

# BusDEV - Business Development Opportunities at External EU Borders

Targeted Analysis

**Synthesis Report**

15/02/2021

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## Introduction

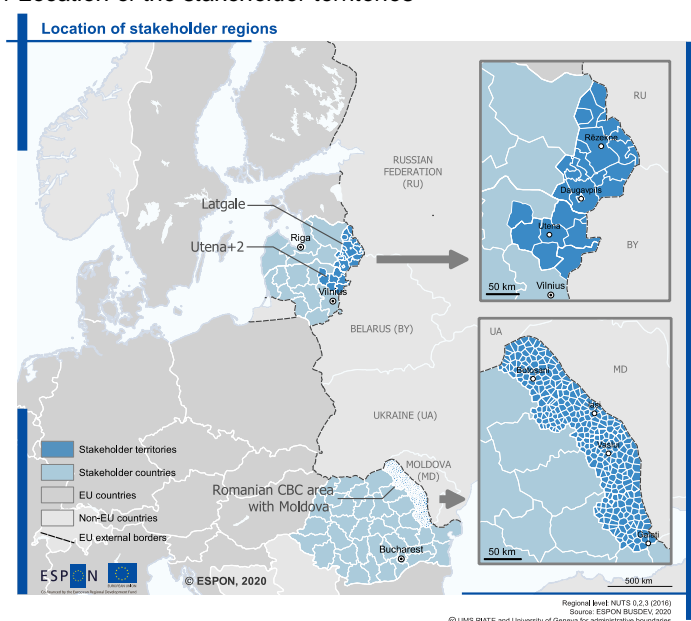
The key objective of ESPON Targeted Analysis BusDEV project – ‘Business Development Opportunities at External EU Borders’ is to analyse the business environment and policies in three pilot regions. The stakeholder territories are from the EU Member States of Latvia, Lithuania and Romania. Table 1 summarises territorial denominations and provides an overview of characteristics of the territories, while Map 1 shows their geographic location.

Table 1 Administrative delineation and general characteristics of the three stakeholder territories

Country	Stakeholder territory	NUTS2	NUTS3	LAU level local authorities	Area km <sup>2</sup>	Inhabitants 2019	Average GDP per capita 2017 €
 LATVIA	Latgale	Latvia	Latgale (LV005)	21 local authorities	14 550	260 226	€ 7 164
 LITHUANIA	Utena+2	Capital Region (LT01)	Vilnius (LT011) Panevėžys (LT025)	A total of 8 local authorities: • 1 local authority from Vilnius • 1 local authority from Panevėžys • 6 local authorities from Utena	9 962	167 177	€ 9 300
		Central-Western Region of Lithuania (LT02)	Utena (LT029)				
 ROMANIA	Romanian CBC area with Moldova	Nord-Est (RO21)	Botoșani (RO212) Iași (RO213) Vaslui (RO216)	326 local administrative units (of which 306 are communes, 12 are towns and 9 municipalities)	20 246	2 051 102	€ 6 277
		Sud-Est (RO22)	Galați (RO224)				

Source: Consortium; \* the name of Utena+2 comes from the composition of the territory, i.e., Utena county plus two other adjacent local authorities

Map 1 Location of the stakeholder territories



Source: Consortium

The targeted analyses focused on capturing the existing business environments and respective territorial developments in the stakeholder territories. Relevance of the introduced business policies to the identified development trends was assessed to identify which policies seem to work in these border areas and which not.

This Synthesis report provides a brief summary of the findings of the targeted analysis satisfying the knowledge need of stakeholders and proposing an evidence based approach for developing territorial strategies at the EU external terrestrial borders. It is structured along the seven policy questions in the sequence that follows the rationale of the study. It opens with the challenges and concludes with proposals for improved economic development.

## 1. Main challenges in the cross-border areas

**What are the main challenges faced by the local businesses in the cross-border areas at the EU external border?**

All three stakeholder territories are peripheral in the national territorial context and significantly lag behind the national average in terms of economic development. In a way their backwardness is a historic legacy, however, presently it is very much defined and exacerbated by their outlying location, depopulation and partly also proximity to EU external border.

