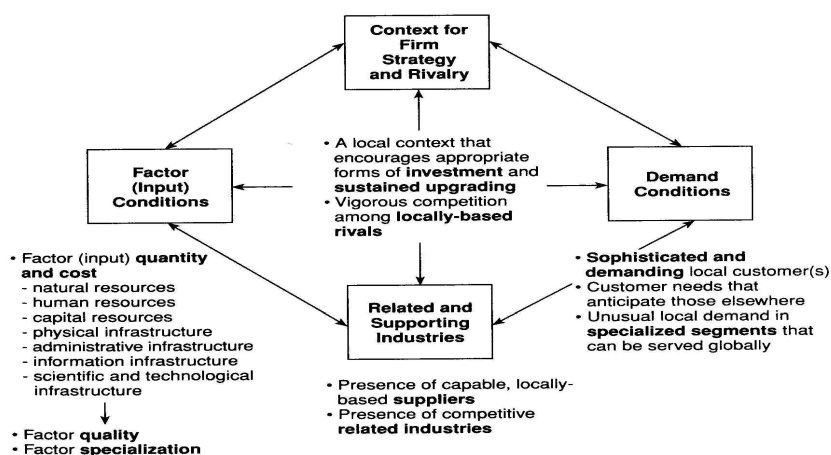


## Small Fast Growing Dynamic Economies in Europe

*A CASE STUDY OF THE PORT CITIES OF KLAIPEDA AND CORK*



**2007**

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**SMALL FAST GROWING DYNAMIC ECONOMIES IN EUROPE:**

A CASE STUDY OF THE PORT CITIES OF KLAIPEDA AND CORK

*FMD 010 – THESIS PROJECT*

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## Introduction

### Subject of thesis

Klaipėda is the only large port in Lithuania and is the northern most ice free port in the Baltic States. As the third largest city of Lithuania and endowed with the resource of an important transportation node, there is an implied potential for economic development. This is especially so in light of the increasing volumes of freight both worldwide and in the Baltic Sea region over the past few years. Together with congestion of land routes and EU encouragement to develop short sea shipping, port city economic potential in peripheral areas is worthy of study. Consequently, the following question is posed: Given Klaipėda today and in the context of its position as the port city of Lithuania, what is its economic development potential and what factors are present to support that potential?

In view of the tendency for new workplaces to be created in urban areas, and the history of declining need for rural labor in industrially developed regions, the success of modern urban areas has become a central issue for economic development. As ever more emphasis is placed on the roles of capacity for rapid innovation and dynamic use of knowledge in job creation, there is a corresponding

increase in the emphasis on discovering the precise factors that can encourage full expression of those roles to generate and maintain urban success. The secret of guaranteed economic growth is something of a holy grail for those seeking to improve the competitiveness of his or her home town. Identifying the conditions that seem to allow one city to prosper while others stagnate or go into decline is the occupation of many, yet there is as yet no known absolute precursor or definitive method that offers a sure path to becoming a new high technology super cluster of economic growth such as California's (USA) iconic Silicon Valley. At best, we can look at internal and external barriers to growth and the potential of local advantages that may be attractive to new investment. With capital always limited, it must be persuaded that the advantages in one place are more attractive than those found elsewhere.

Any local development occurs, of course, within the context of regional environments, from the local sub-state area up to the entire planet. Lithuania, with accession to the European Union in 2004 after its former position as a part of the USSR, is at a crossroads between two regions, but at the periphery of both.

Klaipėda itself, as the port city for Lithuania, is an economic engine for the immediate region and an important transportation node for the country. As a Baltic seaport, it is an important transportation link connecting economic activity among regional countries both on north-south and east-west axes, including rail and road projects that connect the EU to the markets of Asia. As a part of the EU, it now is influenced by a set of policies that seeks to foster member state convergence and cohesion. Finally, it is also now part of a worldwide market for goods and capital characterized by high mobility and intense competition. Of particular interest, as one of the Baltic States, it has a direct, if still at times problematical land connection to Russia in the east and to the rest of continental Asia beyond, including the potential of developing trade with China, and also south to Ukraine and the Black Sea area. Additionally, it is well situated for expansion of short sea shipping from its docks within the context of EU transportation policy and local development aims. Seemingly, Klaipėda is well positioned for a prosperous future despite, or perhaps because of, its peripheral location.

This study is a look at this development potential in Klaipėda in the analogous light

of the development history of Cork, Ireland. Ireland, when it entered the EU in 1973 was peripheral and relatively poor. Yet for somewhat different geographical and historical reasons it was also at a crossroads between its past as a peripheral region of the British Empire and the newly emerging European Union. Again, in a somewhat different but similar sense, Ireland had direct connections to North America, especially the United States. Cork is Ireland's best deepwater port and is positioned close to the natural East-West shipping lanes of the Atlantic. In relation to Dublin, Cork, like Klaipėda in relation to Vilnius-Kaunas, is that of a smaller, peripheral port city. Ireland differs, however, in having other national ports that compete with Cork, especially Dublin itself, but Cork has nevertheless been highly successful in the last two decades. On the other hand, Klaipėda, as a port, is in direct competition with the port cities of the other Baltic states, especially Riga, Kaliningrad and St. Petersburg. Giving special emphasis on the port aspect, in both role and function, we ask whether the potential for Klaipėda today bears a useful similarity to the potential Cork had in the mid 1970s and whether Klaipėda can learn anything from Cork and its subsequent economic growth.

## Methodology

While we made no attempt at a formal forecast of Klaipėda's economic future, we considered the most useful approach for discussion of its potential was that of qualitatively comparing it to a similar instance of development, i.e., a model that, in the past, was in as many respects as possible analogous to Klaipėda as it is today and thus suggestive of what Klaipėda could become in the future. Of course, no two cases as complex as cities separated by time and geography will be indisputably similar, and depending on the aspects most emphasized, the value of the analogy can be unreliable. However, by looking at the subject city and finding another that was in a similar state at some previous point in time, it is not unreasonable to conclude that there is the potential for parallel development. Compensation for the inevitable differences that will exist should be made to improve the usefulness of the model, but again, what to compensate for and how much remains problematical. In its favor, an advantage of the analogy method is that it serves qualitative analysis well and is not inherently dependent on quantitative data as are forecasts that utilize projections.

Therefore we sought a "foreign" port city with characteristics, both in size and

regional positioning, as similar to Klaipėda as possible. We quickly restricted our search for such a city to Europe, in order to maintain similarity in that broader sphere, and thus eliminated trying to draw parallels with much more exotic locations. Within Europe, we initially looked at larger, better known ports such as Hamburg or Rotterdam, but the issue of magnitude and the very long term economic centrality of the great ports quickly eliminated them as candidates. Smaller ports such as Kiel, Lubeck, Århus, Le Havre, Marseille, Trieste, Bristol, Harwich, and others were quickly surveyed and also set aside for a variety of reasons. In the end, three defining characteristics of Klaipėda were of primary importance: its relatively peripheral location; its distance and secondary position with respect to the capital, Vilnius and its nearby neighbor, Kaunas; and the recent abrupt change in its economic model. We were thus led to Cork for it, too, is in a peripheral location, secondary to the capital, Dublin, and, although not as dramatic, it also experienced a changed economic approach. A further point suggesting Cork was the similarity in size, both of the cities themselves and of the countries in which they are located. Also, both cities are located in nations that for centuries were parts of other, much more powerful countries, and only recently have

they achieved independence. In that regard, both states subsequently pursued EU membership, each having begun considerable economic reforms prior to accession. There are undoubtedly other port cities at least as appropriate as models for Klaipėda's economic future as is Cork, but we found Cork's similarities to Klaipėda sufficiently compelling to consider the choice very appropriate.

As a further contextual element for our comparison, we considered cluster theory and what, if any, impact the development of clusters had in Cork and what the potential for cluster development in Klaipėda might be. Within this now conventional economic development framework, we explored the potential economic development of the Klaipėda area, giving special attention to the impact of the port facilities. Cluster theory was emphasized over all the other theoretical approaches for analyzing economic development particularly due to the centrality it gives to dynamic, adaptive use of both tacit and explicit information in competitive milieus and to the importance of the cultural dimension with substantial elements of effective, if not necessarily explicit, mutuality. We also assumed a continuation of the past several decades of very low transportation costs for labor, material and information which is also an

assumption of economic stability and continued open markets. Within that context, cluster theory, despite its ambiguities, can work well as a descriptive mechanism for economic development.

Other economic development theories could have also been used as an evaluative framework to estimate the reasons for and the state of Cork's success and of Klaipėda's potential with equal or better success. There are many choices, from Marshall's industrial agglomeration to Florida's creative class and more, and each has fervent advocates, yet each is as vulnerable to criticism as is cluster theory. Without suggesting that cluster theory is inherently superior to any of the others, we found it to be a highly adaptable conceptual framework for development appropriate to the variability and dynamism of local economic situations in the strongly globalized economy of today.

In addition to the context of Cork and Klaipėda as ports, the effects of history, regional economic events, state and local policies on job growth and business development, and, in particular, the social dimension were considered. In this sense, of course, no sure guidelines or parallels for successful development can be construed from our work because the factors of development are far too

complex and various if only because of the considerable political, economic and social changes that have occurred during the last several decades regionally and globally. Nevertheless, the comparison illustrates an instance of realized economic potential in Cork and Ireland that may be an indicator of the potential that exists today in Klaipėda and Lithuania. This could be useful for both public and private planners to encourage (or discourage) investment in Klaipėda and its region.

### **Cluster Theory**

Porter (1998) gave the definition of clusters as, "a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities," (p. 199). Within this very open definition, he stressed that clusters are to be understood in the context of competition and the influences of location. He noted the modern pattern of globalization and that some of the usual reasons given for industrial agglomeration have faded, but he also argued that new reasons for it have developed. He wrote that today, "much of competitive advantage lies outside a given company or even outside its industry, residing instead in the *locations* of its business units," (sic, p. 198). Porter appears to have considered this new locational quality to be that of

management and strategy facilitation (including, of course, such concepts as innovation and leadership), i.e., the existence of a social framework of services and knowledge exchange that enables success for individual and groups of firms. In this conceptualization, "social glue binds clusters together [and] many of the competitive advantages of clusters depend on the free flow of information," (Porter 1998, p. 225). He distinguished, "lattices of numerous overlapping and fluid connections among individuals, firms and institutions," (p. 226) from more hierarchical networks, "that undermine economic value," (p. 227) and stated unequivocally that, "the social structure of clusters [...] takes on central importance," (p. 225). Yet, instead of an analytical approach using epistemological, communication and networking theories, he approached identifying clusters by attempting to establish which organizations had "strong linkages," (p. 202) based, apparently, on formal exchange, and warned against sector clusters that are, "too broadly conceived," (p. 202) and endowed with, "at best, weak connections," (p. 202). Confusingly, he also described how clusters can appear in a wide variety of sizes, circumstances and sectors and even added that, "the appropriate definition of a cluster can differ in different locations," (p. 205).

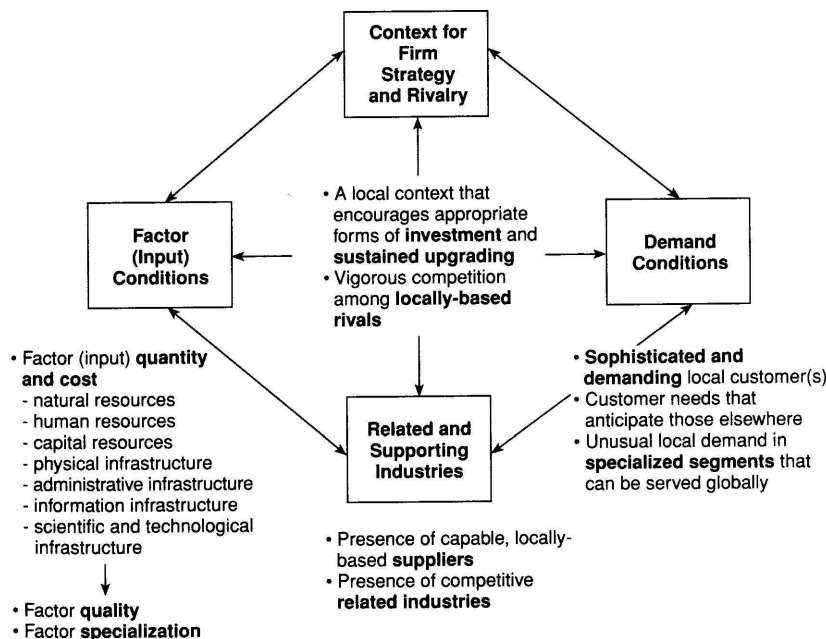
Martin and Sunley (2002) noted this lack of social system analysis by writing that,

the social dimensions of cluster formation and cluster dynamics remain something of a black box in Porter's work. While he stresses, for example, the importance of local social networks for the production and flow of information and knowledge within clusters, these processes are conspicuously under-theorised in his cluster model. [...] there is little explicit empirical investigation of these social and knowledge networks, which more often than not are simply inferred from the presence of particular formal and informal institutions within a cluster. (p. 21)

In contrast to strategies of industrial imitation and cost-cutting competition, Porter placed much emphasis on the use of continuous productivity increases and product differentiation to argue for a

unique dimension that explains why the cluster concept is useful in analyzing competitive achievement. With one version of his well-known diamond figure (see figure 1) he described a model of a local business environment where dynamic competition leads to innovation. Although Porter considered the cluster itself to be the group of firms (the south point of the diamond), he argued, "they are best seen as a manifestation of the interactions among all four facets," (p. 213). The south and other points of the diamond – demand conditions (east), firm strategy context (north), and factor inputs (west) – are not unusual except that Porter placed particular emphasis on dynamic management aspects rather than more static production process aspects.

Figure 1. Porter's diamond: Locational competitive advantage factors



Source: Porter (1998)

Porter's cluster approach was still fundamentally an argument that location provides significant advantage to firms by providing an immediate context, factor and demand environment that would stimulate the cluster dynamic. He held that in today's environment, location can be critical for enabling better access to knowledge and for development of flexible and dynamic firms. This access to knowledge, and the grouping of many proximate firms competing for customers, leads to maximizing productivity and facilitates the continuous creation of new products. Proximity of firms, however, is not by itself enough or even requisite; also needed is a broad social network that allows unintentional and intentional exchanges of tacit and explicit knowledge vital for competitiveness in dynamic markets. Porter also used the critical mass metaphor to suggest that a prospering cluster is one that has achieved a level of unusual and self-sustaining competitiveness. In fact, his simplest definition of cluster is "critical masses of unusual competitive success in particular business areas," (p. 198).

All of the above might be argued to be simply a rehashing of Alfred Marshall in terms applicable to the economy 100 years later. Porter (1998) did not exactly specify what distinguishes clusters from

Marshall's agglomerations of firms. His emphasis on the knowledge and social dynamics of a cluster perhaps highlights the requirements of modern enterprise in a business environment that is under pressure from changing technology, and perhaps that is all Porter intended. The Enterprise Directorate-General (n.d.), offered their clarification of the nature of economic clusters by writing that, "Clusters' are a nebulous concept [with] many different definitions, but almost all of them share the idea of proximity, networking and specialization," (p. 15). They additionally specified that clusters should have, "a positive influence," (p. 16) on regional business dynamics. Cooke (2001), closely following Porter, stressed that clusters ought to incorporate the element of dynamism: shared identity; generation of new firms; dense and changing horizontal and vertical linkages; active involvement with local governance; impact on local policy; and a lifecycle from emergence to decline. Cooke consequently defined clusters as, "geographically proximate firms in vertical and horizontal relationships, involving a localised enterprise support infrastructure with a shared developmental vision for business growth, based on competition and co-operation in a specific market field," (p. 24). Cooke gave the examples of bio-tech in Cambridge, MA, USA, where firm

interactions are high because of proximity and commonality of actor backgrounds, and in Cambridge, UK and in Heidelberg, DE, where formal network organizations and access to funding foster business development. In both these types, the dimension of culture is central.

