

RUSSIAN-EUROPEAN CENTRE FOR ECONOMIC POLICY

POLICY PAPER

A Growth Triangle as an Application of the  
Northern Dimension Policy in the Baltic Sea  
Region

*Urpo Kivikari*

May 2001

Urpo Kivikari

## A Growth Triangle as an Application of the Northern Dimension Policy in the Baltic Sea Region

The political changes that took place in the beginning of 1990's created a new basis for economic integration in the Baltic Sea region. All the countries around the Baltic Sea now declare to be multi-party democracies and market economies.

The unification of Germany in the beginning of 1990's and the accession of Finland and Sweden to the European Union in 1995 were for these countries radical steps on their way of integration. Socialist countries experienced a revolutionary transition from one system to another. This process was accompanied by the rebirth of independent state in Russia, Estonia, Latvia, and Lithuania, while Poland only went through a system transformation.

The European Union has had a stake in the last decade's development. The EU launched Tacis and Phare programs to support the transformation of political and economic systems in former socialist countries. Three Baltic states and Poland are applicants for the EU membership. In many respects the expected enlargement of the EU looks advantageous to Russia (Kivikari 2001). However, particularly certain Russian border areas deserve special attention. The St. Petersburg region ( St. Petersburg and Leningrad Oblast) will have two EU member countries Finland and Estonia as its neighbours. The Kaliningrad region, being an enclave detached from the mainland, in the future will be encircled by two EU member countries Lithuania and Poland.

The Northern Dimension (ND) policy, the newest instrument for developing the EU's relations with the non-member countries in the North, mainly in the Baltic Sea region, is

to support EU enlargement, too. The ND policy is still seeking its form and content. "A growth triangle", an instrument presented in this writing, could be a useful application of the ND policy in developing relations between enlarging EU and above-mentioned border areas of Russia.

## **The Northern Dimension**

The Northern Dimension in the policies of the EU builds upon the recognition of growing economic interdependence among the enlarging European Union, Russia and the other states of the Baltic Sea region. It is important to involve also the non-member countries of the EU in the deepening economic integration. The applicant countries Estonia, Latvia, Lithuania and Poland, the EEA countries Iceland and Norway, as well as Russia are invited to participate as partners the ND.

*The ND is part of the EU's external and cross-border policies with a specific aim to raise the Union's profile in Northern Euro (Figure 1). It is conceived as a way of working with the countries of Europe's northern regions to increase prosperity, strengthen security and resolutely combat dangers such as environmental pollution, nuclear risks and cross-border crime. By uniting EU member states, applicant countries and countries outside the membership process ND provides a multilateral forum for countries involved in different contractual arrangements.*

The EU considers that the promotion of a ND concept should take place where there is clear added value through better coordination and increased synergies. Such sectors are given priority in the implementation of the ND:

- energy networks and markets,
- natural resources, industrial development, trade
- transport, telecommunications,

- research, human capacity building,
- environment, nuclear safety,
- public health and social issues, indigenous peoples,
- cross-border cooperation, border management,
- crime prevention, in particular cross-border crime

### **The Chronological Perspective of the ND**

The European Council took note of the Finnish proposal concerning the ND of the EU in December 1997. The European Council requested the Commission to prepare a report which was submitted to the European Council in Vienna in December 1998. The European Council welcomed the report and invited the Council of the European Union to specify guidelines for action in related areas, based on the Commission's interim report. These guidelines were adopted at the General Affairs Council in June 1999.

The Finnish Presidency organized, in partnership with the European Commission, the Foreign Ministers' Conference on the ND in Helsinki in November 1999. For the first time the partner countries came together with the member states of the EU to discuss the concept and develop concrete ideas to advance it. The conference benefited from the position papers prepared by the partner countries.