The statistical evidence is that entrepreneurship is lower in the stakeholder territories than in other parts of the same country. Density of businesses in the pilot regions can be even twice as low compared to the national average as seen in Latgale with investments in fixed assets four times lower. This is mostly due to unfavourable locational factors, inter alia, depopulation, additional costs to access main markets and others. Hence, maintaining competitiveness is a permanent challenge and doing business at the EU external terrestrial border is too often seen as more of a disadvantage than opportunity in the eyes of private capital. The EU external border mostly exacerbates rather than mitigates business disadvantages.

Although similar tendencies are observed in all three territories, Latgale in Latvia and Utena+2 in Lithuania can already be regarded as sparsely populated areas with a lack of critical mass and low accessibility potential. This adds to their already laggard situation. These regions are already in need for appropriate national and EU attention as geographically specific areas. The EU external border is among main reasons imposing the above mentioned challenges as it disrupts the economic space closing markets on the other side of the border. In combination with the peripheral location and sparse population, this negatively affects the regional economy. Businesses face challenges in accessing all types of markets, in particular labour and finance.

Though facing a lot of the same challenges, the Romanian stakeholder territory is the only one at least also slightly benefiting from the border. Depopulation is slower and the border is a little more permeable for business development.

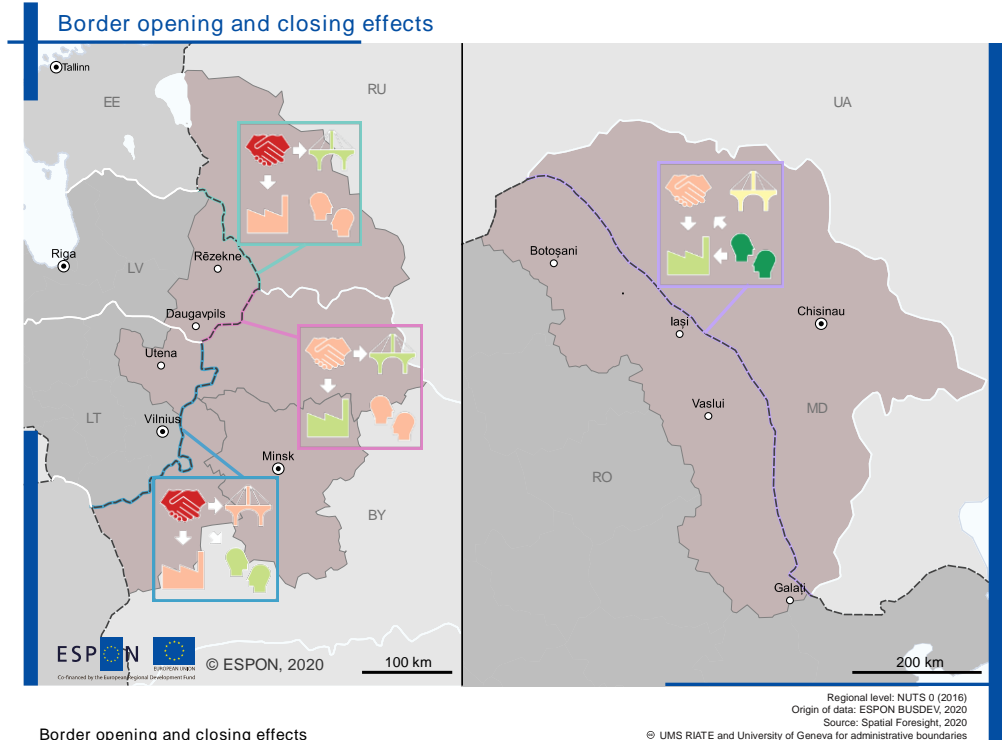
## 2. Added value of the closeness to the EU external border and development perspectives

What are the development perspectives and added value that closeness to the EU external border can provide in terms of attracting investments and conquering new markets thus stimulating socio-economic development?

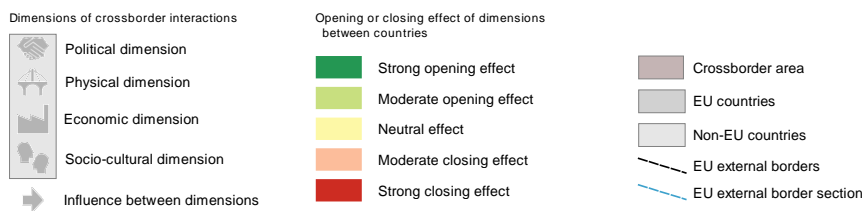
The study has not disclosed many distinct advantages that proximity to the EU external terrestrial border can provide in terms of attracting investment and conquering new markets. Business investments – whether domestic or foreign – often do not choose their location according to proximity to their headquarters or national border but other favourable conditions such as tax incentives. In other words, proximity to the external border as such does not come with a particular potential for investment from the neighbouring country.

