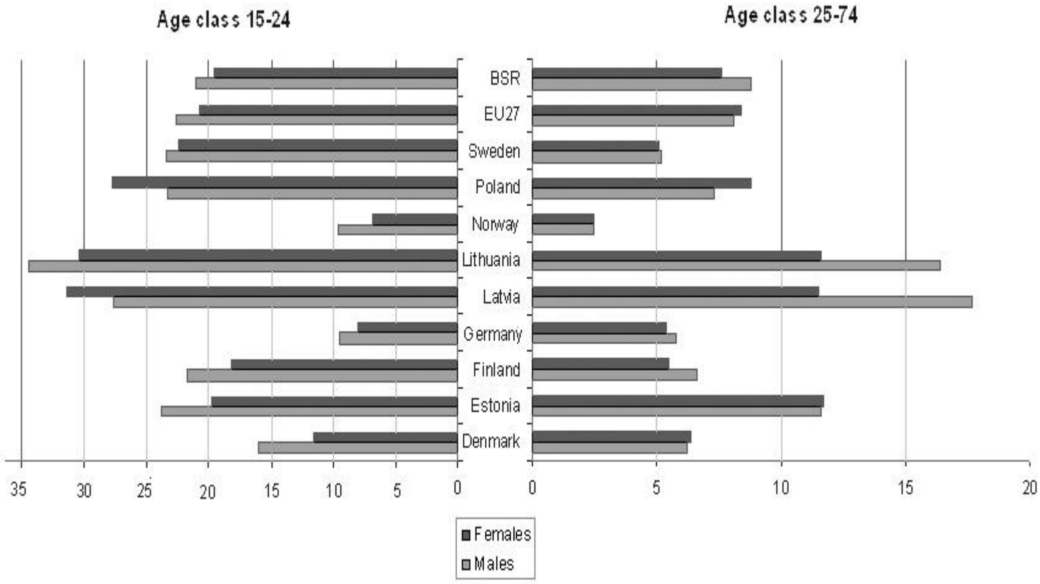


Figure 7. Harmonised unemployment rate by gender- age class 15-24 and 25-74 (Data: Eurostat, June 2011)

The high unemployment among age class 15-24 is a worrying fact, because the majority of young people in their twenties often graduate from the universities and they possess great intellectual potential which is often unappreciated, due to their lack of work experience. This fact frequently encourages young people to change their country of residence in order to find a better job. Internal and external migration is nowadays a growing trend as EU right to free mobility, encourages citizens to go abroad to look for a more suitable place to live.

Summarizing this chapter, there is an evident challenge for the Baltic Sea Region for the future, as the economic situation has been very imbalanced and may still cause obstacles for the several months or years and recovery will require a lot of investment and contribution. In hard times, support integrations create better solution and bonds, as problems are easier to overcome together. The integration would even the chances of some less-developed countries and also increase the competitiveness of the whole region globally. Also highly-developed countries may benefit from cooperation by gathering great specialists and ideas from the countries where there was not enough resources to implement the projects.

Even though, there is an urgent need of integration of the Baltic Sea Region, each country has to take care of an inner system and industries in order to stand up. It is also important to remember, that integration should allow the regions to use their strengths and still play individuals. The aim of the integration is not making everybody similar, but inventing something new, profitable for everybody, but based on diverse resources from different countries. The more differentiated the background of the players are, the more interesting solution they may come up with.

Continuing, it has been already noticed that there is a huge potential in young people as nearly three quarters of the society in this age are studying and developing. The European initiative “Youth on the move” (http://ec.europa.eu/youthonthemove/) helps young people to enter the labour market after graduation, as the unemployment rate of people in their twenties is terrifyingly high. The regional policies should focus more on this issue, because young people have a fresh knowledge gained in the universities and by implementing it right away in a working life, they are able to bring new added value to their companies and make them more competitive.

3.4 Competitiveness and innovation factors

Development of the global market constantly brings into the game new players, which forced the existing companies to pay attention to make themselves more attractive and competitive. The economies seem to change to the post-industrial scheme, which tends to be more service-based, focused on customer personalization and knowledge management. In this case, innovation is particularly important, because it keeps an information flow faster, thanks to which, new data can be easily gathered, analyzed and used in order to meet the requirements of the customers.

In the post-industrial times, some societies can still increase their productivity by adopting available, existing solutions. However, those that are focusing on high-technology see no more need to improve the productivity outcomes. They concentrate on creating cutting-edge products and becoming competitive to gain more by producing less goods, but of higher quality. This shifting requires proper innovation-friendly environment supported by public and private sectors. The analysis shows that mostly private sector puts the biggest amount of funds into research and development (R&D) processes. They realize that investing in education and intellectual property will rise the profits in the future.

The European Innovation Union Scoreboard (2011) divides the Baltic Sea Region countries into different performance groups:

-Innovation leaders: Denmark, Finland, Germany and Sweden - performing well above the EU27 average
-Innovation followers: Estonia - close to EU27 average
-Moderate innovators: Poland - below the average
-Catching-up innovators: Lithuania and Latvia - well below the average

The groups describe which nations have more resources and will to adapt the cutting-edge innovations and changes. Estonia is the only country in the Baltic Sea Region with annual development rate well over 5 %, quickly adjusting to new trends and fighting for an even better position. EU27 seems to slowly make the innovation gap to the USA smaller. However, the distance to Japan still remains on the same level.

One of the indicators of an innovation, as well as for Europe 2020 Strategy (European Innovation Union Scoreboard, 2011), is a percentage of GDP spent on R&D. The target of the European Union for year 2010 was 3 % which was unfortunately not reached and stopped on the level of 1,85 %. The Baltic Sea Region countries have done better than the average with the result of 1,98 % in year 2009 and 2,03 % in 2010. Denmark, Finland and Sweden have even exceeded the target of the European Union spending as much as 3,68 % of their GDP (Sweden) on R&D. The analysis shows that even in the time of economical recession, the highly innovative countries tend not to cut down their R&D expenditures.

Belarus and Russia were not classified in the Innovation Union Scoreboard, however, the EU-Eastern Europe and Central Asia Gateway for ICT Research, Development and Policy Dialogue (EECA) provides information that Belarus, already in the Soviet times, was the most technologically advanced republic out of the satellite countries, by producing for them 50% of all the computers and their components. Nowadays in all Belarus there is above 446 R&D organizations (Republic of Belarus, Statistical Yearbook, 2009) and still getting more. Their main foreign direct investor is Russia (65,3% in 2009) and Austria (10%). None other Baltic Sea Region member is having significant cooperation with Belarus, which might be a good point to consider as the country seems to have a huge ICT potential to be one of the innovator leaders. Also in Russia, the expenditures for R&D have been increasing and several R&D strategies have been defined as IT sector is increasing yearly by 20%-30% (EECA, 2012).

The latest ranking of the Global Competitiveness Report of the World Economic Forum (figure 8) presents the Baltic Sea Region in the light of Global Competitiveness Indicator (GCI). Comparing to the world's 142 nations the Baltic Sea Region has as much as four countries in the honourable top ten and all the others ranked not lower than the first half of the countries overall. Comparing to the European Union, in both years 2011 and 2012, the Baltic Sea Region countries are ten positions ahead from the other members. Once again, Latvia has surprised by a rapid increase of 6 places.

