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## Economic development of ultra small peripheral regions of West Europe (Case of Aland and Faroe islands)

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Economic development of ultra small peripheral regions of West Europe  
(Case of Aland and Faroe islands)

### **Abstract**

*The article **deals with** the problem of West European and Nordic countries small economies as well as ultra-small autonomous territories of Alands and Faeroes island's development. The latter are considered as the «competitive sub-peripheries» areas due to the special industrial organization development, stimulated by the national and the EU economic policy. A special status of these territories causes their conversion into the transport-logistics, informational, financial bridges between different European regions and countries.*

*The **primary goal** of the article is the identification of ultra-small territories, revealing features of economic development and the modern business status in economic history context of small economies classification. The **object** of investigation is focused on West European and Nordic countries small economies as well as ultra-small autonomous territories of Aland and Faeroe islands affiliated to Finland and Denmark respectively. The **hypothesis** of the article is that ultra-small autonomous territories under consideration are developing as the «competitive sub-peripheries» areas due to the special industrial organization development, stimulated by the national and, partially, the EU economic policy supporting economic growth of both autonomies. Ultra-small territories of small states under consideration are developing as the «competitive peripheries» areas due to the special Scandinavian capitalist model development characterized by*

*high level of social capital. The **methods** of the article deal with analysis-synthesis, historical and logical methods of investigation, and methods of international comparisons. The main summing up **conclusion** is that Åland and Faeroe islands are converting nowadays into the transport-logistics, informational, financial bridges between different European regions and countries. The autonomous territories are the experimental laboratory of the European and world economy due to the specific model of their social-oriented economic growth.*

**Key words:** *ultra-small regions, spatial development, competitive (sub)periphery, industrial organization, economic policy.*

### **Introduction**

Countries and regions of the world economy differ according to the level of economic, social and political development, to their position and interrelationship with regional integration complexes. The regional development is influenced by a set factors: historical background, scale (demographic, territorial and natural resources) and geographical position. The highly competitive long-term geopolitical communication between large-scaled resource abundant countries triggers small and ultra small areas to find out a unique chance to occupy a specific niche in the regional and world market. «Ultra small region»<sup>1</sup>, being the autonomous subject of the West European countries, is their territorial, political and economic part, possessing constitutional independence. The initial factors of such regions special status are national-cultural ethos type and geopolitical position. The regional development results their independence and autonomy accompanied by the raising responsibility for economic policy decision making. In the process of these territories development new resources, tax, transport-communication, logistics advantages appear. The Åland and the Faroe Islands were the first to use such advantages by the close of the twentieth century. The experience of business and commercial activities, formation of islands' industrial organization in these autonomous regions, establishment of very specific political and economic relations with national and European institutions prove these wondrous changes in the model of ultra small regions' development. It is particularly important from the point of the other peripheral regions of the world economy investigation (including Russia's depressive, far-distant regions) and these small regions economic policy implementation. Peripheral regions differ from mainland centers in accordance with the level, mechanism and dynamics of business relationship formation. Limited resource acquirement dictates regional economic policy decisions and necessitates large material and financial capacities involvement into the large national and international projects. Specific

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<sup>1</sup> The «ultra-small region» category is practically never mentioned in the modern academic literature. In Russia ultra-small regions similar to such regions in the European and world economy exist but never subject to analysis

national economic, social and political structures were formed through centuries due to their geographical location, historical traditions and geopolitical position. A number of island territories have autonomous status, which allows them to carry out a self-sustainable, relatively independent policy modifying them into the “competitive periphery” of the European sub-continent.

The problem of the ultra-small region’s economic development peculiarities has never been investigated in the world of economic learning literature. The paper deals with several issues 1) the overview of the mainstream academicians opinions concerning small scaled economies with the special reference of Russian scholars debates; 2) classification of small states and clarification of different groups of the small-scaled countries role in the world and regional economy through historical context; 3) estimates and variants of small countries economic development depending on different indicators; 4) consideration of Nordic European countries convergence into the “competitive periphery”; 5) new term of “ultra-small periphery autonomous region” introduction with the comparative analysis of Alands and Faeroes business activity and their industrial organization dynamics due to the latter harmonized islands’ and mainland’s governance. 6) consideration of the appropriate role of EU’s regional policy financial support in ultra small territories of Faroos’ and Alands’ economic and commercial development and their convergence into transport-logistics, informational, financial bridges between different European regions and countries.

### **Literature review**

Until recently the theory of small-scaled economy was not thoroughly developed in the Russian literature, though in the 80-th a number of works dedicated to the small countries of Western Europe (Малые страны...1984) has been published as well as some monographic research devoted to small countries of Northern Europe: Norway(Андреев, 1977) Sweden (Волков, 1987; Волков, 2010), Denmark(Эбре, 1980; Градобитова, Ушакова, 1990.), Finland (Пискулов, Градобитова, 1972; Пискулов, Градобитова, 1986; Градобитова, 1982.) appeared. We should mention economic school of St. Petersburg State University and some publications focused on world economy countries typology with the special attention to the small-scaled developed countries, possessing natural (first of all mineral) resources and to small economies considered as the periphery in relation to the centers of the world economy either regional integration complexes (Кузнецова, 1989; 1996; 2001; 2011). Recently this direction of research has acquired a special significance in connection with some independent small states of the former USSR and the countries of Central and Eastern Europe formation, which appeared to be on different stages of economic development and to gravitate to different integration groups.

In these publications it was observed that there is a special model of economic growth for the countries considered as small according to a number of indicators (Ефимова Е.Г. 2008). In the given research we mean economic dynamics of different scaled states depending on a degree «a maturity of territorial structure of an economy», «intensity of economic space usage» and population density (Машбиц Я.Г 1983; Одессер С.В. 1986.). S.B.Saul (1982, p.111) has noticed that there exist some limits of growth of the population for the small countries, defined in its density, natural, climatic and historical conditions. The idea was argued by the analysis of the concrete economic historical data for the West European small countries during 1870-1914. Analysis of long-term dynamics (Кузнецова Н.П.2001. с.103-104) shows that industrialization in the small West European countries passed faster, smoother and more rationally, than in the large-scaled economies. One of the important reasons of such phenomena lays in the relative ease of agrarian reforms (XVIII - XIX centuries), rather low social tension, constant inflow of the qualified and cheap labor from large West European countries captured by religious and civil wars. The small countries of Western Europe which have begun industrialization only in the end of XIX century, implemented export orientation of the international specialization which can be defined as mono-cultural, directed on production by handicraftsmen-immigrants of a special kind of the raw goods and the high-quality products satisfying diversified European and world demand. For this reason rate of labor productivity growth in the small countries was higher than in large, observing its lower initial level.

