

# ECONOMIC DEVELOPMENT OF ULTRA-SMALL PERIPHERAL WEST EUROPEAN REGIONS (CASE OF ÅLAND AND FAROE ISLANDS)

Elena G. Efimova, Natalia P. Kuznetsova\*

*St. Petersburg State University, Russian Federation*

Big – it is magnificent, seductive and fabulous

Small – it is fine, quivering and sensitive

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**Abstract.** The **aim** of the study was identification of ultra-small territories, features of their economic development and modern business status in the context of the classification of small economies. The **object** of investigation is small economies of West European and Nordic countries as well as ultra-small autonomous territories of Åland and Faroes 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” due to their special industrial organization, stimulated by the national and, partially, by the EU economic policy supporting the economic growth of both autonomies. The **methods** of the study comprise analysis–synthesis, historical and logical methods, international comparisons. The main **conclusion** is that the Åland and Faroes islands are nowadays converting into the transport-logistics, informational, financial bridges among different European regions and countries.

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

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## Introduction

The countries and regions of the world economy differ according to the level of economic, social and political development, their position and interrelationship with regional integration complexes. The regional development is influenced by a set of factors: historical background, scale (demographic, territorial, and natural resources), and geographical position. The highly competitive long-term geopolitical communication among large-scaled resource-abundant countries triggers small and ultra-small areas to find a unique chance to occupy a specific niche in the regional and world market. An

\* *Corresponding author.*

Doctor of Economics, Professor of Economic Faculty, St. Petersburg State University, Universitetskaya naberezhnaya 7/9, 199034 St. Petersburg, Russia.

E-mail: nataliakuz2010@yandex.ru>

„Ultra-small region“<sup>1</sup>, being an autonomous subject of the West European countries, is their territorial, political and economic part possessing constitutional independence. The initial factors of the special status of such regions are the national-cultural ethos type and geopolitical position. The regional development results in their independence and autonomy accompanied by the rising responsibility for economic policy decision making. In the process of the development of these territories new advantages in resources, tax, transport–communication, logistics appear. The Åland and the Faroe Islands were the first to use such advantages at the end of the twentieth century. The experience of business and commercial activities, formation of the 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 the economic policy implementation in these small regions. Peripheral regions differ from mainland centres in their level, mechanism and dynamics of business relationship formation. The limited resources dictate regional economic policy decisions and necessitate involving large material and financial capacities into large national and international projects. Specific national economic, social, and political structures were formed through the 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 economic literature. The paper deals with several issues: 1) an overview of the mainstream academician’ opinions concerning small-scale economies with a special reference to Russian scholars’ debates; 2) classification of small states and clarification of different groups of the small-scaled countries and their role in the world and regional economy in the historical context; 3) estimates and variants of their economic development depending on different indicators; 4) consideration of the Nordic European countries’ convergence into a “competitive periphery”; 5) introduction of the new term “ultra-small peripheral autonomous region” with a comparative analysis of Ålands and Faroes business activity and their industrial organization dynamics due to the harmonized island and mainland governance; 6) consideration of the appropriate role of the EU regional policy financial support in the economic and commercial development of the ultra small territories of Faroes and Ålands and their becoming transport-logistics, informational, financial bridges among different European regions and countries.

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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 economies do exist, but they have never been an object of analysis.

