The Scope and Potential of Multi-level Governance in EU External Relations – Lessons from the Euro-Arctic

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Abstract

Since the end of the Cold War, political and economic relations between Western Europe and Russia have changed rapidly and now involve a great number of public and private actors. These relations can be characterised as a many-sided process with numerous advantages, but also one that reveals that there are severe problems involved in developing ties that cross the former Iron Curtain. Foreign direct investment (FDI) is a key concern in any discussion on economic integration, but has turned out to be one such problem area.

This paper outlines an approach for the analysis of public-private relations East-West integration. Particular attention is devoted to the multi-level dynamics of the EU's external relations and how it may be related to the development of transnational business. Implications of earlier research on the Barents Euro-Arctic Region are analysed with particular reference made to the relatively new Northern Dimension initiative.

Introduction

One of the crucial issues for European Union policy-making for many years to come concern its integration with Eastern Europe and Russia. There are membership negotiations with a handful of states already under way, others are waiting for access to negotiations, the Balkan conflicts remain a worry, and Russian relations hover between hope and despair. Although security matters tend to be on top of the agenda, the prospects for integration largely depend on the development of economic relations. One might argue over whether the driving forces of integration are political or economic, but the dynamic between the two is undisputable. Political and economic integration has been, and still are, closely linked to the development of the European Union and will be so also in its developing its external relations.

Within the European Union, political processes are often discussed in terms of multi-level governance, i.e. European politics is seen as shaped in interplay between different tiers of government. The argument here is that such a perspective make sense also when the external relations of the EU are analysed. In addition, the analysis should extend the multi-level perspective also to include developments in transnational business, as a crucial component in the understanding of prospects for east-west integration. This paper deals with the multi-level dynamics of integration in relation to developments in foreign direct investment (FDI), in an attempt to reveal some crucial aspects in the development of the EU's external relations with Eastern Europe and Russia.

In the second section, a theoretical framework for analysing political-economic integration in the east-west context is outlined. The third section presents some of the major findings from earlier research into the Barents Euro-Arctic Region.[1] The fourth section thereafter scrutinises the EU's strategy for eastward integration and in particular with regard to the recently adopted *Northern Dimension* initiative. The final section argue on the basis of earlier findings for an approach that places firms at the core of future co-operation efforts and also make use of the multi-level potential in the EU's external relations.

Towards a Transnational Power-dependency Approach

A key argument here is that political co-operation efforts across territorial state borders should be seen in relation to cross-border relations between societies. The suggested approach belongs to the transnational relations perspective of political science.[2] If we take business as an example, the simple idea behind the study of transnational relations was that transnational business activities had political implications in the sense that sovereign states somehow had to relate to cross-border activities partly beyond their immediate control. Focus was on sovereign states and their dealings with the problem of growing transnational activity, but the reality of, for example, transnational firms and their problems was not made part of the analysis.[3] In this paper, the transnational relations perspective is adopted for different purposes, namely in order to reveal the prospects for political co-operation to improve the conditions for transnational business activity. In doing so, the analysis of transnational firms and their activities is as crucial to the analysis as the analysis of political developments.

To wonder about the ‘looks’ of emerging patterns of interaction and the preconditions for their emergence, inevitably draws attention to the concept of interdependence (cf. Smith, 1994: 5). In its systemic meaning, interdependence is a property of the global system where developments in different parts of the world depend on each other. However, interdependence in its systemic meaning tells us little about the internal dynamic of the process. Such ambitions require a focus on relationships between the actors involved, i.e. an understanding that allows us to focus on the strategic, actor-based meaning of interdependence. Interdependence is then understood as a state of affairs when actors depend upon each other for satisfactory outcomes on any issue (s) of concern (Jones, R. B. J., 1995). Interdependent relationships are thus costly for actors to break (Baldwin, 1980:484; Keohane & Nye, 1989).

Obviously, an *actor-based understanding of interdependence* raises questions about the qualitative content of relationships. What is needed, however, is an interpretative framework that allows us to analyse these angles in terms of interdependencies between actors. Inspiration is here drawn from the power-dependence theory of R. A. W. Rhodes and the simple idea that actors (organisations) depend on each other for resources and have to exchange resources for achieving goals.[4] A certain possession of resources equip actors with a potential for achieving their goals, but outcomes are decided in exchange processes. Following this logic, the development east-west relations must be understood through the identification and analysis of existing, or emerging, resource interdependencies. Bearing our particular focus in mind, this means resource interdependencies among actors who are engaged in transnational business, or to some extent devote their resources to the development of such activities. The deepening of relations thus hinges on the existence of resource interdependencies among actors, their recognition of such interdependencies, and their ambition to exchange resources for certain outcomes.