Asheim (2001), perhaps writing more from a flexible specialization viewpoint, gave particular attention to the social dimension of innovation. He wrote that with “post-Fordist understandings of industrialization,” consideration of, “non-economic factors, such as history, culture and institutions,” (p. 39) is important. Again, this is pointing to the centrality of culture, although characterizing these factors as non-economic may narrow the concept of economics too much. Asheim also wrote at length about the importance of knowledge and especially of learning in a post-Fordist context of comparative advantage and capacity to compete. Regardless of Asheim’s development of the post-Fordist viewpoint, it is clear that the modern knowledge management approach is less hierarchically structured than it is considered to have been in older industrial models. This acceptance of both the freer flow of knowledge and the value of tacit knowledge is quite likely a facilitator for both implementing innovations and abandoning old solutions.

The heavy emphasis Asheim chose to place on formal structures of learning, knowledge and innovation represents the regional innovation approach and may be viewed as another way for academics and policy makers to tackle the thorny problem of how to create an open, inquisitive and idea based culture. Clearly, there is a desire to trust that if there are a lot of small businesses and there is a lot of R&D, then the desired business culture will just naturally follow.

In a similar, post-Fordian voice, Saxenian (1996) wrote that, “firms compete by translating local knowledge and relationships into innovative products and services; and industrial specialization becomes a source of flexibility rather than of atomism and fragmentation” (p. 161). This is a further reflection of the perception that the ability to adapt rapidly is the key to economic success. While very likely the case, it should also be noted that success due to innovation may not be solely because innovation is pure positive progress. Rather, given the current rapidity of change in the environment (in the sense that includes the total social, economic and natural milieu), equally rapid business innovations are quite unavoidable. Innovation, of course, is itself a factor of environmental change, thus innovation breeds the need for more

innovation. Rather than trusting this feedback cycle to be a sign of pure success, it can also be viewed as a form of instability and inefficiency since constant adaptation is a resource intensive process with not entirely predictable outcomes, and, ultimately a possible indicator of unsustainability.

Mariussen (2001) suggested that interest in innovation and in cluster theory had their origins in the Cold War and especially as a consequence of Sputnik, (p. 10-12). This period surely marked a transition, but while the politics around hegemonic competition no doubt somewhat accelerated technological development, it is the modernist paradigm – already fully established in the 18<sup>th</sup> century – that is the foundation for the present economic condition. Rather than speaking of post-Fordist or post-modern economies, it is more accurate to speak of the maturation of modernism into its perhaps final phase, characterized by fully automated production and with management as the sole remaining labor input. In this transition to a management or knowledge based economy, Mariussen considered cluster development in the light of ubiquitous theory, i.e, formal education and knowledge is today effectively available everywhere, but there remains scarcity in tacit knowledge which is best

expressed in cluster environments (p. 12). This clearly sets knowledge contained in social frameworks as the critical element of wealth production, i.e., it is the argument that all other location factors are no longer important. This is only reliably true, however, in the context of current low real input and transportation costs. Although there has recently been emphasis on knowledge activities, production of real goods is always dependent on real inputs and should relative costs for those inputs become higher in the future, the centrality of knowledge may be correspondingly weakened.

The definition of a cluster, according to the Observatory of European SMEs (2002) has two main criteria: limited geographic area with many firms in related sectors; and relatively high levels of co-operation among the firms. They rejected broader definitions that include institutional entities (presumably non-profit and public organizations), identifying anything that includes them regional innovation systems, (p. 14). They also suggested a third type, the regional innovation network (see figure 2).

Figure 2. Regional economic concepts

<i>Concepts</i>	<i>Definitions and differences</i>
Regional cluster	A concentration of 'interdependent' firms within the same or adjacent industrial sectors in a small geographical area
Regional innovation network	More organised co-operation (agreement) between firms, stimulated by trust, norms and conventions, which encourages firms' innovation activity
Regional innovation system	Co-operation also between firms and different organisations for knowledge development and diffusion

*Source: Observatory of European SMEs, 2002*

The Observatory argued that the regional cluster was a spontaneous development,

but that it was at the broader innovation system level that public policy can play a role to help foster innovation networks (see figure 3); the distinction is important in that it allows a clearer understanding of the role public policy can actually play in developing a region. Figure 3 gives their six-step model of regional cluster development which includes a final decline stage. This decline stage would appear to be something that would be properly as great a policy concern from the beginning of a cluster as is the actual creation of the cluster itself. The "lock-in" phase of being bound to a narrow operational model is surely a danger from the moment an entrepreneur develops a business plan. However, clusters rarely if ever have clear-cut and planned beginnings and lock-in, practically, may not be preventable in many cases.

Figure 3. Regional clusters. Stages of development, an 'ideal-typical' model

1. Formation of pioneer firms often based on specific local knowledge, followed by new firm spin-offs.
2. Creation of a set of specialised suppliers and service firms, and a specialised labour market.
3. Formation of new organisations that serve cluster firms.
4. Attraction of outside firms, skilled workers, and fertile grounds for new local companies.
5. Creation of non-market relational assets that foster local circulation of information and knowledge.
6. A period of decline for the clusters because 'lock-in' situations may occur.

*Source: Observatory of European SMEs, 2002*

The Observatory gave four theoretical approaches, shown in figure 4, each of which reflects acknowledgement of the importance of social networks. The industrial district approach relies on networks of small specialized firms, division of labor and an industrial atmosphere, which harkens back to Alfred Marshall. The Californian school looks to the breakdown of vertical structures and the development of horizontal, dynamic relationships with a very important role for social networking. The Nordic school is distinguished by its particular emphasis on the stickiness of tacit, socially integrated knowledge and the importance of co-

operation and trust. Finally, there is Porter's industrial cluster, which places more emphasis on the elements of customer feedback and rivalry among competing firms while also benefiting from a pool of specialized labor, suppliers, and other goods. There is perhaps also a suggestion of successive approaches to economic development analysis as each previous or concurrent attempt to fully capture the mechanics of economic development fails on some point or another. It seems that no assured prescription for economic success emerges from these approaches.

Figure 4. Regional clusters. Interpretations of the process of clustering

<i>Schools of thought</i>	<i>Important factors underlying the growth and working of clusters</i>
Industrial districts	External economies + mutual trust and 'industrial atmosphere', leading to incremental innovations
The Californian school	Vertical disintegration, reducing transaction costs, and a specialised local labour market + conventions, informal rules and habits
The Nordic school	Innovation as learning, learning as a localised process, because of the importance of 'sticky', non-codified knowledge
Porter's industrial cluster	External economies strengthened by proximity (better access to input factors, local rivalry and local customers)

*Source: Observatory of European SMEs, 2002*

As above, we have several times cited the centrality of tacit or non-codified knowledge in the cluster concept. Such knowledge is frequently invoked as a

special local element that can provide unique competitive advantages to the firms and regions that command it. However, Martin and Sunley (2002)

challenged this view by arguing that,

despite the numerous assertions that 'tacit' knowledge is the key to business success, this remains an unsubstantiated and obscure proposition. Not only are the distinctions between different forms of knowledge less clear cut and more fluid than binary divisions such as formal and informal, codified and tacit, suggest [...] many accounts refer to localised tacit knowledge without making clear precisely what it is, or how it acts as a source of competitive advantage. (pp. 21-22)

It is possible that experienced management makes fewer mistakes, but it also possible that the benefit is more than balanced by the tendency toward operational lock-in. There is, it appears, a reliance on intuitive understanding to support the argument for tacit knowledge and that this supposed advantage has not been clearly established.

Martin and Sunley (2002) also noted that Porter's approach is to emphasize external influences with no consideration of internal organizations of firms which does seem at odds with the cultural emphasis that is central to the concept. Yet at the same time they wrote that Porter's concept largely considers clusters to be, "as isolated islands in the economy," (p. 22). Also, making it no less difficult to make sense of all this, Porter provided no way to clearly define clusters on either a physical or a social basis.

At the outset Martin and Sunley (2002) questioned why, in view of the above outlined ambiguities, Porter's cluster model has been so, "fashionable and influential while that of economic geographers has not," (p. 7). In answer, they suggested that a possible reason is that Porter couched the concept in terms of competitiveness which today seems almost to be the very *raison d'être* of economic development as well as the solution to all economic woe. Porter, they wrote sought to instruct, "how to compete on the world stage," in a time when policy makers are increasingly preoccupied, "with micro-economic supply-side intervention, and especially with the policy imperatives of raising productivity and innovation," (pp. 7-8). They argued that Porter's appeal stems both from an accessible, business-like (versus academic) writing style and a, "metaphor [...] highly generic in character [,] deliberately vague and sufficiently indeterminate so as to admit a very wide spectrum of industrial groupings and specialisations," (p. 9). It has, they concluded, "become a 'chaotic concept', in the sense of conflating and equating quite different types, processes and spatial scales of economic localisation under a single, all-embracing universalistic notion," (p. 9) with the end result that, "the existence of clusters, appears then, in part at least, to be in the eye of the beholder –

or should we say, creator," (p. 12). In perhaps their harshest criticism, they suggested that Porter was following his own strategy of competitive branding which has sold a broadly appealing, if somewhat empty, product to buyers who dream of their own Silicon Valley success story.

Saxenian (1996) suggested that there is an, "outdated conception of the firm as a separate and self-sufficient entity [with] a need to recognize that innovation is a collective process as well as an individual one," (p. 162), and, "unlike either traditional top-down intervention or laissez-faire approaches, regional policy can be organized locally and designed to catalyze and coordinate – rather than directly manage," (p. 165). This can be argued to be a critical conceptual element in how the idealized modern enterprise works. It perhaps reflects a theoretical transition from a vertical economic model of success to a more holistic model that is more cooperative with the entire environment. Saxenian stressed that adaptive cooperation must be embraced equally by the public sector as well. This constitutes perhaps one of the most difficult barriers since the traditions and the great advantages of monopolism in government are very strong.

Saxenian also wrote that, "network systems [...] are fragile constructs that must be continually renewed and redefined to meet new economic challenges," (p. 163) and that, "ultimately, regions are best served by policies that help companies to learn and respond quickly to changing conditions – rather than policies that either protect or isolate them from competition or external change" (p. 166). The approach that Saxenian suggested, then, is to be flexible, organized horizontally, yet to have a policy regime that is powerful enough to affect development. Rather than building managed, economic fortresses, the objective that policy makers might choose is that of creating a structure that minimizes the costs of economic adaptation. In this regard, Saxenian particularly noted the danger of relying on a single, established product, especially when that reliance leads to business strategies that utilize litigation and demands for public protections.

The Enterprise Directorate-General (n.d.) gave the advantages of clusters in terms of greater access to emerging knowledge and innovation, and greater access to both suppliers and customers. They identified technology lock-in and also high dependence on few customers or suppliers as threats to clusters. Both these points

suggest a dynamic advantage for clusters composed of many SMEs rather than of a few large firms; many smaller firms provide many incubators for both new ideas and new markets. As the general knowledge base becomes broader and deeper, large firms find it more difficult to innovate effectively in-house, or, as Mariussen (2001) put it, to achieve hierarchic knowledge governance. What is required, then, is horizontal exchanges of knowledge and the development of trust in sharing knowledge (pp. 13-14). In this, we perhaps have the central aspect of cluster theory that distinguishes it from other approaches. Network theory, for instance, appears in many ways to be nearly interchangeable with cluster theory with the distinction that cluster theory incorporates a broader, more serendipitous element, whereas networks seem to be a more narrowly intentional approach.

To the degree that a definition for a cluster is possible, it might be simpler to say that a cluster is a loose business sub-culture, often local, of entrepreneurs whose activities are mutually profitable in a way that is self-reinforcing. This seems more to the point and eliminates the awkward geographic component. It also helps makes a distinction from standard business networks and also from

Marshall's (1920) "as it were in the air" (book 4, chapter 10, paragraph 3). Furthermore, it can be easily fleshed out along multiple dimensions appropriate to any particular cluster whether it is one of highly localized craftsman or one of large, transnational firms. The key distinction is the existence of a community of actors that find interaction, whether intentional or not, both stimulating and beneficial. In other words, the culture of the sector is what makes the cluster, not the numbers of firms, the sector, the level of patent applications, or even the comparative economic success.

In order to appropriately set cluster policy, some grasp on the nature of the cluster must be achieved. Martin and Sunley (2002), noted that in defining a cluster,

The first major problem inevitably encountered [...] is how their boundaries should be drawn. Which firms should be left out? How far upstream and downstream of the 'core' cluster activity should policies extend? There is a fundamental tension between the public policy desire to include as many firms as possible and the notion that policy interventions can be more cost effective if they are targeted in some way. But if the policy is too targeted, then it starts to look like old style industrial policy and too close to the discredited notion of 'picking winners'. (p. 33)

This difficulty in defining clusters and the appropriate policy dimensions for creating

or maintaining them is also found in Enright and Ffowcs-Williams (2000): "A policy on clusters should aim to provide services that all firms merit access to, whether they are clustered or not, but in a more targeted fashion," (p. 4). There, that explains it.

### **Applications of cluster theory**

Policy prescriptions are not perhaps immediately clear from this discussion of cluster theory. Raines (2002) noted that a central idea in cluster theory is the concept, "that policy action can change the collective behaviour of groups of firms, promoting the emergence of self-sustaining networks/systems of innovation and commercial renewal," (p. 1). Consequently, evaluation of cluster policy is needed that goes beyond the accounting of efficiency and effectiveness to include operational and political elements. Raines argued that evaluation of cluster policy impacts is critically important, but difficult because definition of what, precisely, the policies are intended to create is difficult. Raines seemed to seek a comprehensive evaluation process, yet himself reverted to measures of economic growth.

A reading of the literature is suggestive of a sometimes eager excitement over the concept of clusters; a kind of vision of the

local business community striking it rich on a big vein of pure knowledge. It is not unlike the marketing ploy which implies it is only necessary to buy a set of books, follow the simple instructions contained therein, and become a real estate millionaire overnight! Yet to believe this, the role of coincidence, and the intangible effect of something in the air, must be studiously avoided. The point is, cluster theory should not be casually assumed to be a prescription for generating economic prosperity in a simple mechanistic vision of joining part A to part B; the fully developed cluster, to be as dynamic and self-reinforcing as is idealized, must not be founded on too strong presuppositions lest lock-in stifle its existence before it can fully form.

Tödting (2001) gave three advantages of clusters: 1. proximity reduces transaction costs and allows economies of scale; 2. existing clusters can attract more investment; 3. enhancement of local learning. But he also noted that clusters carry the risk of becoming too highly specialized in product or process. Unfortunately, these characteristics do not particularly identify the precise nature of the beast. In short, there seems never to be an entirely unambiguous definition of clusters, and the lack of clear boundaries allows the term to be applied very broadly

to many local situations without it necessarily signifying any unified understanding – or even any understanding at all.

On the other hand, Rosenfeld (2002) gave a number of barriers to clusters in less favored regions which are related to lack of capital and flexibility. These were poor telecommunications and transportation infrastructures, poor local financing opportunities, poor technology institutions, process lock in and poor connections to industry best practices, poor local labor skills, and cluster hierarchies where the domination of large firms in a region inhibits development of smaller firms. Rosenfeld went on to question whether regions can actually create clusters, noting that historically, clusters have arisen more serendipitously than in response to careful, long-term strategy and implementation. His answer, however, was yes, and his prescription for doing so, logically, suggests addressing each of his barriers, but he offered no evidence that the outcome would be reliable. It may have been more reasonable to argue that it is within the capacity of policymakers to create business and communication friendly regions and institutions where cluster development is more probable.