## Literature review

Until recently, the theory of small-scaled economy has not been thoroughly developed in the Russian literature, although in the 80s a number of works dedicated to the small countries of Western Europe (Малые страны..., 1984) as well as some monographic research devoted to small countries of Northern Europe have been published: on Norway (Андреев, 1977), Sweden (Волков, 1987; Волков, 2010), Denmark (Эбре, 1980; Градобитова, Ушакова, 1990), Finland (Пискулов, Градобитова, 1972; Пискулов, Градобитова, 1986; Градобитова, 1982). We should mention the economic school of St. Petersburg State University and some publications focused on world economy countries with special attention to the small-scale developed countries possessing natural (first of all mineral) resources and to small economies considered as a periphery in relation to the centres of the world economy or 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 formation of the countries of Central and Eastern Europe, which appeared to be on different stages of economic development and to gravitate to different integration groups. In these publications, it has been noted that there is a special model of economic growth for the countries considered as small according to a number of indicators (Ефимова, 2008). In the present research, we consider the economic dynamics of different-scale states depending on the a degree of the maturity of the territorial structure of an economy, intensity of economic space usage and population density (Машбиц, 1983; Одессер, 1986.). S.B. Saul (1982, p. 111) has noted that there exist some limits of growth of the population for the small countries, defined by their density, natural, climatic, and historical conditions. The idea was supported by an analysis of concrete economic historical data on the West European small countries for 1870–1914. Analysis of the long-term dynamics (Кузнецова, 2001, с. 103–104) shows that industrialization in small West European countries was faster, smoother and more rational than in large-scaled economies. One of the important reasons such a phenomenon lays in the relatively easy agrarian reforms (18<sup>th</sup>–19<sup>th</sup> centuries), rather low social tension, constant inflow of qualified and cheap labour free from large West European countries involved in religious and civil wars. The small West European countries which have begun industrialization only in the end of the 19th century have implemented export orientation of the international specialization, which can be defined as mono-cultural, directed to the production by handicraftsmen-immigrants of a special kind of raw goods and high-quality products satisfying the diversified European and world demand. For this reason, the rate of labour productivity growth in the small countries was higher than in the large ones.

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

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

The first subgroup of small West European countries capable to expand the economic potential at the expense of their own industrial resources has reserves for an 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 Canada) which managed to master the territory due to a high natural population increase, to the mass immigration of capable, active and initiative labour force, and due to the formation of regional integration complexes (Кузнецова, 1977).

In the second subgroup of the small countries of the region under study are those which suffer from an absolute lack of 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 possibilities for “raw-materials (natural or artificial) niche” formation. The indispensable conditions of their development are integration and reproduction intensification. We consider the majority of developed West European states as such type of small countries, which include Belgium, Luxembourg, Austria, Switzerland, Liechtenstein, Monaco, Andorra, San Marino, etc. They have a small territory, traditionally high population density and a small, sometimes negative, rate of natural increase<sup>2</sup>. International comparison of this group of small countries' development demonstrates their significant inequality as regards the scientific and technical development levels, as well as a rather big gap between most and least advanced countries accessing the break among different large countries.

The third subgroup comprises 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. The peculiarities of North European small countries are their relative geographical isolation, the limited resource base (first of all of fertile soil suitable for agricultural use), and a rather low population density.

### **Development of Northern countries – West European “competitive periphery”**

The economic development of North European countries was characterized by a specific system of the centre (core) – periphery relations. The 18th–19th century's industrial revolution triggered the development of this model. The geographical position of

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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 a negative RNI. Without immigration or an increase in total fertility rates, all these countries will have declining populations over the next few decades.

the Nordic states predetermined the role of these countries in the European regional system as the European northern periphery (Kirby, 1995; Кузнецова, 1995). Signs of periphery regarding the geographical characteristics (remoteness from Frankfurt-am-Main (Бусьгина, 2004) and innovative activity character (first of all implementation of applied R&D compared with fundamental science further application) keeps the former status of the region as a periphery. At the same time, the obvious social and achievements of the North European economy allow to amend this typology by naming this region as a “competitive periphery” (Creating Nordic Capitalism..., 2008).

The overall market economy formation of the Nordic countries passed through the scheme classical for the “developed periphery”, assuming an internal and external components’ combination: the agrarian reform evolution creating the free labour market, the 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 were the main internal factor of their industrial development. The process of industrialization (the 19th–20th centuries) was heavily influenced by the significant foreign demand of the Swedish iron ore and forest goods, Danish shipbuilding, chemical and food-processing goods, Norwegian and Finnish 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 majority of export-oriented goods and services were produced in the largest multinational companies having home-country headquarters.

The majority of the known **Swedish** firms which today define the global significance of the country was formed in 1870–1914. According to the list of 30 largest Swedish multinational corporations, 10 (33.3%) were 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**, labour productivity and economic growth dynamics in agriculture caused domestic market and export expansion as well as emancipation of agrarian labour in favour of the industrial sector. The country has created a set of large industrial

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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 (Герчикова, 1957, с. 1–3.).

