# Contents

# Perspectives for Helsinki

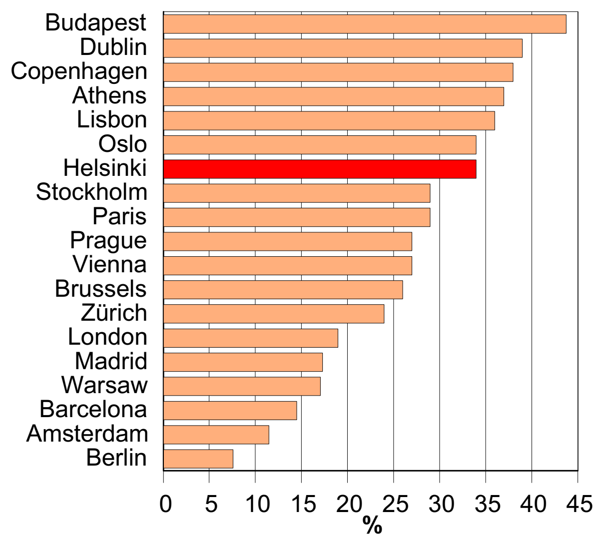
This issue of Quarterly focuses on perspectives for Helsinki in terms of a new population projection, international comparative urban research and statistics as well as in terms of a new research programme.

The new population projection expects the population of the City of Helsinki to grow by 8,000 inhabitants by 2011 and by 24,000 inhabitants by 2030. The population figures are projected as being 567,000 in 2011 and 583,000 in 2030. The Helsinki Region, comprising Helsinki and 11 neighbouring or adjacent municipalities, will grow even faster. The Region will have 225,000 new inhabitants by 2030. Seppo Laakso and Pekka Vuori present the new population projection on pp. 7–10.

A recent comparative study on European metropolises undertaken by ERECO (European Economic Research Consortium) and coordinated by Cambridge Econometrics depicts the current state and prospects of future development of the economy in the European metropolises. Almost all the metropolitan regions are considerably more productive than their host countries. This means that the per capita value-added goods and services produced in the metropolitan regions is higher than the respective ratio for the entire country. One third or even a greater share of the Gross Value Added (GVA) in Western and Central Europe is generated in the metropolitan regions, even though their share of the population is about one quarter. (Figure 1)

Employment growth is expected to be slower up to 2008 than it was during the period 1995–2002. (Figure 2)

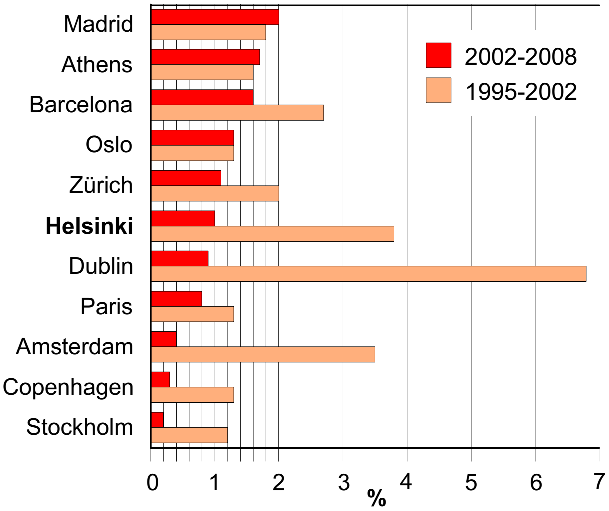
**Figure 1. Share (%) of the national Gross Value Added generated in selected European metropolises in 2002**




Sources: The Regional Economy of Helsinki from an International Perspective, City of Helsinki Urban Facts, Statistics 2003:7 and its forthcoming up-date of 2004.

Urban Research TA Ltd Seppo Laakso. ERECO 2004. European Regional Prospects. Analysis and Forecasts to 2008.

**Figure 2. Employment growth 1995–2002 and the forecast for employment growth in top twelve metropolises in 2002–2008**




Sources: The Regional Economy of Helsinki from an International Perspective, City of Helsinki Urban Facts, Statistics 2003:7 and its forthcoming up-date of 2004.

Urban Research TA Ltd Seppo Laakso. ERECO 2004. European Regional Prospects. Analysis and Forecasts to 2008.

The knowledge economy and its foundations are the key interest of a European comparative research project carried out by Euricur (European Institute for Comparative Urban Research) at the Erasmus University in Rotterdam. Helsinki was one of the nine cities included in this research project. Led by Professor Leo van den Berg, the research team highlights the question of what cities can do to become stronger in the knowledge economy. The research identifies four types of interrelated knowledge activities in a city. A city should be able to attract knowledge workers, to create and apply knowledge and to develop growth clusters. These knowledge activities are closely linked to knowledge foundations, i.e. the knowledge base, economic base, quality of life, accessibility, urban diversity, urban scale and social equity.

This comparative research showed Helsinki to have an excellent broad knowledge. However, the regional economy could be more varied so as not to be too susceptible to global slowdowns. Whilst Helsinki offers a high urban quality of life and high social equity, the urban diversity (a vibrant city image) could be higher. The economic base of the region is rather small and thus there is an urgent need to develop new growth clusters and to engage in strategic networks to be able to respond timely to rapidly changing markets and technologies. The shortages in entrepreneurial activities need to be addressed. In the case of Helsinki, the Euricur research team found there to be a fear of other Finnish regions being supported more out of national funds to the detriment of the Helsinki region. From the point of view of the global economy, the researchers question to what extent Finland can afford such an equity policy. The Helsinki Region must obtain sufficient means to guarantee economic growth and diversity in the near future.

Professor Seija Kulkki presents major conclusions based on a current piece of research focusing on how the Helsinki Region could become stronger as a hub of knowledge, innovation and business enterprise; to put it briefly, how to create a unique global profile for the Helsinki Region. The measures needed to raise Helsinki's profile as an ideapolis amounted to five baskets of actions. See pp. 18–21.

Creative knowledge, such as cultural activities, media and design, adds to the knowledge base of the city. In this issue of the Quarterly you can read about a forthcoming thematic statistics compilation of arts and culture in Helsinki, including comparisons of a selected number of European cities.

The City of Helsinki has a new research programme encompassing the period 2004–2006 (see also www.hel.fi/tietokeskus). The main goal of the research programme is to increase knowledge about the living conditions and well-being of Helsinki citizens and to strengthen the competitiveness of the business community in compliance with the principles of sustainable development and good governance. The programme also supports the strategic work of the City of Helsinki. In view of current challenges and urgent information needs, six priority research themes emerged:

- The Helsinki Region as an innovative environment and system
- The income basis of the city economy (municipal economy)
- Social cohesion
- The impacts of the EU enlargement
- Cooperation in management and development issues of the urban region
- Sustainable development in Helsinki's planning and participation system

We may say that because of the economic recession of the early 1990s, the City of Helsinki started to view things in a new light. The City clearly adopted a knowledge-based strategy for its future direction. Human capital, knowledge and skills were considered as the basis for success. Much attention was paid to a favourable business environment as well as to intensified co-operation with universities and their research activities. In addition, emphases were given to securing social cohesion and a good living environment.

In 1998, the City of Helsinki, the Ministry of Education and the University of Helsinki agreed to intensify their co-operation in the field of urban research. The agreement generated six new professorships at the University for a term of five years. The disciplines of the professorships were social policy, urban history, urban geography, urban economics, ecology and systematics, and sociology.

In 2003, this model was further extended. A new agreement was reached between the cities of Helsinki, Espoo, Vantaa and Lahti, the University of Helsinki, Helsinki University of Technology and the Ministry of Education. The extensive work of setting up the new agreement, including the financial arrangements, was successfully led by Deputy Mayor Ilkka-Christian Björklund, who also acted as chairman of the above mentioned research programme. Under the new agreement there will be a total of nine professorships in urban research, seven professorships will be accommodated at the University of Helsinki and two at Helsinki University of Technology. For the City of Helsinki, and indeed for the entire Helsinki Region, this is a unique opportunity to advance urban research of high quality, to cooperate in the fulfilment of a joint research programme and to make the urban dimension more visible in the university curricula.

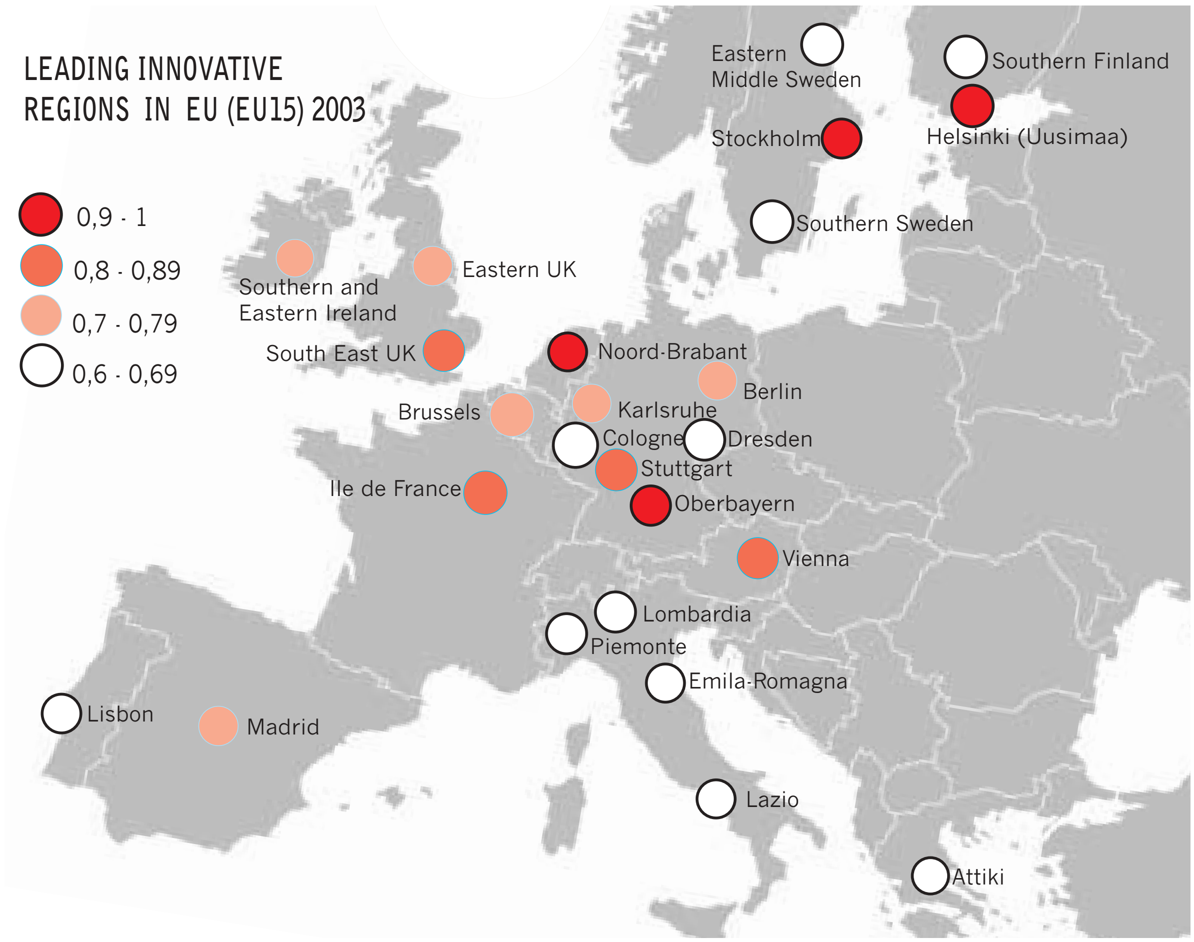
We are actually approaching the goal of strengthening the local and regional innovative system. We have achieved a functioning science corridor stretching from the Otaniemi Campus in the West to the Viikki Campus in the East. There is a special article on pp. 14–17 on the new Eko-Viikki village-like housing area. Viikki embraces eco-housing, a new University Campus, Viikki Science Park and an evolving business area of knowledge intensive jobs.

Urban Audit, launched by the European Commission's Directorate General for Regional Policy and carried out by cities, national statistical institutes, Eurostat and the Directorate General itself provides a comprehensive set of urban indicators covering various aspects of urban life. According to the preliminary results of the Urban Audit (the final results will be published in October 2004), Helsinki appears as follows compared to 188 other cities of the 15 Members States of the European Union. To take a few examples of the extensive set of indicators, Helsinki has a high employment rate, but also a high unemployment rate. Helsinki ranks highly in terms of residents with a higher education degree. GDP per head scores high. The coverage of children's day care is excellent. Public transport functions well, only a few people use their own car to get to work. The average living area ($m^2$) per person is low and the average price per $m^2$ for an apartment or house is high. The Urban Audit also undertook telephone interviews about how people feel about their lives and what their perceptions are. Helsinki residents are very satisfied with their lives in their city, as many as 94% shared this opinion. People in Helsinki feel safe in their city and neighbourhood and are quite satisfied with the everyday amenities provided. The difficulties mentioned include the hard work involved in finding a good job and high housing prices. It is not easy to find a good, reasonably-priced apartment or house.