What then are the resources in question? This topic does not lend itself to complete accounts, but examples are easily identified. Governments possess financial resources for external relations, of which business activity might be an important aspect. To a varying degree they also have the constitutional-legal resources to alter legislation and other institutional features of the business environment. Legitimacy, authority and access to decision-making process are other important resources at their disposal, and potentially also information and expertise. Through education, science and technology, industrial, trade, environmental, transport and communications and fiscal policies governments affect the circumstances under which firms operate (cf. Wilks & Wright, 1987; Dunning, 1992; Brewer, 1993; Stopford, 1994; Sally, 1995; Shaffer, 1995). Government bodies at different levels and in different political systems score differently and might stand out as more or less interesting for other public and private actors. Important resources at the disposal of firms include capital, jobs, knowledge and technology. These resources might attract the interest both of governments and potential business partners, but any investment hinges on a number of factors that firms cannot control, which is why they might engage in exchange relationships with other actors, including government bodies. The suggestion seems to be that there is a scope for exchange relationships between firms and governments, although it presumes the identification and recognition of benefits from such exchange.

Scholars engaged in the study of regional processes, whether domestic or across borders, often emphasise the importance of close and substantial public-private relations as a vital component in releasing the dynamics of regionalisation. Improvement of the region's economic performance and competitiveness bring together political and economic actors in territorially based alliances (cf. Coleman & Jacek, 1989; Keating & Jones, 1985; Cappelin & Batey, 1993; Leonardi, 1993; Ratti & Reichman, 1993; Rhodes, M., 1995b; Keating & Loughlin, 1997; Keating, 1998). Territorial competition over the resources of firms, fear of exploitation on behalf of host governments, and uncertainty about government behaviour and conditions in general, might hamper the chances of fruitful arrangements and an effective mixture of measures concerning general conditions and more direct supportive or problem-solving activities. There is reason to believe that this, to a great extent, hinges on how governments perceive resource-dependencies between them and transnational firms.

The Policy Networks of Multi-level Governance

There are several good reasons for using policy network analysis when dealing with political-economic integration from the adopted perspective. Power-dependence theory emerged within the field of intergovernmental relations, of which policy network analysis was an original feature. A minimal definition of policy networks suggests they are clusters, or complexes of organisations connected to one another by resource dependencies (Rhodes, 1997: 37; following Benson, 1982). A certain transnationalisation of politics, changing public-private relations, decentralisation and fragmentation of the state, interdependence and complexity of social and political affairs are some of the changes in modern political organisation which counts as reasons for the recent upswing of policy network analysis (cf. Kenis & Schneider, 1991: 34). The notion of policy network is thus also highly compatible with the transnational relations perspective with its focus on linkages between inter and transgovernmental relations and societal interests (cf. Risse-Kappen, 1995; also Atkinson & Coleman, 1992). Policy network analysis has also become fashionable in the analysis of regionalisation, not least in association with EU regional policy, and with the increasingly influential idea of multi-level governance in the theorising on European policy processes (cf. Conzelmann, 1995; Heinfeldt & Smith, 1996; Hooghe, 1996). It is a generic term that includes a variety of both stable and temporary constellations of actors, spanning from policy communities to issue networks (cf. Rhodes, 1988; Peterson, J. 1995; Dowding, 1995).

In the context of east-west relations, the existence, or emergence, of transnational policy networks would imply emerging structures for policy-making and recognition of cross-border resource dependencies with respect to certain policy problems among actors. Important to note, however, network characteristics, and not the characteristics of actors involved, explain the impact of policy networks. Such an understanding is concerned with policy networks as a particular form of *governance* (cf. Kenis & Schneider, 1991; Kooiman, 1993). As a form of governance, policy networks are signified by interdependence between public and private actors in policy-making, and mobilisation of political resources between government bodies in situations where resources are highly dispersed.[5] Case studies on policy networks have shown that they often have a core and a periphery, where the amount of resources and in particular economic position and knowledge, decide where actors belong (cf. Marsh & Rhodes, 1992b: 255, 263).