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

<sup>5</sup> Author’s calculation of the exchange index OMXS30 (July 2010), (Ефимова, Уланов, 2011).

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

enterprises: the diesel-building concern “Burmeister og Wain”<sup>7</sup>, the “FL Smidth” group<sup>8</sup> (cement and mining industry equipment manufacturing and adjusting), the brewery concern “Carlsberg”, etc. Before the 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 in specific nomenclature of export production (bacon, butter). The high labour productivity<sup>9</sup>, exclusively high quality and the favourable terms of international food trade promoted the accumulation of capital necessary for carrying out a set of structural reforms in the national economy. Machine-building companies either specialized in traditional branches (shipbuilding) or, together with chemical and food-processing industries, served the agrarian sector requirements. The Danish companies’ policy during 1955–1965 resulted in the transition of economy from agrarian-industrial to industrial-agrarian. Swedish and Danish firms acquired a considerable scientific and technical potential in fundamental and applied R&D during the period between the First and Second World Wars. The leading national MNC, prospering mainly at the expense of foreign trade activities, provided for science financing<sup>10</sup>. The leading positions in R&D are kept presumably by the Swedish investment company “Investor” founded by Wallenbergs in 1916.

The economic development of **Norway** and **Finland** during the national industrial organization formation was ensured by the forest, paper and pulp industry success. However, the intensive deforestation of Norway and its export to Great Britain by the beginning of the First World War led to exhaustion of national wood resources. Fisheries and marine freight became the basic export branches and stimulated the second

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<sup>7</sup> Officially AS Burmeister and Wain was founded in 1872. However, business originated in 1843. In 1980, the undertaking was passed to the West German concern MAH control. Now, the company has three industrial divisions: in Copenhagen, Hølehu, and Friderikshafen, which produce 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) (Градобитова, 1982, с. 59); URL: [http://en.wikipedia.org/wiki/Burmeister\\_&\\_Wain](http://en.wikipedia.org/wiki/Burmeister_&_Wain) (date of the reference 25.09. 2010).

<sup>8</sup> F.L.Smidth and Co. was founded in 1882 in Copenhagen. Its first foreign representations were opened in 1890 in London, then in Paris (1893), New York (1895), Berlin (1901), resulting in 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 20th century, F.L.Smidth and Co. was renamed into FLS Industries supervising 125 companies which reflected A&M policy results. Its assets have been divided into seven sectors: engineering, construction materials, steel, services, packing, aero-space industry, international investments. In 1990, The FLS Group absorbed the Fuller Company; this led to F.L.Smidth-Fuller Engineering Group foundation. However, the legal merging of these firms happened only in 2001 with F.L.Smidth A/S. formation on 1 of January 2010. For the sake of the company’s uniform image formation in the global marketing environment, all affiliated companies and divisions changed their names into FLSmith. 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).

<sup>9</sup> In the early sixties, production efficiency indicators in Danish agriculture exceeded the average parameter across Western Europe 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, с. 31).

stage of industrialization. Extraction of hydrocarbon raw materials on the continental shelf of Norway in the 60s of the 20th century coincided with the beginning of the postindustrial epoch and predetermined the catch-up of Norway with the information society as well as its transformation from the resource-abundant country into one of the most advanced, knowledge-based economies of the world (Кузнецова, 2011). Finland has kept its positions in the world's forest-industrial complex. The timber industry company "Ahlstrom", founded in 1851, now is included into the national list of the largest multinational corporations preserving its traditional specialization.

In the 60s of the century a new stage of innovational development of North European countries started. This process was connected with the expansion of the new industrial regions outside the world market mass production centres. The monetary distribution structure for scientific research and development, used by the Multinational Corporation of the Nordic countries, is characterized by the smaller share of fundamental research funds as compared with applied R&D funds. This misbalance has been compensated by the governmental support of fundamental research. The authorities give priority to the R&D areas in which scientific success is most obvious<sup>11</sup>. Simultaneously applied R&D is traditionally financed by large business.<sup>12</sup>

In the mid 20th century, the centre–periphery relationship began to change gradually. The 1974–1975 world economic crisis influenced mining industry enterprises, ferrous metallurgy, shipbuilding, textile, etc. Besides, cheap export and a decrease in the productivity growth rates in the late seventies led to the world crisis of the system of mass production as well as to the delayed regional development. The gradual rejection of mass production and product-oriented strategy, transition to more dynamic actions within the frame of the international industrial cooperation, to a client-oriented policy of customization, improvements of the production process and innovative activity expansion are observed in North European businesses (*Mintzberg et al.*, 2003, p. 361–369).