International comparisons and the new knowledge derived from these contribute to capacity building in the city. The Urban Audit provides ample opportunities for further comparative urban research and contributes to planning urban policy measures.

*Asta Manninen*
*Acting Director*

*Helsinki City Urban Facts*




Source: European Innovation Scoreboard 2003. The European Commission.

# Population projection for Helsinki

**Seppo Laakso and Pekka Vuori**

Since Helsinki was founded in 1550, its population has typically been growing, and the 19th century, especially, was a time of very strong population growth. This growth was interrupted for the first time in 1969, when the city had around 524,000 inhabitants.

Then a period of slight decline followed up until the early 1990s. The subsequent increase continued throughout the 1990s, and was interrupted for the first time in 2003.

Changes in the population affect the use of public services, for example, and for this reason the City of Helsinki regularly commissions population projections, i.e. forecasts of how big the population is going to be in future.

Population projections imply a number of difficulties and uncertainties due to the fact that all events and trends cannot be foreseen. Especially today, when the global economy contains many factors that cannot be controlled, forecasting is difficult.

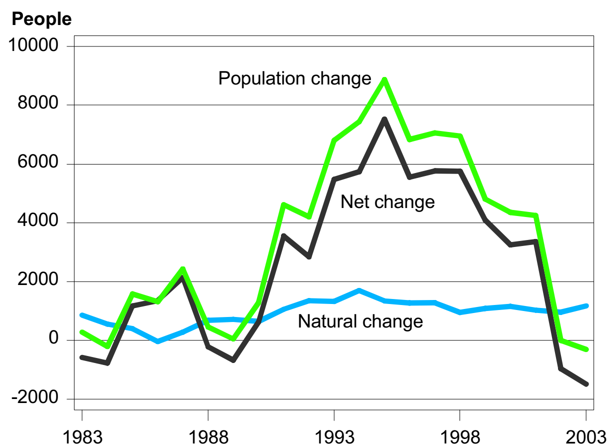
Obviously, that is no reason why we should stop trying to foresee the course of events, and the newest population projection for Helsinki has already been made, covering the years 2004–2030.

## Population development in Helsinki and the Helsinki Region

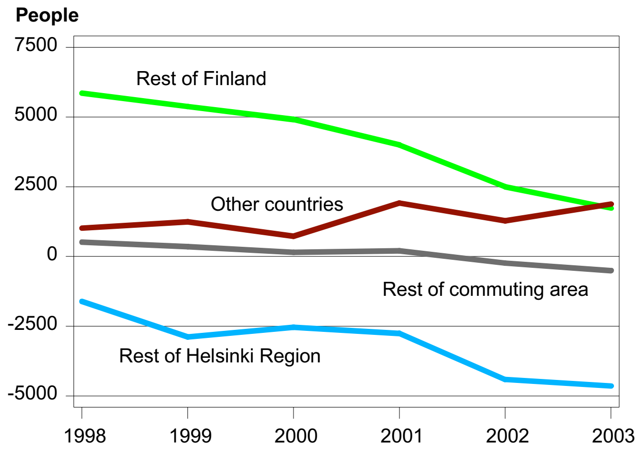
In 2003, Helsinki's population decreased by 386 people, and in 2004, this decline is expected to be at least equally strong. The decline was preceded by an uninterrupted period of growth between the early 1990s and 2001, with annual growth figures of between 4,000 and 8,000 in the city. The fall was due to the migration surplus, which turned negative in 2002. Meanwhile, natural population growth has remained very stable.

The growth of the whole Helsinki Region slowed down considerably compared with earlier years due to decreasing migration surpluses. In 2003, the region had a migration surplus of around 2,000 people. However, the domestic migration surplus, which had totalled almost 10,000 people per annum maximally in the 1990s, turned negative. In the region, too, natural migration growth has been very stable compared with net migration.

**Population change factors in Helsinki**



**Migration balance between Helsinki and certain other areas**




Helsinki's migration balance has been very unevenly depending on the area of exchange. In 2002–2003, Helsinki's migration deficit to the rest of the region almost doubled from the levels during previous years. Families with children, especially, moved away from Helsinki. Moreover, Helsinki lost people to the fringes of the commuting area, too, in 2002. Migration surpluses from the rest of Finland outside Helsinki's commuting are have decreased systematically, and in 2003, the migration surplus from this area was only around 2,000 people. Foreign immigration is the only part of the net migration that has been growing, with a surplus of around 2,000 foreign nationals in 2003.

The numbers of births and deaths have varied very little. In Helsinki, annual deaths have stayed between 5,100 and 5,300 a year for many years, and although the number of elderly people has grown, the number of deaths has not risen significantly, because life expectancy has risen, too. The number of births grew in 2003, bringing nativity back to level it was at before 2001–2002, during which years it decreased slightly.

## Factors behind these changes

Above all, decreasing migration surpluses for the Helsinki Region are due to falling employment figures. For the first time since the depression years in the 1990s, employment in the Helsinki Region started falling in the latter half of 2002. What is exceptional compared with earlier years is that, in 2002–2003, the employment trend was weaker in Helsinki than the rest of country.

Another factor explaining migration losses in 2002–2003 is increasing migration from Helsinki to the rest of the Helsinki Region and even the fringes of the commuting area. This increase is, above all, linked with housing: exceptionally low loan interests in recent years have increased the demand for owner-occupied homes, especially in terraced and detached houses. The housing business has been exceptionally lively, and housing prices have rocketed. Many families with children have moved from small and medium-sized flats in Helsinki, especially rented flats, to terraced or detached houses outside the city.

## Biannual projections and alternative scenarios

The City of Helsinki biannually draws up a population projection to serve as a base for the dimensioning of public services. The projection made in 2004 reaches as far ahead as 2030. Three alternative scenarios are provided, based on different assumptions regarding the economic development of the economy of the Helsinki Region.

The Helsinki Region comprises the capital and 11 adjacent municipalities, with a total of 1.2 million inhabitants. Beyond the periphery of the Helsinki Region, the commuting area has a fringe zone, with another roughly half a million inhabitants.

Three alternative projections are presented for the Helsinki Region and Helsinki, namely:

- the basic alternative
- rapid growth
- slow growth

The basic alternative is based on the economic projection for Helsinki for the years 2004–2008. By this estimate, the aggregate production of the Helsinki Region is growing by 3 per cent on average per annum, while also employment is picking up by 1 per cent in 2004–2008. The corresponding figures for the whole country are 2.5 per cent and 0.7 per cent. Another assumption is that the Helsinki Region remains reasonable competitive and attractive, retaining its current strengths and avoiding the worst threats. However, the difference in economic growth rates between the Helsinki Region and the rest of Finland that was seen in the 1990s will level out clearly. Furthermore it is assumed that the housing market in the Helsinki Region will remain tight and that differences in housing prices between the capital and the rest of the country remain at current levels.

The rapid growth alternative is based on fast growth in the Finnish national economy. The assumptions regarding the competitiveness and attraction of the Helsinki Region are the same as in the basic alternative.

The slow growth alternative assumes that the vital export sectors of the Helsinki Region, i.e. above all the ICT sector, are in for a long-standing decline due to sharpening international competition and a drain of jobs to cheap production countries. This implies slower economic growth, and the Helsinki Region pulls the rest of Finland, too, into a long-standing decline.

Natural population growth will be slowing down in the Helsinki Region only in the 2020s, and in Helsinki, the number of deaths will exceed the number of births by the end of the period projected. This is due to age structure changes that bring increasing mortality and decreasing nativity.

**Job growth in the Helsinki Region (% per annum on average) according to the three alternative projections**

| | 2004–2010 | 2011–2020 | 2021–2030 |
|---|---|---|---|
| Basic alternative | 1.0 | 0.6 | 0.3 |
| Rapid growth | 1.5 | 0.8 | 0.5 |
| Slow growth | –0.5 | 0.0 | 0.0 |

## Alternative population projections for Helsinki and the Helsinki Region

*Basic alternative*

According to the basic alternative, Helsinki would have 567,000 inhabitants in 2011, and 583,000 in 2030. Thus, Helsinki's population would grow by 8,000 before 2011 and by 24,000 before 2030. While half of this growth consists of migration surplus, the other half comes from natural population increase, i.e. excess of births over deaths. Population decrease in Helsinki is estimated to stop in 2003, to turn into slight growth again. Helsinki is estimated to receive new migration surpluses of foreign nationals and people from other parts of Finland than its commuting area. However, Helsinki is forecast to continue having a migration deficit to the rest of the Helsinki Region and the fringe of the commuting area. Natural population increase is forecast to start slowing down significantly only in the 2020s. Housing space per person increases, reaching 43 square metres in 2025 – compared with 34 square metres today. The average size of dwelling households decreases from 1.9 people per dwelling to 1.60 by 2030.

The Helsinki Region will have 1,460,000 inhabitant by 2030, which implies an increase of around 225,000 since 2004.

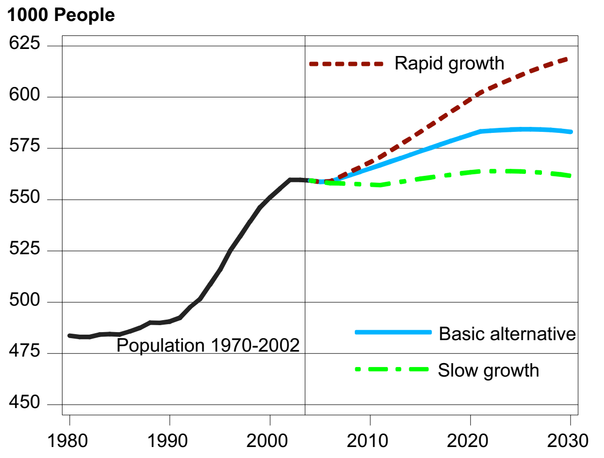
*Slow growth*

According to the slow growth alternative, Helsinki would have around 560,000 inhabitants in 2030, i.e. about as many as today. The Helsinki Region would have 1,420,000 inhabitants by 2030, after an increase of about 185,000 people.

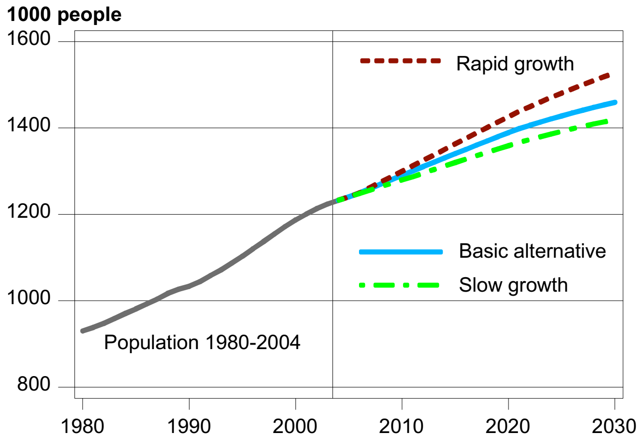
*Rapid growth*

According to the rapid growth alternative, Helsinki would have 620,000 inhabitants in 2030, i.e. 60,000 more than today. The Helsinki Region would have 1,530,000 inhabitants by 2030, i.e. 300,000 more than today.