In the context of European integration, policy networks have become associated with the notion of multi-level governance. Multi-level governance is of recent date and seems to fill a gap in traditional integration theory, where the role of sub-national tiers of government traditionally has been neglected (cf. Marks, 1993; Hooghe, 1995; Jeffrey, 1996; Östhol, 1996). The idea is straightforward suggesting that political processes, instead of being shaped at the supranational level or just between national governments, are shaped in interplay between supranational, national, and sub-national tiers of government. Empirical inspiration have usually been sought in the European regional policy field, where regional authorities gained increased influence on measures designed to stimulate indigenous development in target areas and at the same time became part of European policy-making and implementation.[6] Here, linkages between sub-national and supranational authorities partly by-pass state governments (Marks, 1992: 209-214, Hooghe, 1995). Authority is transferred to the supranational level and decentralised to sub-national levels, spinning power away from state governments, but not necessarily beyond the control of state governments that, for different reasons, might have an interest in shifting authority to other institutions (cf. Marks, 1993: 392, 401; Marks, 1996: 33). Warnings against overstatements have been raised partly from within the perspective, where observations seem to indicate a more 'symbolic' than operative importance of the sub-national content in multi-level processes (Hooghe & Keating, 1994: 387; Le Galès & Lequesne, 1998). Due to differences between issue-areas and institutional settings in different countries, the 'looks' of multi-level governance is bound to vary from case to case (Marks, 1993: 404; 1996: 21). Economic importance, political skills and administrative capacity to operate in institutionalised and informal channels as well as sub-national tiers of governments ability to mobilise resources in society are crucial in deciding their influence in multi-level governance (Anderson, 1990; Hooghe & Keating, 1994: 375, 388; Hooghe, 1995; Benz, 1996:19-20).

The potential dynamic lies in the emergence of a co-ordinated, multi-tiered approach to regional development, where the de-activation of any tier of government means sub-optimisation (cf. Rhodes, M., 1995c). In a case where co-operation processes span across the external border of the European Union, multi-level governance becomes part of the picture in as much as there is a supranational dimension to foreign and regional policy in a particular setting. Multi-level governance has a transnational dimension, but little is known about the scope and potential of multi-level governance in such contexts. What common sense reasoning would suggest, however, is that it may foster co-ordination and a certain division of labour between different levels of government.

Linkages between different tiers of government in the field of foreign policy stand central in a rather narrow, and slowly growing body of literature which discusses the cross-border activities of sub-national levels of government in terms of paradiplomacy, or localisation or domestication of foreign policies.[7] The point of departure here is that when transnational relations grow in intensity and impact, it is only logical that sub-national governments feel the need to respond to the effects of international interdependence by developing their own foreign policy (cf. Duchacek, 1990:6-9; Kresl, 1992; Hocking, 1993: 26-29). The important point here, however, is that different tiers of government might be more or less interdependent on each other for desirable outcomes, which is why the power-dependence framework must be considered well-suited for efforts at illuminating the scope and potential of regionalisation EU external relations.

Transnational Firms and Their Activities

The analysis of transnational firms and their activities is based on the assumption that prospects for deepened integration between the East and West of Europe are significantly influenced by the preconditions for transnational business across divides. Knowledge of the problem logic of the transnational business sphere makes it possible to discuss political implications of these findings and to view political co-operation efforts and other initiatives in the light of these. It is a matter of finding out what problems firms face in our particular setting, how they affect business operations, and how firms manage these problems. To a large extent this means generating knowledge about the firm's relations to actors affecting their transnational operations.

If we discuss business from the perspective of integration, in particular foreign direct investment (FDI), as the most long-term and substantial form of transnational activity on behalf of firms, deserve attention.[8] FDIs may be held as an ideal type of transnational activity, but also non-equity and contractual forms of association, sometimes labelled new forms of investments (NFIs), such as licensing agreements, franchising, sub-contracting, management contracts and joint-ventures indicate long-term and substantial engagements (Stopford & Strange, 1993: 16, 48). Large transnational corporations (TNCs) have for long dominated FDI activity, and continue to do so, but in recent years also small and medium-sized enterprises (SMEs) have increased their FDI activity significantly (Camilleri & Falk, 1992: 69-77; Dicken, 1992; Fujita, 1995). One obvious difference between TNCs and SMEs is, of course, the resources they possess in terms of capital, personnel and most likely also knowledge, which is bound to make SMEs less visible from the viewpoint of governments.

The resources of the firm itself in combination with those derived from both home and host environments, leave the firm with certain choices concerning its organisation of activities. To some extent their task is to decide whether cross-border resource dependencies should be established, and if so, how they should be organised. Their mode of operation will be influenced by earlier experiences and perceptions about the conditions for operating in the foreign territory. Resource exchanges between firm units may thus create more or less extensive patterns of resource dependencies to external actors, some supportive and favourable in nature, others more problematic.