Comparison according to the GCI and Innovation and sophistication factors. Global ranking among 142 countries.			
	GCI Rank 2010-2011	GCI Rank 2011-2012	Innovation and Sophistication Factors Rank 2011-2012
Denmark	9	8	8
Estonia	33	33	37
Finland	7	4	4
Germany	5	6	5
Latvia	70	64	64
Lithuania	47	44	50
Norway	14	16	19
Poland	39	41	57
Sweden	2	3	2
Belarus	No data	No data	No data
Russia	66	63	97
EU27	35	36	37
BSR	25	24	27

Figure 8. Comparison according to the GCI and Innovation and sophistication factors. Global ranking among 142 countries, 2010-2012, (Global Competitiveness Report, WEF 2012)

3.4.1 Clusters

The background of clusters includes the concept of industry districts defined already in the end of the 19th century. It has been noticed that prosperous concrete industries, usually small enterprises with similar operations profile, tend to cumulate in specified areas with access to specific resources. There are many other definitions for a cluster, but Michael Porter's description (The competitive advantage of nations, 1990) is the most suitable to describe the Baltic Sea Region profile. According to him, clusters are geographic concentrations of interconnected companies, specialized suppliers, service providers, and associated institutions in a particular field that are present in a nation or region. Clusters arise because of cooperation of experienced specialists who try to find solution for rising productivity and profitability of the companies.

Cluster development initiative is an important new direction in economic policy of the regions, aiming on building in macroeconomic stabilization, privatization, market opening, and reducing the costs of doing business. The Porter (1990) states that a cluster policy “is not an isolated, independent and well-defined discipline. It embraces all policies that affect the development of clusters, taking into account the synergies and interchanges between theses policies. Many policies labelled under different headings (regional policy, industrial policy, innovation policy, etc) are in fact cluster policies”.

The competition on global markets is getting fiercer and single companies do not have anymore a chance to run monopolies in their fields. In order to keep the constant profit they have to start to cooperate with the other players. Cluster became a solution as a perfect tool stimulating progress and a catalyst of marketing strategies. By working together, the companies may achieve much more and even make a step towards internationalization which obviously creates more opportunities and benefits in the future. Also European Commission has noticed the potential in clusters and supports any kind of activities aiming on cluster collaboration, mapping and development.

3.4.2 Regional industrial specialization in the Baltic Sea Region

Every area of the Baltic Sea Region is specializing in different industry. Their creation was often influenced by the environmental resources, skilled labour force or typographic conditions. The most convenient location is the one, where natural values and company requirements are fitting together and bring the highest profit. However, with the time passing by, the resources as well as the demands might be changing and regions need to find new sources of income, which often require building new strategies and changing the main specialization.

Such example of a specialization change can be seen in one of the Nordic countries, Finland, which nowadays takes the lead in the telecommunication and IT fields, as the only one in the Baltic Sea Region. The major concentration of the companies is in the Western part of the country. On the other hand, clusters in Finland are still taking a big advantage of the biggest heritage of the area- forest, by focusing on collaboration of paper products companies, employing totally over 40 000 people (European Cluster Observatory).

Due to similar environment, nearly the same amount of workers in the same field are employed in the neighbouring country, Sweden. However, the second area of cluster focus is automotive industry, supported by few vehicles companies located in Western Sweden with also strong influence of maritime and logistics industries. Swedish clusters have an ongoing intensive cooperation in business services which employs almost 150 000 workers (European Cluster Observatory).

Norway definitely takes advantage of the short distance to the sea and focuses on maritime industry. Also plenty of construction, transport and logistics enterprises are present in every region, except Oslo. The spotlight of the capital area is education, biotechnology and business services.

Poland, because of the large and diverse land area, has many clusters specializing in different fields. The lead takes food processing in middle-eastern side of the country, apparel with the biggest focus in Lodzkie region employing over 32 000 and building equipment and service clusters having a strong position in almost every of all 16 regions. Even though Poland is not yet a highly-developed country, in some regions it has been noticed that education and knowledge creation is a key to success. Surprisingly, such clusters are mostly focused either in the most wealthy regions, with generally easy access to innovation like Mazowieckie and Malopolskie, or in the least-prosperous areas from the East side, where steadily, a good education is treated as an investment to the future. All those regions have a wide university network.

The modern Danish market focuses on biotechnology and highly-advanced agricultural sector which is tightly combined with food industry. Otherwise, the biggest clusters are specializing in business and financial services and industrial equipment manufacturing. Because of the location, Denmark is also a gateway between middle Europe and Scandinavia, so transportation and logistic play there a big role.

Lithuania, Latvia and Estonia have a similar transit function connecting Western countries to Finland and from there, even further to Russia. Moreover, all three of them target the construction and maritime industries. Latvia's number one in cluster specialization is nowadays education and knowledge creation. Lithuania and Estonia strongly focus on apparel and furniture (European Cluster Observatory).

Ministry of Economic Development of Russian Federation has pointed out two special economic zones among its Russian western regions. First one is St. Petersburg which represents technology and innovation zone focusing on instrument engineering, medical technologies and nanotechnology. St. Petersburg has a perfect location open for the Western countries and encouraging foreign investors to cooperate with its world-class universities and specialists. The other special economic zone is Kaliningrad aiming on recreational facilities constructions and management, as well as other tourist activities.

Belarus continues with developing its ICT sector, as it had a good background in this field in the Soviet times. The capital of ICT is located in Minsk where Hi-Tech Park was established to run software industry and become Belarusian “Silicon Valley”. 47% of the HTP consists of foreign investors and the export share in total production volume is 80% (EECA, 2012)

The objective of Northern Germany is focus on the business services, which is ranked always in the top three cluster industries of every region. In addition to that, the other most active clusters are education in Berlin area and distribution in Hamburg. Because of good infrastructure the transportation and logistics also plays here an important role.

The average amount of clusters in European countries is 77 and the Baltic Sea Region is almost reaching that level with its average 73 clusters. The countries with biggest amount of clusters are Germany (all regions 314), Italy (234), the UK (182), and France, Poland and Spain with around 150-160 clusters (European Cluster Observatory).

The companies have answered to the WEF 2011's survey which contained a question "In your country's economy how relevant are well-developed and deep clusters?" Given a scale from 1 (nonexistent) to 7 (widespread), the worst results were reported in Lithuania (2,8), Poland (3), Latvia (3,1) and Estonia (3), and the highest grades (4,7-5,3) was given in the Nordic countries, whereas EU's (and Norway's) average is 4. Once again, we see a difference between the highly-developed Nordic countries which focus on clusters as a source and target for innovation, and countries which try to follow the trends but are not yet at a finish line.

3.5 Macro-regional strategies of the European Union

The European Union has noticed that development actions are easier to implement on a Macro-Region level when group of countries are bonded by a common goal, although, have different needs than EU27 as a whole, driven by the geographical and socio-economical structures. Many countries having access to the same waters should cooperate together for a universal goal of keeping the area in stable condition and ensuring further growth. International collaboration is one of the solution to ensure sustainable expansion and clean environment for every citizen.

The European Union Strategy for the Baltic Sea Region (EUSBSR) encourages to more intense cooperation between the Baltic countries and creates a model for whole EU. The strategy focuses on four areas: environment, economy, accessibility and security. The Commission officially launched the Strategy in June 2009 and adopted it October 2009.