### **International Comparison of small countries economic development: economic history view**

There are some variants of economic development of a small country owing to a various combination of territory, population and the rate of its natural increase (RNI).

The first subgroup of West European small countries, capable to expand the economic potential at the expense of industrial resources of its own, has a reserve for extensive economic growth (Spain, the Netherlands) A prototype of this model of development was demonstrated by the «immigration capitalist» countries (including the USA and later by Canada) which managed to master the territory due to a high natural population increase, to the mass immigration of capable, active and initiative labor, and due to the regional integration complexes formation. (Кузнецова, 1977).

In the second subgroup of the small countries of investigated region are those which test an absolute lack both raw-material natural resources and manpower, i.e. extensive factors of growth. The model of effective development here is dictated by the density of population and finding out chances for “raw-materials (natural or artificial) niche” formation. Their

development indispensable conditions are: integration and reproduction intensification. We consider the most part of developed West European states as such type of the small countries: Belgium, Luxembourg, Austria, Switzerland, Liechtenstein, Monaco, Andorra, San Marino, etc. They possess small territory, traditionally high population density and small, sometimes negative rate of natural increase<sup>2</sup> International comparison of these group of small countries development demonstrates their significant inequality concerning scientific and technical development level, as well as rather big gap between most and least advanced countries accessing the break between different large countries.

The third subgroup is formed by the so-called peripheral countries of Western Europe. Besides the Mediterranean region, islands of the Central Atlantic and former colonial territories small countries of Northern Europe are included into this group. Peculiarities of Northern Europe small countries are: the relative geographical isolation, the limited resource base (first of all fertile soil, suitable for agricultural use) and rather low population density.

#### **Development of Northern countries – West European «competitive periphery»**

Economic development of Northern Europe countries was characterized by specific system of mutual relations «the centre (core) – periphery». The XVIII – XIX century's industrial revolution was the trigger of this model of development. Geographical position of the Nordic states has predetermined a role of these countries in European regional system as «European northern periphery»( Kirby, 1995; Кузнецова,1995). Signs of periphery existence regarding geographical characteristics (remoteness from Frankfurt-am-Main (Бусыгина, 2004) and innovative activity character (primary implementation of applied R&D compared to fundamental science further application) keeps the former status of considered region as a periphery. At the same time obvious social and economic achievements of Northern Europe economy allow to make addition to designated typology, naming this region «competitive periphery» (Creating Nordic Capitalism..., 2008).

Overall market economy formation of Nordic countries passed through the classical for «the developed periphery» scheme assuming internal and external components combination: the agrarian reforms evolution creating the free labor market, successful international specialization «niche» in services and the industrial sphere acquiring an intensive R&D introduction accompanied by transport and social infrastructure creation(Scott., Storper, 1992, p. 3–20).

This classical scheme was demonstrated by Sweden, Denmark, Norway and Finland. Agrarian reforms completion was the main internal factor of their industrial development. The

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<sup>2</sup> The rate of natural increase (RNI) is the crude birth rate minus the crude death rate of a population. Nowadays (2007) more than 70 countries have a total fertility rate of less than 2 and hence negative RNI Without immigration or an increase in total fertility rates, all these countries will have declining populations over the next few decades.

process of industrialization (XIX-XX-s centuries) was heavily influenced by significant foreign demand on Swedish iron ore and forest goods, Danish shipbuilding, chemical and the food-processing goods, Norwegian and Finish forest industrial goods: timber, pulp, paper. Strengthening of the Nordic countries export orientation<sup>3</sup> was promoted also by the activity of the national inventors<sup>4</sup>. The most part of export-oriented goods and services was produced in the largest multinational companies having home-country headquarters.

A majority of the known **Swedish** firms which define global significance of the country nowadays was formed in 1870-1914. According to the 30 largest Swedish multinational corporations list, 10 (33.3 %) have been created before 1900, 7 (23.3 %) – in 1901-1918, 4 (13.3 %) – in 1919<sup>5</sup>. Thus, only 30 % of the biggest Swedish enterprises were created after the Second World War<sup>6</sup>.

In **Denmark** labor productivity and economic growth dynamics in agriculture caused domestic market and export expansion as well as emancipation of agrarian labor in favor of industrial sector. The country has created a set of large industrial enterprises: diesel-building concern «Burmeister og Wajn»<sup>7</sup>, the group "FL Smidth"<sup>8</sup> (cement and mining industry equipment manufacturing and adjusting), brewery concern "Carlsberg", etc. Before technological pattern shift (the fourth Kondratieff wave), Denmark (within the limits of cattle-breeding specialization) managed to implement intensive growth factors and to conquer the guaranteed commodity markets (Great Britain, Germany), becoming one of leaders of the world food market

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<sup>3</sup> Among leading branches of the Swedish industry, specializing on export production were iron and steel industry metal working and mechanical engineering ( Герчи́кова, 1957, с. 1-3. )

<sup>4</sup> A. Nobel has played an important role in the largest Swedish military-industrial company "Bofors" development. Largest manufacturer – firms "SKF" grew on ball-bearings patents implementation. L.M. Ericson has founded the future giant of his name "Ericson" on the basis of improved phone version. G.Lavalja's inventions have strongly strengthened positions of Sweden in the sphere of dairy production processing (Шведская модель... 2006 , с.58)

<sup>5</sup> Author's calculation of exchange index OMXS30 (July, 2010), (Ефимова Е.Г., Уланов В.А.2011)

<sup>6</sup> See: URL:<http://www.nasdaqomxnordic.com/aktier/shareinformation?Instrument=SSESE0000337842> (date of the reference of 10.08.2010)