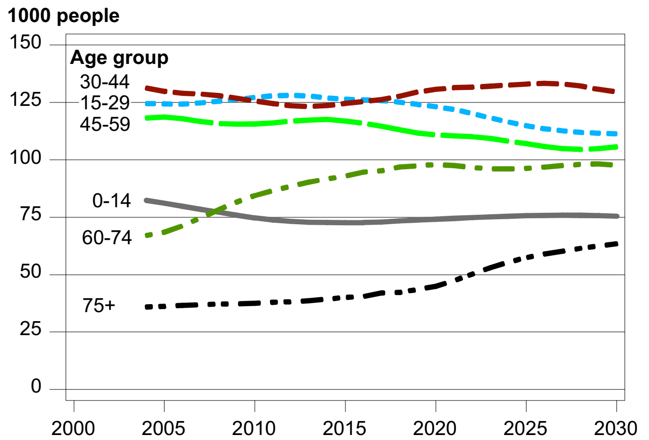
**Helsinki's population 1980–2004 and projection for 2004–2030**



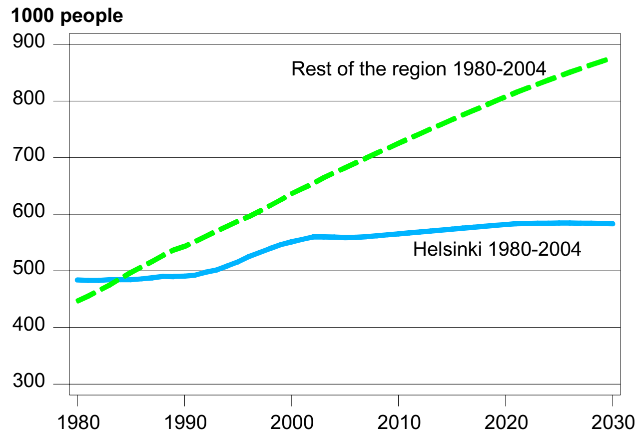

**Population of the Helsinki Region 1980–2004 and projection for 2004–2040**




**Projection for Helsinki's population 2004–2030. Basic alternative by age group**




**Population of Helsinki and the rest of its region 1980–2004 and the basic alternative of the projection 2004–2030**



# The City of Helsinki – an important player in urban research

**Harry Schulman and Magnus Gräsbeck**

## New Research Programme

The City of Helsinki's Research Programme is drawn up every three years to activate and co-ordinate research on Helsinki and the entire Helsinki Metropolitan Area. The programme seeks to increase the knowledge of living conditions and welfare of Helsinki citizens and to strengthen the competitiveness of the business community in compliance with the principles of sustainable development and good administration. It also supports the City of Helsinki's strategic work and information needs relating to common strategies. The programme covers research projects that are of major interest to various partners and conducted or co-ordinated by Helsinki City Urban Facts. This programme excludes research independently commissioned or carried out by the city's other offices and departments, although such research, too, includes data from Helsinki City Urban Facts' Research Register.

The research programme has been drawn up under the direction of a steering group for research co-operation led by Deputy Mayor Ilkka-Christian Björklund. The steering group comprised representatives of several of the City of Helsinki's offices and departments as well as co-operation partners from the University of Helsinki, Helsinki School of Economics, Helsinki University of Technology, and Statistics Finland. The steering group provided the outlines for the work and Helsinki City Urban Facts researchers did the preparation work. Dozens of meetings with hundreds of co-operation partners were held. Urban Facts has a staff of 15 researchers.

The programme includes 93 research ideas or projects grouped into seven themes: (1) Regional, urban and municipal economy, (2) Population, housing, (3) Living conditions, safety and urban culture, (4) Education and labour market, (5) City governance and participation, (6) Urban structure and environment, (7) Urban history.

Besides the thematic division, the programme was also prepared to take into account current challenges and information needs in Helsinki's urban policy. Six themes emerged:

1 Helsinki's metropolitan region as an innovative environment and system,
2 The income basis of the city economy,
3 Social coherence (inclusion / exclusion),
4 The effects of EU enlargement,
5 Co-operation in the management and development of the urban region,
6 Sustainable development in Helsinki's planning and participation system.

Deputy Mayor Ilkka-Christian Björklund has just handed over the Helsinki City Research Scholarship diplomas of 2004.
Photo: Vesa Keskinen.

The idea is to use these themes to support the common strategies of the City of Helsinki. The theme Helsinki's metropolitan region as an innovative environment and system combines research projects that analyse measures of importance to Helsinki's competitiveness as well as the potential of the metropolitan region to be successful in international economic development. Analyses of the income basis of the city economy focus on both Helsinki's own municipal economy and the economic operational environment of the City of Helsinki and the entire urban region.

For many years, Helsinki City Urban Facts has studied social differentiation in Helsinki and the Helsinki Metropolitan Area. There have been fears of increasing social differentiation between neighbourhoods and of the phenomena such differentiation may cause in a big city. Furthermore, knowledge of the population's living conditions and welfare relates to themes that affect Helsinki and safety in the city. Therefore, social coherence has been highlighted in the programme.

The enlargement of the European Union in 2004 and, above all, the entry of the Baltic States implied a new kind of situation for Finland and the Helsinki Region. Hence the reason to highlight the effects of EU enlargement in the research programme. Due to current regionalisation, new solutions are needed in the production of administration and services of both the City of Helsinki and its entire urban region and in their contentual development. An urban region appears differently to inhabitants than it does to administration. Taking these different views into account is one of the key issues when discussing co-operation in the management and development of the urban region. Co-operation is topical also when discussing sustainable development in Helsinki's planning and participation system, and therefore special attention is paid to balanced growth in the region's population and jobs as well as to social structure, traffic and environmental diversity.

Research projects within the various themes have been divided into two categories, i.e. projects to be carried out and research ideas. Projects to be carried out have advanced to the point where research material, researchers and finance have mostly been found, so it is likely the projects will go ahead. It is less certain whether research ideas will be implemented in the form suggested. In addition to the research ideas and projects included in the programme, the website of Helsinki City Urban Facts will be supplemented by a section primarily serving people working on their theses.

The research projects noted in the present programme do not represent all the research conducted by the City of Helsinki or about the economic region of Helsinki. Some of the remaining research is responsive to current needs, while other is regular follow-up. The latter includes regular statistical surveys and their analytical sections, which are produced by Helsinki City Urban Facts' Unit for Statistics. In addition, the city's other offices and departments continuously make surveys in their own fields.

## Cooperation with universities, research scholarships and awards

A chapter of its own is the research conducted at universities, polytechnics and other research establishments and which in many ways concerns the activities taking place in Helsinki and the whole metropolitan region. An important opening are the professors of urban research, who significantly supplement and steer the field of urban research. When the programme was started, there were six professorships, but their number will rise to nine. At the same time, the number of sponsors increases with the cities of Espoo, Vantaa and Lahti joining in. In future, there will be research professors at the Helsinki University of Technology as well as at the University of Helsinki. The network of nine urban research professors will produce a separate research programme that will supplement the co-ordination of urban research in Helsinki's metropolitan region.

There are also other possibilities to support urban research in Helsinki. Urban Facts prepares the decisions for granting Helsinki City research scholarships, the Helsinki City Scientific Award and awards for academic theses.

The City of Helsinki annually grants research scholarships for studies on a Helsinki topic. This is a way of stimulating and promoting the kind of research that the City considers important. These scholarships are intended for post-graduate researchers, including doctoral theses, licentiate theses and even master's theses.

Professor Jaakko Frösén, winner of the Helsinki City Scientific Award in 2004, receiving congratulations. Photo: Vesa Keskinen.

Studies on the conditions of the city's finances and the local business sector, on public services produced or commissioned by the City, and on the environment and everyday life of Helsinki citizens are given priority in granting the research scholarships.

Since its introduction in 1996, the aim of the Helsinki City Scientific Award has been to consolidate and promote Helsinki as a City of Science. The award is granted in recognition of a significant scientific work done by a Helsinki citizen or in Helsinki.

One further form of co-operation with local universities is the Award for Meritorious Master's Theses, which has been granted to master's theses and similar theses since 1992. No restrictions as to the scientific discipline exist. The awards are granted to 4–6 people annually.

# Residents mostly pleased – but public services could be closer

**Mira Kajantie**

Recycled wood in Eko-Viikki.
Photo: Magnus Gräsbeck.

The new ecological development Eko-Viikki offers village-like housing in a countryside setting near the public services of the city – and near people's workplaces. The area was planned to become a new kind of housing area that would meet the criteria of sustainable development. In line with recent trends, the buildings are low, and they lie close to each other. They face the south, which helps save energy.

In Eko-Viikki, many experimental ecological solutions were implemented such as natural gravitation ventilation in the dwellings, solar energy, use of surface waters, etc. A survey in August 2003 sounded out residents to establish how they felt about these experimental solutions and other characteristics of the area. It collected the thoughts and ideas of residents on everything from the completion of the constructions and the social atmosphere of the area to the ecological ideals and the shape of the yards.

*Facts and figures on the Eko-Viikki ecological development in 2004:*

| | |
|---|---|
| Population: | 1,800 |
| Households: | 750 |
| Mean size of households: | 2.4 people |
| Single households: (48% in Helsinki total) | 33% |
| Households with 3+ members: (20% in Helsinki total) | 40% |

*Ecology in everyday life*

- "I am more conscious of ecological matters now."
- "I am not too convinced our house is very ecological. For example, the ceiling fan must be on all the time to keep the air fresh."
- "The solar energy system has not been used properly. Its technology is too sophisticated. They should have taught somebody to use it."

**Figure 1. Age group percentages in Helsinki and the Eko-Viikki development in 2003**

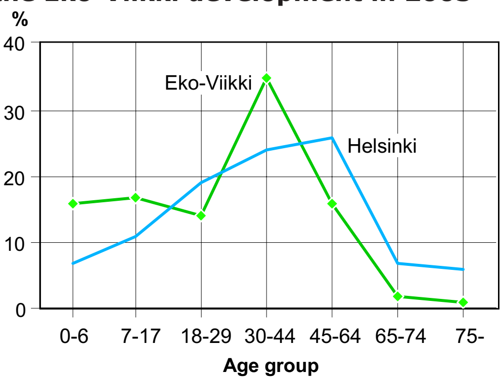
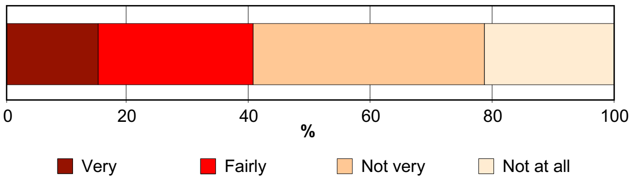


**Figure 2. How important was the ecological aspect for settling in Eko-Viikki**




These were some of the comments given on the ecological principles and solutions applied in Eko-Viikki. A key intention with the whole development was to learn and collect data about how the solutions applied could be developed and how they could be used in new contexts.

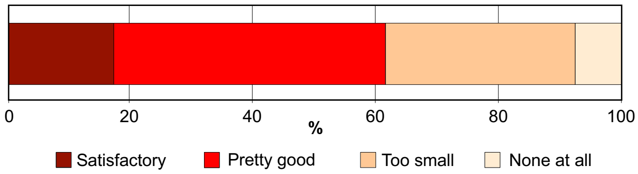
The old truth "No one is born a master", was confirmed in Eko-Viikki, and there have clearly been flaws in the practical implementation of many of the solutions. Both planners, builders and residents alike have been learners in the project. In houses with gravitation ventilation and solar panels, the residents need separate guidance to be able to live in the house and to make the most of the ecological opportunities it provides.

Partly for the same reasons as respondents said they needed more information about the ecological solutions, some of these solutions were criticised. Neither their functionality nor their ecological properties had convinced all the residents. Responses also revealed slight planning errors and neglect in the finish.

Despite criticism, the general ecological image of the development is, however, almost exclusively seen as something positive. Many residents reported they had a higher appreciation of nature and a better awareness of environmental issues now than before they moved to Eko-Viikki. Many said they paid much more attention to their consumption of energy and water, and that recycling had become a daily routine.

On the other hand, though, some inhabitants that had a high awareness of environmental issues before they moved to the area said they were a bit disappointed with the opportunities offered by the neighbourhood. For example, improvements were called for in the recycling of glass and metal.

**Figure 3. Perceived provision of information on ecological solutions in dwellings**



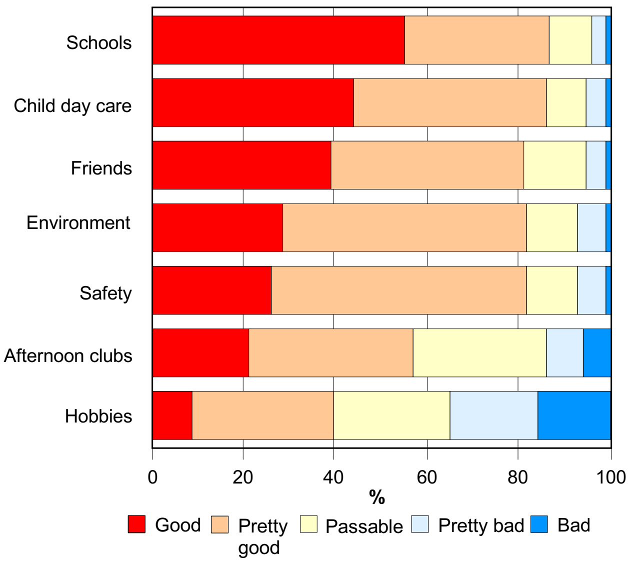

At the Eko-Viikki Seminar on 24 August 2004, planners, architects and constructors expressed their views on the practical difficulties that the project had run into, and what conclusions had been drawn. The new ecological solutions had not been easy to adapt to traditional construction planning, and creative imagination had often been needed. The general conclusion was that experiences gained should now be passed on to future projects, lest a key idea behind the whole project be neglected.