In March 2012 The European Commission has released a Communication on the first Macro-Regional Strategy- EUSBSR. Since the BSR Programme 2007-2013 period is coming slowly to an end, based on gathered experience and feedbacks, new aims and indicators have to be formulated to face the future. The indicators are examples for Strategy's set objectives:

- “Save the Sea”- highlighting safe, clean shipping by 2020 and increased cooperation between maritime authorities to increase awareness and efficiency at Sea by 2015
- “Connect the Region”- ensuring sustainable flow of electricity and gas issues by 2015 by the Baltic Energy Market Interconnection Plan
- “Increase Prosperity”- 15% increase of trade among national regions and the Baltic Sea area

It is significant that the European Commission still monitors the cooperation and progress between Baltic Sea Region members and comes up with a conclusion that the results are satisfying and already now further steps have to be taken to assure BSR will play a large role in the new Programme period starting in year 2014.

The pioneer Strategy became an inspiration for the other regions to enhance local collaboration. The EU Strategy for the Danube Region (EUSDR) has been approved by the European Commission in December 2010 and endorsed by the European Council in year 2011. Among other issues, it targets challenges of energy insufficient connections, uneven socio-economic development between countries of the Danube Region. The Strategy, even though supported by the European Commission, includes as much as 6 non-EU members, which makes the situation even more challenging. At the same time, it emphasizes the nobility of the EU, which aims on common wealth of all geographical Europe despite the borders.

3.5.1 EU Strategy for the Baltic Sea Region

The European Union Strategy for the Baltic Sea Region (EUSBSR) was the first macro-regional strategy included in the long-term vision of the European Union. The environmental situation of the Baltic Sea is alarming at the moment, as it is one of the most polluted seas in the world. Moreover, the fact that almost all Baltic Sea Region countries are members of the European Union should stimulate them to general development and growth in the scope of the main goals of the European Union. The EUSBSR is based on the following four pillars (EUSBSR Action Plan, 2012):

-To Make the Baltic Sea Region An Environmental Sustainable Place
-To Make the Baltic Sea Region A Prosperous Place
-To Make the Baltic Sea Region An Accessible And Attractive Place
-To Make the Baltic Sea Region A Safe And Secure Place

Under the four pillars, there are altogether 15 Priority Areas:

1. To reduce nutrient inputs to the sea to acceptable levels
2. To preserve natural zones and biodiversity, including fisheries
3. To reduce the use and impact of hazardous substances
4. To become a model region for clean shipping
5. To mitigate and adapt to climate change
6. To remove hindrances to the internal market in the Baltic Sea Region including to improve cooperation in the customs and tax area
7. To exploit the full potential of the region in research and innovation
8. Implementing the Small Business Act: to promote entrepreneurship, strengthen SMEs and increase the efficient use of human resources
9. To reinforce sustainability of agriculture, forestry and fisheries
10. To improve the access to, and the efficiency and security of the energy markets
11. To improve internal and external transport links
12. To maintain and reinforce attractiveness of the Baltic Sea Region in particular through education and youth, tourism, culture and health
13. To become a leading region in maritime safety and security
14. To reinforce maritime accident response capacity protection from major emergencies
15. To decrease the volume of, and harm done by, cross border crime

All the Priority Areas are supported by so-called flagship projects. Under the Priority Area 7, the flagship programme BSR Stars has been created with the main aim to encourage business environments to pay more attention to research and innovation, clusters and networking of the SMEs. The programme facilitates and determines policies to help in the cooperation of different institutions and companies. By networking and sharing the knowledge transnationally, the companies have bigger chances in facing the challenges on local and international stage. By focusing on the macro-regional scale of the Baltic Sea Region and linking the strengths, skills and cross-cultural factors, the countries are able create unique solutions, services and products, which give them a chance to become creditable competitors on the global market.

The Priority Area 8 is also significant when talking about regional innovation policy, because it focuses on how to maintain and increase the competitiveness of SMEs in different business sectors. Maintaining the prosperity of the Baltic Sea Region requires a strong focus on supporting entrepreneurship and thus not only sustaining the already existing SMEs but also creating new ones. Investment in innovations and sustainable growth is necessary for achieving high productivity and helping the Baltic Sea Region companies to stay competitive.

The BSR QUICK project is one of the flagships of the Priority Area 12 that aims to maintain the attractiveness of the Baltic Sea Region through a combination of education of youth, constant training and development. Young people, especially university graduates are a priceless human capital that can be used to create the better future. If only institutions were willing to cooperate with them, definitely both sides would benefit in that win-win situation. Another main concern of this Priority Area is to maintain the appeal of tourism, culture and health, often run in majority by the SMEs. All of that is challenging, but supporting experience and knowledge exchange will surely be a good start of new innovations solving the everyday problems and make the Region a more attractive place to live.

The EUSBSR is especially important from the economical point of view as the Baltic Sea Region is the dominant foreign trade area for the smaller industries. Among the six EU Member States that have the highest share of maritime activities in their national economy (+ 3 % added value and + 5 % maritime employment), three are located around the Baltic Sea: Estonia, Latvia and Denmark. Estonia and Lithuania’s share of the Baltic Sea Region’s total trade is over 50 %. The pillar “To Make the Baltic Sea Region A Prosperous Place” covers the priority areas from 6 to 9 including actions to promote entrepreneurship, innovation, and trade, thus enhancing business opportunities and making the internal market work better on the ground. It also includes steps to improve the quality of human resources and to improve the sustainability of the basic industries: agriculture, forestry and fishing (EUSBSR Action Plan, January 2012).

It has been observed that SMEs have problems in benefiting from the internal market and expanding their business activities internationally to the neighbouring countries. Therefore, it is important to reduce the trade barriers and improve cooperation and tax regulations, which should become more transparent for everyone. The Small Business Act (2008) is a perfect solution to the problem, which aims on cutting the administrative loads for small enterprises. The economical crisis is a good starting point to rethink the situation and to improve collaboration, as it is simply easier to survive in the group.

Other goal of the EUSBSR Action Plan is to exploit the full potential of the region in research and innovation. Regions of the internal markets have to increase constant R&D investments in innovation in order to ensure long-lasting growth and attractiveness. Some of the flagship projects encourage collaboration between the universities, development institutions and companies to create benchmarks and networks to improve communication, exchange resources and brainstorm ideas for better products and services.

3.5.2 EU Strategy for the Danube Region

The Baltic Sea Region became an inspiration for other regions in Europe to start a similar kind of cooperation. The European Union Strategy for the Danube Region (EUSDR) is the second macro-regional strategy that brings together the countries of a region and encourages them to cooperate because of the geographical element they have in common: the Danube River. The Danube is the second longest river in Europe, having its source in Germany and ending

2778 km further at the Black Sea in Romania. Apart from those countries, it flows also through nearly all parts of Austria, Slovakia, Czech Republic, Hungary, Bulgaria, Slovenia, belonging to European Union, and other six non-EU countries: Montenegro, Croatia, Serbia, Bosnia-Herzegovina, Moldova and Ukraine, becoming an aim of common interest for fourteen countries (http://www.danube-region.eu, 2012)

Figure 9. Countries of the Danube Region (© INTERACT Point Vienna, modified)

The population of the Danube Region is 83 million which is a little less than in the Baltic Sea Region which has bit above 96,4 million inhabitants. Most of the members of the Danube Region have joined the European Union in the last extension in 2007. Therefore the region is facing the challenge of creating a functioning cooperation among old, new and future EU members, which have different a background, culture and structure.

In the EUSDR, it is emphasized that its aim is a tighter cooperation, not raising financial profit. The main target of the strategy is to protect the environment of the river basin and also the Black Sea. However, it has been noticed that to achieve it, a whole network of governments, communities and institutions have to start working together. They all began to collaborate to develop the national policies of each country in order to guarantee clean international waters, sustainable management of natural resources and biodiversity. Even though the EUSDR did not receive any extra EU finance, the EU cohesion funding has offered available resources of around 100 billion euros.