The basis of industrial companies of the North European region development happens to be concentric and conglomerate diversifications ensuing revolutionary changes in the strategy of business, stimulating essential investments. These firms had acquired comparative advantages in expensive, unique scientific and labour-consuming production which, due to the extremely high product quality, does not meet an adequate competition in the markets of developed countries. The companies of Northern Europe limited in their financial possibilities are compelled to choose a less expensive narrow

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<sup>11</sup> For example, in Denmark (1973) public funds were distributed as follows: 53% went to researches in the field of natural sciences and medicine, 29% to agricultural and engineering sciences, 18% to social and humanitarian researches. (Эббе, 1980, с.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)

segment of the world market<sup>13</sup> in which there exists an original invention or a specific know-how which is not interesting to larger firms. In this narrow, specific 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 the danger of a sharp fall of the consumption of already ordered exported products during the crisis periods. Due to a brighter 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 conjuncture in these countries in the world's down-swing stage.

### **Ultra-small independent territories of West European economic development (the case of Åland and Faroe Islands)**

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

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

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<sup>13</sup> The expert in the economic history of Norway F. Hodne writes that the world market can give a chance to small economy to use its comparative advantages and to specialize in the spheres of the export-focused manufacture in which a small country is highly competitive (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.fl-smidth.com/en-US/About+FLSmidth> <http://hugin.info/2106/R/1438877/383359.pdf> (date of reference 25.09.2010).

<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 rarely Cyprus and Iceland. (Eccardt, 2005).



The economic development of West European independent island ultra-small regions (the Åland and Faroes) 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 the interaction of these regions with the European Union within the limits of the latter regional policy, 4) definition of various factors that influence the development of the islands' competitive peripheral territories.

Both Åland and Faroes have passed an uneasy way of historical development and political-economic formation as autonomies of Finland (Åland) and Denmark (Faroes). Faroes received an autonomous status about 25 later than Åland 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 Faroes exceeds that of Åland by 75%. Both territories are economic aid recipients from the national governments. The Åland Islands are included into the euro zone, and Faroes have the regional currency of its own.

The external indicators of Åland and Faroes, characterizing their 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, and political characteristics of Åland and Faroes

Indicator	The Åland islands	The Faroes Islands
Date of autonomy 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, except the state loans	The addressee: \$100 million (an annual grant from Denmark) (2007)
EU Membership	Yes, as part of Finland. Does not enter the system of the VAT of EU <sup>16</sup>	No, as an independent territory of Denmark
WTO membership	Yes, as part of Finland	Yes, as 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\\_Åland.pdf](http://www.asub.ax/files/statistisk_arsbok_for_Åland.pdf) (date of reference: 16.12.2011. P.155), Зайт 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.

<sup>16</sup> According to Article 6 of the Instruction of the Council, the territory is excluded from the general EU VAT system 2006/112/EC from November 28. 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 a special clause (Protocol № 2) as the European Union articles of incorporation, in particular, do not provide special restrictions concerning the rights of the persons who do not have a constant residence or incorporation on the 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 in the preservation of duty-free trade on ferries. The government of Finland achieved a special clause in the European Tax Directives. Convinced by Sweden's membership in the EU, 74% of the Åland Islands population voted pro joining the EU on 20 November 1994<sup>18</sup>.

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

## **The European Union regional policy regarding the Åland and Faeroes Islands**

The special status of these territories predetermines the possible directions and amount of the EU financial support. The Åland Islands, from the moment of their EU accession in

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

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

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

1995, became an object of the EU regional policy. In 1994–1999, the national problems of the 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 got the status of a priority region of the LEADER program implementation. Originally, support was provided to agrarian countryside. The plan for the development of these territories was elaborated for the Åland Islands (Finland)<sup>21</sup> which acquired the following main objectives: 1) growth of the independent territory attractiveness as a place for life and business, 2) preservation of traditional landscape characteristics, 3) increase of farmers’ and forestry households’ competitiveness.