### *Enough public services today and in future?*

- "School is the only reason we moved here. We had to move 400 metres within the Viikki district to get inside the catchment area of our child's school."
- "They promised lots of public services, but there isn't even an ATM, and the public health station is going to be closed."
- "The present public health centre provides the best services I've ever had."

The greatest problem perceived by residents was insufficient public services. Above all, residents felt worried about the future of these public services. And at present, there are no banking or postal services in the area, and only one grocery store, which cannot meet the demands of a population of almost 2,000. The situation is not helped by public transport in the area, which consists of only one bus line to the city centre. According to residents, the bus is too slow and too crowded during rush hours.

**Figure 4. Eko-Viikki from the children's point of view**




Sustainable development fridge: a "ground cellar" of the traditional Scandinavian type in Eko-Viikki.
Photo: Magnus Gräsbeck.

Thus, a life without a car had become too complicated for many residents, even for many of those who would have otherwise preferred to do without one. Consequently many have considered buying or have even bought a car. Obviously, such a situation is not in harmony with the goals and the basic idea of the eco-village project. It was also pointed out that sustainable development would require public services near the inhabitants and flexible public transport.

The situation will improve with the completion of the entire Viikki area. A shopping centre will be built near Eko-Viikki, featuring the most important public services – although not quite within easy reach for all pedestrians.

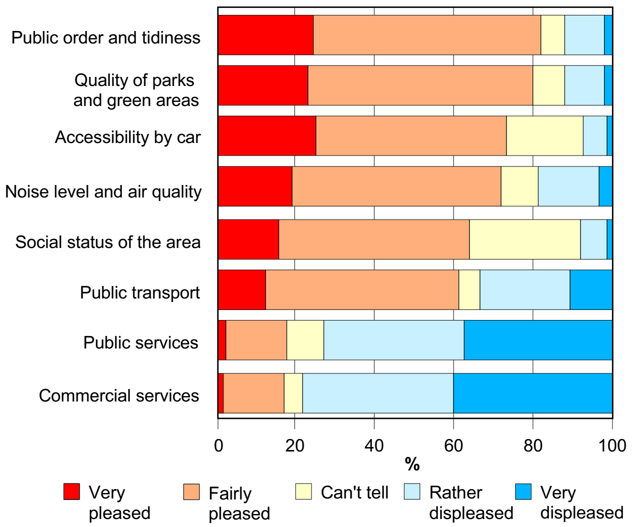
Another brighter side of life in Eko-Viikki is that conditions are very favourable for families with children. A kindergarten and a school can be found in the neighbourhood. Parents need not transport their children to the kindergarten by car, and the school day of school children is not prolonged by bus travel. Judging from responses, the residents truly seem to appreciate these conditions.

The proportion of families with children among the population of the locality is 40 per cent, i.e. twice as great as in the city as a whole.

*"Our village. Peace and quiet – and nature."*

- "The good social climate of the neighbourhood and the strong sense of community are good for everyone in Viikki."
- "There are plenty of children and playgrounds, and the garden plots are nice, too, especially the discussions you can have with those on the neighbouring plot."
- "A lovely little brook, green grass, garden plots and the University's experimental farm with all the animals are important ingredients of the neighbourhood. We hope they won't build too much more in it."

**Figure 5. Opinions about various factors in Eko-Viikki**




Although residents express their concern or even disappointment with certain phenomena, an unambiguous result of the survey was that the great majority of residents very much like living in their new neighbourhood. The calm and unique milieu is the foremost reason. For the majority, the proximity of nature and the excellent opportunities for outdoor exercise had been key factors for moving to Eko-Viikki.

Judging from responses, residents have also developed a good-humoured social climate, which quite obviously is an important factor for well-being, too. People have found new friends among their neighbours; and shared activities are common. One reason are the *talkoos*, which are perhaps the most common form of traditional socialising in Finland, during which people work together sweeping leaves or shovelling snow, for example, and having a good time. The sense of community sought in the project seems to have been realised, at least to some extent

In this article, we have seen some key issues highlighted by the residents. Responses, which are mostly very positive, do contain criticism, too, which is natural because, obviously, there's always room for improvement. The majority of residents had moved to their homes before the work on yards, lawns, etc. was completed, and their expectations were high due to attractive advertisements.

Time will tell how well people get along in their experimental neighbourhood in the future, and what value the adjacent university premises will add to the area – and whether the public services promised will be provided. Besides giving answers, our survey raised quite a number of questions, and obviously, it will be a matter of continuous interest to follow how Eko-Viikki evolves in the future. We will need more facts to assess whether the goals set for the project have been achieved.

The survey was conducted in August-September 2003. All the 753 households then resident in the Eko-Viikki area received a questionnaire. 508 forms were completed and returned before the deadline. The analysis was made in accordance with adequate statistical methods. Among those responses arriving too late, only the freely formulated answers were heeded. The response rate almost reached 70 per cent. The findings of the survey are presented comprehensively in Helsinki City Urban Facts' series "*Tutkimuskatsauksia*."

# Towards an ideapolis: the creative Helsinki Region

**Seija Kulkki**

We can change the world through our own actions – in co-operation with others.

The above could be a summary of an extensive inquiry (see frame at end of article) conducted among the managements of municipalities, universities, research institutes and business enterprises in the innovation and technology sectors in the Helsinki Region, as well as representatives of the ministries concerned.

The study clearly showed that local players are eager to identify a common vision and to develop a globally unique profile based on local expertise that will help keep Helsinki among the 10–15 most important growth centres of Europe.

The interviewees (see frame at end of article) believed in Helsinki's chances to act as a hub of the global information society, a hub where arts and culture, sciences and social life develop side by side with new technology and economy. At best, Helsinki can be a global growth centre and cultural metropolis with an all-European touch, yet firmly rooted in its own traditions.

Helsinki can enhance its reputation as a place where modern urban professionals can fulfil their need for leisure, arts, culture and self-fulfilment in an environment that respects the ideals of beauty, kindness, love and truth. The Helsinki Metropolitan Area is ready to proceed on its way towards a global "new wave" information society.

## To create a unique global profile

Today, the world seems fairly well aware that Finland is a strong player in the innovation sector. Not surprisingly, the Helsinki Region was one of the 22 European regions given the Award of Excellence for Innovative Regions in 2002.

Nevertheless, the Helsinki Metropolitan Area, i.e. the four central municipalities of the Helsinki Region, is facing challenges. Its profile must be further raised – a fact agreed upon by the interviewees. For one thing, it is never wise to rest on your laurels, and secondly, there are studies that rank Helsinki surprisingly low as an innovative milieu. The European Cities Monitor 2002 put Helsinki as low as 27$^{th}$ among "the best cities to locate your business today".

Yet, according to statistics from the Finnish National Technology Agency, 40 per cent of Finnish R&D is conducted in the Helsinki Metropolitan Area, while the area has only 25 per cent of national manufacturing. It is true, of course, that the regions of Oulu and Tampere, two other major Finnish ideapolises, have twice as high an R&D ratio per capita as the Helsinki Metropolitan Area – a fact which has, naturally, channelled considerable R&D funds to these regions. Oulu and Tampere have also received relatively greater proportions of EU financed projects than the Helsinki Metropolitan Area.

It should also be pointed out that the Helsinki Metropolitan Area has eight strong universities. Moreover, knowledge-intensive services have clustered very strongly in the area – near the expertise and the R&D. The Metropolitan Area is also home to several knowledge clusters of an international magnitude such as the Otaniemi area and the Viikki Science Park. Thus, the area has considerable potential to become stronger as a hub of knowledge, innovation and business enterprise.

However, criticism is not totally unjustified: knowledge and innovation in the Helsinki Metropolitan Area is fragmented and passively organised and financed. As a result, there have been difficulties in getting EU funded projects to the area, especially since the sixth Frame requires applicants to have extensive corporate collaboration and an ability to set up and carry out strategically significant large projects.

Also, the Helsinki Metropolitan Area should, obviously, be collaborating more with the state authorities to attract new creative professionals and entrepreneurs. The interviewees of the survey (see frame at end of article) mentioned several norms, attitudes and practices that essentially hamper evolution towards internationalism and multi-culturalism.

## Other cities in the global information economy

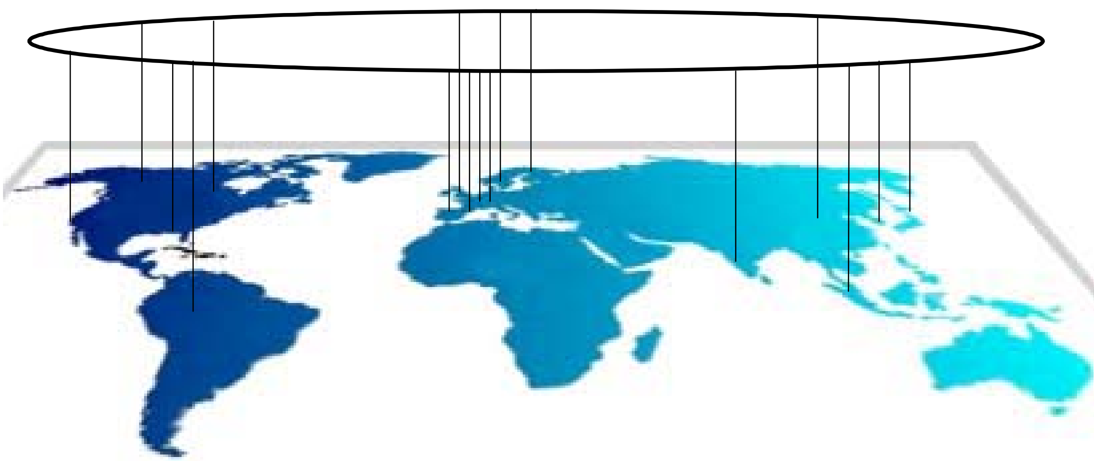
It is a widespread maxim today that the evolution of not only countries, but also cities, depends on their international competitiveness. Earlier, urban areas were "subordinate" to national policies of growth and competition – policies mainly based on manufacturing. Today, institutional, knowledge-related and financial instruments are being crafted with the primary aim of helping to develop innovative and internationally competitive urban centres of growth.

In line with these trends, Finnish urban regions, too, such as Oulu and Tampere, are specialising in internationally competitive expertise to create a unique and sustainable role in the international scramble between urban regions.

Another trend today is that internationally competitive urban regions are forming networks and strategic alliances not only within their countries, but also across national borders and even oceans.

Canada has formulated as its national strategy to grow and develop as a globally competitive knowledge society. For this reason, the country has invested substantially in the "Unleash our Potential" campaign to promote its five largest growth centres

**Ideopolises in the global division of work**



(Ottawa, Toronto, Vancouver, Winnipeg and Montreal) as global palyers in the field. The main message of the campaign goes: "Despite 21st century challenges, cities are still governed by a 19th century model". Thus, Canada is focusing not only on the new knowledge itself but also on its framework in terms of governance and administration. The country is investing hundreds of millions of dollars in researchers and consequent research to make each of the selected growth centres a competitive part of the global economy.

A good example of strategic alliances in Europe is the Öresund Region straddling the sea border between Sweden and Denmark. Including Copenhagen, and a number of other cities, it has 3.5 a total of million inhabitants and 12 universities. To date, around €10 billion has been invested in turning the area into a world class growth centre. Elsewhere in Europe, EU funds have been used to set up strategic alliances between cities, such as the IntelCities project, which includes Manchester and Helsinki, for example.

The Netherlands is investing both at the regional and national level. It has set up a national Innovative Platform, whose task it is to catalyse and fuel new innovative ideas and projects for the information society. The Innovation Platform disposes over €185 million for the development of expertise and innovation. In addition, The Netherlands is investing another €90 million in strategic development projects that require extensive co-operation networks and consortia. One important target is Amsterdam, where the KnowledgeLand Foundation has been established as a think-tank for information society development and an incubator of new innovative business.

In Germany, the city of Bremen, which is applying a very independent innovation policy, has established an organisation of its own as well as a company to manage the R&D and innovation of public service. Measures include commercialisation and public-private partnerships. Elsewhere in Europe, Westminster, Eindhoven, Gothenburg and Luleå have developed new forms of finance and administration for local R&D and innovation.

London, Barcelona, Öresund, Toronto and Singapore launched their planning of globally profiled knowledge already in the late 1990s. London is deliberately developing itself as a global metropolis relying on a creative information economy. Barcelona is developing its profile as a creative location for international business enterprise, and therefore boasts a modern telecom infrastructure, pleasant housing environments and innovative academic and research milieux. Singapore profiles itself globally as an efficient hub of logistics that also has considerable capacity for turning innovation into industrial production.