An important step forward in implementing the ND was taken in December 1999. Following the recommendation of the Foreign Ministers' Conference, the European Council in Helsinki invited the Commission to prepare an Action Plan for the ND. Then the Action Plan was prepared in collaboration with the Council. The partner countries of course were consulted in this process. The Action plan was endorsed in Portugal in June 2000.

**Figure 1 Countries and Regions of the Northern Dimension**



The ND has already affected the priorities of Tacis and Phare as well as other EU programmes and strategies. The ND emphasizes the interoperability and coordination of EU programmes. The aim is to strengthen the capability of Phare, Tacis and Interreg to finance cross-border projects. The Kaliningrad region attracts particular attention within the ND framework because of its unique future position as a Russian enclave within the enlarged Union. The Russian willingness to address challenges connected with Kaliningrad in the Partnership and Cooperation Agreement (PCA) framework is encouraging. In the Action Plan of the ND the Kaliningrad region has a specific attention. In the ND the Kaliningrad region is designed to get a pilot position as a laboratory for cooperation between the EU and Russia. The special position of the Kaliningrad region was discussed again when an EU delegation met President Putin in Moscow in May 2001.

### **A Growth Triangle as a Vehicle of Integration**

A growth triangle is a relatively recent addition to the vocabulary of development and international economics. *A growth triangle forms an economic zone exceeding national boundaries, usually including areas from three or more countries.* Unlike trade blocs growth triangles usually do not consist of states as a whole but rather, parts of them so one country can be part of more than one growth triangle. Although a growth triangle would primarily result in international co-operation between areas, it is important for the project's success that it is also considered to be nationally beneficial and that it enjoys political backing at both regional and national level.

A growth triangle provides a solution to the strategic and administrative problems of regional co-operation between countries differing in their stages of social and economical development and other features. Areas close to each other but different in their production fundamentals can, as parts of a growth triangle, utilise their comparative advantages by means of strategic alliances and other forms of co-operation. The geographical proximity

of the partners is an essential prerequisite for the achievement of savings by trade and industry in their expenses arising from transport, time and information costs. A growth triangle aims at attracting investment and promoting sales in outside markets.

### **Asian Growth Triangles**

The concept of growth triangles gained publicity in 1989 as the incumbent political bodies of Singapore, Malaysia and Indonesia decided officially to establish the "Southern Growth Triangle" (SIJORI). It came about by the joining of Singapore, Johor in Malaysia and the Indonesian island of Batam in the province of Riau.

This growth triangle is characterised by the mutual complementary nature of the three economies involved, which is largely based on differences in their stages of development. The per capita national income of Singapore (USD 12,890 in 1991) is about 25 times higher than that of Batam (USD 500) and approximately quadruple in comparison to Johor (USD 3,600). Attracted by low labour costs (Batam) and relatively skilled work force (Johor) industrial production has moved out of Singapore where, nevertheless, planning, marketing and distribution have remained.

SIJORI was, in effect, based on bilateral agreements until 1995 when it became even formally, a trilateral co-operation project. At the same time the growth triangle has become more institutionalised. Alongside bilateral co-operation bodies, the growth triangle now employs a Joint Business Council as well as working groups in various fields. In 1996 the growth triangle was significantly extended to encompass new areas in Indonesia and Malaysia so that now it consists of an area of more than half a million square kilometres incorporating a population of 34 million. In conjunction with the extension, the name of the triangle was changed to the Indonesia-Malaysia-Singapore Growth Triangle (Kettunen 1998, p. 90).

Unlike SIJORI, which was "officially" founded in the public eye, the "South China Growth Triangle" has operated without open and high-level political co-ordination. The growth triangle is formed by Hong Kong, parts of Taiwan and the provinces of Guangdong and Fujian in the People's Republic of China. Even this growth triangle would have been unfeasible without indirect backing from the participating countries' political leadership. China has promoted openness by the implemented economic reforms as well as by setting up special economic zones attracting foreign investment. Hong Kong has encouraged enterprises to establish industrial production in Southern China whilst Taiwan has liberalised her investment and trade policies regarding China. (Thant 1996, pp. 5-6). From the growth triangle's standpoint, the incorporation of Hong Kong into mainland China, is naturally, a significant change.