<sup>7</sup> Officially AS «Burmeister and Wain» was founded in 1872 However business originates in 1843 In 1980 the undertaking has passed under the West German concern "MAN" control. Now the company has three industrial divisions: in Copenhagen, Høleby, Friderikshafen which are producing diesel engines and the equipment for power stations. In 2006 MAN Diesel AG has received the status of the European joint-stock company «MAN Diesel» SE (Societas Europaea) (Градобумова, 1982, P..59) ; URL: [http://en.wikipedia.org/wiki/Burmeister\\_&\\_Wain](http://en.wikipedia.org/wiki/Burmeister_%26_Wain) (date of the reference of 25.09. 2010)

<sup>8</sup> «F.L.Smidth and Co.» was founded in 1882 in Copenhagen. the first foreign representations were opened in 1890 of in London, then in Paris (1893), New York (1895), Berlin (1901), resulting the international status of the company. By 1957 the firm supervised 40 % of the cement industry equipment world market. In the late eighties of the XX century «F.L.Smidth and Co.» has been renamed into «FLS Industries» supervising 125 companies that reflected A&M policy results. Its assets have been divided into 7 sectors: engineering, construction materials, steel, services, packing, the aero-space industry, international investments. In 1990 «The FLS Group "has absorbed" Fuller Company that has led to «F.L.Smidth-Fuller Engineering Group» foundation. However legal merge of these firm has happened only in 2001 with «F.L.Smidth» A/S. formation on the 1<sup>st</sup> of January, 2010 for the sake of the company's uniform image formation in the global marketing environment all affiliated companies and divisions have changed the name into «FLSmidth». Now the firm employs 10 500 employees in more than 40 countries. URL:<http://www.flsmidth.com/en-US/About+FLSmidth> (date of the reference 25.09. 2010)

in specific nomenclature of export production (bacon, butter). High labor productivity<sup>9</sup>, exclusively high quality provision and favorable terms of international food trade promoted accumulation of capital necessary for carrying out a set of structural reform in the national economy. Machine-building companies either specialized in traditional branches (shipbuilding) or together with chemical and the food-processing industry served agrarian sector requirements. The Danish companies' policy during 1955 – 1965 has resulted transition of economy from agrarian-industrial to industrial-agrarian structure. Swedish and Danish firms acquired considerable scientific and technical potential in fundamental and applied R&D during the period between the First and Second World Wars. Leading national MNC prospering mainly at the expense of foreign trade activities provided science financial provision<sup>10</sup>. The leading positions in R&D is kept presumably by Swedish investment company "Investor" founded by the Wallenbergs in 1916.

Economic development of **Norway** and **Finland** during the national industrial organization formation was provided by the forest, paper and pulp industry successes. However intensive deforestation of Norway and its export to Great Britain by the beginning of the First World War have led to national wood resources exhaustion. Fisheries and marine freight became the basic export branches and stimulated the second stage of industrialization. Extraction of hydro carbonic raw materials on a continental shelf of Norway in the XX century 60-th has coincided with the beginning of a postindustrial epoch and has predetermined catch-up of Norway into the information society as well as transformation of the resource-abundant country into one of the most advanced, knowledge-based economies of the world (Кузнецова Н.П.,2011). Finland has kept its positions in world forest-industrial complex. The timber industry company " Ahlstrom " founded in 1851, now is included into the national list of the largest multinational corporations, not changing its traditional specialization.

In the XX century 60th a new stage of innovational development of Northern European countries started. This process was connected with new industrial regions expansion outside of the world market mass production centers. The monetary distribution structure for scientific research and development used by Multinational Corporation of the Nordic countries is characterized by the smaller share of fundamental research funds compared to applied R&D funds. This misbalance has been compensated by the government's support of fundamental

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<sup>9</sup> In the early sixties production efficiency indicators in Danish agriculture exceeded average parameter across Western Europe in 2,5 times. (*Эбпе,1980.P. 36*).

<sup>10</sup> The following families of Nordic countries were and still are the leaders of R&D implementation: Wallenberg, Johnsson, Broström in Sweden, Astrup, Ulsen, Wilhelmsen in Norway, A.P. Møller, F.L. Smidth in Denmark, Ehrnroth, Wahlforss, Wrede, Ahlstrom in Finland (*Пискулов., Градобитова, .1972, P. 31*).



research. The authorities give a priority to those areas of R&D in which scientific successes are the most obvious<sup>11</sup>. Simultaneously applied R&D is traditionally financed by large business.<sup>12</sup>

In the mid of the XX century seventies the relationship of «centre – periphery» began to change gradually. The 1974-1975 world economic crises have influenced mining industry enterprises, ferrous metallurgy, shipbuilding, textile, etc. Besides, cheap export and decrease in the productivity growth rates, observed in the late seventies, have led to the system of mass production world crisis as well as to the delay of regional development. Gradual refusal from mass production and product-oriented strategy, transition to more dynamical actions within the frame of the international industrial cooperation, to a client-oriented policy of customization, improvements of production process and innovative activity expansion are observed in Northern Europe businesses (*Mintzberg, et al.*, 2003. P.361 – 369).

A basis of industrial companies of the North European region development happen to be concentric and conglomerate diversifications assuming revolutionary changes in the strategy of business, stimulating essential investments. These firms had acquired comparative advantages in expensive, unique scientific - and labor-consuming production which due to the extremely high product quality does not meet adequate competition in the developed countries markets. The companies of Northern Europe limited in their financial opportunities are compelled to choose less expensive narrow segment of the world market<sup>13</sup> in which there exists an original invention or the specific "know-how" which is not interesting to the larger firms. In this narrow, specific chosen niche northern firms aspire to occupy the maximum share of the world market<sup>14</sup>. Such specialization is not accompanied by big risks. It hides a danger of sharp falling of consumption of already ordered exported products during the crisis periods. Due to larger stability of the foreign trade deliveries within the limits of cooperation agreements in comparison with internal orders export manufacture for a certain period of time supports the general level of a conjuncture in these countries in world down-swing stage.