Similarly as within the EUSBSR, the countries in the Danube Region have agreed on four core pillars of the strategy (EUSDR Action Plan, 2010):

-Connecting the Region
-Protecting the Environment
-Building Prosperity
-Strengthening the Region

Each pillar is divided into different Priority Areas describing in detail the mission and the countries responsible for implementing the Action Alan. Because of the different needs of each nation, not all of the countries are participating in the same projects. Similarly to the Baltic Sea Region mission, 11 priority areas have been selected to frame the vision:

1. To improve mobility and intermodality (Inland waterways : Austria - Romania ; Rail, road and air : Slovenia - Serbia (Interest: Ukraine)
2. To encourage more sustainable energy (Hungary - Czech Republic)
3. To promote culture and tourism, people to people contacts (Bulgaria - Romania)
4. To restore and maintain the quality of waters (Hungary - Slovakia)
5. To manage environmental risks (Hungary - Romania)
6. To preserve biodiversity, landscapes and the quality of air and soils (Germany (Bavaria) - Croatia)
7. To develop the knowledge society: research, education and ICT (Slovakia - Serbia)
8. To support the competitiveness of enterprises (Germany (Baden-Württemberg) - Croatia)
9. To invest in people and skills (Austria - Moldova)
10. To step up institutional capacity and cooperation (Austria (Vienna) - Slovenia)
11. To work together to tackle security and organised crime (Germany - Bulgaria)

3.5.3 Comparing the Baltic Sea and Danube Regions

In the Global Competitiveness Report, according to the Global Competitiveness Index (WEF, 2012), the Danube Region countries were averagely ranked 64 which was 2 positions lowers then year before. The worst position was taken by Bosnia and Herzegovina (100) while the Baltic Sea Region scored not lower than Latvia (64) which achieved the same lowest ranking according to the Innovation and Sophistication Factors 2011-2012 (lowest place Moldova 127). In the Danube Region, the most competitive countries are Germany (6) and Austria (19). The closest following place taken by the relatively new EU members Czech Republic (38) and the latest EU members who joined in 2007- Bulgaria and Romania scored around place 75. It is easy to notice a trend that the longer the country has been a member of the EU, the more developed, innovative and competitive it is.

The chart (figure 10) presents the real GDP growth percentage. Every year, both the Baltic Sea and the Danube Region were above the European average. The forecasts look promising for both areas. Each year the former Yugoslavia countries reached the highest percentage of growth consecutively 3 % and 2,5 %. In the Baltic Sea Region, it is predicted that the year 2013 will be the best for Estonia and Latvia 4% .

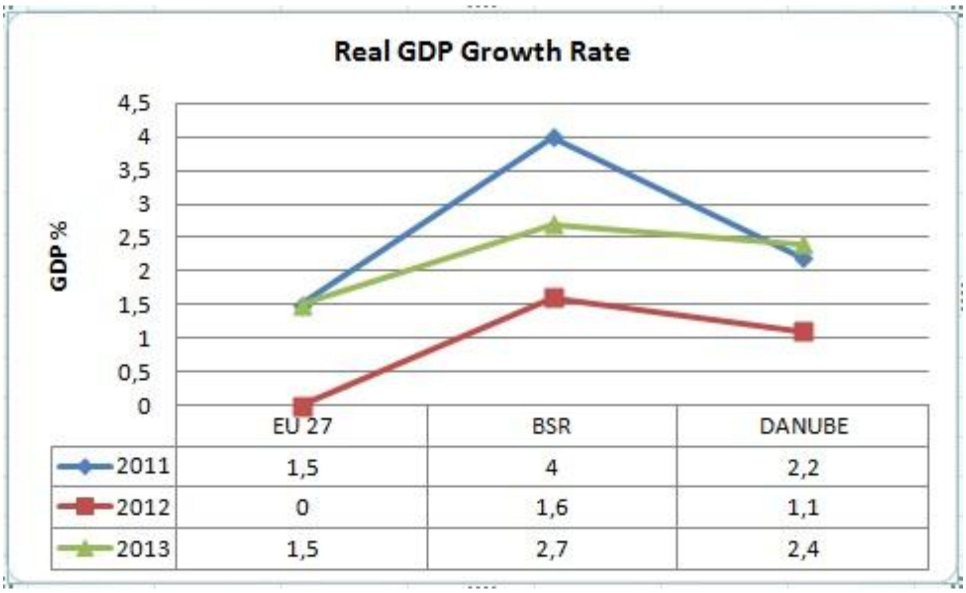


Figure 10. Real GDP Growth Rate of EU27, BSR and Danube Region 2011-2013, excluding Ukraine, Russia, Belarus. (Data: Eurostat, IMF)

The Baltic Sea and the Danube Region realized that the natural resources like sea or river see no political borders, therefore, it should be in everyone's interest to take care of the common welfare. Both regions, despite their differences in culture, try to catalyze the potential in the community which is created by the collaboration of the neighbouring countries. Their similar priority areas supported by the well-planned action tactics will hopefully bring satisfying results.

3.6 Strategies and Objectives of the Innovation in Regional Policy

The Baltic Sea Region Programme is coming to an end, which is a good moment of summarizing the achievements of the project and formulate the objectives which help continuing the development of the Baltic Sea Region in the future. A working group has proposed following objectives which define the direction of further cooperation (Appendix 1). The strategic points have been divided into three types: business, innovation and structure related focus areas.