In both the cases described, the external effect of growth has spilled over from an advanced economic centre (Hong Kong, Taiwan, Singapore) to peripheral areas with abundant resources and low labour costs. New growth areas have become production exporters. Despite the favourable development of the growth triangles, the lingering shortcomings in institutional and physical infrastructures, legislation and labour mobility still need to be addressed (Waldron 1997).

The other five growth triangles established in Asia do not, as yet, have a readiness comparable to that of SIJORI and the South China Growth Triangle. These recently conceived growth triangles, developed under the auspices of the south-east Asian co-operation body ASEAN - besides SIJORI - include the growth triangles of North ASEAN (Thailand, Malaysia and Indonesia) and East ASEAN (Indonesia, Malaysia and Philippines). Similarly, at the initial stages of their development, stand the Yellow Sea co-operation zone (China and Japan) and the Mekong area project (Thailand, Cambodia, Laos and Vietnam). Even Russia is involved in a growth triangle since it participates in the Tumen river basin development programme together with certain areas of China and North Korea (Waldron 1997, p. 58).

A growth triangle appears to create an advantageous setting for the implementation of some economic regularities. *The economies of scale and scope* may be expressed in growth triangles. Increased integration leads to *growing agglomeration*. This enables starting a production, the fixed costs of which are high, whilst generally reducing the production costs thanks to the advantages obtained through greater scale.

In a growth triangle the commercial contacts, keener competition, networking and external influences accelerate the *transfer of technology*. A number of studies have shown that technical information and innovation processes develop quicker in an environment equivalent to the conditions offered by a growth triangle. Proximity and access to economic networks play an important role in the utilisation of technological diffusion.

Growth triangles provide *valuable international training* for companies with no previous experience in international operations. In a growth triangle setting, more experienced companies can by being geographically close, considerably facilitate the internationalisation process of less experienced companies.

Inasmuch as the growth triangles increase competition in their area they, at the same time offer opportunities for developing *solid strategic alliances*. Cross-border co-operation creates joint ventures, alliances, networking and other forms, which unify the interests of companies operating in the area. This also facilitates the development of the most competitive companies, in the given area, into becoming multinationals (cf. Ng - Wong 1991; Waldron 1997, pp. 57-59).

A growth triangle provides companies in the area with additional stimuli and opportunities for investment. What is even more important however, is that the wide range of production facilities and the access to foreign markets offered by the growth triangle *attracts foreign direct investment*.

The investors aim primarily at export orientated production, particularly when the significance and result of the growth triangle is based on the added value produced in its exports. Darryl W. Waldron has applied *Porter's value chain* to establish the circumstances when a growth triangle may yield *added value to export processes*.

Firstly, in terms of infrastructure and administration, a growth triangle can integrate traffic, telecommunications, water and energy supplies and other such networks and can also streamline public policies and standardise regulations as well as the manner in which these are applied. A growth triangle can regionally promote a labour force policy and land use, facilitate the mobility of labour, capital, goods and services, balance the distribution of benefits accrued as well as helping control the establishment of the labour force and other resources. A growth triangle can facilitate technological development through joint programmes, incentives and other forms of co-operation.

A growth triangle may contribute to the use of land, public financing, the labour force and natural resources as well as to the availability of auxiliary services linked to production. In the growth triangle area, inbound logistics can be improved by simplifying border formalities and by developing institutions, technology and infrastructures. Outbound logistics can be developed by co-ordinating both the internal labour division of production processes and transport related functions. Operational smoothness can be effected by promoting the mobility of goods and other factors of production, by providing the necessary auxiliary services and by creating expedient sets of norms to meet the needs of the growth triangle. A growth triangle may be engaged in the joint planning of strategic marketing, co-ordinating advertising and other methods of sales promotion as well as, in more general terms, bringing the functions of both public and private sectors more into line with each other (cf. Waldron 1997, pp. 62-63).