#### **Ultra small independent territories of Western Europe economic development (case of Aland and Faeroe Islands)**

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<sup>11</sup> For example in Denmark in 1973 public funds have been distributed as follows: 53 % have gone on researches in the field of natural sciences and medicine, 29 % - on agricultural and engineering sciences, 18 % - on social and humanitarian researches. (*Эбпе*, 1980, P.13)

<sup>12</sup> For example, in Finland 70 % of total investments on research and development are provided by private business URL:<http://www.finland.polpred.ru/news.html?section=3&id=77753&type=paid&country=168> (date of the reference of 20.09.2010)

<sup>13</sup> The expert in an economic history of Norway of F.Hodne wrote that the world market can give a chance to use to small economy comparative advantages and to specialize in those spheres of the export-focused manufacture in which the small country has high competitiveness (*Hodne*, 1975, P.6)

<sup>14</sup> The Danish multinational corporation "FL Smidth" is the second manufacturer in Europe's fibro-cement building materials sector. 99 % of its income are formed at the expense of foreign operations URL: <http://www.flsmidth.com/en-US/About+FLSmidth> <http://hugin.info/2106/R/1438877/383359.pdf> (date of reference 25.09.2010)

One of the very important problem connected to scale and almost not reflected in academic literature and even mass-media publications – economic development of the dwarfish states<sup>15</sup> and ultra-small independent territories, which have no chance to expand beyond national borders, owing to their island, peripheral, spatially independent (from the mother country) position. This type of states and territories possesses the characteristics similar to the small countries, representing a certain symbiosis of the second and third variant of economic development preserving an obvious specificity of an autonomy and «competitive periphery». These countries and independent territories' possibilities of growth lie in integration regional complexes participation and submission to the general regional policy, in uniqueness of their geographical position which presumes their role as the transport-logistical, infrastructural business bridge between larger neighbors-partners in sub-continental region of the Western Europe.

Ultra small independent territories are the regions acquiring the quantitative indicators of micro-countries. Politically they are a part of any metropolis possessing the partial constitutional sovereignty, own system of the legislative and executive authority, special tax and commercial codes. Nowadays the similar status in the Western Europe is acquired by Canary Islands (Spain) overseas departments of France (Guadeloupe, Martinique, Guyana, Re-Union), British isles in La Manche and Irish Sea (Maine), Aland (Finland) and Faeroe (Denmark) islands, and Gibraltar - the unique colony which has remained in continental Europe.

The idea of West European independent island ultra-small regions (case of Aland and Faeroes) economic development is investigated neither in the domestic Russian, nor in the world literature. The basic components of its working out are: 1) the short historical-economic inquiry, 2) start-up conditions of business functioning estimate concerning each autonomy, 3) character of these regions interaction with the European Union within the limits of the latter regional policy, 4) definition of various factors influence on the island competitive peripheral territories development.

Both Aland and Faeroes regions have passed an uneasy way of historical development and political-economical formation as autonomies of Finland (Aland) and Denmark (Faeroes). Faeroes have received an autonomous status about 25 years after Aland due to the territorial repartition of Europe (see Table 1). Both territories are approximately equal in the area, in GRP (gross regional product) per capita, the population of Faeroes exceeds Aland's on 75 %. Both

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<sup>15</sup> According to the terminology of the United Nations and the World bank “dwarfish (micro)-states are sovereign states with the population not exceeding 1 mln. The European dwarfish countries are: Andorra, Liechtenstein, Malta, Monaco, San Marino and Vatican. Sometimes this group includes Luxembourg, more rare Cyprus and Iceland. (Eccardt , .2005)

territories are recipients of the economic aid from the national governments. The Åland Islands are included into a euro zone; Faeroes have regional currency of its own.

External indicators on Åland and Faeroes characterizing start-up and contemporary geographical, historical-economic, and governance policy conditions of economic development are illustrated in table 1.

Table 1. Comparative geographical, historical-economic, political characteristics Åland and Faeroes

Indicator	The Åland islands	Faeroes
Date of autonomy's foundation	06.05.1920/09.06.1922	3/23/1948
Population	28 163 (6/30/2011)	49 267 (July 2011)
Total area	13 517 km <sup>2</sup>	no data available
Land area	1 527 km <sup>2</sup>	1 399 km <sup>2</sup>
Form of political governance	Independent region of Finland	Parliamentary democracy within the limits of constitutional monarchy, an independent province of Denmark
Economic aid	The addressee: 0,45 % from the public revenue in corresponding year, excepting the state loans	The addressee: \$100 million (an annual grant from Denmark) (2007)
Membership in EU	Yes, as a part of Finland. Does not enter into system of the VAT of EU <sup>16</sup>	No, as independent territory of Denmark
WTO membership	Yes, as a part of Finland	Yes, as a part of Denmark

Sources: : <http://www.asub.ax/start.con?iLan=2> Date of reference 15.01.2012;

<https://www.cia.gov/library/publications/the-world-factbook/geos/fo.html> Date of reference: 25.01.2012;

Statistical Yearbook of Åland. 2010. [http://www.asub.ax/files/statistisk\\_arsbok\\_for\\_aland.pdf](http://www.asub.ax/files/statistisk_arsbok_for_aland.pdf). (date of reference: 16.12.2011. P.155), Зайпт Е.В. Автономия Аландских островов: федеральный элемент в конституции унитарного государства. В сб. Северная Европа. Проблемы истории/Отв. ред. д.и.н. О.В. Чернышова. М. Наука. 1999. P. 301.

Tables 1 data give an initial material for the characteristics: history of islands interaction with the European Union, the latter and national financial support, specificity of autonomies trade balance and industrial organization structure.

<sup>16</sup> According to Article 6 of the Instruction of Council the territory is excluded from the general EU VAT system 2006/112/EC from November, 28th 2006 (OJ L 347, 12/11/2006, P. 1).