The multidimensional border reality analysis, see Map 2, concludes that political and socio-cultural dimensions are crucial determinants defining impact of the EU external border on the business environment in the three stakeholder territories. The socio-cultural dimension can be regarded as constant, while the political dimension is more variable.

Map 2 Border reality - border effects relevant for the regional potential



Border opening and closing effects



Source: Consortium

Development perspectives of the cross-border area at the EU external border are largely defined by the dominant political situation on the other side of the border. Prodemocratic and pro-European neighbours can be a game changer and thus a prerequisite for business development. Shared identity is another crucial determinant.

In the territories where the political dimension has a strong closing effect, such as Latgale on the border with Russia and Utena+2 on the border with Belarus, the economic dimension is moderately closing, which has an immediate impact on regional businesses.

Territories where the political dimension has a less strong closing effect can enjoy economic advantages. These are reinforced by the socio-cultural dimension as seen in the Romanian CBC area with Moldova. The shared identity allows for moderate opening effects within the economic dimension. Hence, the most potential for cross-border business co-operation is in the Romanian CBC area with Moldova. It already has a considerably greater cross-border flow of capital, people and goods than the other stakeholder territories. The recent election of a pro-European president in Moldova will most certainly help facilitate mutual economic cooperation and foster cross-border business ties.

There is little economic co-operation between Latgale and Belarus as a result of Belarus businesses seeking safer and more lucrative conditions in the EU Single market. Opportunities to operate in a familiar environment and being able to work in Russian are appreciated by several Belarus businesses mainly in Daugavpils. Hence, even the slightest socio-cultural border dimension should not be overlooked when building development strategies. For Latgale this is especially true after the contested presidential elections in Belarus that will most likely impact business development along this EU border.

### **3. Cross-border cooperation to stimulate development of entrepreneurship**

**What kind of cross-border cooperation among the EU countries and the neighbouring countries across the EU border could stimulate development of entrepreneurship on the external borders of the European Union?**

Cross-border cooperation on the EU external border is feasible only if the political dimension allows for it. The strong political closing effect rules out any legal business ties. The relationship between Lithuania and Belarus have been distant due to Belarus' political proximity to Russia. However, political tensions between the two countries increased substantially in recent years when Belarus started building a nuclear power plant just 60 km from the Lithuanian capital city Vilnius. Built with Russian technology and funding, it does not meet international safety standards and is thus a threat to Lithuania. It opened in autumn 2020.



Another important dimension that defines potential for cross-border cooperation is the physical border. For example, there is no international cross-border checkpoint in the Utena+2 region between Lithuania and Belarus which is an obstacle for cross-border cooperation and trade.

The population density is also relevant, as some border areas are particularly sparsely populated and lack a critical mass for business development. For, example on the Latvia-Russia border there are 8 inhabitants per km<sup>2</sup> on the Latvian side and only 6.5 per km<sup>2</sup> on the Russian side.

Last but not least, the economic dimension also strongly affects cross-border cooperation between the EU and neighbouring countries. EU restrictive measures in response to the crisis in Ukraine<sup>1</sup> with Russia's countersanctions and import substitution policies have led to a significant drop in trade with Russia for Latvia since 2014 that also affects economic ties with Belarus. This study has concluded that there is a moderate opening of the economic dimensions for (1) Latgale and Belarus and (2) Romanian CBC area with Moldova.

Sustainable territorial cooperation that can develop long-term business relations for the benefit of regions on both sides of the border requires trust. Consequently, cross-border cooperation in the stakeholder territories with the non-EU countries may stimulate entrepreneurship development in the long-term primarily through trust-building measures. These could address business enabling conditions in education, environment, research, etc. Hence, for cross-border cooperation work should continue on trust-building measures through exchanges facilitating a better understanding of business interests and needs. This could include bringing business organisation representatives together to potentially develop joint ideas based on proximity to the border, exchanges on the institutional systems and framework conditions and involving local businesses in a business priority in the EU Neighbourhood Instrument CBC programme.