The EU regional policy at present (2007–2013) is characterized by the following indices: 36% of the EU total budget (347,041 billion euro)<sup>22</sup> provide for the realization of three key objectives: convergence of different EU members countries<sup>23</sup>, increased regional competitiveness and employment, the European territorial competition. Money goes from the European Fund of Regional Development (EFRD) (for the EU poorest regions to reach the purpose of implementating the infrastructure, innovations and investments programs), from the European Social Fund (ESF) (to all member countries for solving the employment problems) and Rapprochement Fund (RF) within the limits of the INTERREG IV program (ecology, transport and renewed energy projects for the countries where the standard of living is below 90% of the EU average). The branch distribution of the European funds reflects the interests of the regions and is characterized by the following figures: innovations – 24%, transport – 22%, employment programs – 22%, ecology – 19%, other – 13%<sup>24</sup>. The crisis had no considerable influence on the funds’ distribution as the solution of the regional problems for the European Union is one of primary goals dictated by the uniqueness of the situation.

In 2006, the Commission of the European Communities approved 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 needing money for border cooperation development includes the Ålands and 10 Danish amts located on “the basic” territory. Among territories of the NUTS II level, the Åland Islands and Denmark (as the Baltic Sea and Northern Periphery regions) will use support of their international activities. Without being a member of the European Union, the Faroes can count only on a limited direct support (for example, within the limits of the Northern

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<sup>21</sup> Rural Development plan for the Region of Åland (Finland). MEMO/07/601 <http://europa.eu/rapid/press-ReleasesAction.do?reference=MEMO/07/601&>. Date of reference 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 L312 of 11/11/2006.

Periphery program 2007–2013<sup>26</sup>) and an indirect financial support of the EU<sup>27</sup>. However, Faroes have signed a number of the European agreements that gives them a chance to co-operate with EU bodies.

Both Denmark and Finland get a notable financial support from the EU structural funds for regional competitiveness development (452 135 320 and 932 184 449 euros, respectively, 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 state	Border cooperation			International co-operation	Total
	The internal	Within the limits of the European neighborhood and partnership programmes	In total for 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.

The 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 the Åland and Faroes Islands to count both on the EU funds and on the national governments' support (Table 3).

Despite the prior EU support of depressive regions (first of all agricultural), the aid of national and local authorities is considered as a necessary condition of the EU financing. The joint support from the national governments and the EU as the well as harmonized

<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, Faroes, 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 a 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 Faroes, its size being defined in absolute indicators (see Tab.1).

<sup>28</sup> The Commission Decision of 4 August 2006 fixing an indicative allocation by a 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 of 6 October 2006 about strategic reference points on the Community unity (2006/702/EC).

TABLE 3. The budget of the Åland Islands and a share of the EU financing (euros)

Amount and type of expenses	Regional expenses		
	The general regional expenses	EAFRD share in regional expenses, %	EAFRD Contribution
Directions of financial support			
Agriculture modernisation	8 391 195	40	3 356 478
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](http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/07/601&Date%20of%20reference=05.11.2011).

governance of industrial organization resulted in the conversion of these territories into a 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 the islands' enterprise activity system gives the following picture. The Ålands are under the jurisdiction of Finland concerning joint-stock forms of capital. This fact 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 whose 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 of Ålands, which have a 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 centre-periphery Acts concerning simplification of joint-stock firms' formation and functioning. A comparison of Ålands and Faeroes business environments is presented in Table 4.

<sup>31</sup> Data are given by the Trade Mission of the Russian Federation in Finland. In 2011, on Åland, 2 300 firms were registered

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

TABLE 4. Islands Business environment of the Faroes and the Åland

	The Åland Islands	The Faroes Islands
Tax environment	The corporate tax of 26%	The corporate tax of 18%
Standard of living	According to Eurostat databaes, Ålands occupied the 20th position among the EU regions by the 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, Faroes 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.