Beforehand not much can be said about the character of these relations except that they, in line with previous the general approach adopted, might be multi-actor and multilevel in character. Characteristics of relations in the business angle signal the status of their business environment, interdependent business relationships are signs of a 'healthy' business environment while the absence of such relationships indicates less favourable conditions. The political implication of this statement is that if interdependence between actors in different societies does not occur, the societal foundation of integration is weak. Under such circumstances, the question of what can be done about it remains, which is what the policy side of the analysis must try to reveal.

The Euro-Arctic Lessons[9]

It is well known that transnational business activities across the former Iron Curtain have increased during the early post Cold War years, but also that they have done so from very low levels, rising slower than many had expected and definitely hoped for (cf. Statistical section of NEBI Yearbook 1999). A series of interviews with Nordic firms sum up to a picture that clearly illustrates this hesitant development.[10] On the positive side, firms saw a great potential market for different types of knowledge, skills and technology in Russia. Opportunities were not confined to activities in connection with natural resource extraction, but concerned a broad spectre of branches and a variety of activities. Many saw a promising market for goods and services to both households and enterprises. Others saw the existence of a cheap and relatively skilled labour force as a reason to start manufacturing in the area. In sum, firms operated in the area on different grounds, perceived different opportunities, and went forth in their activities in different ways. In common they had a strong belief in their competitive advantages as exploitable assets, as well as a belief in the future value of being present in the Russian territory.

In stark contrast to these promising features, it was obvious that perceived opportunities was surrounded by a complex and problem-oriented reality, where everybody crossing the east-west divide faced tremendous challenges. The unfamiliar institutional and cultural environment complicated, if not wiped out, firms' possibilities to operate in a rational and goal-oriented fashion. Legislation and other regulations surrounding business activities were constantly changing or subject to unpredictable implementation, particularly when local and regional authorities were involved. Instead of structuring interaction and bringing predictability to business operations, unstable institutions and cultural differences meant that business activity was circumscribed by uncertainty and high risks. Although formal institutions were changing, and often for the better, informal codes of conduct prevailed among Russian authorities and prevented institutional changes from being implemented.

As a consequence, firms were careful about getting tied into relationships that would be too costly to break. Despite having identified extraordinary opportunities, engagements are usually kept at low level. Attempts at coming to grips with different types of problems have often proved difficult. Beyond doubt, Nordic firms seemed to have little to win in conflicts with Russian partners, no matter whether these were handled firm to firm or whether the juridical system was brought in. There was a widespread opinion among firms that local and regional authorities, as represented by the officers in charge, were acting out of narrow self-interest. Bureaucrats were trying to win personal economic gains by creating problems and then, for payment, solving them, or alternatively, by trying to improve their financial situation by imposing arbitrary taxes and fees on foreign firms. Firms found it difficult to understand Russian bureaucracy and establish working linkages with it, which was somewhat alarming since they considered these contacts of vital importance for the conditions under which their operations might be carried out. They did not consider political access as something they possessed or could draw advantages from, which was true particularly among smaller firms. A considerable part of the problems facing the firms of our sample derived from what western businessmen saw as the unpredictable, if not downright unjust, behaviour of local and regional authorities.

Taking into consideration the transnational region-building project of the Barents Euro-Arctic Region, one might wonder to what extent this problematic business reality was fed into and dealt with in political co-operation schemes. It would be unfair to say they were not, but their treatment did not seem to make all that much difference to business operators in the area. Political co-operation schemes were preoccupied with framework conditions and regulatory role for government agencies. There was also a tendency to focus on large-scale industrial restructuring and infrastructure improvements, in line with the wishes of Russian regions, which were seldom even close to realisation for financial and other reasons. Already ongoing activities and the problems facing those involved were neglected, as firms' experiences were not fed into the policy-making process in any systematic way. Given the problems firms faced and the need they felt for government backing, close and collaborative relations between public and private actors in the region stood out as an untested potential in co-operation. The nursing of such relations would have made sense if we accept the idea that such relations would be particularly important in complicated business environments.

As it were, Russian regions' treatment of foreign firms indicated little recognition foreign investments as an important aspect of development, although their official stance was strongly in favour of such activities. This contradiction seems to call for arrangements for an exchange of knowledge and a dialogue about conditions for transnational business development, the role of governments in general and in particular about political co-operation schemes in the development of these activities. However, while the sub-national government bodies of Russia stood out as problem-makers with a great potential for causing foreign (and domestic) business operators severe harm, their Nordic counterparts struggled with their roles in the policy networks of transnational region-building. The described focus of co-operation, which was accepted at sub-national levels, meant they devoted their limited resources to matters over which they had very little influence. The role of sub-national bodies became one of channelling information about developments in the area to central governments. Due to the limited resources at regional bodies disposal, their dependency on central government approval and financing was far too strong to make them driving forces in transnational region-building, or even in mobilisation within sub-national regions.