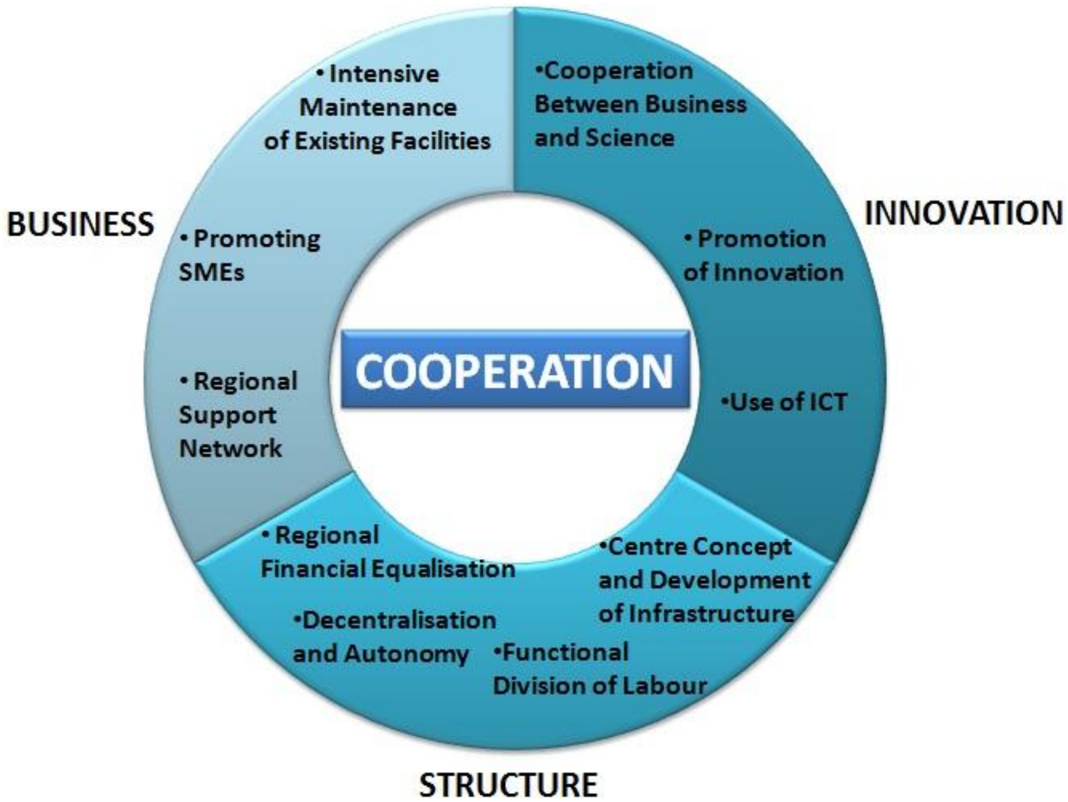


Figure 11. Strategies and objectives for the BSR QUICK partners

1. Cooperation

The Baltic Sea Region countries need to continue an intensive cooperation. Previous years have brought fruitful results of collaboration as well as helped to identify new problematic target points to be focused on in the future. The most important task is to ensure trust management which guarantees good long-term relationships between the partner countries. Each member represents specific industry strengths, which they should use locally and in cross-region cooperation. However, it is important to remember to interact and learn from others, but with protecting and caring about own regional cultural heritage, which may be ruined while running carefree equality policy activities.

2. Regional Financial Equalisation

A financial equalisation between financially stronger and less wealthy regions is within the interest of the donor and the recipient countries/regions. This task needs to be ensured mainly by the EU policy, which promotes economically weaker countries/regions more intensively, particularly the newest EU Member States. Such a policy needs thourough discussion and unconditional acceptance of all countries of the Baltic Sea Region.

3. Functional Division of Labour

Particular regions have various strengths and experience in different areas and therefore, can perform different roles in a wider cross-regional cooperation. It is necessary to develop a coordinated division of labour among the regions, so that it would be possible to achieve optimum profits with a simultaneous strengthening of individual regions and also the Baltic Sea Region itself.

For each function performed by a region, which is essential in total “organization”, it would be possible to determine a financial compensation. It is important to notice that, even though the Region is moving forward the urban character, the maintenance of recreation areas, landscape conservation in highly agricultural areas or natural areas are within the interest of both urban and rural communities.

4. Equal Living Conditions

The objective would be the creation of equivalent living conditions in all the regions of the Baltic Sea Region, however, this does not mean identical living conditions. The regions can agree on common goals to some extent, nevertheless, every region has different background and stage of development and, therefore, follows varied directions to bring optimum benefits to its region. Equality is not recommended to be a specific character of each region as it does not meet the diverse needs of the population, and therefore cannot be a development objective.

5. Regional Self-esteem

The Baltic Sea Region is a home of different, very diverse demographic backgrounds and therefore, a concept of an unified culture is not acceptable. Uncontrolled globalisation is already harming the human environment and is equally harmful to the economy. A central problem of regional development, particularly in less structured areas, is a too low self-esteem and depreciation of others, so it is necessary to ensure a regional balance of self-esteem as well as develop tolerance, respect for specific cultures and differentiation.

6. Development of Endogenous Potential

The process of elimination of weaknesses in a region is still very difficult and takes years. Therefore, instead of focusing of drawbacks, it is necessary to invest consistently in the region’s specific strengths and find the opportunities. The main approach in the regional policy must entail sustainable promotion of endogenous potentials.

Moreover, the apparent weaknesses may sooner or later ultimately prove to be strengths. For example, in regions with very high share of agriculture and decentralised settlement structures, continuous subsidies may lead to a prosperous economic development and at the same time strengthen foreign economic activities, like technologies of decentralised wastewater treatment, biogas production, agricultural technology, etc.

It is also important to create possibilities to let the partners communicate and exchange their experience and present best practicalities to the others. The Baltic Sea Region is a large area with a lot of potential to try out new solutions. Even if nobody else have tried every one, a cross-functional debates and brainstorming of partners from different backgrounds, may bring fresh idea and point of views.

7. Regional Economic Cycles

The regional economic circles must take higher place on a priority list. This includes for example systematic development of extended supply chains, the use of public funds targeted in a way, that the capital circulates in the region possibly long and intensively. Also the promotion of the regional business and sales should not be neglected.

8. Intensive Maintenance of Existing Facilities

The most effective tool for new businesses is the maintenance of the facilities of already established companies. All policy areas should express an intense obligation of intensive promotion and support of the existing enterprises with stronger regional roots. Successful regional sales constitute a crucial basis for the development of alternative sources of revenue from exports and strong foreign trade networking.

The relocation of enterprises in order to annihilate the competition of different locations within the region cannot be allowed, but instead, the enterprise should find out new strategies which require more capacious ways of cooperation.

9. Promoting Small and Medium-sized Enterprises

In EU 99% of all the enterprises are the small and medium-sized enterprises. They are the spine of the economy and the society strengthening regional development and providing jobs. Their promotion must therefore be given the highest priority.

Unlike large enterprises, smaller enterprises cannot have corporate staff functions which perform a variety of management tasks. In the SME sector, such staff and promotion activities need to be performed externally within the framework of economic self-management. The chambers of commerce are the central service providers which offer assistance and funding to their member companies in a specific and reliable manner, which definitely brings benefits.

The chambers of commerce, as a source of network, guidance and funding should be developed, perceived and strengthened as a central promotion institutions of the SME sector. To achieve that, the chambers must also ensure uninterrupted supply in the area through branch offices, local contact partners and intense cooperation with local guilds and associations.

10. Regional Support Networks

In order to concentrate all the powers on SMEs and boost them, it is important to create and develop support networks already on a regional level. In these networks, the chambers should take over the central initiative, coordination and start-up functions, as well as integrate these networks particularly in public administration institutions, universities, colleges and other support institutions. By bringing all those players together, it is possible for the enterprises to use all the capacities of the region.

A uniform support network platform connecting all the Baltic Sea countries gives an opportunity for reaching for the optimum of innovations and cross-functional learning by exchanging the experience among platform’s members. Bringing all cultural differences and strengths of each region will bring a great educational experience for the companies.

11. Promotion of Innovation

In order to be effective, the innovation strategies in the Baltic Sea Region must develop specific regional strengths, promote spatial cooperation of the strengths and the division of labour, as well as use the cultural differences as a source of creativity. According to the opportunities and strengths, it is essential to develop and implement region-specific strategic concepts of innovation for intelligent specialisation.

Outstanding areas of innovation in the SME sector concern in particular all the areas which are currently characterised by significant shortages. The Baltic Sea

Region has great researching and academic capacities in the bottleneck areas of energy, climate and environmental protection, health, information processing and problem-solving capacity, electronic production and communication systems. What is more, it has also a large entrepreneurial potential, ensuring rising of the innovation policies. Worldwide trends and demand for customised solutions as well as "green" and tailored technologies should be a main driver for innovation specialization in the Baltic Sea Region, especially in the SME sector.

12. Cooperation between business and science

Colleges and universities must assume the transfer of innovation to the companies as a mandatory duty, which is of great importance especially for the SME economy. There should be more promotion of R&D by the state and educational institutions. Theses and dissertations should consistently touch upon the development tasks of small and medium-sized enterprises as the most common structure of business in the European Union. Therefore, it is important to create a cooperation between companies and students who wish to learn a tacit knowledge, based on study-cases from the real enterprises. It is a win-win situation where companies gather fresh intellectual resources and students experience which makes them more confident on the labour market after their graduation. The chambers may play a role of facilitators of such collaboration.