The agreement on the accession of Finland to the EU did not extend on Åland automatically. The Article 28 of this document specifies its inapplicability concerning the Åland islands until the government of Finland in the special notice on ratification will not transfer to the depositary (to the Government of the Italian Republic) the decision about its application to the independent territory of Åland. Therefore the Agreement on the accession of Finland has included special clause (Protocol №2) as European Union articles of incorporation, in particular, do not provide special restrictions implementation concerning the rights of the persons who do not have a constant residence or incorporation on islands, to Åland's real estate acquisition<sup>17</sup>. The referendum about the Åland accession to the EU has originally been ruined by islanders because of their particular interest to preservation of duty-free trade on ferries. The government of Finland has achieved the special clause in the European tax Directives. Having convinced of Sweden's membership in the EU 74 % of the Åland Islands population have voted pro the introduction into EU on 20 November 1994<sup>18</sup>.

Legally Faeroes are not included into the European Union. By the time of Denmark introduction into the EU (1973) Faeroes already possessed an autonomous status. The Treaty on Denmark's joining the European Union had a special nonparticipation clause of Faeroes that has predetermined islands' non-accession to the Schengen agreement<sup>19</sup>. Conventionally relationship between Faeroes and the EU are regulated by the Free Trade Agreement (1996), the Protocol on Accession into the Market (1998) and the Bilateral Agreement on Fishery. With these documents acceptance many initial restrictions were eliminated. Cooperation in science, technologies and aircraft spheres was simplified. Faeroes business representation was opened in Bruxelles in 1998. In 2001 Faeroes and the EU have finished negotiations on the Veterinary Protocol. In 2005 Faeroes entered the System of Pan-European-Mediterranean Cooperation<sup>20</sup>.

### **European Union regional policy implementation to Åland and Faeroes Islands**

Special status of the studied territories predetermines possible directions and the amount of the EU financial support. The Åland Islands from the moment of their EU accession in 1995

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<sup>17</sup> European Parliament Legislative Resolution of 4 May 1994 on the application by the Republic of Finland to become a member of the European Union (94/C 241/04) <http://eur-lex.europa.eu/en/treaties/dat/11994N/htm/11994N.html#0006010004>

<sup>18</sup> Åland - a land neither Finnish nor Swedish/Cafebabel.com. The European Magazine. See: <http://www.cafebabel.co.uk/article/3164/aland-a-land-neither-finnish-nor-swedish.html> (Date of reference 08.12.2011)

<sup>19</sup> The choice of islanders was defined by dependence of their economy on fishery

<sup>20</sup> The question on Faeroes accession into EU is opened till now. The Union's Right party (Sambandsflokkurin) insists on Faeroes EU membership. As arguments Pro the introduction arguments considers strengthening of youth migration and close Faeroes economic cooperation with Great Britain, Denmark, Germany, Norway, Sweden, France,. Representatives of the Left Republican Party (Tjóðveldi) are disturbed by possibility of Faeroes joining to the European Union, appealing to the necessity of prime problems Faeroes - Denmark joint decision. Contra arguments still figure out export structure (90 % fish and seafood), and impossibility of Faeroes influence on EU decision-making in process due to the small I number of the islands population.

became the object of the EU regional policy. In 1994-1999 national problems of new member countries (in particular far-distant northern territories' access and development simplification) were the only to be solved. In 2000-2006 the Åland Islands have got a status of priority regions of the LEADER program implementation. Originally support was provided to agrarian countryside. The Plan for these territories development has been processed for Åland islands (Finland) region<sup>21</sup> which acquired the following main objectives: 1) growth of appeal of independent territory attractiveness as a place for life and business, 2) preservation of traditional landscape characteristics, 3) increase of farmer's and forestry households competitiveness.

EU regional policy present stage (2007-2013) is characterized by the following: 36 % of the EU total budget (347,041 billion euro)<sup>22</sup> provide the realization of three key objectives: different EU countries-members convergence<sup>23</sup>, regional competitiveness and employment increase, the European territorial competition provision. Money goes from the European Fund of Regional Development (EFRD) (for the EU poorest regions development to reach a purpose of infrastructure, innovations and investments programs implementation), from the European Social Fund (ESF) (to all member-countries for the employment problems decision) and Rapprochement Fund (RF) within the limits of INTERREG IV program (ecology, transport and renewed energy projects for those countries, where a standard of living is below 90 % of the EU average). Branch distribution of the European funds reflects the interests of considered regions and is characterized by the following figures: innovations – 24 %, transport – 22 %, employment programs – 22 %, ecology – 19 %, other – 13 %<sup>24</sup>. Modern crisis has not rendered considerable influence on funds distribution as the decision of the designated regional problems is represented for the European Union to one of primary goals dictated by the uniqueness of the situation.

In 2006 the Commission of the European Communities has confirmed the list of regions and territories receiving financial support from the EFRD for the purpose of border and international cooperation in 2007 – 2013<sup>25</sup>. This list of NUTS III regions level needing money for borders cooperation development includes Åland and 10 Danish amts, located on "the basic" territory. Among territories of level NUTS II the Åland Islands and Denmark (as Baltic Sea and Northern Periphery regions) will use support of their international activities. Without being a member of the European Union, Faeroes can count only on the limited direct support (for

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<sup>21</sup> Rural Development plan for the Region of Åland (Finland) MEMO/07/601 [http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/07/601& Date of reference 05.11.2011](http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/07/601&Date%20of%20reference=05.11.2011)

<sup>22</sup> Council Regulation (EC) No 1083/2006 (11 July 2006), Regulation (EC) No 1260/1999. [http://europa.eu/pol/reg/index\\_en.htm](http://europa.eu/pol/reg/index_en.htm). Date of reference 13.10.2011

<sup>23</sup> Convergence in this context means rapprochement, smoothing of distinctions

<sup>24</sup> [http://europa.eu/pol/reg/index\\_en.htm](http://europa.eu/pol/reg/index_en.htm). (Date of reference 13.10.2011)

<sup>25</sup> Commission Decision 2006/769/EC of 31 October 2006. Official Journal L 312 of 11/11/2006. Как ссылаться?

example, within the limits of the program «Northern Periphery» 2007-2013<sup>26</sup>) and indirect financial support of the EU<sup>27</sup>. However Faeroes have signed a number of the European agreements that gives them a chance to co-operate with EU bodies.

Both Denmark, and Finland get notable financial support from EU structural funds on regional competitiveness development (452 135 320 and 932 184 449 Euros accordingly, prices of 2004)<sup>28</sup>. The help of the European funds for the goal of Denmark and Finland territorial cooperation is shown in table 2.