What are we to make of all this theorizing

about clusters, and what really distinguishes the cluster from the growth pole or the industrial agglomeration? Porter's argument seems to be an extension of the common wisdom that now, as never before, we live in a knowledge driven society. His basic diamond figure (figure 1) reflects this view by highlighting at each point factors which require excellent levels of information management to achieve optimal utilization. In this view, just as agriculture became less important through the 20<sup>th</sup> Century, so is manufacturing becoming less important today and the future belongs to information management. The cluster is distinct because it is uniquely concerned with the dynamic exchanges of knowledge among the firms within it and with the general factors of input, context and demand, whether those exchanges are fully conscious or only incidental to business activities. This is the cultural element that indicates a certain cohesiveness that could be lacking in the growth pole or other theories. Because of extraordinary capacities for rapid knowledge exchange, the assumption is that clusters are uniquely well placed to adapt to changing technologies and market demands; they are in effect more competitive and more able to confront the challenges of an economic environment that is increasingly global and market

driven. Therefore, the spatial component of clusters can fade in importance or be amorphous within the context of modern telecommunications. Porter would nevertheless argue that proximity advantages still accrue in most cases due to knowledge that only becomes apparent when there is direct contact among actors. As that may be, any real difference expressed with this new emphasis on knowledge might matter more as a consequence of conceptual change rather than of real change, for successful enterprise has always been a function of knowledge management. The distinctiveness of knowledge management today is related to the range of human technology and the various utilizations of it. Both these factors are changing rapidly enough to provide challenges in almost every field of enterprise. The emphasis on cluster development reflects this awareness that successful enterprise today must assume changing technologies and changing markets and have the means to adapt accordingly.

In terms of policy development and implementation, Davoudi (2006) argued that, contrary to the ideal of using rationality and linear cause and effect in planning and policy, the reality of society is ad hoc planning in the context of normative and selective use of ideology

and evidence. He wrote that rational or evidence based policy theory is, "based on ambitious and naïve assumptions that the complex political and socio-economic processes could be technicized, commanded and controlled through a scientific process," (p. 22). Although he, in the end, again somewhat gave in to the allure of rationality, the policy paradox remains that policy making *is* irrational. This applies to cluster policy as much as to any other. Especially in light of the considerable indeterminacies surrounding cluster theory, policy making following a cluster theory framework is often little more than guesswork. In practice, we found little evidence that either Klaipėda and Lithuania, or Cork and Ireland, have any highly structured or detailed plan to create clusters. Rather, there perhaps is a rationalization of development plans utilizing the theory and cachet of cluster development to justify and guide them. These development plans, however, are effectively ad hoc responses to economic opportunity taken in the hope that at some point a critical mass will be achieved in which the development becomes spontaneously self-sustaining. Local strengths are supported and new investments encouraged, but the generation of the particular social and economic energy associated with the cluster concept is too highly dependent on

the complex interactions of entrepreneurs of all types and on the ebb and flow of capital for planned and assured outcomes.

Nevertheless, the cluster concept has considerable value in offering policy makers in both the public and private sectors a framework and goal for developing the kind of business culture that facilitates rapid adaptation to

changing markets and technologies. Each point of Porter's diamond is a point of potential change, and a culture that revels in new ideas and the exchange of ideas will be the most likely to survive changing environments. It is in this context, more than that of industrial, institutional or policy structures, that we considered Klaipėda and Cork.

## EU Policy

Since the adoption of the Lisbon Strategy, EU policy is well known to be focused on economic development in the form of global competitiveness and innovative capacity. Quoting the European Charter for Small Enterprises, the Enterprise Directorate-General (n.d.) wrote that, as basic EU policy, the Commission was interested in supporting cooperation among firms, and among firms and education and research institutions (p. 10). They further stated that clusters lead to regional economic and social growth and that they, "are recognised as important settings for the development and growth of SMEs because they help them improve productivity, increase innovation capability, facilitate the commercialisation of innovation and generate high employment," (p. 10). But they also acknowledged the broad conceptual nature of clusters and wrote that cluster policy is not well-defined, but rather is any policy that affects cluster development. Thus the lack of a specific cluster policy does not imply the lack of policies that affect clusters. Borrás, et al. (2005) gave a similar report saying that EU policy consisted of, "more than a dozen smaller initiatives [but] do not represent a focused and coordinated approach," (p. 203). These initiatives were divided into three types by Borrás, et al.,

(benchmarking of cluster activities; networking activities; and activities directly supported by the Commission) managed primarily by the Regional Policy, the Enterprise and the Enlargement Directorates-General. The lack of coordinated approach discussed by Borrás, et al., is perhaps in part because of this scattered distribution of initiatives and management, but they also found a trend toward greater interest in cluster development with more emphasis on the potentials of collective learning if the initiatives stimulated by the Lisbon Strategy yield successful results. This interest in cluster development is also very apparent in the draft version of Territorial State Perspectives of the European Union (2006, October 24) which calls for the utilization of clusters to encourage territorial cohesion.

## Economic role of ports

Historically, ports have had a crucial role in regional economic development. This has been no less the case in the European post WWII period when there was a lack of inland transport infrastructure and heavy industry centered in port areas. In the pre-containerization period, much added value was generated by ports through freight handling and consequently ports were, and still are, seen as instruments for regional and national development. Currently though, the capital intensive containerized port and the trend toward light or service industries has resulted in the movement of former port activities away from the ports themselves and a decline in the strength of ports as economic growth poles. This has led to efforts to attract new, high value added activities to port areas with the result that ports now tend to serve a narrower base of users which makes it more difficult to justify public support.

In their function as logistics nodes, however, ports must now be adapted to the demands of a low transportation cost dependent economy. The result has been a tendency for port logistics to be concentrated in a few major facilities – Haralambides (1997) reported that 50% of Europe's external trade passed through

the Hamburg-Le Harvre port range – and that there was a trend for ships to become ever larger. He contended that this hub-and-spoke structure has resulted in diseconomies of scale as the requirements of servicing the costs of capital intensive facilities comes into conflict with the demand for just-in-time and flexible-production. The result is under-utilization of ship capacities. He predicted a return to smaller ships serving more ports with more adaptable services that provide low prices due to competition rather than to the capacities of big ships. He saw evidence of this in the trend for regions to develop their own smaller ports rather than utilize the investment of other regions in port facilities. Klaipėda is a case in point for this approach since the short distances of the Baltic region might suggest letting Latvia or Kaliningrad make the expensive port investments, allowing the potential waterfront area along the Curonian Bay to be developed for residential, touristic and other service uses. Instead, the state owned port area competes on the basis of its current relative efficiency and freight volume is expanding. Because the port is approaching the capacity limits of the natural harbor area it has plans in process for a large, very expensive and completely artificial facility to be built out into the Baltic Sea itself – at the cost of severely

impacting one of the city's best beach and residential areas.

There is also the tendency to believe that ports are, or should be, areas of economic growth or even of national pride. Klaipėda, as an industrial port, benefits from Lithuania's desire to maintain its own port facilities rather than utilize Latvia's investment in Riga or Russia's investment in Kaliningrad. But the port is an almost continuous barrier between the city and the waterfront leaving the city center largely cut-off from one of the city's greatest potential amenities. Likewise, Ireland's decision to concentrate development in Cork is likely to have been due in part to the fact that it is a port, but in Cork the modern industrial port area is substantially separated from the city and thus is less in conflict with other potential development. Regardless of the motives behind port development, for the individual business it becomes part of the local context and input factors.

Haralambides (1997), approaching the issue from a transportation perspective, called the promotion of economic and social cohesion through the development of transportation infrastructure a central intent of the EU Trans-European Networks (TEN) policy. In particular, he noted that for cohesion to be realized, ports in

peripheral areas will need to be developed adequately. Peripheral ports are also important as an option to avoid or to relieve road congestion. Within this policy context he gave two models of ports that justify public expenditures on them: as self-sufficient business undertakings; and as facilitators of local and regional economic growth. He felt, however, that the value of induced growth through port investments cannot be assured and there is risk of building excess capacity in some areas while neglecting other areas. He also hinted that the EU should play a role in rationalizing port development for precisely these reasons. He stressed the market impacts of public purchases (subsidies) of port services, e.g., navigational aides, but also that the greatest impact and advantage gained is usually associated with cargo-handling costs. Therefore, opening ports to competitive stevedoring services can help ensure the greatest efficiency improvements and the greatest gains in port competitiveness. Klaipėda has 16 stevedoring companies and 16 shipping lines, none of which are owned by the State Seaport Authority which is entirely a lessor of the port property.

## **Klaipėda**

### **Historical perspective**

The founding of Klaipėda was in 1252 with the building of the Memelburg Castle by German knights. Shortly thereafter it acquired an administration using the Lübeck city rights model, i.e., a plutocracy comprised of guild leaders elected from among themselves, instead of rule by an aristocracy. In this early period, the region was an area of conflict between the German and Lithuanian cultures, but a border between Prussia and Lithuania was presently established that remained stable for 500 years. In the 1500's a Lithuanian church was built and the city gradually became multi-cultural as well as prosperous through its position as a significant port city. Klaipėda was briefly ruled by the Swedes in the 1600's and then briefly by the Russians in the 1700's. After reconsolidation with Prussia in the late 1700's, it became a focus of trade with England, generating yet more prosperity and a legacy of English influence. Trade through these early years was largely based on agricultural and timber products. As early as 1743 the first timber trade office was opened and Klaipėda became the most famous trading port in the Baltic region with its harbor, at that time just inside the mouth of the Dane River, capable of holding up to 300

vessels (Klaipėda State Seaport Authority, n.d.).

At the time of the industrial revolution, the city found itself on the far periphery of Prussia and later the German Empire. Consequently, its development was neglected in favor of Königsberg (Kaliningrad) the capital of East Prussia. After WW I, Klaipėda was separated from Germany and briefly held by the Allies. In 1923, Lithuania invaded and took Klaipėda by force which led to years of animosity between German sympathizing locals and the authoritarian Lithuanian government. Under German demands and threats, Klaipėda was peacefully returned to Germany in 1939. Shortly thereafter, many Germans fled before the USSR overran the city in early 1945; those that did not were forcibly expelled or killed. During the years as part of the USSR, the Soviets developed the city as a shipyard and fishing port, as well as a terminal to serve the Soviet Army, and brought in many Russian speaking workers, but the population remained very predominantly Lithuanian. Today, about 71% of the population is of Lithuanian ethnicity.

Clearly, in its position as a continental European country, Lithuania itself has had a complex history of changing sovereignties, fluctuating from its own

period of empire to commonwealth with Poland, absorption into the Russian Empire, brief war years in the German domain, and then being absorbed yet again, into the USSR. In a sense, except for the inter-war years of independence, Lithuania was not an independent nation since commonwealth with Poland in the 1400s. It has been in contact with external ethnicities and active in trade since Roman times and it can never have felt any sense of secure isolation despite a peripheral geographic and economic position relative to either ancient empires or the modern European industrial arc to the south and west. Indeed, the history of Lithuania, going back at least to the consolidation of Lithuania as a functional state in the 1200's, has been a recurring question of whether to be oriented toward the western nations of Europe or toward the East. The area's eventual conversion to Christianity was the last such conversion in Europe and was an accommodation to the power of the Teutonic Knights. In fact the German influence has long been very strong in the Baltic States and, despite Russian political domination, the German minority retained their orientation to the West (Reardon and Lazda, 1993). Reardon and Lazda also suggested that the memory of the Hanseatic tradition persisted in the region thus shaping the local economic outlook. The Baltic region

was the first area in the Russian empire to achieve emancipation of the serfs, early in the 1800's, and that led to a class of peasant proprietors with a strong attachment to the land. In 1990, it was again the first, among the former Soviet Republics, to declare its independence.

The First World War led to land reforms, but Reardon and Lazda (1993) indicated that a conservative Catholic Church in Lithuania prevented as extensive reforms in that country as occurred in Estonia and Latvia. The interwar years, even if marred by its own authoritarian government, were prosperous ones with trade surpluses based on agricultural production and the achievement of living standards higher than Poland's. The WW II integration into the USSR, of course, largely eliminated free market activity and reduced economic self-sufficiency. This relatively recent history was particularly traumatic. During the war-time occupation by Germany, an estimated 200,000 people including 165,000 Jews, nearly the entire community and once the largest minority in Lithuania, were killed. After entering the USSR, in order to suppress dissention, about 350,000 Lithuanians were deported to Siberian labor camps. Most churches were closed, priests deported, and people were prosecuted for possessing religious images (Library of Congress, 1996).

In Senn (1990), the impact of absorption into the USSR was, not surprisingly, given as the dominant shaper of Lithuania's common viewpoint by the time Lithuania started down the return path toward independence in the late 1980's. Senn noted particularly that the people felt a strong disconnect between living memories and the official versions of history that were being written and taught. There was general aversion to the apparently systematic attempts to dismantle Lithuanian culture. In effect, the Lithuanian community believed they had been lied to consistently and systematically, that their culture and religion had been attacked and a program of Russification had been driven down their throats for 40 years. They sought a complete break from the system that had consistently and blatantly manipulated information and been the cause of massive deportations in the late 1940's and early 50's. In the 1980's, Senn went on, with the tide having turned in Moscow due to the reforms started by Gorbachev, a remorseless demand for change arose in Lithuania which led to eventual independence.

In a gravity model analysis of Baltic trade flows, Byers, Iscan and Lesser (2000) attempted to evaluate the economic impact of integration into the USSR on the

Baltic states. They found that, given the convergence with the Nordic countries during the interwar years, if the Baltic States had remained independent it would have been likely that their economic development would have continued on in an approximate parallel with that of Scandinavia. They found this was suggestive both of future trade patterns and of economic targets for policy makers. Yet an easy transition to renewed economic activity after 1990 was not immediately clear. In the early years, government was sometimes weak, and graft, corruption and crime were problematical. Navazelskis (1995) highlighted the general problem with the case of a journalist who was murdered as a consequence of his crime reporting. Clearly, such an environment was not conducive to long term stability and Reardon and Lazda (1993) emphasized that the post-Soviet economy required the development of sufficiently strong institutions to assure conditions conducive for stable market activity. This was especially so regarding the assurance of stable property rights and resolution of property rights disputes, as well as providing investors transparent access to the information needed to evaluate enterprise profitability. Furthermore, the region suffered from a decrepit infrastructure, especially in

communications and transportation. These issues have largely been resolved in Klaipėda although the city still considered its own utilization of IT technologies to be weak (Review, 2005). From our point of view as researchers, however, we found the e-government information services of Klaipėda and Lithuania to be already comparable to those of Cork and Ireland.

Within Lithuania today, Kuliesis, Nakrosis, Petkevicius and Radvilavicius (2003) indicated there are significant economic disparities between the major towns and rural areas. They ascribed these disparities to differences in access to transportation, services, qualified labor and the higher returns on investment that prevail in the towns, especial Vilnius, Kaunas and Klaipėda. Vilnius and Klaipėda were also identified in the national development plan as growth poles, while rural and border areas were characterized as having under-performing industries carried over from the Soviet period. These problems, Kuliesis, et al., continued, became more severe in the 1996-1999 period with the disparity in GDP between the richest and poorest regions increasing by 2.4 times. Interestingly, although Klaipėda was identified as a growth pole, between 1996 and 1997 its share of GDP actually decreased slightly from 12.4% to 11.9%. Despite this slight relative decline, it

remained comfortably above the national average and had lower than average unemployment. In the same period Vilnius and Kaunas increased their shares indicating that development was more concentrated in the capital region. In 2005 Klaipėda County GDP growth was 15.8%, at 11.7% of the national GDP, and GDP per capita grew 16.5% indicating that Klaipėda continues to hold its own against the growth on the Vilnius/Kaunas axis. Tourism was significantly higher in Klaipėda than in other parts of the country with over 500 visitor nights per 1000 residents in 1999 with Vilnius following with between 150 and 500. Again, this trend continues with Klaipėda County having 32% of overnight stays in Lithuania in 2005 which is almost 3600 visitor nights per 1000 residents. For Klaipėda Municipality the number had grown to 1400 visitor nights per 1000 residents. Kuliesis, et al., also gave the concentration of FDI for the same year showing 13.1% going to Klaipėda County (vs. 61% to Vilnius and 12.2% to Kaunas) and they noted that Klaipėda had a fortunate position because of the port and associated infrastructure, well-developed amenities, services and a skilled labor supply. For 2005, however, the percentage of FDI going to Klaipėda County had dropped to 9%, which still

represented a 24% increase over 2004.<sup>1</sup> Kuliesis, et al., concluded that the prospects for Klaipėda, as well as for Vilnius and Kaunas were comparatively good, but only in the urban and suburban areas of those counties. They noted that even in Vilnius County the rural areas continued to suffer from lack of infrastructure and qualified labor. There is also some degree of ethnic tension in Vilnius County, among other areas, particularly due to the large Polish representation in some rural local governments, although Beksta and Petkevicius (2000) wrote that, "the significance of these tensions should not be exaggerated; as a rule, a balance is achieved," (p. 187).