A certain regionalisation of foreign policy in terms of sub-national involvement exists in the three Nordic states, but resources and control usually remained with ministries for foreign affairs. Only lesser amounts were canalised through sub-national government bodies, while decisions on projects stayed at the central level. In particular Sweden seemed centralist in its approach with a strong position for the foreign aid organisation. Besides foreign policy, certain features of the Norwegian and Finnish strategies must be considered potentially favourable for transnational region-building. The Finnish gateway strategies signified broad government engagement in bilateral relations and concern with the development of transnational relations. In Norway, foreign policy objectives in the Barents Region coincided with certain objectives of regional and industrial policy, marked by the establishment of a couple of investment funds, a business service organisation and a business centre in Northwest Russia. Beyond questioning, the high priority given to the Barents Region in Norwegian foreign policy, regional policy, and even industrial policy, equips Norwegian firms with relatively broad government backing.

Concerning the business content of bilateral policies, the Norwegian strategy placed strong emphasis on ties between government bodies and firms and for an active role of government in the development of Norwegian-Russian business. Sweden was more restrictive in this respect, favouring general free-trade policies and improved institutional conditions in the Russian market. Finland, on the contrary, took on a more offensive stance and had the ambition to serve as a forerunner, and a co-designer, in the development of Russian relations, which became even more evident with the Northern Dimension initiative to be dealt with in the next section.

As a consequence of the institutional structure of co-operation in the Barents Region, major resource dependencies developed between central governments in donor countries and sub-national governments in Russian recipient regions. Sub-national government bodies from the Nordic states were rather peripheral in the broader policy networks of transnational region-building, being the nodes in rather poor and powerless networks at the inter-regional level. For Russian sub-regions, which fostered linkages with both central and regional government bodies abroad, relations to the former category must be considered much more valuable, given the prevalent circumstances.

Also the Tacis and Interreg programmes pointed to the potential interconnectedness of regional and foreign policy interests on behalf of the EU. There was also an aspect of multi-level governance in the EU approach, where measures clearly give a go-signal for sub-national authorities within EU territory, not least in border areas. Most instruments handled by DG 1, however, did not seem to bring about the multi-level notion in relations across the external borders of the EU, and thus rarely equipped sub-national governments with any additional resources for cross-border activities. Of the EU instruments operating in the Euro-Arctic, Barents Interreg II seemed to allow regional interests a stronger role in cross-border relations and emerging policy networks. Other EU instruments belonging to the foreign policy field, although placing strong emphasis on sub-national involvement in recipient territories, did not put such trust in the hands of sub-national governments within its territory. Mobilisation effects were thus visible mainly in Russian target regions. Even though EU influence in the Barents Rregion increased with the Barents Interreg II, it also brought financial resources to sub-national government in Sweden and Finland. Barents Interreg II thus illustrates the dynamics of multi-level governance and the opportunities this created for sub-national levels of government.

The scope for regionalisation as a device in the fostering of transnational learning processes seems obvious. This would, however, require a certain matching of interests across borders, which has proved difficult. Competition among Nordic bodies at different levels, which seems to increase as business interests are brought into the process, has raised suspicion on any attempt at co-ordinating measures. The majority of actors involved in processes related to the development of transnational business simply seemed to prefer bilateral relations. This may seem logical enough, but it has meant limited leverage of transnational policy networks in matters of transnational business development.

The Northern Dimension – A New Strategy in the Making

In 1997 Finland proposed the idea of a Northern Dimension of the EU's external relations with Eastern Europe and Russia. Since then the Finns have struggled to get support from the EU and its member states for this overriding framework for east-west co-operation. The Northern Dimension has been rather illusive both in terms of geography and policy which has left the field open for a number of interpretations and speculations about the motives behind the initiative (cf. Haukkala, 1999; Joenniemi, 2000). In a recent Action Plan, the Northern Dimension's geography is said to stretch 'from Iceland on the west to North-West Russia, from the Norwegian, Barents and Kara Seas in the North to the Southern coast of the Baltic Sea and has the backing of the EU and the non-EU Northern Dimension partner countries Estonia, Iceland, Latvia, Lithuania, Norway, Poland and the Russian Federation (*Action Plan…*). In line with the standard rhetoric on east-west relations during the post-Cold War era, the initiative is about stability, security, environmental problems and economic growth (cf. Hedegaard & Lindström, 1999). The elusive content might have served the purpose of not upsetting potential opponents before the idea is established among other EU policy instruments, but it leave questions about what the contribution of the initiative might be unattended.