Table 2. EU structural funds financing territories' development (01.01.2007 – 31.12.2013) (euro, 2004 prices)

EU Member country	Borders cooperation			International co-operation	In total
	The internal	Within the limits of the European neighborhood and partnership programmes	In total on border cooperation		
Denmark	74 215 963	0	74 215 963	17 511 738	91 727 701
Finland	54 696 740	35 000 000	89 696 740	16 941 695	106638435

Source: Official Journal L 247 of 09.09.2006. Commission Decision 2006/609/EC of 4 August 2006.

EU regional policy<sup>29</sup> acts concerning the decision of key problems: support of rural territories, zones of fishery and areas with natural obstacles<sup>30</sup> allow Aland and Faeroes islands to count both on the EU funds help and on the national governments support (table 3).

Table 3. The budget of the Aland Islands and a share of financing of EU (euro)

Amount and type of expenses	Regional expenses		
	The general regional expenses	EAFRD share in regional expenses %	EAFRD Contribution
Agriculture	8 391 195	40	3 356 478

<sup>26</sup> The Northern Periphery Programme 2007-2013. Participants: a number of regions of Finland, Sweden, Great Britain, Ireland and Norway, and also Iceland, Faeroes and Greenland. Source: <http://www.northernperiphery.eu/en/content/show/&tid=178> (Date of reference 09.08..2011)

<sup>27</sup> The Danish "basic" territories get target financial support from the EU. The Danish government has an opportunity at the expense of economy of the national budget to render the financial help to Faeroes which size is defined in absolute indicators (see Tab. 1).

<sup>28</sup> Commission Decision of 4 August 2006 fixing an indicative allocation by Member State of the commitment appropriations for the Regional competitiveness and employment objective for the period 2007-2013 (notified under document number C (2006) 3472) (2006/593/EC)

<sup>29</sup> Commission Decisions: 2007/766/EC of 14 November 2007, Official Journal L 310 of 11/28/2007. 2006/769/EC of 31 October 2006. Official Journal L 312 of 11/11/2006, 2006/597/EC of 4 August 2006. Official Journal L 243 of 9/6/2006, 2006/596/EC of 4 August 2006. Official Journal L 243 of 9/6/2006, 2006/595/EC of 4 August 2006. Official Journal L 243 of 9/6/2006, 2006/609/EC of 4 August 2006. Official Journal L 247 of 9/9/2006. 2006/594/EC of 4 August 2006. Official Journal L 243 of 9/6/2006. 2006/593/EC of 4 August 2006. Official Journal L 243 of 9/6/2006. 2006/702/EC of 6 October 2006. Official Journal L 291 of 10/21/2006. Commission Communication of 5 July 2005. COM (2005) 299 - Not published in the Official Journal.

<sup>30</sup> Article 2.2 of the Strategic Management of Community on Rapprochement//the Decision of Council 6 October, 2006 about strategic reference points on Community unity (2006/702/EC)

modernisation			
Depressive regions support	43 965 857	26,72	11 747 677
Agriculture diversification	1 688 238	50	844 119
LEADER	1 643 853	55	904 119
Technical assistance	1 254 366	50	627 183
Total	56 943 509	30,7	17 479 576

Source: Rural Development plan for the Region of Åland (Finland) MEMO/07/601 <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/07/601&> Date of reference 05.11.2011

Despite the prior depressive regions EU supports (first of all agricultural), national and local authorities aid is considered as a necessary condition of the EU financing. Joint help from national governments and the EU as well as harmonized governance of industrial organization resulted the conversion of these territories into the competitive sub-periphery.

#### **Harmonized governance of business activities and industrial organization formation of Åland and Faeroes ultra-small sub-periphery regions**

The characteristic of standard regulation of islands enterprise activity system gives the following picture. Ålands find themselves under the jurisdiction of Finland concerning joint-stock forms of capital. That has predetermined the prevalence of small and medium-sized business enterprises with a number of employees less than 10 persons functioning in food-processing, tourism, construction and trade industries<sup>31</sup>. Two investment structures closely co-operating with each other (Ålands Utvecklings Ab – the state company which clients are newly-born firms, and Ålands Investerings Ab – the private company financing small enterprises (except marine-construction industry) offer venture capital to small enterprises-residents of Ålands which possess potential of innovational growth.

The Faeroes business legislation is adequate to the European standards. It represents the adapted laws of Denmark corresponding to the local business conditions. Now the Faeroes Government prepares changes in the Danish business legislation<sup>32</sup>, including unification of two center-periphery Acts concerning simplification of joint-stock firms formation and functioning. Comparison of Ålands and Faeroes business environment is presented in table 4.

Table 4. The Faeroes and the Åland islands business environment

	The Åland islands	Faeroes
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<sup>31</sup> Data is given by the Trade mission of the Russian Federation in Finland. In 2011 on Åland 2 300 firms are registered

<sup>32</sup> The law on joint-stock forms of the capital has been approved in Denmark in spring 2009, and is reconsidered by the Faeroes Parliament in early spring of 2010. See: Business Report (2011). The International Review of Faroe Islands. Industry and Trade. North Atlantic Information Services Spf. P.44-63

Tax environment	The corporate tax of 26 %	The corporate tax of 18 %
Standard of living	According to Eurostat databaes, Alands occupied 20-th position among EU regions on a standard of living in 2006.	no data available
GRP	1, 044 billion € (2010)	2,3 billion \$ (2009)
GRP per capita	41 910€ (2007)	47 279\$ (2009)
Rate of unemployment	2,5 % (May 2011), 2,8 (August 2011)	3,9 % (2009)
Currency	Euros, the Swedish crones are accepted	The Danish crone, Faeroes crone

Source: calculation by the authors using: <https://www.cia.gov/library/publications/the-world-factbook/geos/fo.html>, <http://www.asub.ax/start.con?iLan=2>, Statistical Yearbook of Åland. 2010. P.155 (Date of reference 02.03. 2011)

The industrial organization structure characteristic of independent territories under consideration will help to estimate their business environment.