Agriculture has played a key role in their economic development. Rich traditions of agriculture of the Åland Islands laid the foundation of its food-processing industry. It is represented by small-scale business enterprises of making traditional production – apples, mustard, cheese, sausage, beer, alcohol. The largest representative of the food branch is the Chips Group, which is the leader of the market of snacks of Finland, Sweden, Norway, Denmark, and Latvia. In 2006 the firm merged with the Norwegian Orkla Group. These enterprises are important for the Åland autonomy, supporting a high level of employment. The role of agriculture for the Faeroes Islands is equally important. Up to the middle of the 19th century, sheep breeding had been here the basic income item. Now the livestock of sheep totals about 80 thousand. However, in the 20th century, the industrial organization leadership has been transferred to fishery.

Special resources define distinctions in the industrial organization structure of the island territories. The richest fish resources of the Northern Atlantic promoted fishery development on the Faeroes. In the 1970s, cultivation of salmon completed and even substituted fishing. A unique farm for halibut cultivation has been constructed in the beginning of the 21st century. The activity of such farms are coordinated by the autonomous Faroese Fish Farming Association. In 2009 it has produced 48 622 tons of fish – by 10 350 tons more than in 2008 (Faroe Business Report (2011), p. 44–63). Simultaneously, the organizational structure of business has changed crucially. The largest companies (Pelagic Complex, Christian í Grótinum, Faroe Origin, Framherji, Tavan, Landshandilin) have industrial-logistic capacities of their own, supervising all the technological process in fish cultivation. Crude fish is sold not only from ships or by

specialized firms, but also at the auction, the Faroes fish market functioning under the monitoring of Agency of Foodstuff Control, Veterinary and Environment Inspections.

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

A significant branch of the Faroes and Ålands transport services is freight 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. The Smyril Line supervises sea routes of the Northern Atlantics. The Faroe Ship Services cargo transportation between the islands and transportation on the international lines as well as logistic service under the "hub & spouk" scheme provide freight traffic. Besides, the firm is the exclusive agent of the largest Danish transport company Maersk Sealand functioning on the Faroes. Passengers' transportation is carried out mainly via the Vagar airport. The Atlantic Airways provides international regular flights to Norway, Denmark, Iceland, Great Britain<sup>34</sup>.

The Faroes oil branch started to develop actively since the 1990s. Legal rights of using oil natural resources including the sea shelf within a 200-mile zone in the North Sea have been fixed by a treaty with the Government of Denmark (1992). Initially, the Faroes Government only granted licenses for oil investigation. In 1998, local investors founded

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<sup>33</sup> It has been calculated by authors on the basis of: [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 – ended in failure, FaroeJet was created on December 20, 2005. The first flight was made on the route Copenhagen–Vagar on May 15, 2006. In December 2006, the airline was declared bankrupt. The activity of the airline was stopped since January 1 2007. See: [www.faroejet.fo](http://www.faroejet.fo) (date of reference 04.05.2011).

and registered the joint-stock Atlantic Petroleum oil and gas company. Since 2000, it conducts investigations and extraction on the Faroes, a shelf of the Northern, Irish and Celtic seas<sup>35</sup>. Continental shelf oil extraction stimulated financial and particularly insurance services on the Faroes.

Bank and insurance services on the Ålands Islands were initially developed as a sector accompanying fright and navigation. The Bank of Åland was founded in 1919 on the initiative of one of the then largest marine companies, Windjammers, registered on the Ålands and needing bank services. Nowadays, the bank is engaged in marine branch financing and renders bank services to wealthy clients. The insurance Ålandia Group specializes in marine insurance and maritime law the, Ålands Ömsesidiga Försäkringsbolag renders services in business, real estate, motor vehicles, accident insurances. ICT is the most fast-growing sector on the Ålands and is developing thanks to marine transportation services. The companies-leaders of the given branch enter are part of the cluster Carus PBS, SAJ Instrument, PAF Group, the supplier of PC games and the Internet provider of ferry lines services, and provide 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 the Ålands Islands. They offer consultancy and help in the organization of representatives to foreign logistical firms which should obtain Government Ålands licenses.