The legacy of the USSR is one that is hard for Lithuania and therefore Klaipėda to escape. Although the Baltic States are all now incorporated into the EU and NATO, there appears to be at least a suggestion of lingering imperial ambitions in the area on the part of Russia (Bilinsky, 2006). Relations have been strained in recent years, especially in matters of trade. Russia imposed, for example, what appear to be artificially high rates on freight shipments passing through its territory

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<sup>1</sup> Source, 2005 data: Statistics Lithuania, Klaipėda County 2005.  
<http://www.stat.gov.lt/en/catalog/viewfree/?id=1031>

into Lithuania which has resulted in a substantial reduction of freight arriving from Russian origins. There has also been a poorly explained delay in reopening the crude oil pipeline, closed for repairs, that supplies the oil refinery at Mazeikiu Nafta, a problem that arose after the refinery was sold to a Polish firm rather than the Russian bidder. So far, this has not strongly impacted the port's freight volume, but it does cloud the port's future should Russian policy continue to be one of protectionism and interference in open trade. This is particularly so because the Klaipėda State Seaport Authority reported that up to 80% of the goods transshipped arrived by rail and one of the Port's long term ambitions is to develop a high efficiency rail service between Klaipėda and Moscow. This obviously makes the impact of rate manipulation on the part of the Russians very significant. The country is also almost totally dependent on Russian supplies of petroleum, and attempts by Russia to manipulate markets can only be worrisome. Yet 2005 showed a 42.9% increase in exports to Russia and a 51.3% increase in imports from Russia which constituted 10.4% and 27.8% of Lithuania's respective totals.<sup>2</sup> Overall, the picture does not appear too dire.

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<sup>2</sup> Source: Lithuanian Economic Outlook, 2006. DnB Nord Bankas.

The Ministry of Economy (2002) considered Klaipėda, with its ice-free container port, to be, in addition to the rest of the transportation infrastructure including north-south as well as east-west corridors, one of the country's economic strengths. In that connection, the importance of developing the port's facilities to handle PANAMAX and BALTMAX ships was emphasized as was the development of modern logistics centers in Klaipėda, Kaunas and Vilnius. Completion of a cruise ship terminal for Klaipėda was also specified. Indeed, the ministry's specific strategies for Klaipėda were very much port and transportation oriented with its role in the trans-European networks and Baltic Sea logistics emphasized. In total, Kuliesis, et al., showed 9.6% of all state capital

investments going to Klaipėda in 2002, with only Kaunas and Vilnius receiving more, and more than 3 times greater than the next lower regional recipient. Lithuania today is still very much a converging country within the EU, but Figure 5 shows that its performance in some areas approaches that of Ireland and the EU-27 average. Research and development funding is lagging – as is Ireland's – long term unemployment is high, and labor productivity is low. On the other hand, academic achievement for the younger generation is high, overall employment is almost the average, and percent at risk of poverty is lower than Ireland's. Annual GDP growth is good, with a 45.2% increase over the 2000 – 2005 five year period.

Figure 5. Select Structural Indicators: LT, IE, EU-27; 2005

	<u>EU-27</u>	<u>LT</u>	<u>IE</u>
R&D expenditure, % of GDP	1.84%	0.76%	1.25%
Gross fixed capital formation, % GDP	-	18.9%	23.8%
Age 20-24 w/ secondary school	77.4%	87.8%	85.8%
Employment rate	63.4%	62.6%	67.6%
Employment rate, workers 55-64	42.2%	49.2%	51.6%
Long term unemployment	3.8%	4.3%	1.5%
At risk of poverty after social transfers (2004)	-	15.0%	21.0%
Price levels EU-25 =100	-	53.6	123.0
Labor Productivity per worker EU-25 =100	96.6	53.4	129.3
Volume of freight to GDP, indexed on 1995	-	125.4	146.0

Source: *Statistics Lithuania*

Factors allowing for the success of Klaipėda County that seem to underlie its current growing economy are the developed, multi-modal port that is integrated into European transit corridors, and perceived as a vital part of the country's transportation and industrial

infrastructure; a perception of consistent economic growth; large FDI inputs; and EU membership. In a similar vein to Fitz Gerald, discussing Ireland, below, there is an emphasis on labor and investment dynamics with implied advantage in open markets and business partnership. The Lithuania Development Agency has taken the approach of cooperative negotiation with foreign investors, noting that it is better to engage them than to fight them (fDi, 2006) and Klaipėda State Seaport Authority has signed an agreement with the Kaliningrad seaport administrator to co-ordinate operations (Land, 2002). These sorts of actions demonstrate awareness that honey catches more flies than vinegar and that the future lies in following regional perspectives.

### **Development perspectives**

Although cluster theory may not be fully and consistently defined, Lithuania has made some effort to encourage the development of clusters. The EU

Enterprise Directorate General (n.d.) wrote that in early 2003, even though there was no state level support policy for clusters, preparatory work to develop one was in process with attempts to identify nascent clusters and to encourage businesses to cooperate. The Enterprise DG saw Lithuania's policy position on cluster formation as following a bottom-up approach. The Ministry of Economy (2002) expressed a perceived need for Lithuania to foster cluster development in view of integration into the EU, the potential future markets in Russia and, perhaps primarily, in view of the desire to transition into a knowledge based economy. Frequent expressions of the need to further develop labor's professional qualifications and to provide a supporting institutional structure placed emphasis on the orientation toward becoming a, "society based on knowledge," (p. 26). The emphasis in Kuliesis, et al. (2003) was on the growth pole and cumulative causation concepts which they argued to be the best basis for public policy when resources are scarce. They apparently favored this approach to avoid less efficient infrastructure investments in low growth areas and argued instead that by investing in growth poles, allowing cumulative causation to have an impact, and fostering innovation which they described as the, "driving force

of competitive and comparative advantage," (p. 407) the result would be clustering. The suggestion seemed in effect to be that growth pole development is a precursor of clusters which, at the time of their writing, Lithuania could not hope to soon have. The clear presumption for the long term was that a rising tide eventually lifts all boats, but in the shorter term, a strong emphasis on a growth pole's cumulative causation effects can lead to considerable social and economic tensions between the advancing region and those others that are left behind.

Klaipėda is not alone on the eastern side of the Baltic as a potential major port and center of development. Vitunic (2003) saw Kaliningrad, a past source of tension between Lithuania and Russia, as a competitor port to the south. Its complex history of lingering military occupation with an aborted free trade zone plan, together with a location peripheral to the rest of Russia, changing border formalities and continuing diplomatic tensions left over from the Cold War and current economic issues, gives the area geopolitical significance. Yet it has been neglected by Moscow, according to the BBC, and waits for settlement of its status and rights, even as poverty and other concerns, notably environmental degradation, infectious diseases and black

market activities, have been serious and growing problems (Paulikas, 2005, March 26). Given the unsettled state the enclave is in, it seems possible that it is unlikely to quickly develop a strong, attractive set of economic advantages relative to Klaipėda and Lithuania. To the north, though, Latvia and Estonia are potential areas of economic interest. Riga in particular could be a major competitor since it is not only a significant port, but also is endowed with a strong university system and a larger potential labor supply. Latvia also offers investment advantages that are attractive to the same FDI that may consider Lithuania.

Looking at the geographic arrangement of the port itself, the port facilities stretch along the entire waterfront of the city and thus create a barrier that reduces the value of the city's location in terms of non-port real estate uses and city amenities. Klaipėda has expressed ambitions of developing itself into a major tourist center, but the State Seaport Authority remains oriented to the development of freight volume and does not consider use of city waterfront for tourist or residential uses optimal. The Seaport Authority and the stevedoring companies of the port invested nearly €600 million between 1993 and 2003, thus indicating an ongoing commitment to an industrial port facility (Klaipėda State Seaport Authority, n.d.).

## **Cork**

### **Historical perspective**

From independence until the 1950's Irish national policy was dominated by an approach that was both protectionist and held the rural ideal as a central image. This can be considered in view of the island's centuries long history of colonization by the United Kingdom that included a dramatic famine and massive emigration. Under UK control, the land prior to the early 1800's was largely owned by Protestant, and frequently absentee, landlords (Kennedy, 1988). Under such circumstances, it is easy to imagine that land for the Irish peasant would seem a distant dream of success and wealth, while foreign industry and economic power would be something to distrust. With a manufacturing class that never extended far beyond local urban significance, the agrarian idyll could easily become a central theme of Irish culture.

Kennedy (1988) also wrote that from the time of the 1845-7 Potato Famine to independence in 1921, the population declined by almost half, both through emigration and a trend toward later marriage and lower birth rates. This was a period in which agricultural economics were shifting production away from grain – for which Ireland is not well suited in

any case – to cattle. A compounding factor driving this shift was increased labor cost due to decline in population size which thus further favored low input and extensive cattle production over high input and intensive grain or produce crops. Irish farmers finally began acquiring ownership of the land they worked in the 1800's and the shift toward cattle also favored larger individual holdings. All of this had the effect of driving yet more people from the land and to emigration. With fewer, larger holdings, the age of inheritance increased yielding older average owners generally less open to technical innovation. "The changed practice in regard to marriage made for a cautious and conservative environment as a sizeable fraction of the land came to be held by ageing single farmers," (Kennedy, 1988, p. 7).

Even if a rural and traditional idyll had become a cherished symbol in Ireland, the surplus of labor might still have served to encourage industrial growth. Yet Kennedy (1988) wrote that, with the exception of the areas around Dublin and Belfast, the proportion of industrial employment remained among the lowest in Europe. In 1911, a total of only 13% were employed in industry in the 26 counties of present day Ireland, including Dublin. There was even, as Kennedy (1988) noted, "a minor industrial revolution," (p. 8) during a

period of prosperity and development which came in the late 18<sup>th</sup> and early 19<sup>th</sup> centuries. Cotton and linen textiles, ship building, tanning, iron foundling and other industries employed large numbers at that time and many cottage industries arose in support of this industrial growth. Provisions to eliminate all tariffs between the UK and Ireland by 1824 opened a large and wealthy market close to Irish enterprise. At about that time, however, textiles began to decline even though some other sectors managed to continue growing until the UK depression of the 1870's.

Kennedy reported that this decline resulted in a nationalist conviction that the removal of tariffs had interrupted Ireland's growth. Free trade creates as many economic opportunities as it does problems and even if certain industries were harmed, others might have made use of the new trade rules. This was not, apparently, the view of the nationalists. Suggesting there was no technical barrier to industrial development, Kennedy reported there was adequate local capital and the population was reasonably well educated so a transition to mechanized industry during the 1800's should therefore have been no greater a challenge in Ireland than elsewhere in the UK. Instead, according to Kennedy, local

capital looked to other investment opportunities and there was a tendency for the middle classes to seek the security of professional employment rather than entrepreneurial activities, "by no means an irrational response in a country that had suffered so many upheavals," (p. 10).

In the case of Belfast, however, economic and population growth remained strong. Contrasting that city with Cork, Kennedy reported that in 1821 Cork's population was three times that of Belfast, by 1900 the reverse was the case (p. 12). Kennedy found no adequate answer to the question of why Belfast should continue to grow while Dublin stagnated and Cork was ignored. Clearly, the existence of an industrial cluster, or at least agglomeration, attracted more capital to Belfast, but Cork has a great natural harbor, which Belfast does not, and is located in the richest agricultural area of Ireland. Although Kennedy makes no mention of it, it seems likely that a large factor in the concentration of investment in Belfast is connected to the fact that the Protestant population was concentrated in that area, while the south of Ireland was almost entirely Catholic. Lee (1989) suggested something of the sort by writing that in 1911 the Irish Protestants outnumbered Catholics in Ulster, which includes Belfast, 56% to 43%; in the

southern counties the Catholics outnumbered Protestants 91% to 9% (pp. 1-2). In both regions the Protestants held the Catholics to be an underclass and in Belfast, where most Protestants were working class, competition for jobs accentuated the division. Resistance among Protestants to home rule was expressed as fear of, "sheer incompetence inseparable from the government of an inferior breed," which was expressed in business terms in 1886 as an, "utter want of commercial confidence," (MacKnight, in Lee, p. 8) should there be an Irish parliament. From this, it seems clear there was little Protestant belief in Catholic Irish capacity to be productive or administratively competent and that was likely carried over into unwillingness to risk

investing where Catholicism was particularly strong.

Yet Ireland's per capita product did not fall behind the rest of Europe's through the 1800's. Figure 6 shows the ranks and per capita real products relative to the UK in 1913 and 1985. In 1913, Ireland was right in the middle of the 21 states considered and comfortably ahead of Japan and the USSR. By 1985, although it had gained slightly compared to the UK, it had slid to the 18<sup>th</sup> position overall. Clearly, relative to other developed countries, Ireland stagnated through most of the 20<sup>th</sup> century. Cork, within the context of the entire Irish economy, was not well positioned for growth.

Figure 6. Real product per capita, selected years and States, UK = 100

<i>Rank, State;1913</i>	<i>1913</i>	<i>1985</i>	<i>Rank, State;1985</i>	<i>1913</i>	<i>1985</i>
1 USA	122	152	1 USA	122	152
<b>2 United Kingdom</b>	<b>100</b>	<b>100</b>	2 Norway	52	128
3 Switzerland	91	123	3 Switzerland	91	123
4 Belgium	78	98	4 Sweden	59	116
5 Netherlands	78	104	5 Denmark	72	113
6 Denmark	72	113	6 West Germany	67	111
7 West Germany	67	111	7 Japan	30	108
8 France	65	107	8 France	65	107
9 Austria	64	99	9 Finland	46	105
1 Sweden	59	116	1 Netherlands	78	104
0			0		
1 Italy	56	99	<b>1 United Kingdom</b>	100	100
1			<b>1 Kingdom</b>		
<b>1 Ireland</b>	<b>55</b>	<b>62</b>	1 Austria	64	99
<b>2</b>			2		

1	Hungary	53	67	1	Italy	56	99
3				3			
1	Norway	52	128	1	Belgium	78	98
4				4			
1	Spain	49	70	1	USSR	37	72
5				5			
1	Finland	46	105	1	Spain	49	70
6				6			
1	USSR	37	72	1	Hungary	53	67
7				7			
1	Japan	30	108	<b>1</b>	<b>Ireland</b>	<b>55</b>	<b>62</b>
8				<b>8</b>			
1	Bulgaria	29	59	1	Bulgaria	29	59
9				9			
2	Greece	28	55	2	Greece	28	55
0				0			
2	Portugal	26	51	2	Portugal	26	51
1				1			

*Source: Kennedy 1988*

Be that as it may, the question still remains concerning why Cork, with its location, port, labor supply and rich agricultural hinterland, stagnated throughout the 19<sup>th</sup> century and most of the 20<sup>th</sup>. The factor of social conservatism bears more consideration. Beside Kennedy's (1988) above notes, Lee (1989), too, wrote variously of the Catholic Church in Ireland wielding considerable political power, from quickly claiming the right and duty to control Protestant consciences (p. 77) to effectively compelling politicians to accede to Church demands for censorship and restrictions on divorce (pp. 157-168). Politicians showed little desire to resist Church claims

on authority and were not hesitant to associate Church policy with their own when it suited them to do so. This enduring theme was highlighted in the 1940's when a proposed government social program was portrayed by its opponents as an activity better left to the Church and charity lest the patriarchal traditions of obedience be destroyed due to an excess of egalitarianism (p. 283-284). Along with a rural population where most land was held by older, small farmers and a history of dismissing the people's character, this vision of society and the Church, whether desired or not, suggests an outlook that was resistant to change and that repelled investment.