Overall, the industrial policies of urban regions have entered a new and very challenging phase since the late 1990s. We are witnessing a new kind of growth and competition policy where cities and regions are looking beyond national policies and infrastructures to find a place for themselves, and therefore shape their visions, strategies and policies accordingly.

## Helsinki's policy

To summarise the interviews in the survey, the actions needed to raise Helsinki's profile as an ideapolis are as follows:

1 strengthen co-operation between the universities of the region, or even merge them, and shape a shared international profile for them.

2 develop new forms of organisation and finance for new service technology and even for industry creation based on scientific and applied research.

3 further up intensify the co-operation between companies, universities, research institutes and the public sector by creating public-private partnership and similar models including open-source development.

4 set up new kinds of internal R&D functions within public service such as welfare services, telecom, logistics and transport. This requires cities to expand their present R&D activities and to decide to allocate sufficient resources for them. (Such measures are also necessitated by the urgent need for improved cost efficiency.) This task (in fact, a national project) can subsequently be turned into a positive growth impulse for new social and technological innovation.
5 increase funds for prototyping and piloting, science-based venturing and risk management.

Yet another conclusion was that co-operation between local players could, at best, provide a rich multi-disciplinary basis for development. It could contribute to social-technological-financial innovation springing from the notion that the behaviour and actions of people and communities constantly challenge the developers of services and technologies. Thus, cities can act as 'living labs' for a cultural, social, technological and financial renewal. At present, the EU is about to allocate funds for these types of projects.

In spring 2003, the Centre for Knowledge and Innovation Research CKIR of the Helsinki School of Economics was commissioned to analyse the strategic opportunities for developing the Helsinki Metropolitan area into a globally profiled centre of innovation and business enterprise. The study was commissioned by Culminatum – Helsinki Region Centre of Expertise, Helsinki City Urban Facts, the Employment and Economic Development Centre of Uusimaa and the Association of Finnish Local and Regional Authorities.

The study interviewed 100 people including (1) holders of key posts in the management of the cities, the management of public services and the development of industrial policy in the Helsinki Metropolitan Area, (2) rectors, other managers and experts of universities and polytechnics, (3) managers and experts of local research institutes, (4) experts and managers of institutions funding sciences, R&D and business start-up in the area, (5) experts from the ministries of Trade and Industry, Education and Interior, (6) representatives of innovation-based business enterprises, and (7) managers of the local technology industry.

The aim was to find out what the interviewees thought about the following issues:

1 what strategic opportunities there are to raise the Helsinki Region into a globally profiled and influential innovation environment, and
2 what are the most important measures of research and development to be taken to achieve this goal.

A major seminar was also arranged for these 100 people by the Culminatum Centre of Expertise on 27 April 2003, and a report was presented in December 2003.

At present, the Culminatum Centre of Expertise is drawing up a globally profiled innovation strategy in extensive co-operation with these local players.

# Helsinki in the knowledge economy

**Leo van den Berg & Peter M.J. Pol & Willem van Winden & Paulus Woets**

In recent years, much has been written and said about the 'knowledge economy'. European cities are in a phase of transition which includes a shift of accent towards knowledge as a production factor. In many sectors, the core activity is no longer the manufacturing of products, but instead, the development of new products and production processes, as well as the generation of new knowledge and the design of marketing concepts.

What are the characteristics of a knowledge economy? Which roles do cities play in the knowledge economy? How does this affect urban management and policies?

These are some of the questions approached in the research project "European cities in the Knowledge Economy" carried out by EURICUR (European Institute for Comparative Urban Research, Erasmus University Rotterdam). Helsinki was one of the nine cities included in the project, the others being Amsterdam, Dortmund, Eindhoven, Manchester, Munich, Münster, Rotterdam and Zaragoza.

## Knowledge foundations

Cities that want to become – and remain – successful in the knowledge economy need solid knowledge foundations (see figure). The two main foundations are the knowledge base and economic base.

The knowledge base – which is important because it is a key input for economic activities in knowledge cities – is determined by the quality, quantity and diversity of universities, polytechnics, other education institutes and by R&D in public and private organisations. Creative knowledge, too, (cultural activities, media, design etc) adds to the knowledge base.

The economic base is important because it determines the starting position of cities in attracting and developing new knowledge activities. The economic base of urban regions with a service-dominated economy is usually stronger than in cities specialising in manufacturing and, for example, port industries. For example, Amsterdam has relatively many service activities, which stimulate employment, while Rotterdam has many port activities, which are in a process of decreasing employment.

Also, cities with a diversified economy are less vulnerable in rapidly changing economic circumstances because the downturn in some sectors is then compensated by growth in other sectors.

The quality of life in a city is important to attract and retain knowledge workers: it includes an attractive built environment, high-quality housing, green areas (parks etc) and a rich variety of cultural institutions (e.g. theatres, cinemas, museums).

Since the knowledge economy is a network economy, accessibility plays an important role: especially international connections (airports and high-speed trains) are essential. Furthermore, a solid digital infrastructure (broadband networks) and good internal accessibility (including urban public transport) add to the accessibility.

Cities with a high urban diversity are better positioned to attract creative knowledge workers. Urban diversity includes the ethnical composition of the population, but is also related to a diversified economic base and to quality-of-life factors such as a varied built environment and a sufficient mix of cultural facilities.

The knowledge economy is a network economy: rapid developments in the knowledge sector engender a situation where no single person or company can master all disciplines or even monitor all the latest developments – nor can cities, for that matter. Cities – especially those of a smaller urban scale – need to engage in strategic networks to be able to respond in time to rapidly changing markets and technologies.

Every city in the network needs to develop its own specialisation and strengths. To a large extent, big is beautiful in the knowledge economy. For companies it is easier to find specialised staff in larger cities, and for people big cities are attractive thanks to their large and varied provision of jobs. The big population of large cities enables bigger airports and specialised facilities such as international schools.

In the knowledge economy, there is a two-way relationship between economic performance and social equity. For one thing, growth in the knowledge intensive sector benefits not only the qualified knowledge professionals but those people, too, that have a lower level of education, because this growth increases the number of jobs in personal services, hotel and catering industry and retail trade, where a lower level of education is often sufficient. Furthermore, reduced poverty and inequality can stimulate economic growth by increasing people's sense of securit

y and by enhancing the purchasing power, which will strengthen the demand factor in the economy.

## Knowledge Activities

What can cities do to become stronger in the knowledge economy? The study mentioned above distinguished four key factors:

A Attracting/retaining knowledge workers. This aspect deals with the ability of cities to attract and retain highly educated people, students, but also workers in creative industries (e.g. new media and design).

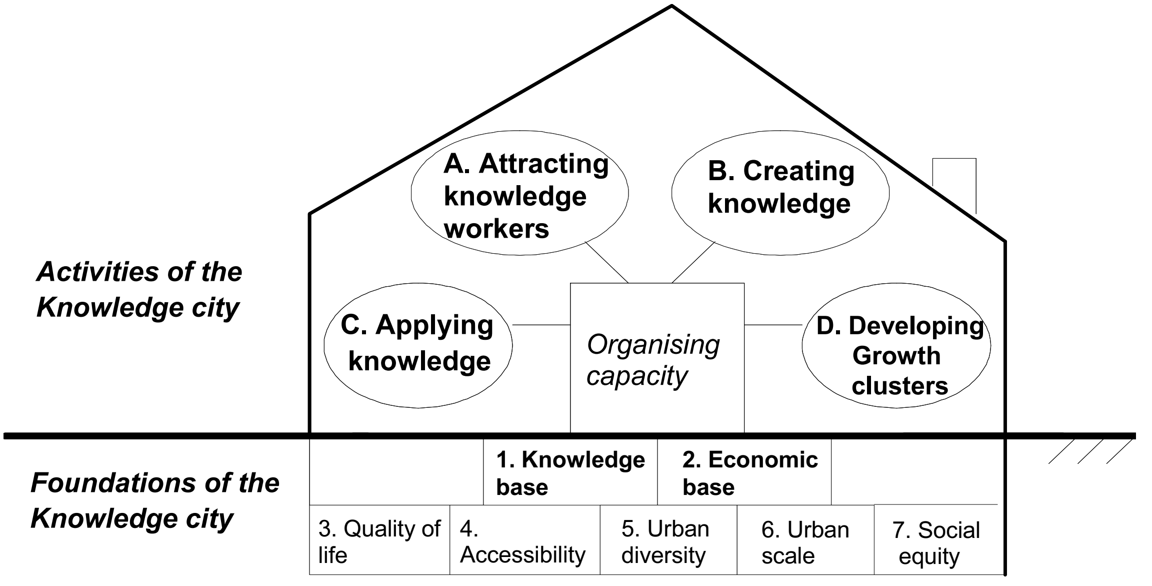
B Creating new knowledge. This can be purely scientific knowledge, but also other sorts of knowledge.

C Applying knowledge. The report analysed how scientific knowledge and other skills are transferred into business (for example incubator facilities for start-up companies) and more in general how the knowledge infrastructure and businesses co-operate.

D Developing growth clusters. For each case city the research analysed how clusters are formed and stimulated and which types of clusters have been chosen.

It is important to acknowledge that knowledge activities are interrelated: the creation and application of knowledge and the attraction of knowledge workers all contribute to enhance growth clusters. Furthermore, knowledge activities are tightly linked with knowledge foundations. The original foundations influence the degree and direction of knowledge-related activities (for example, it is easier for cities with a high quality of life to attract knowledge workers), while knowledge activities help strengthen the foundations.

To give an example, cities that are successful in stimulating growth clusters strengthen their economic base. The degree of success with which cities set up and execute their knowledge-related activities largely depends on the quality of the organising capacity in the city: vision, strategy formation, leader-




ship and strategic co-operation are crucial ingredients.

## A strategy of knowledge economy in Helsinki

In Europe, Finland was one of the first countries to develop explicit knowledge economy strategies. The economic crises in the early 1980s and, especially, 1990s were major incentives for knowledge strategy formation. The current success of knowledge-intensive activities in the Helsinki region can be explained by the high quality of education and the good relations between research and business: these factors are significantly better developed in Helsinki than in the other eight case cities.

National institutes appear to play an important role in this respect. A key player is the Science and Technology Policy Council, chaired by the prime minister, setting out strategic themes for the knowledge economy. Besides, organisations for funding such as Tekes and Sitra prescribe co-operation between knowledge institutes and businesses.

This national involvement with the knowledge economy activities makes Finland a frontrunner compared with other European countries where specific national knowledge economy policies have been formulated only recently.

In many countries, there is a gap between national innovation policies, which are very general, and local competences and ambitions that are more specific and concrete. Too often, national innovation policy is non-spatial, i.e. it does not take regional differences in economy and knowledge specialisation into account. With this in mind, Finland has designed a national Centre of Expertise Programme, launched in 1994.

The idea of the Centre of Expertise Programme is to focus local, regional and national resources on the development of internationally competitive fields of know-how in specific places. The programme covers the whole country and is implemented in regional Centres of Expertise appointed by the Council of State that co-operate closely with universities and companies in their respective sectors.

Such a tendency towards regional centres of expertise in internationally leading fields was seen early in Finland: several other European countries have started such focussing programmes only very recently.

Earlier, local authorities in the region of Helsinki used to play a predominantly accommodating role by, for instance, supplying the necessary infrastructure and business space. In recent years, however, they have developed more explicit policies to enhance their regional competitiveness, but nonetheless, these policies still play a rather small, complementary role in relation to the national knowledge economy strategies.

In Finland, the regional government level does not play a key role the way it does in Germany, for example, where the Länder are important players in the field of educational and science policy.

## Helsinki's knowledge foundations

The broad knowledge base of Helsinki is outstanding compared with the other eight case cities. Helsinki has, by far, the highest educated population. In Finland, too, Helsinki's population is higher educated than the national average. In all, the economic base in Helsinki is judged as good by the study.

However, the Helsinki region's dependency on the ICT sector makes its economy susceptible to global slowdowns. More diversified cities such as Amsterdam and Munich have a stronger economic base. Helsinki offers a high urban quality of life (clean and safe), but from an international point of view it lacks a 'sexy', vibrant city image (e.g. like Amsterdam): this may make it more difficult to attract foreign knowledge workers.

Helsinki's accessibility is quite good: besides having a significant international airport it has plans to build several high-speed train links, including a line to St. Petersburg. This should help Helsinki consolidate its position as a gateway between Europe and Russia.

Urban diversity in Helsinki is assessed as rather low by the study: for example, the percentage of inhabitants with a foreign background is the lowest of all nine European case cities. Some theorists (e.g. Richard Florida) consider a low urban diversity a barrier to attract foreign workers.

The relatively large investments in arts and culture in the Helsinki region are viewed as a positive factor by the study.