The degree to which a growth triangle is able to deliver added value for production and exports, in line with Porter's model, is essentially dependent on its character (official/unofficial), the manifest objectives and designed purpose, the authority it has been designated with and the basic resources at its disposal.

*What criteria can be considered as the key success factors of a growth triangle?* The list below is based on experience accumulated in Asia and argumentation deductible from the conceptual content of the growth triangle.

#### *The Complementary nature of economies*

Characteristic of the Asian growth triangles is the difference of the parts, both in terms of the structural factors of production and stage of economic development. The comparative advantages of different parts should be extensively utilised in the international division of labour to be implemented within the production chains. Although the economic complementary nature of and between the parts forms the essential foundation of a growth triangle, it doesn't have to be manifest in every respect. Even if all the members would suffer from capital deficiency, this would pose no obstruction to success should investment capital be tempted to come in from outside the growth triangle.

#### *Geographical proximity*

The advantages involved in a growth triangle are essentially based on the "proximity benefits" it creates. Distance equals expense in a market economy. Geographical closeness becomes a particularly decisive factor whenever minimising costs accruing from transport, time consumption, flow of information and cultural differences. In cases characterised by the pronounced significance of public relations, other than geographical proximity, factors such as the similarity of languages, cultures, views and even ways of life will also have an influence. Growth triangles contribute to the "regionalisation of

trade", which is not a meaningless feature of development in an increasingly global economy.

#### *Political commitment and co-ordination*

Regardless of whether, in fact, a growth triangle is "official" or "unofficial" the adequate political commitment on the part of the participating countries and regions is a prerequisite for its success. A growth triangle comes into existence on the basis of decisions taken by national and regional political bodies as well as the co-ordination and implementation of those selfsame decisions. The foundation of a viable growth triangle lies in the "growth triangle policy" exercised individually and jointly by the participating bodies in the areas of customs and taxation practices, land use, labour force, financing, infrastructure and so on. The objective has to be the avoidance and reduction of discontinuities, inconsistencies and frictions hampering the economic activity.

Naturally, every region and state participating in the growth triangle will have to see the effects of such a co-operation as primarily favourable from their own individual perspective. They should also spill over to outside of the growth triangle but it would be advisable to restrict the potential negative effects to within the growth triangle itself.

#### *Support from institutions and authorities*

A certain Asian tradition has been characteristic to the growth triangles inasmuch that personal contacts are more important than bureaucratic practices. However, institutionalisation has advanced even in the Asian growth triangles keeping abreast with integration. Several state and regional offices and organisations will, inevitably, deal with issues related to growth triangles. The particular type of organisation any given member deems necessary, depends on the nature of their participation in the growth triangle. The

growth triangle itself is also certain to need institutions of its own, ranging from meetings of high-level political decision-makers to various

*The need for the joint development of the infrastructure*

For adjacent regions belonging to different countries, it is justifiable to co-operate in the maintenance and improvement of their infrastructures, which is why this operational prerequisite of a growth centre is met in many border regions. The need for joint effort in the development of infrastructures in fields such as traffic, energy and water supply, environmental issues and telecommunications is usually obvious. It is highly irregular to travel to the border and not to cross it, environmental pollution knows no boundaries etc. A growth triangle can achieve easily verifiable economies of scale and scope in the spheres of infrastructure and public services. Indeed, the alluring prospects of developing infrastructure and public services were the single most important incentive for the establishment of the first growth triangles.

*Private sector motivation*

A growth triangle remains an empty shell without a core unless companies develop an interest in the opportunities it provides. Motivating the private sector requires incentives, involving relative advantages that can be turned into significant long-term surplus values. Adopting the companies' point of view, the growth triangle should look like a progressive and flourishing environment for investments supporting both the formation of clusters and individual enterprises in their need for development and the transfer of technology. Preconditions for success include the compatibility of objectives between private and public sectors as well as between the different parts of the growth triangle.