Kennedy (1988) wrote that for the first ten years of independence, the major economic policy was in fact one of agricultural improvement and free trade with the UK. Though the need for industrialization to absorb excess labor supply and to slow emigration was understood, soil was the only major natural resource, more than half of employment was in agriculture and 85% of exports were food and drink. Agricultural competitiveness was the overriding priority. Kennedy also noted that the Irish civil war had placed a premium on establishing stability and order. An attempt to dramatically industrialize the economy would be charting unfamiliar and risky economic territory. Unfortunately, during that first decade, as a consequence of the civil war, poor weather and declines in agricultural prices after WW I, the agricultural price index fell 44% between 1920 and 1922 and 62% by 1931 (p. 37). Not only did prices decline, but the area under cultivation dropped by 20% in the same period and actual output also declined. Despite the emphasis on agriculture, there were few government supports to raise efficiency or provide educational services; the government's policy was to not impose burdens, but also not to provide assistance.

With a new government in the 1930's, protectionist policies were instituted, but primarily to encourage production for home consumption, rather than for export (Kennedy 1988, p. 40). Kennedy wrote that de Valera, the in-coming Executive Council President, actually saw little prospect of establishing an export industry and expected the trade barriers to actually worsen conditions. A trade war began with the UK due to a separate question of land rents, the outcome of which was high taxes and tariffs on imports to Ireland along with rules that mandated 51% Irish ownership of new manufacturing companies including 2/3 of the shares with voting rights. This was all concurrent with the Great Depression and trade suffered accordingly. Kennedy reported that the 1930 volume of merchandise exports was not matched until 1960 and the ratio of exports to GNP was not matched until 1968. The trade war with the UK was settled in 1938, but WW II followed too quickly to allow much development due to war induced shortages of transportation and inputs, both for the agriculture and the manufacturing sectors.

Lee (1989) also noted that Ireland produced no influential radical right-wing peasant movements. There was no long-lasting agrarian political party and few farmers were elected to the Dáils. By

independence, the farmers were thoroughly market oriented and, "the fact that there was little significant difference between urban and rural mentalities precluded peasant backlash," (p. 72). The farmers simply never felt excluded from power. In fact, the urban influence was never overwhelming since rural Ireland was already highly politicized and contributed significantly to political party activities.

## Emigration

The level of emigration in Ireland has been a factor that has permeated the culture for more than 150 years. MacEinri (2001) wrote that after the Irish famine of the 1840s there was no sudden rebound in population size as is usually the case after such incidents. This was due to both high rates of emigration and a continuing shortage of land to support a rural population. The lack of land – wealth in a rural area – made marriage and children difficult and the marriage rate became the lowest known. MacEinri wrote that some commentators found this high emigration rate to be a necessary vent for social tensions in a very poor nation, but that more commentators bemoaned the declining population size. For MacEinri, it was primarily poverty together with a rigid, prudish and religious social structure

that drove Ireland's youth to emigrate.

From 1950-1980 Ireland began opening up to the larger world, especially after T.K. Whitaker's<sup>3</sup> 1958 call to end economic isolationism and to begin a policy of modernization, industrialization, export and attraction of foreign investment. The timing was opportune; the world economy was entering a boom period, a new Pope was reform minded and an Irish national television service was established. The consequence was an increase in urbanization, living standards, numbers of families, and a decrease in the average age of marriage and the rate of emigration. For the first time since the 1840's the population size increased and the 1970's actually showed net immigration, although the 18-25 year old cohort continued to have net emigration. The 1980's, however, brought a sharp economic reversal and massive public debt that was coincident with re-structuring within Irish industry and reform in the EU Common Agricultural Policy. The large cohorts born after 1960 then began to enter the labor market at a time when jobs were scarce and so emigration surged

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<sup>3</sup> Thomas Kenneth Whitaker, at age 39 appointed Secretary to the Department of Finance 1955-1969, among other notable roles in Irish affairs. His *Economic Development*, 1958, was a landmark document in Irish economic development.

once again. With membership in the EU, continental Europe became a major destination.

For MacEinri (2001) the impact of emigration was:

"the psychological effect of growing up in a country with few opportunities and less hope, where inheriting a farm or getting a permanent job were all-important, and where a prevailing inward-looking ethos, begrudgery and a lack of native capital, ensured early change was not likely" (sec. 4).

His concern was clearly that people were being driven from Ireland due to poverty and social intolerance and that this was an injustice. The perspective that they were simply voting with their feet, that they were pursuing opportunity where opportunity lay, was not compelling to him; he saw tragedy in a poor son of Ireland "forced" to move to England or the USA or other foreign parts. In the end, the problem he saw was the economic and social divergence of Ireland from the rest of the EU and the USA. He wrote with concern of the declining proportion of the world's wealth held in Europe, of urbanization, and of aging population; in short, he repeated the usual reactionary sense of unease that arises from the unavoidable requirement to change behavior in face of a changing environment. He further wrote, "among the realities which defined the social

landscape of Ireland between the Famine and the Fifties, two were central: high emigration, and a familial, rural culture, isolationist and Roman Catholic in inspiration and practice," MacEinri, P (1997). This, he went on, was followed by the urbanization and industrialization of the 1960's with the result that, "hegemonic rural discourse has all but disappeared and the grip of isolationist and fundamentalist Catholic thinking on Irish society has greatly weakened." The result is movement of Ireland toward a form that, "resembles, for better or for worse, other European societies," (¶ 1). In these passages, MacEinri gave a succinct summation of Irish history since before WW II until 2000. The role of emigration has clearly been significant in creating the Irish native's view of the world and, with entry into the EU, and increasingly with international trade, Ireland has seen a tremendous economic reversal that MacEinri described as coinciding with a radical change in social and demographic patterns. These changes were relatively fast as Ireland's development lagged for so long. We found the parallel with Lithuania's transition from a centrally planned economy to relatively open markets to be clear, albeit not as revolutionary. With only a little stretch of perspective, a comparison can be drawn between the economically stultifying effect

of the Church with that of the Communist Party. The difference, from a developmental point of view, is that the break with the Communist Party was sharp and enthusiastic whereas the Church and nostalgia continue to have significant influence in Ireland.

### **Development perspectives**

As an indirect measure of the business and commercial environment in Ireland, we can consider the emphasis that has been placed on business education in the university. Roche (1997) wrote of how the field, prior to the 1960's, was very much neglected in Ireland to the point that there were very few academic articles published and university faculties of business were largely directed by economists who considered business mere bookkeeping and routine administration. Roche added that there was little demand for more than this from an Irish market that had been protected since national independence and dominated by small enterprises that were not much interested in new business ideas.

This began to change in the 1960's simultaneously with the reduction in trade protection and the pursuit of international trade. Roche wrote that there was a rapid upgrading of academic programs to match

international standards and much of this change was enabled through the support of banks and the major Irish and multinational corporations which valued access to business graduates. If, then, we look at the evolution of business education in Ireland, it appears it was largely moribund until the sixties when trade barriers were significantly reduced and the demand for greater efficiency in business management suddenly grew. But Roche also wrote that despite this maturing and expansion of university business departments, there was still little published research and, instead, there was a tendency to depend on material published elsewhere, especially in the USA, with only minor and empirical attempts to adapt it to the Irish situation. There was also, according to Roche, an apparent tendency at the time of his writing to adopt the solutions of business gurus and pundits. He noted particularly, "the adoption by the Culliton Committee of an off-the-peg Porterian cluster strategy as a guide to Irish industrial policy," (pp. 82-83). This is an easy approach for policy writers to follow, especially where a particular model has become a catch-all solution. It shows a tendency to confuse the model with the desired outcome and becomes, itself, a sort of lock-in that may hinder innovation as much as help it. At the same time, it is difficult to write policy papers that

acknowledge the power of a model without seeming to give the model precedence, or to frame implementation strategies. On the other hand, Roche's demand for an Irish interpretation resonates with nationalist belief in local exceptionalism, the idea that 'we' are different from 'them' and it is important to maintain the distinction. In the end, what actually happens in the field is a function of the actors – including, of course, the policy makers – and their ability to innovate in many adaptive, and often indirect, ways.

By 1981, *The Economist* (1981) reported that Ireland's economic transition was already well underway listing it as one of the top producers of microelectronic components and pharmaceutical chemicals as a result of attracting corporate investment. The attraction of Ireland was described as being due to a low labor cost location within the EU where labor was educated to Anglo-American standards, labor unions were weak and labor retained a, "sense of personal responsibility," (¶ 2). *The Economist* listed policy incentives as well: The Irish Development Authority (IDA) arranged for low cost sites; investment grants of up to 50%; free employee training programs; and a very favorable tax structure. These incentives started with the Shannon custom-free

zone in the early 1950's, and included a concession that initially removed export profit taxes on any foreign firm investing before 1980. It then offered a maximum tax rate of 10% guaranteed until 2000, with reductions for investment and research expenditures. The result was 14,000 jobs in 70 plants mostly after 1975. *The Economist* also reported that Ireland even exploited its own lack of development "by offering juicy contracts for the work" of rebuilding its telecommunications system into a state of the art network, (¶ 7). Concurrently, there was a dramatic decline in old industries, particularly clothing and footwear, which had survived from the days of protected home markets. The recession of the early 1980's was seen as accelerating the demise of the old industries without causing much problem for the newer, high-tech ones.

In *The Financial Times*, Snoddy (1983) reported on a small microelectronics research and training institute, concerned at that time, that the Irish economy might not be able to absorb its small group of graduates. This, despite a reported growth of the Irish industry from 30 consumer electronics companies in 1972 with 5,000 jobs to the then current 250 companies with 22,000 jobs in a little over 10 years. The scarcity of positions for the institute's

graduates was ascribed, Snoddy wrote, to a need to move from just assembly plants to local research and development. Such a transition was then still in its early stages. Also in *The Financial Times*, Keenan (1984) reported that in Cork, Ford did not respond to the Irish Development Authority efforts to persuade the company, which had operated for 67 years, to maintain its operation there. This was at the same time that the Dunlop plant closed and the Vorolme dockyard experienced layoffs; Keenan gave a local unemployment rate estimation of 20%. Again in *The Financial Times*, Buchan (1984) reported that the Tungsum subsidiary in Cork was closing. These reports together suggest an economy in transition where traditional manufacturing jobs were in decline, but were being replaced by emerging technology jobs. Yet the development of local research and development was still weak.

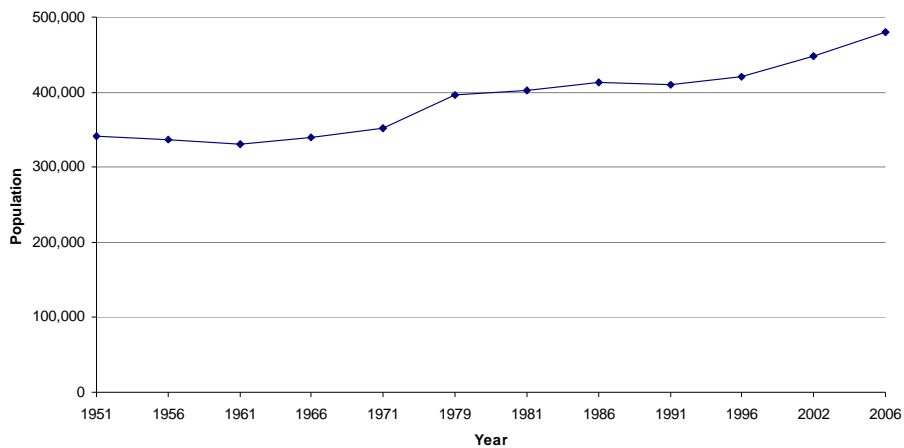
Despite any set-backs and slow paced

development, the impression should not be that Cork's economy was completely failing. [Moloney and O'Sullivan \(2004\)](#), for instance, wrote that:

many of the changes particularly those infrastructural changes, which have had such positive influences on the local economy, have stemmed from the long term strategic planning of Cork City Council, notably in the landmark Land Use and Transportation Study (1978). The implementation of the Study's proposals has made Cork a much more economically vibrant and a tourist friendly location (p. 7).

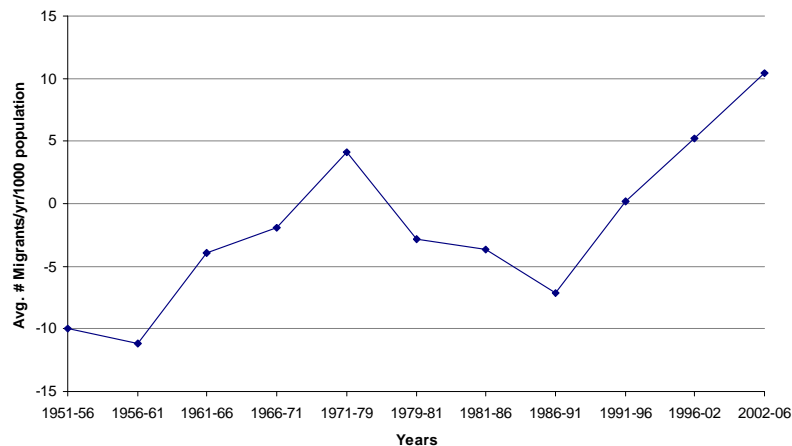
It is also notable that the population of Cork County has shown modest, but steady growth after WW II, as can be seen in figure 7. Such a curve could be the result of natural growth, but figure 8 shows that, with some ups and downs, the trend in Cork County over the same period has been from net out-migration in the 1950's to net in-migration after the mid 1990's.

Figure 7. Population change, Cork County, IE, 1951 – 2006



Source: Central Statistics Office Ireland

Figure 8. Average net migration rates, Cork County, IE, 1951 - 2006



Source: Central Statistics Office Ireland

A similar story was told by Nolan, O'Connell and Whelen (2000) that described the economic, "shift from a relatively poor, inward looking agricultural society incapable of sustaining its population, to a prosperous industrial, or even post-industrial, society," (p. 340). This is a bit in contrast to Lithuania which

was a breadbasket for the USSR and had a socialist support system that was lacking in Ireland. A demographic similarity, though, is that as soon as economic opportunity abroad was a realistic alternative, people from both countries immediately voted with their feet. Nolan, et al., noted that in Ireland pessimism was

the general outlook at the end of the 1980s with unemployment, state fiscal crisis, and emigration as dominant issues in a slow economy, but they also held that the foundation for growth had been already started in the 1960s and only began to be realized in the 1990s. They pointed out that for small countries foreign trade is particularly important and it was only after Ireland opened its markets and reduced its dependency on the UK that significant growth was possible. The parallel here to Lithuania is striking considering its former close tie to the USSR and a stagnating economy prior to 1990 which was followed by the opening of markets and the current pattern of rapid growth. For Nolan, et al., the Irish strategy after 1960 of pursuing FDI was a crucial ingredient in Ireland's economic success, and they considered that critical mass was by 2000 being reached in some sectors, but they also noted that the increased wealth was not evenly distributed.

Additional explanation for why Cork and Ireland prospered after 1990 was provided by Fitz Gerald (2000) who wrote that there was actually a sense of bemusement at the country's change of fortunes, a change that he argued is not temporary and is more than merely a response to the opening of markets. Economic policy alone

is not enough to explain the transition, he argued, it is also necessary to consider the cultural and social environment. This is intuitively sensible, and thus we have devoted much space in drawing a picture of the Irish milieu leading up to the recent period of growth. Fitz Gerald gave five elements that he considered particularly significant: labor migration enabled a dynamic labor market; the persistence in Ireland of a younger labor pool; the encouragement of FDI was crucial; but failure to develop the educational system was a glaring mistake; and fiscal policy mistakes slowed convergence, although, "the partnership approach to policy formation since the 1980s," (p. 29) facilitated growth. In the end, he gave cultural change as the single most important factor, followed by consistent industrial and educational strategies. However, it seems that any consistency in industrial policy must be ascribed to the IDA's persistence in courting FDI and low corporate tax rates.