It was made clear from the beginning that no new institutions or new financing instruments were required for the implementation of the Northern Dimension, rather better co-ordination among existing institutions, such as the Council of the Baltic Sea States (CBSS), the Arctic Council and the Barents Euro-Arctic Council (BEAC), and policy instruments (most notably Tacis, Phare and Interreg programmes), alongside with a general upgrading of the EU's role in the area were at the core of the initiative (cf. *A Northern Dimension for the Policies of the Union…)*. The response among member states has not been overwhelming, but naturally somewhat stronger in Germany, Denmark, and Sweden. One of the key headings in Sweden's programme for its chairmanship of the EU during spring 2001 deals with external relations. Further development and concretisation of co-operation in the Baltic Sea Region is mentioned as a priority, and the Northern Dimension is pointed out as a natural platform for these efforts (*Programme for the Swedish Chairmanship of the Council of Ministers*).

The Helsinki European Council in December 1999 agreed to develop an action plan for the Northern Dimension. The plan was developed during spring 2000 and agreed upon by the European Council June meeting in Feira, Portugal. The Action Plan for the Northern Dimension is so far the clearest signal about the substance of the initiative. In its operational part the Action plan sets out the objectives and perspectives for action to be commenced during year 2000-2003. The plan is characterised as a political recommendation, which should be taken into account by relevant actors whenever appropriate. The promotion of positive interdependence and better co-ordinated action and closer cooperation between all partners are overriding aims. Value added is considered to be greatest in a large number of sectors, such as infrastructure (including transport, energy and telecommunications), environment and nuclear safety, education, research, training and human resources development, public health and administration, cross-border co-operation, cross-border trade and investment as well as the fight against (cross-border) crime.

Within each action area, activity priorities are exemplified. A couple of action areas stand out as being of particular interest here. Concerning ‘Trade, Business Cooperation and Investment Promotion’ it is pointed out that the business environment in the area, and particularly in Russia, neither provide stability, predictability nor incentives for SME development. Support to customs administration and creating a legal and administrative environment for trade and investment stand out as a broad priority that will be concretised during the implementation of Europe Agreements and the Partnership for Cooperation Agreement (PCA) with Russia and existing programmes. Examples on what kind of activity each of the existing programmes allow for within this field are then briefly given (*Action Plan…*, pp 25-27).

Another action area of particular interest here is that of ‘Regional and Cross-border Cooperation’, which is said to be an essential element of the Northern Dimension. References are made to the new Tacis regulation on cross-border cooperation, INTERREG III programmes and Phare CBC programme. Participation in this field is considered an important step in preparing for EU membership since it help actors in potential member states develop their skills and capacities in project management. It is also here called for consistency between existing programmes and that all relevant bodies and EU institutions should be engaged in such efforts and that procedure for such activity should be agreed upon between the institutions. Further development of networks between a wide range of actors and cross-border institution-building along the lines of EUREGIOs are seen as important in this context. The sub-national level is seen as important in improving services and local democracy, and existing cooperation structures, most notably the CBSS and BEAC are seen as important in implementing cross-border activities in line with the intentions of the Northern Dimension. In describing actions, examples are given on how cross-border instruments within Tacis, Phare and the Structural Funds can be used to forward the intentions of the Northern

Dimension. Despite the emphasis on regional and cross-border cooperation, the role of sub-national government bodies is not considered in any detail, neither is the multi-level dynamics of such arrangements elaborated.

In sum, the Action Plan repeatedly emphasise the co-ordinating role of the Northern Dimension. In light of the results presented in the previous section, there is definitely a need for such co-ordination. The Action Plan indicates, rather than becomes explicit, on how this may be achieved. The idea, as expressed above is that relevant actors should take the ideas of the Northern Dimension into account when preparing for project within the EU or its member states' programmes. Procedures for this are not explained in the document and it remain unclear to what extent the Northern Dimension is conceived of as a steering instrument for other programmes, or if it is an overriding strategy for east-west cooperation put together by bits and pieces of existing policy instruments. Somehow the status of the Northern Dimension is not fully explained, sometimes it seems superior, sometimes subordinated, to existing instruments. If co-ordination is the major benefit of the Northern Dimension, explicit indications on how this would come about are still to be seen.