#### **4. Business knowledge of local entrepreneurs**

**What kind and what level of business knowledge local entrepreneurs have? How to increase the knowledge of local entrepreneurs about business related topics, especially trade near by the border area?**

Business knowledge of local entrepreneurs in the stakeholder territories is generally somewhat backward as indicated by the overall laggardness of the regions. However, as seen from more detailed analysis of the regional business environments the entrepreneurs are very different and many of them have an outstanding knowledge of their business niche and their target markets, the EU Single market in particular. This especially regards the secondary and few quaternary sector industries.

No active and direct cross-border business or immediate potential was found in the Latvian and Lithuanian stakeholder territories with their neighbours on the other side of the EU border.

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<sup>1</sup> <https://www.consilium.europa.eu/en/policies/sanctions/ukraine-crisis/>

This means there is also no immediate need for cross-border business knowledge but does not necessarily mean that businesses would not require such knowledge if the political or economic dimensions change.

Based on actual business knowledge need in the Romanian stakeholder territory and the anticipated one in the Latvian and Lithuanian stakeholder territories there is a need for general business skills development among young people. A second priority is innovation and its integration in value chains at regional, national and transnational levels, including cross border ones. Last, but not least are for international trade specifics in the cross-border areas to have the necessary conditions for potential cross border trade.

## 5. Efficiency of the existing business support

**Why the existing policies and business support mechanisms have not been efficient in delivering the expected socio-economic development results? What has worked and what has failed?**

This question assumes that existing policies and business support mechanisms are not efficient in delivering socio-economic impact, however that it is not always the case. Our findings are that policies and measures in the three stakeholder territories have yielded different degrees of effectiveness for various reasons. What is evident is that the policies have not been sufficient or suitable to provide these territories with the necessary stimuli to catch up with other parts of their countries.

It is also evident that certain policies in predominantly rural regions such as the stakeholder territories could also lead to contradicting outcomes without coordinated decision-making. The research shows that rural policy works well overall, especially where it is targeted at the primary sector. So, investments and productivity increase significantly while the number of jobs does not. In some manufacturing industries the effect of increased productivity on jobs is even adverse and industrial policy inevitably conflicts with regional development policy. Also, only few industrial policy measures do work due to a lack of enterprises ready to come up with projects at comparatively short notice.

The most successful support policies deliver at the lowest possible level, are well targeted and integrated. As seen from the absorption rates of business support mechanisms aimed at micro- and small enterprises, proximity of programme contact points and low entrance barriers are essential for higher absorption. In the Romanian stakeholder territories, businesses absorbed ERDF support comparatively better in regionally managed schemes targeted to specific needs of the territories. Absorption of EAFRD support addressing non-agricultural business development is also above average mostly due to more decentralised management.

As seen from the Latgale example a Special Economic Zone is also a useful instrument for regions lagging behind to enhance investments in these areas.

Apart from scale, that matters for significant socio-economic development impacts, business policies tend to be more successful if they a) tackle the origins of challenges rather than the symptoms, b) have a long-term perspective rather than aiming at short-term benefits and c) are linked to the needs and structures of the territories, i.e., place-based.

## 6. Policies needed

**What policies need to support these processes [of attracting investments and conquering new markets] taking into account the socio-economic and geopolitical circumstances?**

Policies to raise the potential for growth in lagging regions need to induce their regional potentials. Sustainable and resilient regional development may not solely depend on external investments as that increases their vulnerability. While they are useful to develop a critical mass of activity in some sectors, they are one of several elements and policies needed to enhance socio-economic development in the stakeholder territories.

Border realities suggest that the focus should be on endogenous potential development. This may require a change of perspective as it is not only about existing potential but also about enablers to activate potential. Developing these enablers should in turn include any territorial characteristic that could be relevant for businesses. This covers a wide range of policies where spatial policy can take a coordinating role, including by reflecting on territorial impacts of sector policies on business and socio-economic development and indicating the relations between sectors and policies. The analyses have hinted at policies that may be relevant for business development in the stakeholder territories. These may be split into three categories:

- **External framework conditions and policies.** External affairs, immigration, border regimes etc. are examples of conditions and policies the stakeholder territories cannot influence.
- **Enabling policies improving the pre-conditions for business development.** Transport, energy, industrial, innovation and education policies are also subject to national responsibility and limit the sphere of influence for the stakeholder territories. However, regional and rural policies can improve the pre-conditions by addressing sector policies in their priority setting.
- **Business policies strictly speaking.** The ESIF business priorities should be strategically developed jointly with the corresponding enabling policy priorities of these programmes.