Fitzgerald and Girvin (2000), too, stressed the centrality of culture and wrote that, "Irish political culture is normally associated with [...] nationalism, religion, the land, authoritarianism and patriarchy," (p. 271) "with the role of women firmly proscribed," (p. 272). Their assessment of Ireland's policy approach from

independence on is particularly harsh. They argued that the reforms beginning in the 1960s were entirely defensive attempts to protect Irish markets in the UK rather than concerted, progressive action to develop a modern, knowledge and market driven economy. Domestic Irish industry, they continued, resisted the transition to an export oriented economy, preferring to rely on state protections, and there was continuing dependency on agriculture at a time when that sector was shedding jobs. Overall, they concluded that although external influences were driving Ireland toward an export oriented market economy, internal cultural values were a persistent brake on reforms and development. Lee (1989) summed it up this way: "it is at the human level that the solution to the mystery of the mediocrity of the Irish socio-economic performance seems likely to lie," (p. 528). So despite the recent economic growth pattern that is held in admiration, growth has occurred over a much longer period than was necessary, especially if it is compared to other small, peripheral European countries that were more willing to adopt cooperatively liberal cultural values earlier. Small countries must ordinarily depend on the intelligence of their people for success, Lee (1989) suggested, and the Irish, relative to other small European countries, did not, "develop the talent to effectively

harness their individual talents for collective purposes," (p. 638). In short, the miracle of Ireland, and thus of Cork, is that growth occurred despite a cultural burden that militated against growth. Lee (1989) expressing a despair perhaps only a native can feel, wrote that it, "was not due to any lack of concern with material gain [but if Irish] values be deemed spiritual, then spirituality must be defined as covetousness tempered only by sloth," (p. 522). The moral for Lithuania is that if it wishes to optimize its development, it must be willing to maintain and enhance a liberal and non-nationalist policy approach that rewards intelligence and prevents institutional lock-in. The relatively clean cut with the past achieved upon reacquiring independence provided an unusual opportunity to shape institutions that may not be entirely closed even yet, despite accession to the EU.

### **Current trends**

The Cork City Council website (<http://www.corkcorp.ie/aboutcork>) highlights the fact that the city is a port by stressing its motto, *Statio Bene Fide Carinis* – a safe harbor for ships. The city is located in southwest Ireland and the city proper is the country's second largest with a population of about 123,000. However, the metropolitan area has a population of almost 260,000 and while

the city proper has had a declining population since the 1970's, both the city center and the metropolitan area have been growing (Cork City Council 2002). In terms of transport, the city's natural harbor is the deepest in Ireland and provides bulk and container services, cruise ship facilities and there are direct ferry connections to the UK and mainland Europe. The airport provides direct flights to the UK and other parts of Europe, but direct rail and road connections are limited, of course, to Dublin and the rest of the island. The road connections are mostly of the two lane national primary type. Industries particularly represented are, electronics, telecommunications, ICT, health and pharmaceuticals. Two universities in the city support more than 25,000 students, [University College Cork](#) and [Cork Institute of Technology](#). The city also claims the following favorable business conditions on its Strategic Cork website

(<http://www.corkcorp.ie/strategiccorkguide/>):

- Stable public finances
- Sustained and significant investment in education
- Wage moderation through social partnership
- Precise targeting of overseas industries and market sectors
- Corporation tax of 12.5%
- Membership of the European Monetary Union
- Rapid expansion of labour force through population growth and

increased participation (City Strategy/the Big Picture)

Cork is also labeled a gateway city in Ireland's National Spatial Strategy 2002-2020 (NSS), further highlighting its national importance, and it is considered an important economic cluster that should be fostered for future expansion.

Looking at the larger region, Brunt, Moloney and Garner (2001) gave the strengths of southwest Ireland as a strong agricultural base with well developed local food processing, strong tourist infrastructure, an educated and skilled workforce supported by well developed educational institutions with established R&D links to local industry, transportation infrastructure for passengers and freight in Cork, prominence of multi-national corporations in a number of sectors and the City of Cork itself as the second largest urban area in Ireland. For weaknesses, these authors noted peripherality, rapid decline of the agricultural sector, inadequate communications infrastructure, low levels of local industry R&D, over dependence on direct foreign investment, underdeveloped roadway system, remaining areas of rural and urban poverty, ageing rural populations and inadequate wastewater treatment.

The NSS lists Cork as one of Ireland's important clusters of economic activity to

be encouraged toward further expansion with an emphasis on technology intensive activities. Toward that end, the NSS called for the Irish development agency, Enterprise Ireland, and the agency created to attract foreign investment, the Industrial Development Agency Ireland (IDA), to implement development policies that:

- Strategically reserve land for industrial development
- Streamline planning in and around gateway cities
- Bolster local research and development with an emphasis on university level facilities
- Assure access to international markets including labor mobility, particularly through the development of communications and transport infrastructure
- Foster cross-border cooperation, specifically with Northern Ireland
- Encourage expansion of e-business and an information based society. (NSS, pp. 98-99)

Although the current period of growth in Cork and Ireland has its roots in the 1960's, it has only been since the late 1980's that the growth has resulted in the "Celtic Tiger." Burnham (2003) illustrated this by pointing out the 14 years of growth up to the end of 2000 with some years of 10% annual growth rates, one of the lowest European unemployment rates, low inflation, and government budget surpluses. This was a dramatic change from the conditions in the early 1980's where unemployment was at 17%,

emigration was again high, and public finances were in very poor shape; a situation he described as having arisen from protectionist policy with, "increasingly perverse results," (p. 538). Interestingly, Burnham suggested that Ireland's good economic fortune since the 1990's was not due to an especially strong, overarching plan of market-oriented policies instituted as a cure for the conditions of the 1950's. Instead, he argued that the success was coincident with ad hoc development policies instituted by various governments and the IDA within the context of positive external economic conditions. In particular, Burnham ascribed the successes of the 1990's to a then new government's achievement of implementing some government limits, tax reforms, and labor union management. These steps established a positive business image for Ireland and helped to create investor confidence at a time when there had even been talk of resorting to the IMF for assistance.

Up until the 1980's Ireland's telecommunications system was famously inadequate with slow erratic service, outdated equipment and very high charges with questionable billing procedures. Burnham (2003) wrote that the issue became a matter considered by the Dail and foreign investors were

grumbling loudly. The government chose to move the system into an independent government enterprise in 1980 that became self-financing in 1984. This strategy was highly successful which may have been due to the intelligent control of a businessman, Michael Smurfit, and his choice of a senior IBM manager as CEO, rather than to the particular strategy itself. The early emphasis was on improving international service and reducing the cost, thus satisfying the needs of firms involved in external trade. By the end of the 1980's the service was a European telecommunications leader, but the company thereafter displayed less innovation and fell behind other European providers when Smurfit left in 1991 (Burnham, 2003).

The change of the telecommunications system to a self-financing operation was not by itself a sea-change in the thinking of the government; it was initially still a central government monopoly. In 1985, however the air route from Dublin to London was fully decontrolled, thus exposing the state airline, Aer Lingus, to competition on that route. The result was an immediate and dramatic reduction in the cost of travel between Ireland and the UK not only by air, but by sea as well (Burnham, 2003). Burnham reported that this resulted in an additional £560 million

of earnings from tourism and 25,000 new jobs while business found the cost of developing markets on both sides of the Irish Sea to be much reduced. Also at this time there was a national push to fund technical colleges and increase the number of especially electrical engineering and IT graduates. The result by 1993 was the highest proportion of such graduates in the 25-34 year old cohort of any OECD country (Burnham, 2003). A final factor was an extension of eligibility for the 10% corporate tax rate.

Burnham (2003) saw three sources for the growth: pre-existing conditions; state policies; and external events. Of pre-existing conditions he noted the high birthrates that produced a young population, many of whom emigrated, gained experience and returned when the economy improved. Openness to FDI, together with language and legal systems in common with the US was also a factor. Critical policy was the use of low taxes; an emphasis on technical education; the revamping of telecommunications; and sound state fiscal controls after 1987. Burnham wrote that the success of the IDA is controversial, but argued that at a minimum it served as a constant lobbyist to advocate for development policies. Yet another factor that Burnham emphasized as a reason why Ireland was especially

fortunate in the 1990's was the juncture of its young, educated, low cost labor force, its aggressive modernization of its telecommunications system, and the rise of digital transmission of data and services – a sort of realization of Cairncross's "Death of Distance," (Burnham, 2003 p. 553).

Whether Klaipėda can find a similar favorable juncture of both resources and emerging economic trends remains open. The current net emigration and low birthrates with an aging population may make a repetition of the Cork and Irish experience difficult. Yet Lithuania's more cosmopolitan position may allow the attraction of talent, just as Ireland has attracted its own expatriates and others.

Egeraat (2006) investigated the development of the pharmaceuticals industry in Ireland, for which Cork is a major center, and found that the concentration in Cork was largely due to a number of development policy decisions at both the national and local levels. Cork became a national focus for development in the late 1960's and 1970's in an effort to expand economic activities outside the Dublin area. The IDA and the Cork Harbour Commissioners cooperated to develop the harbor area as a major industrial zone and the Ringskiddy area of

the port was, "to be specifically developed for deep-water industries requiring large volumes of water and adequate facilities for large-scale effluent disposal," (p. 14). Even with the rather lax environmental standards of the day, some effort to moderate effluent impact was necessary and the tidal flushing of the Cork estuary allowed easy dilution. Egeraat indicated that Pfizer would not have located its pharmaceutical operation in Cork in 1972 if it hadn't been allowed to dump untreated effluent into the harbor, although he also indicated there was evidence that Cork was at the time actually one of the stricter counties concerning pollution. He also noted that Cork was attractive to further pharmaceutical investments because of the County Council's decision to provide the largest capacity of processed water in the nation and because of the availability of sufficient electric power. The IDA was also successfully aggressive in pitching the location for further pharmaceutical investments using especially the tactic of reference selling – using existing flagship firms to attract the interest of new firms. Between 1975 and 1986, six out of the ten new pharmaceutical operations in Ireland located in Cork harbor thus establishing it as the center of that industry in Ireland.

Was this concentration therefore an indication of a cluster? Egeraat (2006)

noted that despite the development of a number of pharmaceutical operations in Cork, they were producers of drug substances rather than drug products. Very little of their material inputs were locally produced and very little of their outputs were locally consumed; a situation that continued to the time of his writing. Egeraat also described the plants in the 1970's and 80's as having, "a strong branch-plant character, with limited functionality other than bulk manufacturing," (p. 16). Research and development occurred in the firms' home areas and firm headquarters functions were absent. He found little evidence of small local firms servicing the pharmaceutical plants nor was the choice of Cork driven by a particularly qualified pool of labor. Most of the workplaces were for operators requiring only modest skills and the demand for engineers and chemists, according to Egeraat, was for qualified rather than specialized professionals. There was an increase in the number of engineering firms supplying services to the pharmaceutical sector, without necessarily specializing in it, and due to the nature of their services, location of engineering providers and customers was of little importance. Looking at the specific pharmaceutical area of biotechnology, Hobbs, Moloney and Walsh (2006) also found that no

cluster existed, but that some cluster elements were present. These elements were the large firms, some in Cork for over 30 years, relevant research and education, new spin-offs from University College Cork and government support through IDA and other agencies. All are suggestive of cluster development, but Hobbs, et al., still found a lack of sufficient interactions, linkages and collaboration to justify calling the emerging biotechnology sector a cluster. The strong presence of multi-national firms and the low number of indigenous Irish firms active in international markets were also seen by some (e.g. Doyle and Fanning, 2007) as casting doubt on the application of the cluster concept for Ireland, but Burnham (2003) saw the multi-nationals as providing encouragement for other FDI and thus lending toward the development of clusters.

Interestingly, in Egeraat's (2006) survey of the pharmaceutical industry in Ireland, he reported that the primary issue driving plant site choice was it having sufficient infrastructure to support the plant, first, and then availability of labor skills plus proximity to a third-level educational facility. This would appear to suggest that in Cork, the port, by itself as a transportation facility, was not considered of first level importance. Even so, material

inputs for the industry continue to be imported, bulk output continues to be exported and the Irish National Spatial Strategy, 2002-2020 emphasizes large industrial development in the designated gateway cities of Ireland, many of which have closely associated port facilities. Clearly, in the responses Egeraat received, the issue of transportation was of lower priority in site selection, which probably reflects either the low cost of any additional transport required by a site distant from a port, or the inescapable dominance of needing adequate infrastructure and labor supply, or both.

In the case of Cork, then, it seems that the significance of the port facility was that it was perceived by local and state authorities as an appropriate area for intense industrial development, whether or not sea transportation would actually be especially important to investors or even much utilized. Fujita and Mori (1996) modeled seaport development, and found that agglomeration economies and transport hub effects can explain city growth even when the access to water becomes economically irrelevant. They also found that once a city is established, self-reinforcing effects lead to its continued development and that, given a core and periphery structure, as in Ireland and Lithuania, improved transportation

links can lead to further concentration of economic activity in the core. Such a model can help explain the current dynamics observed in Ireland, with the sharp focus on Dublin and secondarily on Cork with failure of other cities to much develop, and it may suggest that the similar pattern in Lithuania between the Vilnius-Kaunas pair and Klaipėda is likely to continue.

### **Role of port facilities**

Cork has long been a significant Irish port and point of connection to the outside world. The port's export traffic in 1954 was described by Horgan, (1955) as primarily agricultural products to the UK and he gave details of the livestock trade in particular. There was also a considerable passenger trade with several services connecting Cork specifically with the USA, the UK, France, Germany and the Netherlands. Horgan indicated there were 177 trans-Atlantic liner visits in 1954. This volume of traffic, combined with the increasing size of post-war commercial vessels led the port commissioners to start a harbor modernization consisting of lengthening quays and dredging channels. There was still no regular air service to the city in 1954 which Horgan saw as the grounds for a crucial need to have a trans-Atlantic port since he apparently had little

expectation that air service would ever be very significant. He expressed considerable concern that the passenger terminal in Cove (Cobh) had been neglected for many years and presented a poor gateway to the city and Ireland, despite landing 11,000 passengers in 1954. But he did not advocate the development of quays at which ocean liners could come alongside, preferring to continue the use of the old tender service. He also preferred keeping the main goods quays in the upper harbor although, at the time of his writing, the Cork lower harbor had been selected for an Irish Oil Refinery the building of which was to soon start.<sup>4</sup> He gave major imports of 844,000 tons in 1954, of which 36% was coal, 19% was cereals and feed stuff, 13% oil, 10% fertilizers and the rest in various commodities. The 72,000 tons of major exports were composed of 19% meat, 17% milk crumb, 13% steel, and 8% chocolate crumb. The rest were various commodities that were for the most part agricultural. Additionally 38,000 live animals, mostly cattle, were exported.

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<sup>4</sup> The Port of Cork reported that oil traffic constituted 57.3% of throughput in 2006 (2007.04.20 from, <http://www.portofcork.ie/news-events.aspx?id=58>). The Irish Examiner, March 9, 1998 reported the refinery to be the port's largest single customer with 737 ships in 1997 (2007.04.20 from, <http://archives.tcm.ie/irishexaminer/1998/03/09/bhead.htm>).

These goods flows indicate the degree to which the area was agricultural or devoted to food processing.

Moloney (2004), writing of the present day, described the Port of Cork as, "the key seaport in the south of Ireland and is one of only two Irish ports (the other being Dublin) with the capability to handle all five shipping modes: lift-on, lift-off; roll-on, roll-off; dry bulk; liquid bulk; and break bulk," (p. 1). From that description, it is not clear what sort of cargo he considered passengers to be, but ferry and cruise ship traffic, as it was in 1954, is a significant part of port activities in Cork. Moloney and O'Sullivan (2004) explained that, "Cork is fortunate in its location. Its position makes it an attractive option as a port of call for cruises to and from the Baltic, Mediterranean and the Caribbean as well as being favourably located for transatlantic cruise traffic," (p. 28). After the decline of passenger ships in favor of airlines, such activity ceased for some years in Cork. With the recent emergence of the cruise tourist industry, however, the Port of Cork targeted cruise ship activity starting in 1990 and, by 2003, 31 cruise ships brought 23,000 passengers and 11,500 crew generating €19.8 million additional spending and 149 full time equivalent jobs. Much of the spending was outside the city itself and Moloney and

O'Sullivan saw potential for increasing the number of trips into the city. The Port of Cork helped to achieve this growth by building a facility that is specifically for cruise ships. This is adjacent to the Cobh Heritage Centre in the town of Cobh within the Cork metro area and the traditional point of embarkation for passengers from Cork. This facility can now handle all but the largest cruise ships, which can, if necessary, be handled at the Ringaskiddy Deepwater Terminal. Smaller ships can go further up the river to berth at the old City Quays in the center of Cork itself.