Apart from the Northern Dimension initiative, existing instruments for cooperation are undergoing changes independently of the emergence of the Northern Dimension. Tacis support to the New Independent States (NIS) continues with new priorities after what is described as a wide-ranging review. Emphasis is now on greater concentration, differentiated country programmes, and support that match the objectives of *Partnership and Cooperation Agreements* (PCAs). In implementing the programming there is a shift from 'demand-driven' to 'dialogue-driven' programming and the creation of an 'incentive' scheme for improving the quality of assistance. Higher priority will during the period be given to promotion of investment, which before was very limited within Tacis. Among the increased number of instruments announced, the use of twinnings between EU and NIS institutions and industrial units is particularly mentioned (cf. European Commission – Explanatory Memorandum).

The Phare Programme, which has been main instrument in EU's financial and technical cooperation with Central and Eastern Europe, will now be refocused and reoriented to support in preparation for EU membership in the ten applicant countries. These ten countries have also entered so called *Accession Partnerships*, in which Phare is one component in a package of support. In partner countries, Phare is now concentrated on institution-building and investment for bringing public administrations, industry and infrastructure closer to the EU standards. The Accession Partnership function is thus an attempt to design individual plans for each of the countries (based on their needs as understood by the Commission and as expressed in their membership applications) and to better co-ordinate support for accomplishing this (cf. European Commission – Enlargement). Two new accession instruments – ISPA and SAPARD – will be used to prepare candidate countries within the fields of environment, transport and rural development.

According to this brief overview of existing instruments, cooperation will be based on country-specific strategies. This may seem contradictory in comparison with the intentions of the Northern Dimension, but not necessarily so. As long as country strategies are targeted towards similar aspects of government and society, these might add up to a comprehensive strategy, even if problems and instruments for their improvement may be designed differently. But then again, is it relevant to speak of the Northern Dimension as a guiding instrument in its own right, or is it deemed to be based on the lowest common denominator of existing programmes?

Conclusion – Arguments for an investment-oriented approach to the Northern Dimension

If we accept the far from controversial conclusion that foreign investors need to tackle a problem reality in Eastern Europe and Russia that has a distinct political dimension to it, it seems logical that these issues make it to the agenda of political co-operation. Many of the EU initiatives towards Russian and Eastern Europe also place emphasis on the development of economic co-operation, and point to improved conditions for foreign investments as part the package. When it comes to instruments for achieving this, programme texts usually settles for support in carrying out legislative reforms. The argument here is that co-operation schemes could give assistance with the creation and implementation of decent *investment policies* top priority. Assistance during reforms of legislation and regulations is a part of this, but just as important is the conduct of public authorities in handling this framework. Partly the role of governments could be to foster exchange of knowledge and a dialogue, i.e. *learning processes*, about conditions for transnational business development and the role of government in the development of these activities. The identification and management of resource-dependencies between governments in different countries, and between firms and governments, would be at the heart of such a strategy.

On the basis of results from research into developments in the Barents Region, a need for closer ties between transnational firms and political co-operation structures seemed obvious. In a sense, *firms need to be appreciated as key actors* in the development of East-West relations. Feedback from business actors about the problem reality they face in foreign locations and analysis of the political component of problems could be important input in diplomatic relations at all levels. This requires *political access* for firms in emerging co-operation structures and the readiness in these structures to deal with the problems of the individual firm if necessary. Political co-operation schemes thus need to strengthen relationships with investors and be willing to give them *political support*, rather than financial support.

As part of the investment-oriented approach, *better co-ordination of co-operation efforts* between different levels of government within the European Union, as well as between the EU and other governments is needed. Developments in the Barents Region so far have shown a tendency for competition between the bilateral strategies of the Nordic states and their sub-regions for favourable relations to Russia and its regions. Under the prevailing circumstances, this has proved very inefficient in the sense that contrasting, rather than common interests, has shaped the processes at hand. Not only governments and their activities needs to be linked and co-ordinated, *issue linkages* should be made explicit, were developments in the field of economic co-operation could have consequences, positive and negative, for measures taken in other policy areas. Put differently, unjust treatment of foreign investors would have consequences for a particular country or region's possibilities of attaining support from the EU also in other matters. Because of the prevalent circumstances Russia and Eastern European states are today faced with a situation were too few are willing to invest in their futures. This is to a great extent because of bad management, not least of foreign investors and project owners. Given the magnitude of support directed to these countries during their transition, such conduct should not be accepted. Energy, nuclear safety and improvement of infrastructure are examples of high priority issues in the suggested Northern Dimension, where improvements largely depend on the investment climate. The Northern Dimension initiative could play an important role in co-ordinating measures with a bearing on investment conditions among the existing EU programmes and agreements. Co-ordination of activities related to investment conditions within the frames of existing co-operation programmes and organisations, such as the CBSS and BEAC, as well as the bilateral relations between the EU and its member-states and Eastern Europe, including Russia, would be a concrete and purposeful function of the Northern Dimension.