Colleges and universities should be distributed together with the chambers over the entire Baltic Sea Region and develop theme-oriented centres of competence which would represent the engine of innovation development for small and medium-sized enterprises, ensure knowledge and technology transfer, as well as perform the tasks of research and development. Through intensive cooperation such competence centres can offer complete offers including transfer, consultancy, research and development, further training, etc. as well as all the services which are needed by SMEs from a single source.

13. Decentralisation and Autonomy

It has been noticed that global progress is heading towards regionalisation and decentralisation, as well as emphasis on small business entities.

Decentralisation gives an opportunity to new cultures to rise and a power to counteract globalisation.

Urban districts and related economic regions are becoming more important as places of an easy access to education, workplace and innovation. Strengthening of regional and local loops reduces cost, enables new growth and promotes direct social interaction. All the support for decentralisation and autonomy is provided by the local institutions. It is necessary to have in mind and develop both the local market and the global one to assure stable, balanced growth.

14. Use of Information and Communication Technologies

The rapid development of information and communication technologies (ICT) creates the prerequisites for a decentralised, cooperative co-existence and economies. ICTs facilitate an integration of remote regions and promote at the same time the development of SMEs as they require a high degree of decentralised availability and intensive information flow. The target is also to encourage implementation of ICT in innovative regional policies of the rural regions.

15. Centre Concept and Development of Infrastructure

The Baltic Sea Region with only few metropolitan areas but many advanced development cities of medium size and powerful smaller units has a basically good settlement structure. However, with an increasing concentration and consolidation, the costs in metropolitan areas grow disproportionately. It is necessary to pursue an innovative regional policy which avoids the disadvantages of large metropolitan areas and allows the use of their advantages also over greater distances, and thus the even development of all types of regions is assured.

It is necessary to develop a multi-level, cross border centre concept for the entire Baltic Sea Regions and its sub-regions, within which the units perform various stages of each function for differently sized areas. It is very important that the decentralised offers are not only maintained, but also gradually expanded. The centres at the lowest levels, with smaller coverage areas must necessarily secure the range of basic public services, such as kindergartens, general and vocational training centres, healthcare institutions or public administration. Small institutions must not necessarily be more expensive than large concentrations. The economics of scale are moved downwards and also in the entire infrastructure sector, intensive networking and personnel and organisational development of small, decentralised units is gaining an increasing efficiency and relevance with the use of modern technologies. What is more, the individual centres must also have good infrastructure and public transport network.

3.7 Scenarios of future Baltic Sea Region

Based on strategies and objectives defined by the work group a couple of scenarios may be forecasted for the Baltic Sea Region for another decade (Appendix 2).

Scenario A

Case

Continuing the urbanization trend, more and more people will be migrating to the biggest cities increasing density of the metropolitan areas and draining rural regions. Lack of proper urbanization policies may cause bigger unemployment in the cities, especially in the age group 18-25, which has suffered from unemployment also before. Rural areas will face problems of decreasing population and companies paying interest to agriculture.

Solution

The solution might be in monitoring the migration flow and prepare policies for maintenance of workplaces, housing and spatial development for service-based societies. Universities in big cities bring out to the market each year hundreds of graduates who cannot find jobs because of lack of experience. In order to train them, local companies should cooperate with schools and institution and establish collaboration already on the learning stage.

Scenario B

Case

The population and labour situation in predominantly rural regions will stay stable. The change in population size will alter slightly for the advantage of the intermediate regions.

Solution

Rural areas should try to attract investors and find a solution and innovations for local population by implementing new development systems related to agriculture (ex. agricultural technologies) and keep employed bigger amount of local workers. The same way should follow intermediate regions which attract inhabitants by proper balance of middle-sized cities offering such amount of the services of the big cities that would not cause the decrease of local population. This kind of areas should invest in development in order to prevent depopulating because of decreasing attractiveness of the regions.

3.8 Study Case Conclusion

The global crisis and breakdown of economies was a good moment to rethink the situation and analyze the goals for the future. Even though in overall The Baltic Sea Region has done better than the other areas, it still needs to strengthen its position by further, intense collaboration among its members.

The cooperation should be developed already on a regional level and the regions should define clearly their industrial specialization and their strongest areas, instead of focusing on improving weaknesses. Each region should be aware of diversity and different background of other partners and therefore respect them. Differentiation and individualism brings in cooperation outstanding results as every member has different ideas and points of view because of their previous experience. However, it is important not to try to equal and make everybody the same, as it is not a purpose of the international collaboration.

Various experience and background of the partners should be also used in creating the Baltic Sea Region “organization”. Each partner can use their strength and play in the “organization” different role by dividing the labour, which would smoothen the cooperation. For example, it is suggestible to take advantage of the countries which take a lead in ICT industries to take care of the communication and information flow between the partners by facilitating cross-functional learning and contact platforms.

Small and medium size enterprises should be still on a priority list of investments and promotion, as they are the most common structure units in the economy, employing biggest amount of local societies. The chambers of commerce should take the mentoring role and assist SMEs with their expertise and knowledge. The chambers may also help the SMEs to formulate clusters which would strengthen the companies and let them exchange experience, develop and in the future race with the competitors by adapting innovative solutions. Clusters are said to be the catalyst of innovation, therefore, it is essential to use them as a communication and networking platform, where all SMEs can benefit.

Moreover, some innovative solutions are definitely needed to connect business and science. Investment in research and development should be an essential part in every institution’s strategy. Perfect idea is to make a collaboration between the companies and universities, giving the first ones cutting-edge solutions from the academic world which received first-hand information and on the other hand, involving students who wish to educate themselves by interacting with real case studies and business issues. Students and graduates offer the freshest knowledge and have the biggest potential and motivation to enter the work life, however, the unemployment in their age group is petrifying.

All in all, the Baltic Sea Region has proved to be a great competitor in the European market and further development may it prepare even for a global competition. Cooperation of merely 100mln inhabitants in eleven countries is a challenge and just the beginning of the journey, which has to be continue to let the Baltic Sea Region be a clean and safe environment for the inhabitants and prosperous place for the business. The European Union Strategy for the Baltic Sea Region shall still be updated and monitored by the European Commission as the condition of the Region lies in common interest of all the member countries.

4. "INNOVATION IN REGIONAL POLICY" BUILDING PROCESS

After the first month of the practical training period, in October, the Project Manager from the Baltic Institute of Finland, responsible for BSR QUICK project has offered outsourcing the strategy document writing to me, and so we made an agreement of our cooperation. For the next following weeks I was broadening my knowledge about the project, its background paper, objectives and requirements. Until the end of November, I read previous researches and reports published by the Hanseatic Parliament and other international institutions (EU, World Economic Forum, OECD).

Since the end of December until the end of January I have been collecting data regarding nine key countries of the Baltic Sea Region (Finland, Norway, Sweden, Denmark, Lithuania, Latvia, Estonia and Poland) and I presented them to the project manager. It has appeared that the draft has too overall and too economical approach and more needs more socio-demographic elements on a regional level which would meet the requirements of the BSR QUICK mission and vision. The draft was re-written and presented once again, also to the BIF Director. The Director, who has an extensive expertise on the Baltic Sea cooperation, has suggested that the chapter describing cluster specialization is undeniably too lengthy and is not suitable for this type of project. Moreover, the urban-rural region typology needed further development. After implementing amendments, the official first draft was sent to the partners in mid-February.

The partners decided on a project meeting at the end of February and were supposed to collect a feedback on a research and prepare minutes regarding the final strategy content. Unfortunately, the feedback collection took much more time and its summary was sent to Finland a month later than expected, on the last day of March. The further schedule has been changed and the second draft was expected to be ready for the Hanseatic Conference on May 14-16th.