## 7. Support mechanisms to be developed

**What concrete support mechanisms need to be developed that could stimulate entrepreneurs to develop their businesses in the cross-border areas by using this specific location and other conditions as an asset? What concrete actions this would imply?**

Border location including peripherality is not an asset for business development in the eyes of private capital. Hence, business support policies and mechanisms in the stakeholder territories should be aimed at mitigating the outlying and restrictive conditions by building and

strengthening other assets. Regional policy enabling conditions and opportunities have to be created and sustained by EU and national policies. Since concrete support mechanisms have to be developed based on regional potential and business needs defined individually by the territories, respective recommendations are summarised in the stakeholder territory reports.

A general strategic approach for enhanced business environments and framework for territorial strategies potentially relevant for all or most of the territories at the EU external land border has been proposed. The approach refers to the recently adopted Territorial Agenda 2030. It encompasses objectives of both Just and Green Europe and emphasises the territorial dimension behind the diversity of EU regions such as inequalities and unsustainable developments in the analysed regions. The general recommendations below define three main areas for action based upon principles of multi-level governance, place-based approaches, coordinated sector policies and territorial cohesion at EU external borders. Market failures that raise costs and risks for businesses need to be removed and targeted by spatial investments building upon the existing endowments in lagging regions.

First, as business environments are more volatile and need more attention, regional representatives have to be full-fledged partners in the multi-governance policy-making process. Hence, engagement, commitment and capacities of regional and local actors at EU external borders needs to be strengthened.

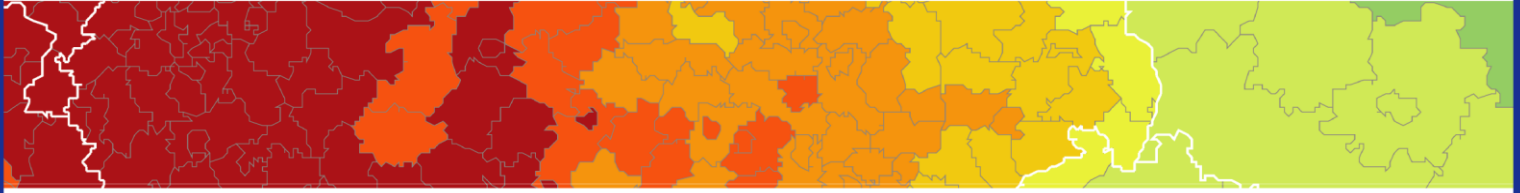
Secondly, mitigating multiple shortcomings of the business 'eco-system' at the EU external border requires a systemic approach of integrated actions enabling synergies. Hence, business support mechanisms need to be designed and implemented at regional and local levels, tailoring them to specific territorial needs and potentials, types of entrepreneurs and businesses. Only integrated place-based interventions can provide the necessary flexibility, relevance and efficiency of business support.

Last, but not least, due to their strategic importance the EU external land border regions require a special attention from national governments and EU. For greater security and cohesion, these regions need people and healthy communities, including business communities. Business advantages need to be created by a significantly greater risk taking from the community.

The framework for territorial strategies presents ways to ensure that policies and instruments for business development acknowledge and utilise the realities and assets of EU external border regions. It provides inspiration for public authorities and other stakeholders in EU external border regions that aim at enhancing their business development potential. In doing so, this framework promotes a place-based approach for business development along EU when developing a territorial strategy for business development in EU external border regions:

1. **Understanding the border region** – assessing border realities, assessing business needs and support measures, and visualising challenges and opportunities.
2. **Adapting to change and new realities** – identifying trends and future developments, developing scenarios and visions, adopting territorial foresight approaches, and deriving actions and assessing their robustness.

3. **Defining a strategy for business development** – defining policy objectives, selecting policy instruments, inspiring stakeholders, and monitoring and evaluating progress.
4. **Stimulating ownership and engagement** – involving different players, being clear on roles and responsibilities, and enhancing capacities.



### **ESPON 2020 – More information**

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