Since there is a need for all sorts of co-ordination, and potentially also for a division of labour, between government bodies at different levels, the multi-level governance notion might have some bearing on this problem. Sub-national levels of government may be sub-ordinate to other levels, but as the Barents Region study has shown, they may be a pawn in the game also across the external borders of the EU. The scope for sub-national levels of government is connected with their ability to become vital components in the cross-border networks of transnational firms, and particular SMEs from their regions. In the Barents Region case, this possibility were not tried out and sub-national governments were mainly partners in dialogue within certain confines and with poor prospects to become truly operative actors under prevailing circumstances. This is not to suggest that activation of sub-national government bodies is the solution to the problems of east-west integration. Results may, as in the Barents Region case, be meagre when put under scrutiny, but not to make use of the sub-national dimension of cross-border developments certainly means forgoing important opportunities. By working out a way of placing territorial interest alliances of different levels in dialogues with each other about viable paths of future co-operation, a true multi-level dynamic may be set in motion. This might be a fruitful path to a sensible *division of labour between levels of government* with different objectives and responsibilities, but also common interests to advance in a more systematic way. None of the ideas brought forward here are in conflict with the existing policies of the EU, they rather stress the necessity of making foreign direct investment a key concern in the fostering of east-west relations. Further integration and increased welfare in partner countries hinges on foreign and domestic investments.

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[1] These two sections of this paper draws heavily on the PhD project *Politics and Business in the Barents Region*, which was presented in a book with the same title (Svensson, 1998).

[2] Transnational relations emerged during the 1970s as different sub-disciplines met in an attempt to break the domination of state and security dominated research in international affairs. A special issue of the journal International Organization entitled 'Transnational Relations and World Politics' edited by Robert O. Keohane and Josesph S. Nye manifested the breakthrough of this research. Apart from TNC's interest was directed towards revolutionary movements, trade unions, scientific networks, international air transport cartels and communications activities in outer space. In later years environmental problems and

crime has gained increased attention as transnational phenomena. For a long time the perspective seemed to have withered away, but with the seemingly unstoppable growth of transnational activity, the perspective seems to have resurfaced in later years even though its impact should not be exaggerated (cf. Risse-Kappen, 1995).

[3] This has been pointed out in Peterson, M. J. (1992: 373) and Stopford & Strange (1993: 20). The same shortcoming has been observed in integration theory and recently inspired a doctoral dissertation on the topic at London School of Economics and Political Science (Thompson, 1995).

[4] The original Rhodes framework contain five propositions: 1) Any organization is *dependent* upon other organisations for *resources*. 2) In order to achieve their goals, the organizations have to exchange resources. 3) Although decision-making within the organization is constrained by other organizations, the *dominant coalition* retains some discretion. The *appreciative system* of the dominant coalition influences which relationships are seen as a problem and which resources will be sought. 4) The dominant coalition employs strategies within known *rules of the game* to regulate the *process of exchange*. 5) Variations in the degree of *discretion* are a product of the goals and the relative power potential of interacting organizations. This relative power is a product of the resources of each organization, of the rules of the game, and of the process of exchange between organizations. (Rhodes, 1981; *emphasis in original*).

[5] Anderson (1990), Peterson (1995) and Rhodes (several) are counted among the strong proponents of such a focus. Good overviews of the uses of governance can be found in Rhodes (1996) and (1997).

[6] According to Marks, this pattern appeared firstly in the 1984 design of the Integrated Mediterranean Programs, to be extended and refined in the 1988 reform of the Structural Funds (Marks, 1992: 209).

[7] It is well documented that political actors at local and regional level increasingly operate across national borders to forward their interests and have usually been observed in federal states, such as the US, Canada, Australia, and Germany (Michelmann & Soldatos, 1990; Hocking, 1993). In the context of European integration it is becoming obvious that this is the tendency also in unitary states, such as the Nordic countries (Jerneck, 1993; Bogason, et. al., 1995).

[8] FDI's are investments 'where a firm from one country buys a controlling investment in a in another country or where a firm from one country sets up a branch or subsidiary company in another country' (Dicken, 1992: 87). Unlike portfolio investments, FDI's 'involves the transfer of a package of resources […] across national borders, the *de jure* governance of which continues to remain in the hands of the transferring firms or […] is shared with the transferring firm' (Dunning, 1993: 13).

[9] Findings presented in this section are based on the conclusions of a PhD project (cf. Svensson, 1998).

[10] Personal interviews were carried out with 30 Nordic businessmen representing firms with investment activity in the North-Western Russia part of the Barents Euro-Arctic Region.

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