Helsinki's so-called urban scale is relatively limited when compared with cities such as Manchester and Munich. This might be one of the explanations for the comparatively narrow economic base of the region. Co-operation with other cities in Finland, and with other Scandinavian and Baltic cities might help to create a larger urban scale.

Social equity in Helsinki is judged as relatively high when compared to e.g. Rotterdam and Manchester. Authorities in Helsinki are focused on preventing rather than mending social exclusion. Besides, the high social equity (and high average education) is also seen as very helpful in creating a large critical demand for knowledge intensive products.

## Knowledge activities in Helsinki

The capacity of the Helsinki region to attract and retain knowledge workers is considered to be good by the study. Within Finland, the Helsinki region has a strong attraction for highly educated people.

One of the drawbacks of Helsinki is a shortage of good housing. Moreover, Helsinki lacks an international location climate such as, for instance, Amsterdam's: Helsinki does not attract many foreign knowledge workers. Internationalisation strategies including marketing programmes and university lectures in English have been set up to improve this situation. Also, strategic contacts created with cities such as Tallinn and St. Petersburg are supposed to promote Finnish interests and to attract workers from these regions.

One of the strengths of the Helsinki region is its readiness to create knowledge. Research and education are of high quality and current incentives appear to be sufficient to keep up this high level. R&D investment in Finland is high and increasing. The number of patents per inhabitant also ranks among the top in Europe. Nevertheless, more European co-operation and specialisation is needed to compete with R&D in the US, because there are still too many relatively weak R&D institutes within Europe today.

The capacity within the Helsinki region to apply knowledge is judged very good by the study. Strong relationships between education and business institutes exist, stimulated by national funding programmes, which demand co-operation. The Finnish habit of consensus and trust is also helpful.

One of the strengths of the Finnish economy is to combine technological knowledge and design. This is one of the explanations for the success of Nokia, a world leader in the development and manufacturing of mobile phones. Such combinations should be further strengthened.

A promising new combination is welfare activities and technology: the ageing of the population will lead to a huge increase in demand for health care. Most cities in Europe will have to cope with an ageing population, but only few cities have targeted welfare activities and technology as a promising business sector.

Stimulation of start-up firms may become more important to widen the economic base. However, in Helsinki, a certain lack of entrepreneurial attitude seems to be a barrier. Such shortages in entrepreneurial activities were also found in most other case cities. This appears to be a side effect of the welfare state: inhabitants are more reluctant to take risks. Better dedicated policies and education programmes should be developed to lower this barrier.

The ability to develop growth clusters in the Helsinki region is good, but it could be improved. Due to the relatively small economic base of the Helsinki region, there is an urgent need to develop new growth clusters. The national Centre of Expertise Programme could contribute to this aim by supporting the most promising regional R&D activities.

Within the Helsinki region, six clusters of knowledge intensive activities are designated: One of them is medical and welfare technologies. Another cluster is the already dominating ICT cluster, the scope of which should be extended to other economic activities. Helsinki should be sure to develop clusters that distinguish the city from other cities: most of the nine case cities compared were found to be focusing on the same clusters.

## Perspectives for Helsinki

For Helsinki the research found that there is a fear that other Finnish regions are going to be supported more out of national funds to the detriment of the Helsinki region. From the viewpoint of a globalising economy, it is questioned to which extent Finland can afford such an equity policy. To be sufficiently competitive in the world-wide economy, the engine of Finland –the Helsinki region- must obtain sufficient means to further improve its economic and knowledge base. It could be argued that the other regions will benefit from the spread effects of the national policy; but they could also face decline parallel with an eventual slowdown of the Helsinki economy.

Despite the global economic downturn, the Finnish economy performs relatively well. Yet, the economic structure is vulnerable because of too much dependence on one economic sector: ICT. There appears however to be sufficient sense of urgency that continuous efforts are needed to guarantee economic growth and diversity in the near future.

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# Finnish ICT and furniture companies' strategies towards relocating operations to Estonia

**Daniel Stöckli**

May 2004 saw ten more countries join the European Union. This implies a major impact on the whole European market not only in economic but also in political and institutional terms. For Finland the greatest opportunity, but at the same time a major challenge, will be the inclusion of Estonia into the community. Estonia because of its geographical proximity, earlier investments in the form of foreign direct investments and other collaborative efforts. Furthermore, the two countries have structural and lingual similarities as well helping inter-country trade.

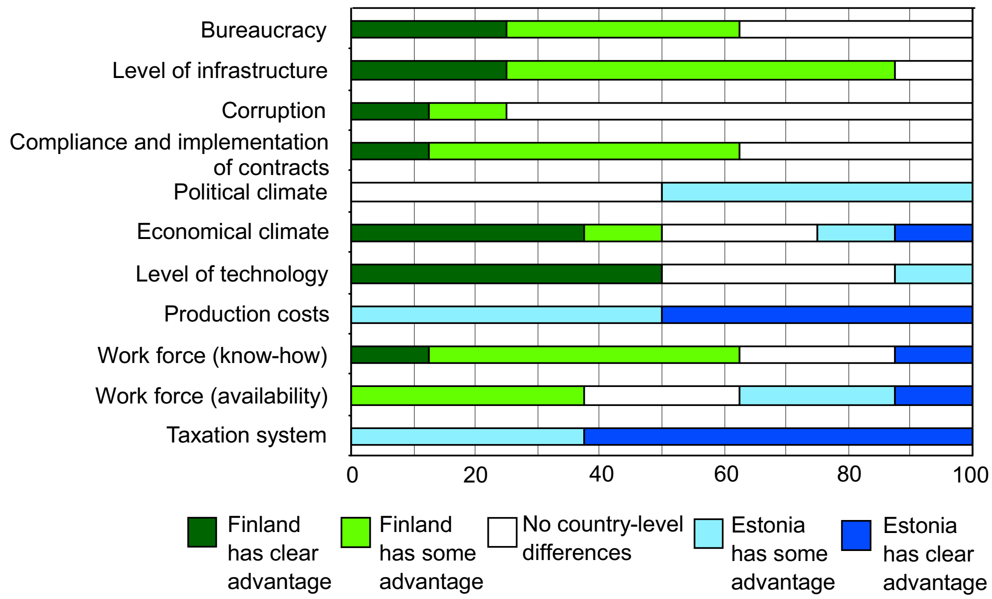
Due to lower labour and material costs, Finnish companies have been rethinking their strategic position by seeking competitive advantage through relocating their activities to Estonia. For instance, Finnish textile and clothing industries have relocated parts of their manufacturing, especially sewing there (Varblane & Reiljan 2001; Alho et. al. 2001). Also companies such as Silja Line and Viking Line have moved their call centres to Tallinn (Grünthal 2003). As a current trend, the managing director of the Federation of Finnish Enterprises Jussi Järventaus estimates that thousands of Finnish firms are considering the relocation of operations. Phenomena like these may have a tremendous impact on regional welfare, such as in the Helsinki region, by decreasing jobs and tax revenues.

The study examined eight Finnish enterprises of various size within two industries: ICT and the furniture industry. The main focus was to examine these companies' previous internationalisation strategies and gather an overall image of their relocation activities, nominally concentrating on those inclining towards Estonia. The research method employed was a case study and targeted at those executives responsible for decisions of their company's relocation or foreign operations' strategies.

## Differences in inter-country business environment

Part of the study examined the different aspects of the Finnish and Estonian business climate. The results show in general some advantages of the Finnish economy. However, the gap is constantly shrinking in various segments, such as the level of infrastructure or technology.

**Executives' ideas of the differences between certain factors in Finland and Estonia.**




Source: Stöckli 2004.

## Case companies' motives for relocating operations to Estonia

This study found still many, especially cost-based advantages in the Estonian economy for Finnish companies to exploit. The greatest opportunity would seem to be the increase in or defence of competitive advantage against rivalry through the use of cheaper labour. Still, it is highly uncertain how long Estonia can sustain this advantage.

*Cost argument*

Previous studies and general opinion has been based on the premise that relocation to foreign countries occurs mostly as a result of strategies focusing on cost savings. It is still the original and currently predominant reason, particularly when manufacturing is relocated from Finland. Cost structure in the Finnish furniture and ICT industries mainly consists of labour costs, which can be notably lowered through relocating manufacturing functions. Labour cost differences between Finland and Estonia were suggested in the following manner: "if Finnish cost levels in raw materials and labour are respectively 1/3 and 2/3, then in Estonia it is 3/4 in raw materials and only 1/4 in labour costs". The use of subcontractors is also popular, but quality can vary at times.

Yet it would appear that there a notable problem relating to skilled labour will arise in the foreseeable future. Labour costs have been quickly rising and will continue to do so particularly in the early steps of EU membership. Over the same period, workforce productivity has not been able to keep up with the same pace of wage index increase. This will presumably have a negative effect on companies' interest in relocating functions or maintaining them in these markets. Also deficient productivity levels have been shown to be a setback among processes requiring merely semi-skilled labour, but not so extensively in expert services such as jobs in ICT sector.

As for the cost of production raw materials, there would seem to be no apparent cost advantages in Estonia as materials are mostly imported into the country thus retaining the prices quite adequate to Finnish levels.

Case companies also noted that the available manufacturing facilities still mostly date from Soviet times as they are old-fashioned and generally in poor repair. Therefore, it is almost a necessity for companies to establish a production plant of their own, which naturally requires considerable capital.

*Availability of labour*

In the ICT branch, the availability of skilled labour is even more important for cost savings. Already the medium term shortfall of qualified programmers in Finland has led companies seeking them partly from Estonia, where there are still some available. Unfortunately this is limited by the small size of the economy. In comparison to Finland, labour in the ICT sector is almost equally expensive and the wage gap is radically falling due to high demand also from inside country itself. Also according to responders from both industries, the availability of a semi-skilled workforce has been considered better in Estonia. Estonians do not shun manual work and are usually more motivated in their jobs than their Finnish counterparts. This, among other things, is reflected in low absenteeism.

*Taxation [corporate and personal]*

The importance of taxation on relocation strategies is not currently very significant. Yet, in future years, the situation may change and taxation may become vital to maintain companies' competitive advantage. In case of larger MNEs, taxation plays a considerably more relevant role than it does for SMEs. From the personal taxation viewpoint, circumstances may be favourable for companies in a situation of expatriate relocation since personal taxation is notably more beneficial for those working in Estonia.

## What operations should Finnish companies relocate to Estonia?

For the case firms, the fundamental interest in practicing business in Estonia has been through manufacturing or by using subcontractors. Other forms of operation have received less attention, but will most probably become as significantly as traditional production.

Two different kinds of productional types emerged from the ICT firms studied. The first was programming requiring special skills, which is in a way subjective as it can be basically produced geographically anywhere. Another variation was the more traditional manufacture of cables and components, where there were no requirements for special skills. In addition to production, ICT companies had consulting services and R&D centres in Estonia.

This study shows that the opportunities created by Estonia do exist to fulfil the needs of Finnish ICT companies, despite not being effected through lower labour costs. Estonia has vigorously developed the infrastructure of its information and communication sector, which can be described highly competitive even by Finnish standards. At the same time, there has been skilful, innovative and motivated labour for productional needs. For the case ICT companies, manufacturing will still remain a preference in future years when relocation is considered. Additionally, firms are considering relocating some of their services, such as consulting, to Estonia.

With companies in the furniture industry, possible relocation will focus on productional criteria as earlier. This does not necessarily involve establishing an own subsidiary, but merely substituting a domestic manufacturing unit by an Estonian subcontractor. This is mostly justified through savings in various costs. Although production quality is still somewhat inadequate for current needs, the production infrastructure and manufacturing skills have developed greatly in the past decade, thus enabling the use of local subcontractors. Furthermore, some furniture companies mentioned various additional functions such as marketing services to be on the list of reasons for possibly relocating to Estonia.

## Strategic implication of EU enlargement on relocation decisions

*Expenses will rise*

Firstly, Estonia's membership of the EU will greatly affect prices and may prove to be a real threat to business profitability through changes in cost structure. Nearly all the firms agreed that there is pressure to increase wages, raw materials costs and the cost of end products, resulting in an increase of up to 20% in costs during the early stages of EU membership. After a couple of years, the pace of growth will continue as it was before membership.

*Increased bureaucracy*

Another relevant problem confronted by EU membership is the growth in bureaucracy, a consequence of new legislation involving more restrictive directives and regulations than previously experienced. Most interviewees experienced there to be an upswing in bureaucracy, notably scaling up their operational burden. Over the past years, business in Estonia has been perceived as comparatively flexible and pro-company. Yet in future, business will likely to become tougher and levels of freedom lower as a result of greater and changing standards and regulations.