Tourism has been a growth industry for some time, albeit one somewhat sensitive to economic and political events, but Europe consistently has been a predominant tourist destination and tourist expenditures have grown faster than the arrival numbers. Moloney and O'Sullivan reported that, in 2003, 8.6% of the Irish workforce was in the tourist industry. They also indicated that much of Irish tourism is to rural areas with Cork City enjoying only 10% of the Cork and Kerry Counties regional activity. However, this activity was valued at €323.9 million in 2003 (p. 23) divided among 70% holidays, 11% business, 14% family and 5% academic. Of the holiday type of tourism in Ireland, about 50% is related to cultural and heritage attractions and in the Cork area,

Blarney Castle had 29% of all such visits. Cork also had 53 days of organized festivals in 2002 which attracted about 98,000 visitors and directly generated €14 million of spending or about 8.3% of the city's tourism revenue for that year.

Moloney and O'Sullivan also noted that in Cork about half of tourist spending was generated from domestic tourists, including day visitors, and suggested such impact should also be considered. Overall, they gave the contribution of tourism to the Cork metro area, direct and indirect, as an estimated €404.3 million and 2,964 full time equivalent jobs, with the food and beverage, transport and retail sectors gaining the most. Thus the port tourism constitutes ~5% of the local tourist activity. Even if a relatively small percentage, one can reasonably expect that there is an additional positive effect due to its services and the enhanced attraction of the port for tourists, regardless of the mode by which they arrived. Moloney (2004) estimated that, "despite the fact that the duration of a cruise visitor's stay is shorter than that of the average tourist and that cruise visitors do not by definition avail themselves of local accommodation, the average daily contribution of the cruise liner tourist is over seven times that of the average foreign tourist visitor to this country,"

(p.1).

Figure 9. Cruise Liner Traffic at the Port of Cork

<i>Year</i>	<i>No. of Passengers</i>	<i>No. of Crew</i>
1990	4,475	1,945
1995	10,000	4,700
2001	16,125	8,869
2002	19,800	10,197
2003	22,973	11,520

*Source: Moloney, R. (2004)*

Promotion of the port as a cruise destination began just as Northern Europe was emerging as a large cruise market and figure 9 shows the expansion of annual visits between 1990 and 2003. Maloney (2004) reported that the average cruise passenger was older and had greater spending power than average regional tourist with resulting greater impact. Even though the size of the induced effect is of course difficult to gauge, the presence of cruise ships and the businesses that serve them helps to make a city a more diverse and consequently exciting tourist destination.

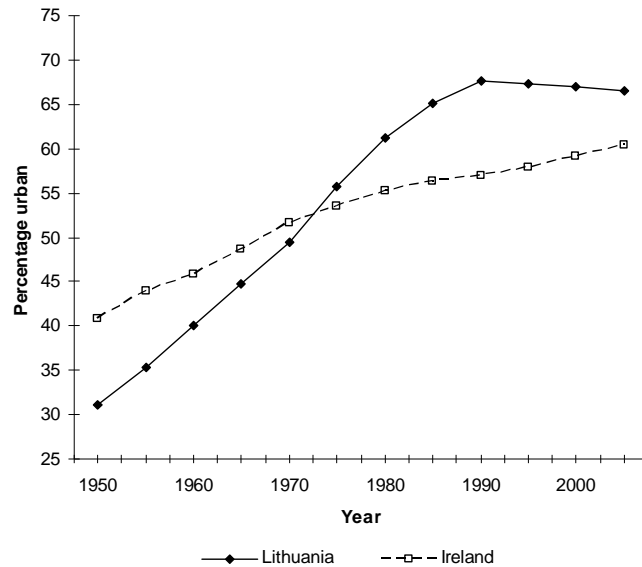
### **Parallels and dissimilarities between Ireland and Lithuania**

Treanor (2002), in a specific comparison of Lithuania and Ireland, noted their similarity of size, overall population and their post WW I independence. Low population densities in both countries and

the lack of overlapping commuter zones are suggestive of classic central place theory and nationalist thinking in both nations has tended to center on rural idylls while viewing urban areas as undermining national purity. Their population trends, however differ somewhat. Figure 10 shows that Ireland's urbanization, at 60% is now the lower of the two although consistently climbing; in 1950 it was higher at about 41% vs. Lithuania's then 31%. In 2005 Lithuania was at 67% urban population which was a slight decline from a peak around 1990. Treanor, however, argued that the urbanization figures for Ireland are deceptively low because much of Ireland has become suburbanized, i.e., people are living in low density areas surrounding urban concentrations. In Lithuania, by contrast, Soviet industrialization policies, tended to force urbanization, and involved migrations of laborers from other Soviet republics, thus stimulating rural-nationalist feelings. These policies emphasized development in large

urban areas and also the redistribution of people from isolated farms into towns.

Figure 10. Urbanization in Ireland and Lithuania, 1950-2005



Data: UN Dept. of Economic and Social Affairs

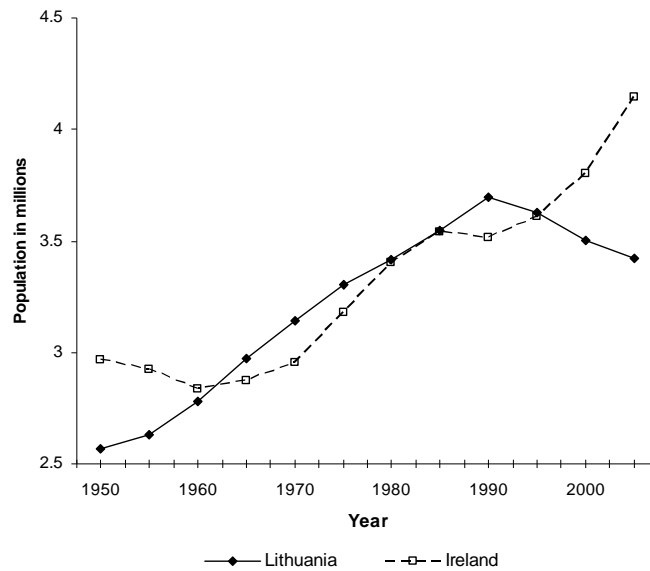
Figure 11 shows population change in the two countries over the same period with the curve for Ireland indicating the tail end of Ireland's long era of population decline which, around 1960, then turned to sharp increase with only a slight stutter in the 1980's. Lithuania's population, on the other hand, showed a steady increase until 1990 and decline since. For both countries, the UN population forecast through 2050 showed continuous increase for Ireland and continuous decrease for Lithuania. The forecast for urbanization showed both countries converging on 70% in 2030. Should these forecasts prove accurate, it is clear that growth of the total size of Lithuania's economy will have to occur despite a shrinking labor force. However, this current dip in population

size may not be a reliable trend if there is rapid workplace growth and policies that encourage high immigration are adopted. Just as Ireland's population rapidly increased after its economic policy changes in the 1960's, so could a similar reversal develop in Lithuania. The current downward trend in Lithuania's population is due in part to emigration and in part to an aging population, and since the rate of urbanization has flattened, there is little near term likelihood of significant growth of urban centers. The population growth and urbanization trends shown in Ireland since 1960 indicates that while Cork has been and will continue to be a growing city, Klaipėda may not have the same

potential for an expanding labor force. This could be a significant constraint on the growth of the total size of Klaipėda's

economy, but not necessarily on the per capita GDP.

Figure 11. Population Ireland and Lithuania, 1950-2005



Data: UN Dept. of Economic and Social Affairs

There are other differences which can also be considered significant. Lithuania was a front line of WW II with a level of violence greatly exceeding, and much more recent, than the Irish civil war, while Ireland has remained neutral and was largely exempt from the horrors of the 1940's. Furthermore, Lithuania shifted from independence to occupation and back in several successions (Treanor 2002). Rather than being negative factors, these two conditions can be understood as advantages for Lithuania in comparison to Ireland in that opening up to foreign trade and economic involvement may be less difficult given the familiarity arising from

Lithuania's more complex and more recent cultural and economic relations with the rest of Europe. The possibility of defensive retreat into isolationism is, of course, a possibility, but this does not seem to be as strong a current in Lithuania today as it was in Ireland between 1930 and 1963. Treanor also identified several other noteworthy differences. During the period in which Lithuania was a part of the USSR, industrialization policy was a force that accelerated urbanization (see figure 10) and Treanor ascribed the slight decrease in urbanization after 1990 to the emigration of ethnic Russians. Lithuania is also ethnically more heterogeneous than is

Ireland with some towns that are as much as 80% non-Lithuanian and governments that have been Russian, Polish and German within living memory. Lithuania also has had significant intermixing of Jews, further differentiating it from relatively homogeneous Ireland and suggesting a society more open to the possibilities of differences. Yet another distinction is that the capital, Vilnius, and the second largest city in Lithuania, Kaunas, are relatively close to each other and inland leaving Klaipėda as the only significant port, while Cork must compete as a port in Ireland with Dublin and other smaller cities. Thus Klaipėda again has an advantage. A last difference identified by Treanor is that Lithuania, and consequently Klaipėda, has direct, cross-border land connections to more near-by urban centers. In that sense, however, that also brings the Port of Klaipėda into competition with other ports.

### **Current trend in Klaipėda**

As should be clear from the preceding material, it is much more reasonable to discuss Klaipėda and Cork with consideration to the countries within which they are located. Both cities are small by

modern standards and somewhat distant from their capitals and the main development regions of their countries. While reports of the death of distance may be somewhat exaggerated, it is certainly true that distance is a far lower barrier than it once was. In terms of cluster development, the appropriate context for these cities is much more regional than mono-centric. In Ireland, where a potential pharmaceutical company may have infrastructure requirements as its primary criterion for choosing a plant site, the smallness of the country means that all pharmaceutical firms will nevertheless be quite aware of each others' innovations. Likewise, logistics firms may be located in both in Klaipėda and Vilnius, but Lithuania is small enough that logistical innovation in one part cannot be ignored in another. The perspective expressed by the Klaipėda Economic Development Agency that Klaipėda's natural development region encompasses the entire coastal area of Lithuania and extends even to Kaliningrad and Riga indicates broader geographic perspectives than simple urban boundaries. Especially within the present demographic context of the region, this broader perspective seems almost unavoidable.

Figure 12. Business ease index, ranks\* of selected countries, selected elements, 2006

	<i>Doing Business</i>	<i>Starting Business</i>	<i>Hiring Labor</i>	<i>Getting Credit</i>	<i>Protecting Investors</i>	<i>Paying Taxes</i>	<i>Trading Across Borders</i>	<i>Enforcing Contracts</i>
USA	3	3	1	7	5	62	11	6
UK	6	9	17	1	9	12	14	22
Norway	9	21	109	33	15	16	5	3
<b>Ireland</b>	<b>10</b>	<b>6</b>	<b>83</b>	<b>7</b>	<b>5</b>	<b>2</b>	<b>30</b>	<b>24</b>
Sweden	13	20	94	33	46	39	9	2
<b>Lithuania</b>	<b>16</b>	<b>48</b>	<b>119</b>	<b>33</b>	<b>60</b>	<b>40</b>	<b>32</b>	<b>4</b>
Estonia	17	51	151	48	33	29	6	20
Germany	21	66	129	3	83	73	7	29
Latvia	24	25	123	13	46	52	28	11
Poland	75	114	49	65	33	71	102	112
Russia	96	33	87	159	60	98	143	25
Ukraine	128	101	107	65	142	174	106	26
Belarus	129	148	31	117	142	175	113	36

*\*Out of 175 countries*

*Source: World Bank*

An emphasis on cluster development provides policy makers with a positive framework in which they can act to do something. It is satisfying to take action to create networks of organizations and people, and cluster development programs offer the policymaker the sense that something is getting done. Yet the other side of the coin is to ensure that barriers to creative economic activity are low. Figure 12 shows the World Bank's assessment of the ease of doing business in Lithuania and a few selected regional and other countries for 2006, including Ireland, ranked against 175 of the world's countries. Also shown are selected elements used by the World Bank to

determine the total ease of doing business index. Lithuania shows well on this listing, but also shows room for reducing the barriers to doing business. The World Bank (2005) gave three main findings in this regard: countries that remain poor have higher levels of regulation and lower levels of property protection; countries that remain poor, due to regulatory barriers, have very high levels of informal economic activity; and in countries that remain poor the payoff from regulatory reforms is large. While active intervention to create clusters is appealing, it is not unreasonable to suppose that the most important policy decisions are regulatory policy that is more passive. This is not to

suggest non-regulation, but rather regulation that is efficient, i.e., that yields the most effect for the least cost to society. We feel that Lithuania's future success will be dependent on its ability to provide an increasingly attractive environment for economic activity, especially as its capacity to compete on the basis of production cost declines.

The World Bank also attempts to evaluate relative strengths of governance in the various countries. Figure 13 shows the changes in the derived point estimates, ranging from -2.5 to +2.5, for several measures of governance between 1996 and 2005. The improvement by these measures in Lithuania has been excellent overall, showing a concentrated effort to

bring Lithuania's governance capacity as quickly as possible to developed economy standards. Lithuania is joined in this improvement by Estonia and Latvia, but Poland, also a new EU member shows discouraging figures. It is also true that Poland started the period with somewhat better absolute point estimations in most categories, making further gains more difficult, but by the end of the period it was Lithuania that had the higher absolute point estimations in all but one category. Lithuania cannot hope to achieve equal gains in the next 10 years, but it has, along with creating a relatively easy climate for doing business (figure 12) demonstrated a commitment to conditions attractive to business and development.

Figure 13. Governance change, selected countries, 1996-2005

	<i>Rule of Law</i>	<i>Regulatory Quality</i>	<i>Government Effectiveness</i>	<i>Political Stability</i>	<i>Control of Corruption</i>	<i>Voice and Accountability</i>
<b>Lithuania</b>	<b>334.2%</b>	<b>304.0%</b>	<b>617.9%</b>	<b>98.0%</b>	<b>315.1%</b>	<b>27.5%</b>
Latvia	205.2%	126.2%	299.2%	53.9%	157.1%	91.7%
Estonia	170.7%	16.2%	93.7%	12.7%	1101.2%	46.5%
Ukraine	17.3%	59.1%	51.8%	14.5%	20.4%	44.9%
Russia	6.2%	54.8%	43.4%	8.5%	5.8%	-97.8%
Belarus	3.0%	-40.7%	8.2%	108.3%	8.4%	-53.2%
Norway	-3.8%	24.8%	-6.3%	-0.8%	-6.8%	-15.1%
Germany	-5.7%	5.1%	-25.2%	-37.3%	0.0%	-13.0%
Ireland	-5.9%	10.4%	-4.1%	8.6%	-15.6%	-2.6%
Sweden	-8.0%	26.1%	-5.8%	1.4%	-12.0%	-14.9%
US	-10.0%	6.0%	-22.8%	-92.4%	-16.4%	-20.2%
UK	-11.4%	-2.9%	-27.0%	-58.4%	-6.9%	-3.2%
Poland	-23.6%	114.8%	14.2%	-43.2%	-57.8%	10.0%

*Data source: World Bank, authors' computations*

## **Potentials for economic development**

The capacity of regions to manage cluster development is at best marginal. Policy is best formulated based on a principle of facilitating business innovation and economic flexibility while building a strong, knowledgeable community that includes an active, outwardly oriented education system. Attempts to choose future winners or to protect past winners are more likely to worsen the state of the economy than improve it. Ireland was fortunate in having encouraged the sectors it did at the time that it did, but their luck may have had more to do with the practical opportunities that were available to an English speaking island on the western perimeter of Europe. While we found the similarities between Cork almost 30 years ago and Klaipėda today to be in some ways remarkable, it would be a very risky strategy to assume that the sectors now succeeding in Cork will necessarily succeed in Klaipėda.