## **The Application of a Growth Triangle to the Baltic Sea Rim**

The seemingly simple but in reality rather demanding conditions for a successful growth triangle could be met in the Baltic Sea area. This outcome resulted from a tentative inspection of the preconditions of a growth triangle in the surroundings of the Kaliningrad region. It came out that some parts of the Southern Baltic Sea region, including Kaliningrad, might serve as a potential location for a feasible growth triangle. (Kivikari 1998). Then in another study (Kivikari 1999) the most ideal place for a growth triangle appeared to be the nearby areas of the Gulf of Finland, i.e. the region formed by Southern Finland, Estonia and the St. Petersburg area (Figure 2).

### **The Southern Baltic Sea Region Growth Triangle**

The specific need to apply a growth triangle in the Southern Baltic Sea area is derived from the expected future position of the Kaliningrad region as an enclave detached from the mainland Russia by EU member countries Lithuania and Poland. If the Kaliningrad region will permanently stay outside European integration and development, the relations between Russia and the EU can become endangered not only regionally but on a wider basis, too.

An examination of the potential candidates in a growth triangle incorporating the Kaliningrad region led to the conclusion that Lithuania and the neighboring areas of Poland are difficult to exclude from the growth triangle, nor is there any ex ante basis for ruling out any German, Danish or Swedish region in the vicinity of the Kaliningrad region. Motivation and political will to take part in the growth triangle shown by these different areas will probably be the real crucial issue.

Economic complementary cannot function satisfactorily in the relationship of neighbors going through the stage of post-socialist regime. This particular dimension to the growth

triangle will naturally be brought in by the entry of developed EU markets. Undoubtedly, Denmark as well as sub-regions of Germany and Sweden, will all be economically complementary to the Kaliningrad region, as well as to Lithuania and northern parts of Poland.

A growth triangle consisting of suitable partners could undo the isolation of the Kaliningrad region, bring in capital, management and marketing skills, create the logistic basis for its gateway position and connect the Kaliningrad region to European transport, energy and telecommunication networks. It is downright difficult to try to come up with drawbacks and downsides that would prevent The Kaliningrad area from becoming interested in the potential membership in a growth triangle.

The attraction of the Kaliningrad region for other partners of the South Baltic Sea Growth Triangle is based on the fact that the Kaliningrad region is the nearest part of Russia, the gateway to/from Russia's market, a part of international transport corridors and a natural part of the networks of energy, telecommunication, tourism etc. Moreover, the region offers the possibilities of the Special Economic Zone. ( cf. Kivikari 2000, 76-77).

*In the light of preconditions and advantages a new institutional framework for cooperation in the surrounding of the Kaliningrad region would seem well justified.* Naturally, the real possibilities of the growth triangle will be determined, simply, by whether different parties involved believe that the project will yield significant benefits compared to the present situation. Although only an active stake on the part of companies in the growth triangle will make it functional and viable, the starting of the growth triangle in this region will undoubtedly necessitate a political initiative.

**Figure 2 Potential Growth Triangles in the Baltic Sea Region**



### **The Gulf of Finland Growth triangle**

Economic relations between Finland, Estonia and Russia underwent a radical upheaval during the 1990's. The changes which have occurred, both enable and necessitate the search for new platforms, serving as the basis for future development of these relations. Southern Finland, Estonia and the St. Petersburg area, which here refers to the city of St. Petersburg and the Leningrad oblast or district, form a solid entity without other areas falling between them (see Figure 2). The adoption of a market economy in Russia and Estonia has brought the cross-border areas, with their demand and supply forces close to Finland as well as each other, which is obvious from looking at the map.

The mutual complementarity of those parts forming the Growth Triangle, would most conveniently be verifiable using tables in which the data concerning Southern Finland, Estonia and the St. Petersburg area would be presented in parallel columns (cf. Table 1).