The responders considered other anticipated changes in Estonia as being the stabilisation and westernisation of the economy and growing proportion of foreign investments. Yet, it could be read between the lines that the positive factors above will not outweigh the negative ones. Otherwise the responders did not see Estonia's EU membership as creating any changes in their relocation strategies. To date, Estonia has been a popular target for manufacturing and services, thus making the changes brought about by EU enlargement more cosmetic than fundamental.

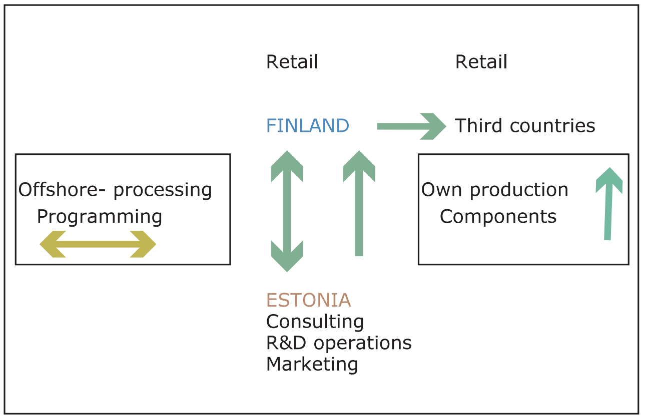
## Industry-specific view

It has to be noted that by focusing only on two industries the study involved quite a small niche. Yet those industries are exceptionally dissimilar in their history, organisational structure, labour, expansion views and, most importantly, in their relocation strategies. This is why it has been possible to create nominally better assumptions than if only one industry had been focused on.

The following illustrates the future prospects of the ICT companies researched regarding the Estonian and related markets. It would seem highly likely that firms are not going to progressively further exploit the opportunities offered by the Estonian business environment. The reasons given were rapidly rising cost levels and the poor availability of skilled labour. Especially the latter would seem to be of fundamental importance for relocation considerations both from the viewpoints of in- and outbound directions. Estonia has a considerably smaller population than Finland, setting the limits for educational system for education of required labour force even in a longer-term time frame. At present, the demand for and wages of the available workforce continue to grow so fast that companies may not necessarily consider it viable to expand their functions there.

Still, for processes, such as cable manufacturing, requiring only semi-skilled labour there will be labour available also in foreseeable future. Wage levels have also sustained a very favourable level in comparison to Finnish standards, thus making it well justified for companies relocating these functions to Estonia despite rapidly rising local salaries. To make business even more profitable, production plants can also be located outside Tallinn to take advantage of even lower labour and real estates costs.

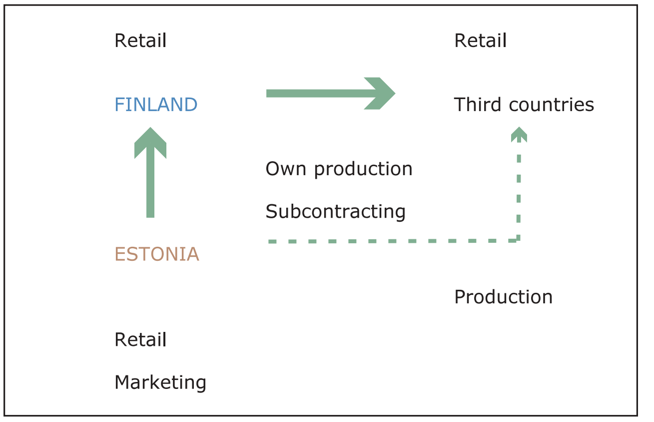
**Examined ICT companies' trade in Estonia in the upcoming years**




Furniture companies' activities in Estonia would not seem to experience any major changes in the upcoming years. Phenomena in respect of production location and activities concentrate on decreasing own local manufacturing on the one hand, and on increasing subcontracting agreements on the other. It is not certain whether these subcontracting agreements are implemented through Estonian, Finnish or third country manufacturers.

If inflation or the EU itself causes cost levels to rise too much, it will swallow companies' contribution margins and erode competitiveness. Therefore, it may well be that production will cease in Estonia and be relocated elsewhere, most likely to extra-EU country such as Russia or an Asian country, where cost levels are considerably more attractive, but problems emerge with corruption, the political climate and labour.

**Examined furniture companies' trade in Estonia in the upcoming years**

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## Fresh Cultural Statistics on Helsinki

The previous issues of Arts and Culture in Helsinki, i.e. English-language versions of the Helsinki Cultural Statistics, have been published in 1995 and 1999. These publications have used both statistics and texts to present Helsinki as a city of arts and culture. The next Arts and Culture is being published in autumn 2004, and a Finnish-language version will be available on the Internet, on the home pages of Helsinki City Urban Facts www.hel.fi/tietokeskus.

The Arts and Culture in Helsinki publications contain an international comparative section, where Helsinki is compared with a number of major European cities in terms of certain so-called urban indicators.

The new issue describes Helsinki as a vibrant hub of arts and culture. The production, use and finances of arts and culture in the city are covered, too. Another crucial theme of the book is how arts and culture form an integral part of life in Helsinki. Everywhere in the city, there is art to be seen and experienced, not least during urban events and festivals.

### *Arts and culture – a success factor for cities today*

Arts and culture is the kind of creative capital that justifies its existence through its existence. Besides, arts and culture have an instrumental meaning. The various genres of art employ, besides the artists themselves, a large number of other people in associated professions. Thus, the financial and social effects of arts and culture are important for cities and for the quality of life of citizens. Arts and culture are today seen as a key factor the national and international competitiveness of cities.

In recent years, the growing importance of arts and culture has been brought to the fore at many forums. The *Helsinki Klubi II*, i.e. the Second Helsinki Club, including members from the fields of business, science, media, cultural institutions and the public administration has defined as one of its key goals to raise Helsinki's cultural profile internationally.

### *Cultural statistics are elaborated both in Finland and abroad*

At present, Statistics Finland is developing a system for regional cultural statistics. 2003 saw the publication of *Kuntien kulttuuritoiminta ja sen kustannukset* (arts and culture activities of municipalities – and their costs), and the *Kulttuuritilasto 2003* (cultural statistics 2003) published in autumn 2004 contains more regional data than earlier. Statistics Finland also has an Internet file for regional statistics. Moreover, the Leisure Survey of Statistics Finland concerns arts and culture, too, and Statistics Finland is working on a system for statistics on the exports of arts and culture.

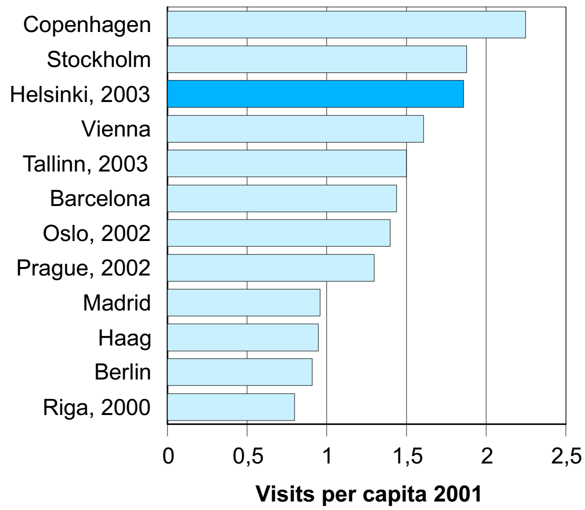
The most recent research and development project for arts and culture in cities is the EUROCULT 21, a two-year project financed by the European Commission and led by Eurocities. It collects information, studies and compares the cultural policies of cities. The project includes 19 European cities and seven research institutes, networks or universities from 12 countries. The City of Helsinki and the University of Helsinki are among the members. The project focuses on the study of practices of cultural administration, on comparative statistics and, above all, on the development of indicators.

Another important project is the Urban Audit II, a joint project of the European Commission, DG Regional Policy and the Eurostat, national statistical offices, and cities, which collects life quality indicators from over 250 European cities. Culture and recreation is one of its nine themes. In Finland, the cities of Helsinki, Tampere, Turku and Oulu are included in the Urban Audit II.

*Timo Äikäs,*
*Senior Actuary*

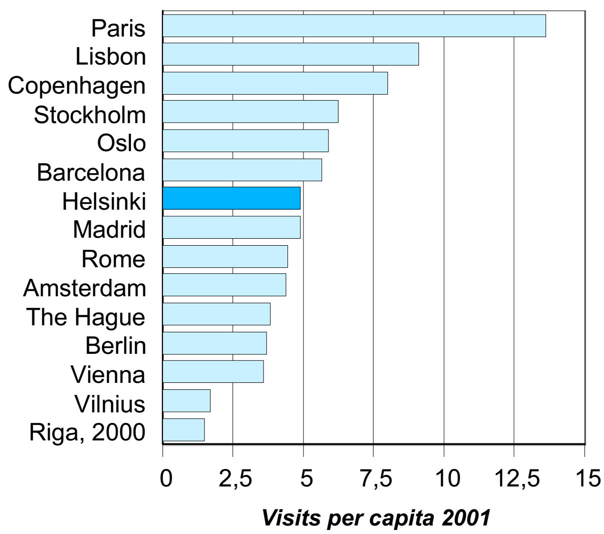
The statistics section of the present Helsinki Quarterly contains preliminary data from the international section of the Arts and Culture in Helsinki, namely the comparisons of per capita visits at the cinema or theatre in 2001. Arts and Culture in Helsinki, which contains articles by many experts in their respective fields in cultural institutions, arts and culture organisations and the state administration, is published shortly after the present Helsinki Quarterly.

**Visits at theatres per capita, 2001 or the latest**




Source: Eurostat, Urban Audit.
Statistical offices of the cities.

**Visits at cinemas per capita, 2001**




Source: Eurostat, Urban Audit.
Statistical offices of the cities.

## Helsinki’s position among metropolises

In her master’s thesis recently approved by the Bayerische Julius-Maximilians-Universität Würzburg, Elke Offenwangerin, MA, views Helsinki’s position among other metropolises of Europe and the rest of the world.

Elke Offenwanger looks at Helsinki from a number of pragmatic perspectives, and the empirical analysis of her work is based on statistical as well as qualitative data collected during a stay in Helsinki in September 2003.

Among others, she makes the conclusion that generally, the image of Helsinki among those living and working in the city is very favourable: quality of life is considered to be high in Helsinki. She continues by noting that although by international comparison Helsinki is not a very large metropolis, most of the amenities found in large metropolises in terms of arts and culture, for example, can be found in Helsinki.

Moreover, she says, Helsinki is a very open, modern and active city by virtue of its architecture, its access to the sea and to nature and its residents’ attitude towards new technologies. And with its well-working welfare state services, Helsinki is a typical Nordic city.

According to Offenwanger, Helsinki’s regional economy is strongly dominated by services, while traditional manufacturing is much less important. The most important economic fields in Helsinki are high-technology, R&D and education followed by finance and banking as well as advertising, accountancy and shipping industry.

In 1995–2000, Offenwanger also notes, Helsinki’s growth in terms of GVA, employment and population was the second fastest in Western and Central Europe. Also, the EU-enlargement in May 2004 gave Helsinki a new opportunity to strengthen its position in Europe and to operate as a gateway city to Russia and Estonia, and probably to move towards the centre of tomorrow’s Europe.

*Magnus Gräsbeck*
*Helsinki Quarterly editor*

Source:

Offenwanger, Elke: *Helsinki: Global City, Stadt an der Peripherie oder im Zentrum des “Neuen Europa”? – Eine qualitative Studie*. MA thesis. Bayerische Julius-Maximilians-Universität Würzburg, 2004.

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# Helsinki in European Comparison


Sources: Urban Audit II, preliminary results, September 2004.
European Commission, DG Regional Policy and Eurostat.
City of Helsinki Urban Facts.
Statistics Finland.

More information: Leila Lankinen and Tea Tikkanen. firstname.surname@hel.fi
Opening of the Urban Audit Website at the City Summit 18 October 2004, Noordwijk-Leiden
http://www.urbanaudit.org

## Gross National Product, GNP, NUTS-3 level, 2001

| NUTS 3 region | GNP EU=100 |
|---|---|
| Amsterdam | 176 |
| Athens | 71 |
| Berlin | 90 |
| Bratislava | 102 |
| Brussels | 218 |
| Budapest | 105 |
| Copenhagen and Frederiksberg | 191 |
| Helsinki | 144 |
| Lisbon | 123 |
| Ljubljana | 94 |
| Madrid | 113 |
| Paris | 302 |
| Prague | 136 |
| Riga | 50 |
| Rome | 121 |
| Stockholm | 145 |
| Tallinn | 61 |
| Vienna | 156 |
| Vilnus | 51 |

Source: Statistics Finland.