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

The absence of rich natural resources on the Ålands predetermined the development of hi-tech branches. ICT services and polymer products are exported to many countries

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<sup>35</sup> At the end of 2006, Atlantic Petroleum began oil recovery in the Chestnut deposit (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, Faroes investors possess 66% of the share capital of Atlantic Petroleum, Danish – 19%, and 15% belong to foreign shareholders. In 2008, the company 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 430 persons, less than 2% occupied on islands, the general actives of 14.3 billion DKK, profit upon the deduction of taxes 416 million DKK, net profit 339 million DKK, solvency factor 17% (Faroe Business Report, 2011, p. 42).



of the world. The latter branch is presented by Optinova. Its headquarters and fluoropolymeric manufacturing factory (producing medical tubes) are located on the Ålands. The ScanTube makes tubes, profiles and packing cords for chemical, medical, pharmaceutical and electronic industry of the Ålands and Thailand and sells these goods through marketing divisions in the USA, Germany and Sweden; Colorant Chromatics owns the manufacture of polymeric materials on the Ålands, the USA, the Peoples Republic of China and the distribution centre in Germany; Cainby specializes in the production of stands for placing the commercials used in the first turn on ferry lines.

The remote geographical position of the Faroes and the ethnic specifics of the territory promoted the formation of its independent system of communications. The mobile communication is represented by the Føroya Tele operator having access to fibro-optical Canada–Europe cables. The broadcasting company Kringvarp Føroya has evolved from the Útvarp Føroya radio station (all radio programs are broadcast in the Faroes language) and the Sjóntvarp Føroya television studio has emerged.

As we see, the informational economy development, ICT formation on the islands' competitive sub-periphery has conquered the spheres of oil industry and financial services.

## Conclusions

- 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 the West European “competitive periphery”.
- II. Consideration of ultra-small independent Nordic regions (Ålands and Faroes) in the historical-economic typology context of the small West European states allows to draw conclusions about:
  - 1) the high level of social and economic development of these countries and territories;
  - 2) the specificity of the peripheral competitive character of independent territories that could be defined as competitive sub-periphery regions of Western Europe;
  - 3) transformation of island independent territories (Ålands and Faroes) into the transport-logistical, information-communication, financial-insurance business bridges of the West-European subcontinent, stimulated by the special regional policy of the European Union, directed to the development of structurally depressive, agricultural, peripheral regions.
- III. A comparative analysis of the business activity of Ålands and Faroes has shown that:

- 1) the economic development and formation of the North European countries' business was held in the framework of the "centre – periphery" mutual relations system;
- 2) the initial conditions business development on Ålands and Faroes were identical;
- 3) resource provision in the Danish autonomous region (fish stocks and hydrocarbons) is more preferable in comparison with the Finnish region;
- 4) the rules of the Finland's tax system are completely harmonized with the tax norms of the European regulation and are applicable on the Åland Islands which keep their own territorial tax specificity reflected in special tax privileges, tax-free trade, and the outsourcing of the logistics functions of foreign companies;
- 5) firms of the Ålands Islands, having a the special independent tax status in the EU, have reached a bigger progress of hi-tech branches in the real production sector and in the sphere of services than did the Faroes companies;
- 6) the branch distribution of the European funds reflects the competitive advantage of the Finnish autonomy in comparison with the Danish:
  - membership in the EU provides the target help to business;
  - the Faroes, because of their independent status, receive only limited direct and indirect help of the 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 these differences, the island peripheral territories have similar characteristics of business activity:

- prevalence of small and medium-sized companies,
- traditional branches of economy development,
- local authorities' support of business, aimed at full local employment,
- successful use of the unique geopolitical position of the territories.

V. The analysis of the industrial organization of the Faroe Islands and Ålands allows the following conclusions:

- 1) formation of the islands' governance system is adequate to the EU regulation;
- 2) high degree of capital concentration and centralization represented by the largest TNC functioning in the leading islands' industries;
- 3) the leading role of agricultural production, fisheries and aquaculture in the regional economy;
- 4) development of marine navigation as the most advanced type of transport on both island territories;
- 5) the diverse sectors of the high-tech industry on the Ålands 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) formation of the conglomerate sector of financial services (banking and insurance) associated with shipping and navigation and the Faroe Islands oil production;

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

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