The agriculture has played a key role in their economic development. Rich traditions of agriculture of the Aland islands have put a basis of its food-processing industry. It is presented by the enterprises of small-scaled business making traditional production – apples, mustard, cheese, sausage, beer, alcohol. The largest representative of food branch is Chips Group, being the leader of the market of snacks of Finland, Sweden, Norway, Denmark and Latvia. In 2006 the firm was merged by Norwegian Orkla Group. These enterprises are important for the Aland autonomy supporting high level of employment. The role of agriculture for Faeroes is equally important. Up to the middle of the XIX-s century sheep breeding was here the basic income item. Now the livestock of sheep totals about 80 thousand. However in the XX-s century industrial organization leadership has been transferred to the fishery.

Special resources acquiring define distinctions in industrial organization structure of island territories business. The richest fish resources of Northern Atlantic promoted fishery development on Faeroes. In the 1970-th cultivation of a salmon completed and even substituted fishing. The unique farm on a halibut cultivation has been constructed in the beginning of the XXI-st century . The activity of such farms is coordinated by autonomous Faroese Fish Farming Association. In 2009 it has produced 48 622 tones of fish - 10 350 tones of fish more than in 2008 [Faroe Business Report (2011). P.44-63]. Simultaneously organizational structure of business has changed crucially. The largest companies (Pelagic Complex, Christian í Grótinum, Faroe Origin, Framherji, Tavan, Landshandilin) have industrial-logistical capacities of their own, supervising all technological process in fish cultivation. Crude fish bargains not only from ships



or by specialized firms, but also at the auction, the Faeroes fish market, functioning under Agency on foodstuff control, Veterinary and Environment Inspections monitoring.

The isolated position of island peripheries and the limited resources compelled local manufacturers to search for foreign markets that have led to transport development. Frigate and navigation historically was the basic branch on Ålands. The considerable part of Ålands' fleet goes in overseas expeditions, transporting oil from Near East region to Europe and wood between the European countries. Frigate and navigation gives about 30 % GRP and about 50 % taking into account adjacent effect. The largest companies and the largest employers are Viking Line and the group Rederiaktiebolaget Eckerö. Three large cargo marine companies are registered on Ålands: Lundqvistrederierna specializes on oil transportations in Baltic, Northern and Mediterranean seas; fleet Rederi Ab Lillgaard consists from small dry-cargo and ro-ro ships provides the Scandinavian traffic; Godby Shipping, having seven ships, offers services of transportation of production of the wood industry between Finland and Southern Europe. Bore Ltd, as a part of Rettig Group, is the ship-owner. The Scandinavian office ASP Ship Management located in Mariehamn specializes on 3PL services rendering. Three seaports and one airport provide marine and air traffic done by Air Åland transportations company [Statistical Yearbook of Åland. 2010].

Significant branch of Faeroes transport services as well as Ålands' is frigate and navigation. More than 58 % of large and average ships are occupied in fishing<sup>33</sup>. The internal communication is provided by carriers: Strandfaraskip Landsins and Atlantic Airways (helicopters). The external transport communication is provided by marine and aviation companies. Smyril Line supervises Sea routes of Northern Atlantics. Faroe Ship services cargo transportation between islands and transportation on the international lines as well as logistical service under the scheme "hub-end-spouk" providing freight traffic. Besides, the firm is the exclusive agent of the largest Danish transport company - Maersk Sealand functioning on Faeroes. Passengers transportation is carried out mainly via airport Vagar. Atlantic Airways provides the international regular flights to Norway, Denmark, Iceland, Great Britain<sup>34</sup>.

The Faeroes oil branch started to develop actively since the 90th years of the XX-s century. Legal rights of oil natural resources use including sea shelf within a 200-mile zone in the North Sea, have been fixed under the Treaty with the Government of Denmark (1992).

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<sup>33</sup> It is counted by authors on a basis:

[http://www.hagstova.fo/portal/page/portal/HAGSTOVAN/Statistics\\_%20Faroe\\_Islands/Statistics/TRANSPORT\\_COMMUNICATION/SKIPTOT\\_05\\_EN](http://www.hagstova.fo/portal/page/portal/HAGSTOVAN/Statistics_%20Faroe_Islands/Statistics/TRANSPORT_COMMUNICATION/SKIPTOT_05_EN) (Date of reference 05.04.2012)

<sup>34</sup> Attempts to adjust an aircraft service with Copenhagen by means of one more company - FaroeJet – have ended with failure FaroeJet has been created on December, 20th, 2005. The first flight has been made on a route Copenhagen — Vagar on May, 15th, 2006. In December, 2006 the airline has been declared bankrupt. Definitely activity of airline is stopped since January, 1st, 2007. See: [www.faroejet.fo](http://www.faroejet.fo) (Date of reference 04.05.2011)

Initially Faeroes Government only granted licenses for oil investigation. In 1998 local investors founded and registered joint-stock oil and gas company Atlantic Petroleum. Since 2000 it conducts investigation and extraction on Faeroes, a shelf of Northern, Irish and Celtic seas<sup>35</sup>. Continental shelf oil extraction stimulated financial and particularly insurance services development at Faeroes.

Bank and insurance services on the Alands islands were initially developed as a sector accompanying freight and navigation. Bank of Åland was founded in 1919 at the initiative of one of the largest at that time marine companies - Windjammers, registered on Alands and needing in bank services. Nowadays the bank is engaged in marine branch financing and renders bank services to wealthy clients. The insurance groups Alandia Group, specializes on marine insurance and a maritime law, and Ålands Ömsesidiga Försäkringsbolag render service in business, real estate, motor-vehicles, and accidents insurances. ITC is the most fast-growing sector on Alands also is developing thanks to marine transportations service. The companies-leaders of the given branch enter in marine cluster (Carus PBS, SAJ Instrument, PAF Group (the supplier of PC games and the Internet provider of ferry lines services)) and provide wide allied industries (Crosskey Banking Solutions, affiliated structure Bank of Åland) with modern bank technologies. Posten Åland and Pectus are the leading companies in the sector of electronic commerce on Alands islands. They offer consultancy and provide in organization of representatives to foreign logistical firms which should obtain Government Alands licenses.