The partners were satisfied with the document, but wished to include into it statistics also for Norway, Belarus and part of Russia, and forecast for all of the countries until 2030, containing regional division. Moreover, the Hanseatic Parliament has requested to prepare few alternative scenarios for suggested urban-rural rooms development. After further research, retrieving and rearranging all statistical data, the outcome was presented to the BIF Director and BSR QUICK Project Manager. The discussion has focused mainly on problems in data gathering, that was either missing or was possible to be retrieved by exploring several sources (Eurostat for EU countries and local statistical authorities and services so Russia, Belarus and Norway) and therefore, was incompatible and incomparable. It has been decided to present the same information to the Hanseatic Parliament and all the project partners.

The second official draft and its outcomes were presented to the public on the Hanseatic Conference in May, in Hamburg. Further feedback will be collected in several weeks after the Conference and relevant amendments will be done to the strategy paper. The “Innovation in Regional Policy” will be published latest in October 2012.

5. DISCUSSIONS

Building a strategy paper playing a fundament of future direction and tactics for a group of countries is full of challenges for authors, as well as project members. The strategy is an outcome of an European Union project and therefore preparing it followed the characteristics and features of an international project management.

First obstacle of an international project lies in the amount of partners from very diverse cultural backgrounds. The Working Group of the BSR QUICK influencing the content of the policy consists of nine key countries (Denmark, Sweden, Finland, Norway, Lithuania, Latvia, Estonia, Poland, Germany) and two supporting ones (Belarus and Russia), who are not direct decision-makers, but were considered by others as important future partners and were included in the research after the first consulting meeting of the Working Group Work Package 7, in the end of February 2012. Moreover, numerous quantity of partners from extensive geographical area also causes communication problems, because of the distance and organizational challenge in arranging meetings, where all of the key partners would be able to participate and discuss the project progress.

Second issue concerns the differences in culture and attitude towards the strategy as a chance for development and making better future for a home region. The Baltic Sea Region is populated by nations having different perception on a work style. What is more, also a language barrier was a visible problem, even during the Hanseatic Conference, when several interpreters were needed to make the communication between the partners possible. Lack of language skills has also caused problems during the policy evaluation in February and March, as everything was translated into partners' native languages which took time and effort. Translations process has remarkably delayed receiving feedback and had an effect on a further schedule.

Another challenge was fulfilling the directives for further strategy development defined in the feedback, because of the fact that the project Working Group was not aware of the availability of the statistical data. The statistics concerning

European countries were generally easily accessible on variable EU information platforms, like Eurostat. However, finding corresponding data on Belarus and Russia was not always a realistic goal, because they were gathered according to different research methods. What is more, some of the data were available only with a fee and the BSR project did not include such expenditures in their budget.

The major difficulty for me as an author, was not being present during the meetings of the Working Group when the partners were discussing between each others their opinions and statements about the policy. Being there would give me an opportunity to ask for further clarifications. Moreover, The BSR QUICK has been running since the beginning of January 2010 and I have joined the project in its last stage, so it took much effort and time to learn about the mission components of the BSR QUICK and how to implement them in the final policy.

All in all, writing a strategy paper was a great experience and a chance to discover how the European Union projects work. Despite the multicultural and communication obstacles, it is possible to integrate the nations and make them contribute in order to create a better future. However, all kind of actions towards development need clearly stated strategy, which is transparent and understandable equally for everyone.

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APPENDICES

APPENDIX 1:1(8)

The Working Group WP7 preliminary suggestion for point 3.6

A working group of the QUICK Project has discussed and developed the following hypotheses as a basis for the elaboration.

1. Cooperation

An intensive cooperation between the countries and regions of the Baltic Sea Region is necessary. The existing cooperation must be further consolidated and strengthened. Thus, balanced budgets between the donor and the recipient countries ensure success for all countries and regions. Trust management, as the most important basis of fruitful cooperation is the most important task of shaping the future.

Individual sub-regions of the large economic area "Baltic Sea" will cooperate in accordance with their specific strengths and in such cooperation develop integrated solutions which optimally promote both the sub-regions as well as the entire region. A regional policy aiming at equality, that seeks to have it in its own regional space, which also has completely differently structured neighbouring regions, leads to a ruinous competition without winners. The objective is to defend and develop the regional cultures, learn from each other and promote cross-regional cooperation, achieve a high spatial identity with the Baltic Sea Region and its sub-regions, and thus develop into a powerful and innovative space with a global reputation.

2. Regional Financial Equalisation

A financial equalisation between financially stronger and less wealthy regions is within the interest of the donor and the recipient countries/regions. This task needs to be ensured mainly by the EU policy which promotes economically weaker countries/regions more intensively, for example, particularly the new EU Member States. Such a policy deserves the support and unconditional acceptance of all countries of the Baltic Sea Region.

3. Functional Division of Labour

Particular regions have various strengths and weaknesses, and can accordingly perform different functions. It is necessary to develop a coordinated division of labour among the regions so that it would be possible to achieve optimum supplements with a simultaneous strengthening of individual regions and also the Baltic Sea Region itself.

For each function performed by a region, which is needed by other regions, it would be possible to determine a financial compensation. Maintenance of recreation areas, landscape conservation in highly agricultural areas or extensive natural areas are within the interest of both urban communities and rural areas.

4. Equal Living Conditions

The objective has to be the creation of equivalent living conditions in all the regions of the Baltic Sea Region. However, this cannot mean identical living conditions. Equality is not the specific character of each region and it does not meet the diverse needs of the population, and therefore cannot be a development objective.

5. Regional Self-esteem

The preservation and strengthening of specific regional cultures is of crucial importance for the spatial development. A unified culture is nonsense; it harms the people and the nature, and it is equally harmful to the economy.

A fundamental problem between people, regions and nations is the depreciation of others in order to increase the value of ourselves. A central problem of regional development, particularly in less structured areas, is a too low self-esteem. It is necessary to ensure a regional balance of self-esteem, as well as develop tolerance, respect for specific cultures and appreciation of diversity.

It is important to promote regional identities and spatial linkages. In this regard, there are excellent starting points and excellent opportunities in the Baltic Sea

Region because the roots of the historical Hanseatic League are still green. It is not about restoring the old structures, but to bring the cultures of the historical Hanseatic League to the central guiding values of shaping the future in the regions of the Baltic Sea Region. These include openness and liberality, reliability, a balanced combination of the common good and self-interest, cross-border cooperation and collaboration based on trust, tolerance and respect for other cultures, and last but not least, the Hanseatic pride.

6. Development of Endogenous Potential

The elimination of weaknesses in a region is still very difficult and hardly worthwhile. Therefore, it is necessary to invest consistently in the region-specific strengths. The main approach in the regional policy must entail sustainable promotion of endogenous potentials. Moreover, the apparent weaknesses may ultimately prove to be strengths. For example, in regions with very high share of agriculture and decentralised settlement structures, continuous subsidies may lead to a prosperous economic development and at the same time strengthen foreign economic activities, e.g. technologies of decentralised wastewater treatment, biogas production, agricultural technology, etc.

7. Regional Economic Cycles

The priority must be given to any strengthening of regional economic circles. This includes for example systematic development of extended supply chains, the use of public funds targeted in a way that the capital circulates in the region possibly long and intensively, as well as the promotion of regional sales.