Ireland's policy reforms were driven on an ad hoc, grudgingly resistant admission that open markets and industrialization were the only workable method of economic growth that could be implemented, whereas Lithuania's reforms were driven, after the initial drive for

independence, on a direct desire to enter the EU and adopt open markets. Therefore, LT's development is likely to be much faster and less erratic than Ireland's has been.

We also suggest that the current demographic trend in Lithuania is not a liability, but rather an opportunity for innovation. Although the common wisdom seems to be that a declining and aging population is an economic liability to be viewed with distress – as it has been in Ireland and elsewhere – in view of values that hold consumption, individual choice and self-realization to be primary goals, a declining population should be taken as an opportunity for restructuring the labor based demographic-economic model innovatively to yield a higher potential quality of life than is practicable under the older model of accepting ever decreasing unshared space per capita in the name of expansion of capital. Lithuania is well positioned to explore that direction if it pursues its current demographic trend opportunistically instead of defensively.

When considering the issue of enhancing potential, various forms of endowment or capital may be considered – common types spoken of include intellectual and social capital; democratic capital in the

sense of good governance; cultural and leisure time capital; environmental capital in the sense of natural resources and integrity of biological systems; technical capital as well as, of course, financial capital. It should go almost without saying that any successful process of development will build capital in all senses of the word rather than enhance one form at the cost of depleting another.

### **Personal observations on the development of Klaipėda and its future potential**

The usefulness of the various typologies of economic development for defining effective policy, and the attempts to fit various regional economies to some ideal type, is unclear. A more direct approach of asking which environmental elements facilitate business success, and which inhibit success seems more to the point. Clearly information transparency, access to markets, avoidance of lock-in, and the understanding that only if all boats rise, is there a rising tide are all factors that lead to enhanced opportunity. Conversely, lack of information, barriers to markets, rigid business structures and attempts to advance by eliminating competition all discourage development. Frankly, this is not terribly complicated, but ensuring a broader environment that encourages

economic success, may often create tensions with the narrower interests of individual actors.

It is apparent that Klaipėda is a vital, if small, urban center in the greater region of Lithuania and the Baltic States. Its position as Lithuania's primary and only national port give it special significance politically as well as economically. Given the small size of Lithuania compared to other countries, and even cities, a regional perspective in cluster development is inescapable.

Speculation can always lead to embarrassment, but Klaipėda is well positioned for future development. It is an obvious center for commerce and trade along a considerable stretch of the Baltic coast and for the country of Lithuania itself, as it is well positioned for regional connections both to the north, with Riga and Latvia, and to the south, with Kaliningrad. Equally, it is on an East-West axis that connects northern Europe, particularly Scandinavia with eastern Europe and Asia. This includes the Vilnius-Kaunas growth pole and extends to points both to the far East, especially China, and to the South, through emerging European economies from Byelorussia to Turkey and beyond. Multiple connection opportunities are available both by land and via the

Black Sea that are attractive to the export oriented economies of Scandinavia and, of course, Lithuania. Although discouraged for 50 years, Klaipėda has a long history of trade with the rest of the world that business culture is in the process of resurfacing today.

It is not only geographic elements that position Klaipėda for growth. Although an aging workforce may result in eventual labor shortages, and tensions with Russia linger, these problems are likely to be short term concerns. Accession to the Schengen Agreement area is scheduled for December 2007 thus bringing Lithuania

into closer contact with the EU's labor market than Ireland now is, and adoption of the Euro – estimated for 2010 – will further cement territorial cohesion. That process will also enhance participation in the huge EU market area and allow for even freer movement of ideas and knowledge. Figures 14 and 15 of selected Eurobarometer 66 results by rank among the EU 25 and percentage positive response a number of political and social issues show that popular opinion favoring Lithuania's membership in the EU and the perception that Lithuania has benefited from its membership remain strong, and also that the EU is a trusted institution.

Figure 14. Comparative Ranking of Opinion, Selected Issues: Lithuania, Ireland, EU 25

<i>Opinions</i>	<i>Lithuania</i>		<i>Ireland</i>		<i>EU 25</i>	
	<i>Rank</i>	<i>% Agree</i>	<i>Rank</i>	<i>% Agree</i>	<i>Rank</i>	<i>% Agree</i>
Positive direction in EU	1	57%	5	51%	15.5	33%
EU has benefited country	2	77%	1	87%	16.5	54%
For further enlargement	5	68%	16	48%	17.5	46%
EU membership is good for country	6	62%	1	78%	13.5	53%
Your view of EU is positive	7	55%	1	73%	14.5	46%
For common defense & security	8	85%	25	52%	15.5	75%
For common foreign policy	10	73%	21	59%	13.5	68%
Trusts EU Commission	11	59%	6	60%	20.5	48%
Trusts EU Parliament	11	60%	5	66%	19.5	52%
More equality even if less freedom	11	65%	16	60%	11.5	64%
For harsher punishment for crime	12	87%	10	87%	15.5	85%
Place of religion too important	15	41%	14	42%	9.5	46%
For legalized cannabis	16	16%	5	30%	9.5	26%
For gay adoptions	19	12%	11	30%	10.5	32%
Immigrants positive for country	20	20%	3	56%	11.5	40%
For gay marriage	21	17%	13	41%	12.5	44%
Leisure more important than work	23	36%	9	58%	18.5	48%

Source: Eurobarometer 66, 2006

Such survey results seem to demonstrate openness to the outside world and awareness that Lithuania's future is tied inextricably to free trade and, eventually, free movement of labor. But the Eurobarometer 66 results also showed Lithuanians to be skeptical of social diversity, even though they have certainly been eager to seek their own fortunes by moving to distant opportunities. This social conservativeness is likely to change as native opportunities develop and many who left return home bringing with them their new experience and often a greater tolerance for diversity. That should eventually translate into tolerance for foreign laborers, especially if the labor market becomes tighter. It is noteworthy,

too, that Lithuanians rated leisure time as less important than the respondents from most other countries. Naturally, the responses given to the Eurobarometer survey is a reflection of the most salient issues of the day – reports of corruption or a heinous crime directly before a poll is taken can cause a spike in the demand for harsher punishments, for instance. Yet together, the results shown in figures 14 and 15 indicate that Lithuania is today focused on establishing order and growth via connection to the EU. Such a cultural position has an influence that can compensate for considerable geographic disadvantage.

Figure 15. Comparative Percentage of Opinion, Selected Issues: Lithuania, Ireland, EU 25

<i>Opinions</i>	<i>Lithuania</i>		<i>Ireland</i>		<i>EU 25</i>	
	<i>% Agree</i>	<i>Rank</i>	<i>% Agree</i>	<i>Rank</i>	<i>% Agree</i>	<i>Rank</i>
For harsher punishment for crime	87%	12	87%	10	85%	15.5
For common defense & security	85%	8	52%	25	75%	15.5
EU has benefited country	77%	2	87%	1	54%	16.5
For common foreign policy	73%	10	59%	21	68%	13.5
For further enlargement	68%	5	48%	16	46%	17.5
More equality even if less freedom	65%	11	60%	16	64%	11.5
EU membership is good for country	62%	6	78%	1	53%	13.5
Trusts EU Parliament	60%	11	66%	5	52%	19.5
Trusts EU Commission	59%	11	60%	6	48%	20.5
Positive direction in EU	57%	1	51%	5	33%	15.5
Your view of EU is positive	55%	7	73%	1	46%	14.5
Place of religion too important	41%	15	42%	14	46%	9.5
Leisure more important than work	36%	23	58%	9	48%	18.5
Immigrants positive for country	20%	20	56%	3	40%	11.5
For gay marriage	17%	21	41%	13	44%	12.5
For legalized cannabis	16%	16	30%	5	26%	9.5
For gay adoptions	12%	19	30%	11	32%	10.5

*Source: Eurobarometer 66, 2006*

The second area of concern, developments in Russia, may be more opaque, but it seems unlikely that Russia will choose a path that leads it into long term conflict with an emerging world consensus that favors mutual negotiation and predictable institutions. Even if Russia's institutional restructuring continues for a protracted period, Lithuania may benefit from Russian capital looking for safer havens. At the same time Lithuania is unlikely to suffer much from weak or protected Russian markets with the issue of access to petroleum ever a potential sore point. On the other hand, if Russia becomes a consistent and cooperative neighbor and a center of economic growth, that can only be to Lithuania's advantage if they maintain their outward looking policies and facilitate increasing productivity and innovation.

In looking at Ireland and Cork, and Lithuania and Klaipėda, it seemed to us that the similarities between the two, while striking, differ in that Klaipėda has a number of advantages today over Cork in the 1960s. It is now able to draw upon the local and national experiences of many regions worldwide, including those of Ireland, which have accrued over the last 50 years. The acceptance that development is driven by dynamically exchanged and innovatively used knowledge in an open market, regulated and supported by legitimate government, is greater now than it was in Ireland in 1960. Another advantage is that Lithuania's still forming public and private

institutions experienced a much stronger break with the past than did Ireland's, and while difficult, that break also opened a window for very dynamic action. Also, although public or private mismanagement of capital can lead to slow or negative growth at any time, the globalization of management practices in both the public and private sectors, together with the increasing capacity of the EU and policies that stress cohesion and regional cooperation, will all likely serve Lithuania well in avoiding some of the economic pitfalls of the past. Lithuania also has the opportunity to exploit the direct land connections to emerging European and Asian economies with which it has a shared history. At the same time, membership in the EU offers a very large, near-by market for high value-added goods. In contrast, Cork and Ireland, if only due to their island location, has never had quite the same degree of market connection.

Klaipėda, itself, enjoys an excellent location that allows development of the full service port, the current and planned industrial parks and the purposefully designed transport infrastructure. But it also allows the development of natural and cultural tourism attractions that will enhance local dynamism by attracting visitors. The beaches, Smiltynė Spit, Curonian Bay and inland waterways, and the agricultural hinterland are attractive natural tourist amenities. The city itself has significant cultural architecture and can be

developed for historic as well as modern cultural values. It has already become known as a center for jazz; it has a popular annual Sea Festival; and it is a regular stop for cruise ships. If the planned port facilities expansion is realized, there will be an opportunity to provide the city center with an extended waterfront connection that would greatly enhance the city's public space and livability. The city is already pursuing a development strategy based on a balance of port, industry and tourism enterprises, the current success of which is perhaps reflected in the city's low unemployment rate.

Of course, Cork enjoys similar advantages. Yet in the 1960s the tourist industry was in its comparative infancy. Cruise ships were relatively few and mostly operated in warmer climates. Air transport was expensive and road connections poor. Open borders were less common and communications more difficult. Containerization of freight was just beginning and few ports were so equipped, while air transport of freight was limited to the most high value goods. Perhaps more subtly, hierarchic organizational structure was more nearly the norm and expectation, and industry was more centrally concerned with production rather than innovation. Klaipėda today has not yet transitioned to high added value and innovation activities – it still finds room for competition on the basis of production cost – but it is clearly aware that its long term success cannot be based on rigid

management structures and industrial lock-in. In sum, Klaipėda, with only reasonably good management, should be able to develop more quickly, and more smoothly, than did Cork. Just as Cork's prospects after Ireland's reorientation to foreign trade were good, Klaipėda's, after independence from the USSR, are, if anything, better.

## Conclusion

In this paper, we attempted to investigate the prospects for economic development in Klaipėda, Lithuania, using the mirror of Cork, Ireland with reference to the aspect of both being nationally important ports. This use of analogy for a qualitative study seemed appropriate given similarities of history and geography between the two cities and countries. In addition, we attempted to consider the development of these two cities in terms of cluster theory using particularly the aspect of clusters that emphasizes a centrality of business culture as the key element in economic dynamism and success.

Important analogous elements that connect the economic development of the two cities and countries are the similar histories of subsumption into empires and recent attainment of independence, but with continuing cultural ties that are convergent with natural sea transportation routes. Additionally, peripheral locations, port and trade development that was initially based on

agricultural and, in Klaipėda's case, forestry products, and strong agricultural sectors that moved from forms of landless peasantry to landed farmers only in the 19<sup>th</sup> century with both areas coming to industrial production long after the great economic centers had already done so. Major differences existed, of course. Ireland's history, while difficult and painful, was relatively evolutionary, even allowing for the rebellion leading to independence and the subsequent civil war, whereas Klaipėda and Lithuania have suffered intense use of violence and power in programs of extermination, forced migrations and cultural suppression. Also, for five centuries, Klaipėda was a part of the German sphere of influence while the rest of Lithuania was part of the Russian and Polish spheres. Institutionally, an authoritarian parallel between the Catholic Church and the Communist Party can only be drawn with considerable strain and, even given some vague similarities, the Church is a deeply ingrained and protectively held part of Irish culture, versus the Communist Party which was at best an uneasy imposition on a nearly voiceless citizenry.

The demographic similarities are also not quite parallel, for Ireland has for generations produced a surplus of young people who emigrated massively, coloring the Irish perspective, and providing a worldwide network and reserve of experience. Lithuania, on the other hand, has never been quite so

remote yielding today a much more heterogeneous society that should enable finding space for new ideas. A possible cloud on Lithuania's horizon is the aging workforce, a problem that is not yet impacting Ireland. Imaginative approaches will be needed to maximize worker productivity and to effect continuing education in order to keep their aging workforce fresh. Immigration can help, but is not the complete solution. Ultimately, viewing this demographic change as an opportunity rather than a threat is a possible leadership position that Lithuania could develop.

We used cluster theory as a framework with which to gain a sense of the development past and present in the two areas. The literature on clusters is very broad and provides little, if anything, in the way of absolute parameters, but it does provide a concept, even if somewhat vague, of development based on rather more dynamic exchanges of knowledge and realization of innovation. Even in the broadest terms, however, it is difficult to label any existing sector or group as a cluster in either Ireland or especially Lithuania where there has been, as yet, so little time for a cluster to mature. Nevertheless, indicators such as increasing R&D and the relative smallness of each country provide a framework for the emergence of dynamic business cultures. In this regard, development leaders interviewed in Klaipėda spoke already of a degree of

collegiality among businesses and, with the history and renewal of Baltic trade connections, Scandinavia may provide an appealing model of consensus decision making..

The development of the port as a logistics center in Klaipėda has been stressed to a much greater degree than in Cork. This strategy may help in the development of clusters and economic well-being, but is somewhat dependent on the future of transportation. If we assume continued free trade based on low transportation costs, then there is still much potential for growth if Klaipėda can continue to offer services strongly competitive with other area ports. However, it also became evident that port development is not purely a function of transportation advantage, but also one of policy maker perception of ports as places that are, and should be, centers of industrial development – whether or not the industrial development is inherently dependent on the port's proximity. Ports can also play a role in enhancing touristic value by offering cruise ship destinations as well as added value for tourists arriving by other modes. Current concerns with energy efficiency may actually benefit the port as incentives to minimize energy used in shipping increase. On a more distant horizon, there is also a potential concern for when sea level rise becomes significant, and if there should ever be a significant reduction in long distance trade

volumes. These concerns are only problematic if the city does not build a business culture that is prepared to shift gears according to new knowledge and new environmental demands.

Much more than Lithuania, Ireland has had to overcome the absence of, even hostility to, a culture of industrial development. Ireland was crushingly conservative up until very recently, with economic liberalization having occurred due to the vision of a few politicians and dire necessity. If it weren't for the luck of having an English speaking population with close connections to the US, a location suitable for US corporate expansion into the EU, and a newly opened door at the moment of a world trade and economic expansion, it seems unlikely much would have changed in Ireland. Lithuania, on the other hand, while still somewhat conservative on social issues, seems to be enthusiastically liberal economically in the modern EU sense. The road for Lithuania, from an internal cultural point of view, appears far less rocky than that which Ireland has experienced.

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