Differences and complementarity become apparent in terms of utilisation of various international trade operations. In addition to inter-industry trade the vertical intra-industry trade, as part of the production process-internal division of labour (the so-called outward processing trade, e.g. in the electronics and clothing industries), has also reached a significant level, similarly to that of direct investments. *The parts of the Growth Triangle outlined here each belong to different market areas, so the combined market they represent covers almost all of Europe and a considerable part of Asia, too. This, naturally, is an excellent incentive for attracting both internal and external interest towards a project like a growth triangle. The Gulf of Finland Growth Triangle would undisputedly meet the preconditions of geographical proximity and good transportational accessibility.*

**Table 1 Fundamentals of the Gulf of Finland Growth Triangle**

	<b>Southern Finland</b>	<b>St. Petersburg area</b>	<b>Estonia</b>
Complementarity of economies	Essentially different:	-structures of production, costs and foreign trade -levels of income, expenses and internationalisation	
	Market areas:		
	EU market	Russia, CIS	Baltic States (Cefta)
Geographical proximity	-Trilateral immediate neighbourhood -Private sector view of neighbours as near/domestic market -Significant travel industry and migration -Linguistic and cultural ties		
	Helsinki	St. Petersburg	Tallinn
	Turku	St. Petersburg	
	Lappeenranta	Vyborg	
	Imatra	Svetogorsk Ivangorod	Narva
Politics, institutions	Ties and programmes funded by the EU		
	EU member	PCA, Tacis	EU candidate, Phare
	Baltic Sea area co-operation Bilateral institutions and projects		
Infrastructure projects	Traffic: E-18 motorway, Via Baltica, train connections Energy: gas and oil pipe networks Environment: The Gulf of Finland, Sosnovyi bor etc.		
Population, millions	2.6	6.6	1.5
Area, 1,000 km <sup>2</sup>	41	87	45
GDP/per capita (1997, USD '000, PPP)	20	4	5

Even if some friction remains in the intercourse between Finland, the St. Petersburg area and Estonia, the neighbourly intercommunication can be described as connected by bridges rather than separated by walls. No other country is so close to Estonia than Finland. In Estonia the Russian population in particular, has good opportunities for developing ties to the St. Petersburg area.

*Joint operations for the improvement of the infrastructure and environment within the landmass surrounding the Gulf of Finland follows naturally.* In this area, there is no shortage of projects that can only be expediently and efficiently developed through their engagement in bilateral or trilateral co-operation. Even if interests in environmental protection, the development of communications and building energy networks were not contradictory, preferences and priorities often differ, jeopardising the implementation of these projects.

Although the conceivable benefits and effects of a growth triangle presented below cannot be quantified in advance, in terms of growth figures for production, income, export and foreign investments or the number of jobs created, some preconception of the advantages is, naturally, a prerequisite for both the recommendations and measures needed for the creating the Gulf of Finland Growth Triangle.

A growth triangle's basic idea, i.e. the view of joint benefits and problems shared provides a motive for reducing friction in the international connections within the growth triangle and cutting off such internal competition that only adds to the problems (of some members) without benefiting anybody. *The existence and achievements of the Gulf of Finland Growth Triangle might create a favourable and stable environment for mutual relations as well as promote the feeling of togetherness, both in the border areas and between the states.*

*The spheres of influence and significance of a growth triangle are far greater than its actual size.* As a vehicle for private sector internationalisation, a growth triangle will exercise an influence far beyond its own borders. Companies operating within the growth triangle are provided with *all-round conditions for production* at low transaction expenses and *extended markets* (the EU; CIS; Baltic States, Cefta). Without these connections, the operational potential of peripheries like Finland, Estonia and the St. Petersburg area, as extremities of their own market areas, might remain underdeveloped.