8. Intensive Maintenance of Existing Facilities

The maintenance of the facilities of the established companies is also the most effective tool for new businesses and should necessarily be of a priority. All policy areas should express an intense obligation of intensive promotion of the existing enterprises with stronger regional roots and regional sales radius. Successful regional sales constitute a crucial basis for the development of alternative sources of revenue from exports and strong foreign trade networking. The relocation of enterprises cannot be allowed to annihilate the competition of different locations within the region, but it requires a more capacious cooperation. The related success should be that a foreign enterprise comes to the region, and the importance of the respective locations is on a second place.

9. Promoting Small and Medium-sized Enterprises

Small and medium-sized enterprises are the backbone of the economy and the society, sustainably strengthen the regional development and provide additional jobs. The promotion of SMEs must therefore be given the highest priority.

Unlike large enterprises, smaller enterprises cannot have corporate staff functions which perform a variety of management tasks. In the SME sector such staff functions and promotion tasks need to be performed externally within the framework of economic self-management. The chambers are the central service providers which offer assistance and funding to their member companies in a specific and reliable manner, and this provides monetary benefits.

The chambers should be developed, perceived and strengthened as central promotion institutions of the SME sector. In this case, the chambers must also ensure uninterrupted supply in the area through branch offices, local contact partners and cooperation with local guilds and associations.

10. Regional Support Networks

At the regional level, it is necessary to develop networks for the promotion of the crafts and the SME sector in order to concentrate all the powers and consequently address them to small and medium0-sized enterprises. In these networks, the chambers should assume the central initiative, coordination and start-up functions, as well as integrate these networks particularly in public administration institutions, universities, colleges and other support institutions. Via single contact partners, "the chambers", it is possible for the enterprises to use all the capacities of the region.

Individual regional networks should be actively involved in a Baltic-wide overall network for the development and promotion of crafts and SMEs. A large number of existing networks and support institutions should be incorporated in such an overall network in order to create a uniform support network at a local and regional level, which offers all the relevant services from a single source to small and medium-sized enterprises. Promoters must accomplish this unification and coordination, and therefore, cannot burden the enterprises.

With such a uniform support network at the regional and Baltic-Sea level, it is also possible to support cross-border activities of small and medium-sized enterprises, optimum innovations and learning from each other, the use of region-specific strengths and cultures, as well as spatial division of labour.

11. Promotion of Innovation

Effective innovation strategies in the Baltic Sea Region must develop specific regional strengths, promote spatial cooperation of the strengths and the division of labour, as well as use the cultural differences as a source of creativity. According to the respective strengths, it is necessary to develop and implement region-specific strategic concepts of innovation for intelligent specialisation.

Outstanding areas of innovation in the SME sector concern in particular all the areas which are currently characterised by significant shortages. In the bottleneck areas of energy, climate and environmental protection, health, information processing and problem-solving capacity, electronic production and communication systems, as well as personnel and organisational development, the Baltic Sea Region has both the excellent teaching and research capacities, and a large entrepreneurial potential, so that promising approaches for the targeted innovation policy are arising here. In the entire Baltic Sea Region and worldwide, there is a large and growing demand for customised solutions, as well as "green" and tailored technologies. Innovation strategies in this respect correspond to the strengths of the SME sector, meet the needs of the development of rural areas of the Baltic Sea Region in particular, and at the same time promote the opportunities in foreign trade.

The promotion of some few clusters of high-tech development is an important part of the current innovation policy. Particularly the specific innovation promotion for small and medium sized enterprises needs to be developed and implemented. Required in this respect are the innovations driven by the users and by the demand, as well as broader support policies which also take into account for example social and organisational innovations, the development of appropriate technologies and new products, new forms of organisations, and employee involvement in innovation processes or technology transfer.

12. Cooperation between business and science

The promotion of research and development by the state and the related task performance by the universities and colleges must turn more intensively and consequently towards the SME economy.
Colleges and universities must assume the transfer of innovation as a mandatory duty, which is of great importance to the SME economy. Theses and dissertations should consistently touch upon the development tasks of small and medium-sized enterprises.

The cooperation between colleges and universities, and SMEs must be improved and expanded intensively. Also, chambers as prominent promotion institutions of the SME economy may assume the mediation functions, as well as ensure the supply of rural areas.

Colleges and universities should be distributed together with the chambers over the entire Baltic Sea Region and develop theme-oriented centres of competence which would represent the engine of innovation development for small and medium-sized enterprises, ensure knowledge and technology transfer, as well as perform the tasks of research and development. Through intensive cooperation such competence centres can offer complete offers including transfer, consultancy, research and development, further training, etc. as well as all the services which are needed by SMEs from a single source.

13. Decentralisation and Autonomy

The global and economic development indicates that we are increasingly coming towards regionalisation and decentralisation, as well as emphasis on small business entities. It gives rise to new cultures and power which counteract globalisation. It is necessary to have in mind and develop both the local market and the global one.

Regionalisation and decentralisation are developing to a greater extent as an expression of new cultures. Urban districts and related economic regions are becoming more important. The strengthening of regional and local loops reduces cost, enables new growth and promotes direct social interaction. All the support for decentralisation and autonomy is provided.

14. Use of Information and Communication Technologies

The technical progress on the basis of information and communication technologies (ICT) creates the prerequisites for a decentralised, cooperative co-existence and economies. ICTs facilitate the development and integration of peripheral regions and promote at the same time the development of small and medium-sized enterprises. It is so because decentralisation and cooperation require a high degree of decentralised availability and intensive exchange of information. ICT become a so called problem solver. The targeted promotion of the supply and use of electronic media strengthens also in particular the development of rural areas and must find its application as an effective instrument of an innovative regional policy.

15. Centre Concept and Development of Infrastructure

The Baltic Sea Region with very few large metropolitan areas, many advanced development centres of medium size and powerful smaller centres has a basically good settlement structure. With an increasing concentration and consolidation the costs grow disproportionately in metropolitan areas. It is necessary to pursue an innovative regional policy which avoids the disadvantages of large metropolitan areas, allows the use of their advantages also over greater distances, and thus the development of all types of regions is even-handed.

It is necessary to develop a multi-level, cross border centre concept for the entire Baltic Sea Regions and its sub-regions, within which the centres perform various stages of each function for differently sized areas. It is very important that the decentralised offers are not only maintained, but also expanded. The centres at the lowest levels, with smaller coverage areas must necessarily secure the offers of basic public goods and important everyday functions, such as kindergartens, general and vocational training centres, healthcare institutions, public administration, etc. Small institutions must not necessarily be more expensive than large concentrations. The economics of scale are moved downwards and also in the entire infrastructure sector, intensive networking and personnel and organisational development of small, decentralised units is gaining increasing efficiency and relevance with the use of modern technologies.

The individual centres must have good transport connections, both in terms of public and individual transport. The creation and maintenance of a good transport infrastructure ensures particularly the development of all centres and regions, and is at the same time the best as well as the most cost-effective solution for the entire Baltic Sea Region.

APPENDIX 2

THE WORKING GROUP WP7 PRELIMINARY SUGGESTION FOR POINT 3.7

The development of alternative development scenarios is considered as essential in order to prepare on this basis the strategies for the regional policy. The alternative scenarios could look like this:

ScenarioA
The predominantly rural regions will continue to drain; population and jobs are shrinking in a great extent. There is a further compression essentially in predominantly urban regions und also in a smaller scale in intermediate regions.

ScenarioB
A targeted regional policy shall counteract the development of the B scenario: the predominantly rural regions will develop stable in terms of population and jobs; the predominantly urban regions develop only very limited in terms of population and jobs; the intermediate regions gain more.