The largest financial structure on Faeroes is BankNordik, founded in 1906. This financial group carries out bank operations in Denmark, Greenland and on Faeroes, and renders insurance services on Iceland and Faeroes. Its activity is regulated by Financial Inspection of Denmark (Danish Financial Inspection). Besides, the bank participates in the Danish Fund of guarantees savings (Danish Savings Guarantee Fund). Its securities are quoted on NASDAQ OMX in Iceland and Copenhagen. Copenhagen stock exchange data proves that BankNordik is one of the tenth largest financial conglomerates according to an indicator of market capitalization and among 6 largest on the asset value<sup>36</sup>. The stock exchange «Faeroes securities market» operates on Faeroes together with insurance groups providing financial-insurance services for oil (particularly sea shelf oil extraction with the help of oil platforms) production.

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<sup>35</sup> In the end of 2006 Atlantic Petroleum has begun oil recovery on deposit Chestnut (the reconnoitered stocks of 1 million t.), in 2008 - on deposit Etterick (4,1 million t.), in 2009 — on deposit Perth (1 million t.). Now Faeroes investors possess 66 % in a share capital of «Atlantic Petroleum», Danish — 19 %, and 15 % belong to foreign shareholders. In 2008 the company has extracted 160 thousand barrels (oil equivalent). See: <http://www.petroleum.fo> (Date of reference 09.10.2011)

<sup>36</sup> Key statistics BankNordik in 2010: number of workers of 430 persons, less 2 % occupied on islands, the general actives of 14.3 billion DKK, profit to a deduction of taxes of 416 million DKK, net profit of 339 million DKK, solvency factor: 17 % [Faroe Business Report (2011), P. 42]

Alands' absence of rich natural resources predetermined hi-tech branches development. ICT services and polymers products are exported to many countries of the world. The latter branch is presented by Optinova. Its headquarters and fluoro-polymeric manufacturing factory (producing medical tubas) are located on Alands. ScanTube makes tuba, profiles and packing cords for chemical, medical, pharmaceutical and electronic industry on Aland and in Thailand and selling these goods through marketing divisions in the USA, Germany and Sweden; Colorant Chromatics, owning manufacture of polymeric materials on Alands, the USA, the Peoples Republic of China and the distribution centre in Germany; Cainby, specializing on production of stands for placing the commercials used in the first turn on ferry lines.

Faeroes far-distant geographical position and ethnic specifics of the territory promoted independent system of communications formation. Mobile islands communication is represented by Føroya Tele operator having access to fibro-optical Canada-Europe cables. The broadcasting company Kringvarp Føroya has evolved from radio station Útvarp Føroya (all radio programs are broadcasted in Faeroes language) and television studio Sjónvarp Føroya merge.

As we see informational economy development, ICT formation on the islands' competitive sub-periphery had conquered oil industry and financial-service sphere.

## **Conclusion**

- I. Classification of small developed countries allows to define three options for their economic development due to various combinations of territory, population and its natural increase in small-scaled economies, with a special attention to the highly developed countries of Northern Europe, representing a combination of the second and third variants. These countries could be considered as West European «competitive periphery»
- II. Consideration of ultra - small independent Nordic regions (Alands and Faeroes) in a historical-economic typology context of the small states of the Western Europe allows to draw conclusions about
  - 1) high level of social and economic development of these countries and territories;
  - 2) specificity of peripheral competitive character of independent territories that could be defined as competitive sub-periphery regions of Western Europe;
  - 3) transformation of island independent territories (Alands and Faeroes) into the transport-logistical, information-communication, financial-insurance business bridges of West-European sub-continent that is stimulated with the special regional policy of the European union directed on the development of structurally-depressive, agricultural, periphery regions.
- III. The comparative analysis of Alands and Faeroes business activity has shown that:

1) economic development and formation of North European countries business was held in the framework of mutual relations system - «the centre – the periphery»;

2) initial conditions of Alands and Faeroes business development were identical;

3) resource provision in the Danish autonomous region (fish stocks and hydrocarbons) is represented more preferable in comparison with Finnish;

4) rules of Finland tax system is completely harmonized with the tax norms of the European regulation, and are applicable on the Aland islands which keeps territorial tax specificity of its own reflected in: 1. creation of special tax privileges, 2. realization of tax free trade, 3. outsourcing of logistics functions of the foreign companies.

5) firms of the Alands islands, using the special independent tax status in the EU, have reached bigger progress of hi-tech branches implementation in real production sector and in the sphere of services, than the companies of Faeroes.

6) the branch distribution of the European funds reflects competitive advantage of the Finnish autonomy in comparison with the Danish:

- Membership in the EU provides the target help to business.
- Faeroes, thanks to the independent status, receive only limited direct and indirect help of EU.
- Participation in the international trade agreements do not always replace the target financial support and the privileges given by supranational and regional bodies.

IV. Despite the observed differences, island peripheral territories have similar characteristics of business activity:

1. prevalence of small and medium-sized companies,
2. traditional branches of an economy development,
3. local authorities support of business, for the sake of full local employment provision,
4. successful use of unique geopolitical position of territories.

V. The analysis of the Faroe Islands and Alands industrial organization allows to come to the following conclusions:

- 1) formation of the islands governance system adequate to the EU regulation;
- 2) high degree of capital, concentration and centralization represented by the largest TNC's functioning in the leading islands' industries;
- 3) leading role of agricultural production, fisheries and aquaculture in regional economy;
- 4) development of marine navigation as the most advanced type of transport on both island territories.
- 5) Diverse sectors of the high-tech industry on the Alands can be explained by the absence of mineral resources. Rich oil and fishery reserves of the Faroe islands put the brakes on the

regional ITC.

6) Åland and the Faroe Islands formation of conglomerate financial services sector (banking and insurance) associated with shipping and navigation and Faroe Islands oil production

7) Development of business and the chain of structural changes, the formation of a special type of peripheral national economic complex contribute to the raising of regional economic development level due to the adequate region's policies conduct which govern industrial organization and conversion of traditional raw material into the innovation-oriented type of economic growth of both competitive sub-periphery autonomies.

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