At present, the transit traffic and other gateway activities (see Kivikari 1997) in the areas surrounding the Gulf of Finland take place within three double gateways (Finland - Estonia, Finland - Russia and Estonia - Russia) as well as through that of St. Petersburg gateway. *The Gulf of Finland Growth Triangle would create a kind of triple gateway, which as an incentive for direct investments and other international activity, would be superior to the present situation.* All three parties would be included, which would dispel suspicion, build confidence and speed up joint projects.

*The Gulf of Finland Growth Triangle would make a clear improvement in both the building of infrastructure and environmental protection.* A better co-ordination of project priorities and schedules would, alone, bring in great savings in expenses and facilitate the securing of financial backing. Changes in traffic and energy networks would effect the competitive situation in general. The combination of mutual competition and co-operation has often proved to be a tricky situation. Here, a growth triangle could provide assistance as well as in the additional respect that a third party, not participating in a bilateral project, would see the scheme as discriminatory in any way.

Perhaps the most precarious effect of a wider and deeper co-operation would be that particularly from the point of view of Finnish stability, both on macro and micro levels, the involved risks and dependence upon the neighbours would become greater. This

would, however, be compensated by the benefits achieved through improved communication and predictability.

The Gulf of Finland Growth Triangle would seem to provide advantages for local and foreign companies as well as for the countries and regions involved. *The benefits would not be exclusively economic* inasmuch as it is a comprehensive project. The effects of increasingly close co-operation would surely be seen in political relations and social interaction and not insignificantly, in nature: on land, in the sea and in the air, literally.

### **Launching the Growth Triangles in the Baltic Sea Region**

In the light of the preconditions and advantages presented, joint operations in the Baltic Sea region in line with the growth triangle concept, would seem to be well justified. *The two growth triangles could facilitate like hinges the opening of new connections between Russia and enlarging European Union.*

The specific characteristics and needs of the Kaliningrad region based on its position as an enclave is undoubtedly understood both in Moscow and Brussels. The enlargement of the EU will accentuate the specific nature of region's external economic relations. The preparation for the future membership of Poland and Lithuania does not concern only these two applicant countries but the Kaliningrad region, too. Fortunately, the Northern Dimension, a new EU innovation, will pay special attention to the Kaliningrad region. An example of its potential instruments , a growth triangle, seems to be worth of implementation. However, some building blocks for the foundation of a growth triangle are still missing. At present, it is known that the awareness of the growth triangle, among the "right" people and in the "right" quarters is less than desirable and there is certainly a lot of incompleteness and insufficiency around the issue.

The East-Asian growth triangles have been set in motion by other quarters as well, *but starting the potential growth triangles in the Baltic Sea region will undoubtedly necessitate a political initiative*. Since initiatives for getting the project under way require a dynamic and visionary political will, it is necessary, to attempt to assign the task to somebody.

Among the potential partners of the Gulf of Finland Growth Triangle, as the smallest participant, Estonia can be assumed to benefit most from a stake, particularly as in Estonia there is an element of discontent with the present state of neighbourly relations. In Estonia the political leadership and people have, as a whole, in the 1990's faced greater changes and upheavals than a growth triangle, so a project in one's own authority, which is perceived to be advantageous, would hardly collapse because of resistance to change. On the other hand, the agenda of the Estonian government is full to the brim of unfinished foreign political grand designs. Preparations for the membership in the European Union, adaptation to the quite recently achieved membership of the WTO, the development of relations to NATO and improving the relationship with Russia are likely to require particular attention. Although the last objective on the above list and the Gulf of Finland Growth Triangle support one another, Estonia's chances in managing the launch of the joint operation would be shadowed by their Eastern neighbour's presumably reserved attitude towards Estonia's "leading role". At any rate, the official Estonia has already signalled willingness to take part in a growth triangle.

From outside assessment, the Gulf of Finland Growth Triangle would provide a useful tool for developing the St. Petersburg area. Nevertheless, creating the political will to back the project would not entirely be without complications. The St. Petersburg area lacks a will of its own since it consists of two administratively independent parts, St. Petersburg and the Leningrad oblast. Uniting the administrative areas as federal subjects has been debated but the Gulf of Finland Growth Triangle cannot wait for a solution to this vexed question. Naturally, the conceivable benefits may bring St. Petersburg and the

Leningrad oblast into mutual co-operation on this issue. Moscow's approval is an additional requirement, since it is hard to believe that the project has any real chance of succeeding without the Russian Federation's formal and actual backing. An Asian growth triangle has already been blessed by the highest authority in Russia but St. Petersburg, given its foreign relations, is a different and even a special case. Regardless of the fact that both St. Petersburg and the Leningrad oblast are interested in the growth triangle, it has been still unlikely that the issue would be put forth by any Russian political body.

From what has been said above, it follows that *the launch of the Gulf of Finland Growth Triangle depends on the political will shown by Finland, i.e. on the stance adopted by the Finnish government and its subsequent actions*. This expectation regarding Finland's role is well justified. In Finland, it is easy to be motivated towards the development of co-operation in the area, we are after all, well aware of a number of frictions, drawbacks in competition and other problems that could be alleviated or possibly, removed entirely through the growth triangle platform. Finland has the necessary resources for both the decision-making and to act as the initiator of such a project. Finland's relations to the other parties are the least problematic and as an EU member Finland holds a special position, being almost obliged to develop ties with Russia and Estonia, of which, for instance, the Northern Dimension is a good case in point.

Finland's Prime Minister Paavo Lipponen has strongly encouraged to prepare the Gulf of Finland Growth Triangle. Regional Alliance for the South of Finland particularly has been active in elaborating the growth triangle together with partners in Estonia and St. Petersburg region. The constitutional meeting of this growth triangle is designed to take place in the year 2001.

**References:**

Kettunen, E. (1998) *ASEAN, AFTA and the SIJORI Growth Triangle: regional and sub-regional economic integration*. Licentiate thesis, Helsinki School of Economics and Business Administration.

Kivikari, U (2001) EU Enlargement and Russia - A Win-Win Situation. *Russian Economic Trends* 4/2000. Blackwell, Norwich ,

Kivikari U. (2000). The Application of A Growth Triangle in the Baltic Sea Region, In *Management Expertise for the New Millennium*, ed. T. Reponen. Turku.

Kivikari U. (1999) The Gulf of Finland Growth Triangle, In *Perspectives on Internationalization*, Eds. U. Lehtinen & H. Seristö. Helsinki.

Kivikari, U. (1998) The Application of Growth Triangle as a Means of Development for the Kaliningrad Region, In *The External Economic Relations of the Kaliningrad Region* (Kivikari - Lindström - Liuhto), Institute for East-West Trade, Turku School of Economics, Turku.

Kivikari, U. (1997) Finland, In *Going Global. Transition from Plan to Market in the World Economy*, Ed. P. Desai, MIT, USA.

Ng, C. - Wong, P. (1991) The Growth Triangle - A Market Driven Response, *Asia Club Papers* 2, Asia Club, Tokio.

Thant, M. (1996) Overview. In *Indonesia - Malaysia - Thailand, Growth Triangle Theory and Practice*, Eds. Thant - Tang, Asian Development Bank, Manila.

Waldron, D. (1997) *Growth Triangles: A Strategic Assessment*. *Multinational Business Review*, Spring 1997.

Research findings and analyses disseminated by RECEP may include views on policy, but the Centre itself takes no institutional policy positions. Any opinions expressed are those of the individual(s), and not those of RECEP, the institutions of its managing consortium, the European Commission or any other institution of the European Union.

## **Russian-European Centre for Economic Policy**

Potapovsky Pereulok 5, building 4, Moscow 101000 Russia

<http://www.recep.org>

e-mail: [recep@recep.ru](mailto:recep@recep.ru)

tel +7 (503) 232 3613 fax+7 (503) 232 3739