## Population density, NUTS-3 level, 2001

| NUTS-3 region | Inhabitants per sq.km |
|---|---|
| Amsterdam | 1 633.5 |
| Athens | 1 025.0 |
| Berlin | 3 798.1 |
| Bratislava | 291.8 |
| Brussels | 6 018.6 |
| Budapest | 3 331.4 |
| Copenhagen and Frederiksberg | 6 070.1 |
| Helsinki | 210.2 |
| Lisbon | 1 792.7 |
| Ljubljana | 192.2 |
| Luxemburg | 170.9 |
| Madrid | 652.6 |
| Paris | 20 355.8 |
| Prague | 2 349.3 |
| Riga | 275.0 |
| Rome | 722.3 |
| Stockholm | 282.1 |
| Tallinn | 120.9 |
| Vienna | 3 875.2 |
| Vilnus | 87.1 |

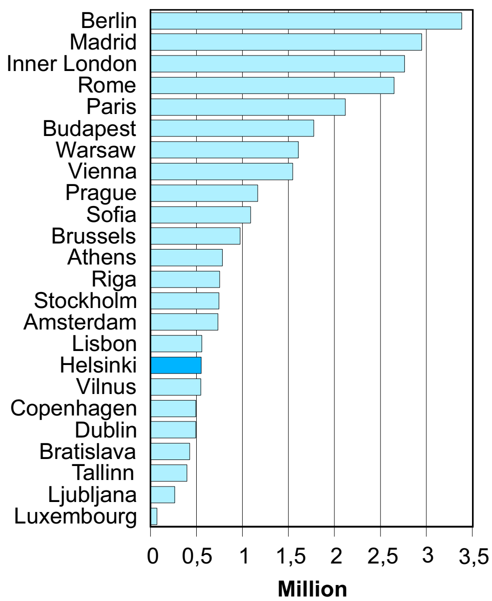
Source: Statistics Finland.

## Population changes, NUTS-3 level, 2001

| NUTS-3 region | Nativity per 1 000 in. | Mortality per 1 000 in. |
|---|---|---|
| Amsterdam | 14.0 | 8.7 |
| Athens | 9.6 | 8.9 |
| Berlin | 8.8 | 10.3 |
| Bratislava | 7.9 | 9.5 |
| Brussels | 14.2 | 10.6 |
| Budapest | 8.2 | 13.9 |
| Copenhagen and Frederiksberg | 16.0 | 12.4 |
| Helsinki | 12.3 | 7.5 |
| Lisbon | 12.6 | 9.9 |
| Ljubljana | 9.7 | 8.2 |
| Luxemburg | 13.0 | 8.7 |
| Madrid | 11.0 | 7.5 |
| Paris | 15.0 | 7.6 |
| Prague | 8.0 | 11.3 |
| Riga | 7.5 | 12.9 |
| Rome | 9.4 | 8.9 |
| Stockholm | 12.0 | 8.7 |
| Tallinn | 9.3 | 11.6 |
| Vienna | 9.7 | 10.9 |
| Vilnus | 8.7 | 10.0 |

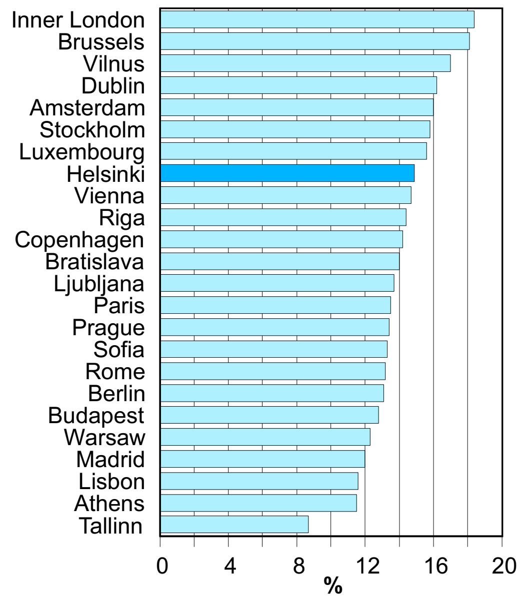
Source: Statistics Finland.

**Total Resident Population 2001**



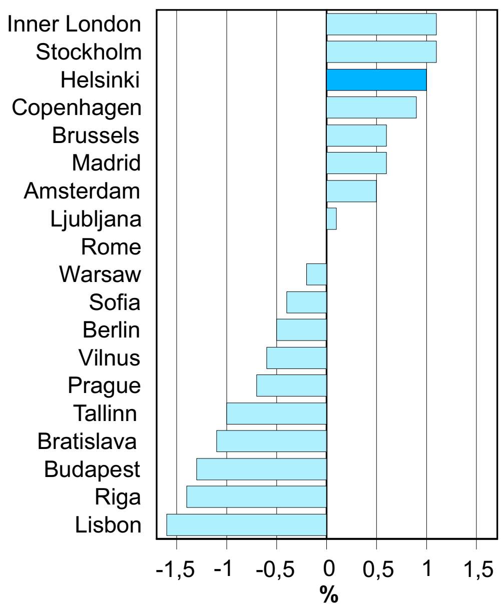

Source: Urban Audit II, European Commission, DG Regional Policy and Eurostat.

**Proportion of total population aged under 15 in 2001**



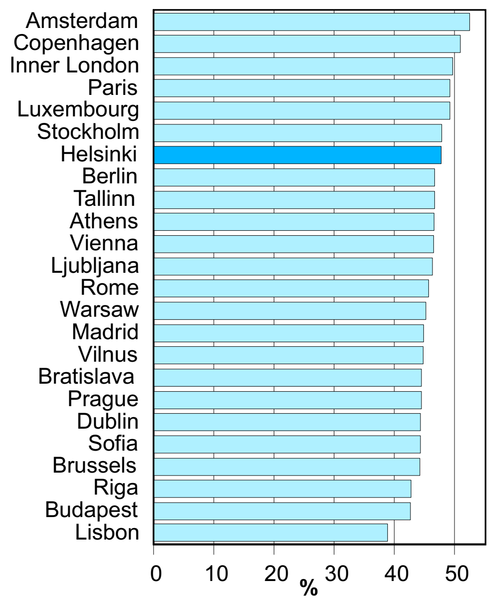

Source: Urban Audit II, European Commission, DG Regional Policy and Eurostat.

**Average annual population change over five years 2001**



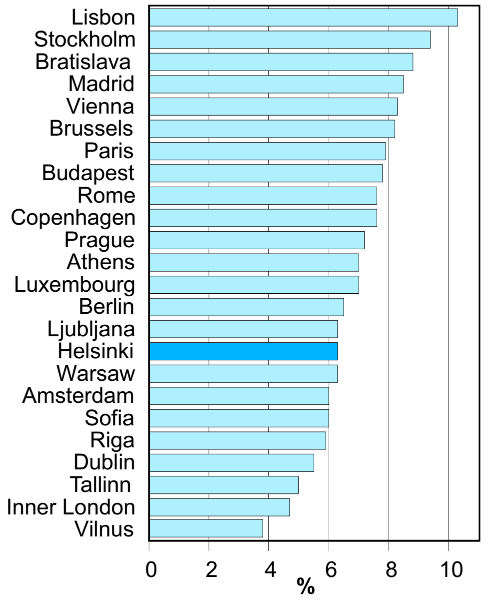

Source: Urban Audit II, European Commission, DG Regional Policy and Eurostat.

**Proportion of total population aged 25–54 in 2001**



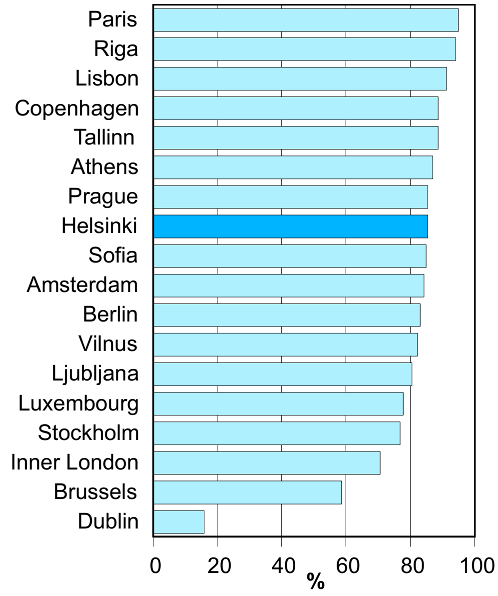

Source: Urban Audit II, European Commission, DG Regional Policy and Eurostat.

**Proportion of total population aged 75 and over in 2001**



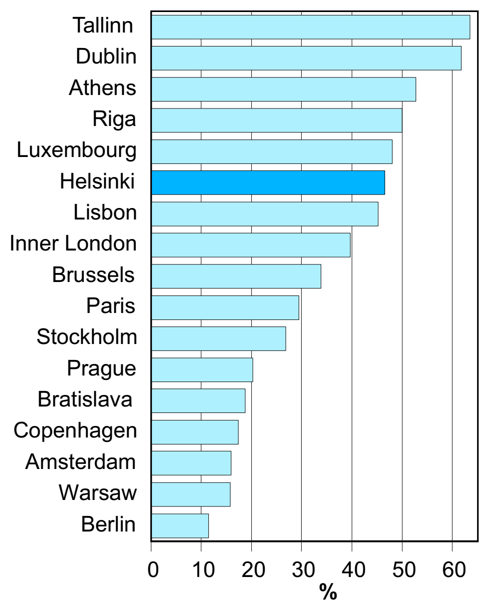

Source: Urban Audit II, European Commission, DG Regional Policy and Eurostat.

**Proportion of households living in flats 2001**



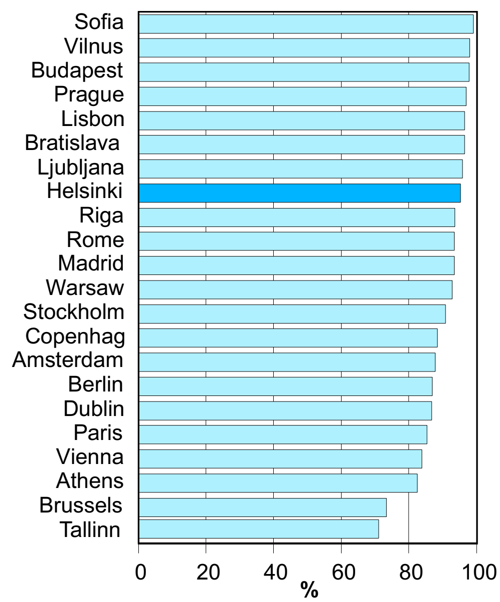

Source: Urban Audit II, European Commission, DG Regional Policy and Eurostat.

**Proportion of households living in owner occupied dwellings 2001**



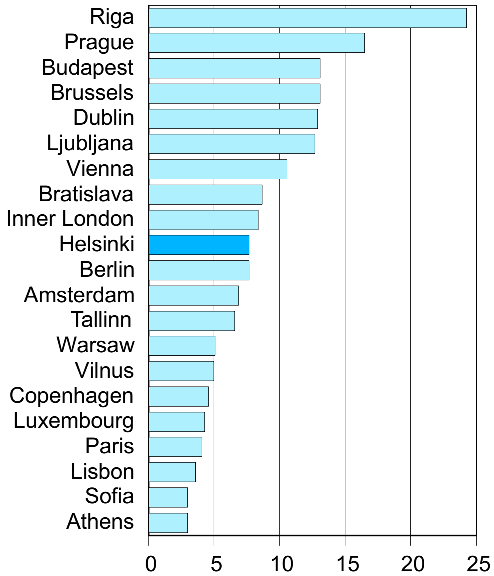

Source: Urban Audit II, European Commission, DG Regional Policy and Eurostat.

**Nationals as a proportion of total population 2001**



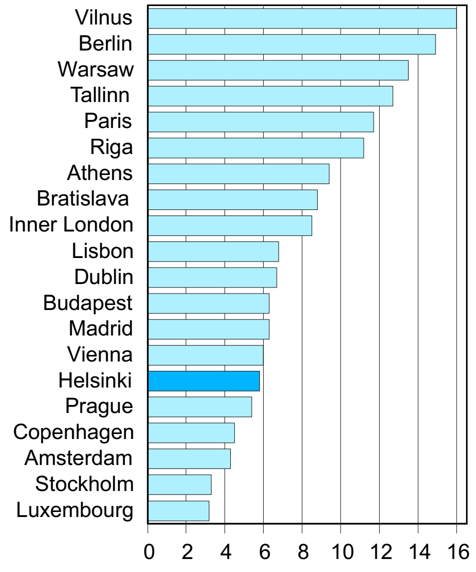

Source: Urban Audit II, European Commission, DG Regional Policy and Eurostat.

**Proportion of households that are one parent households 2001**



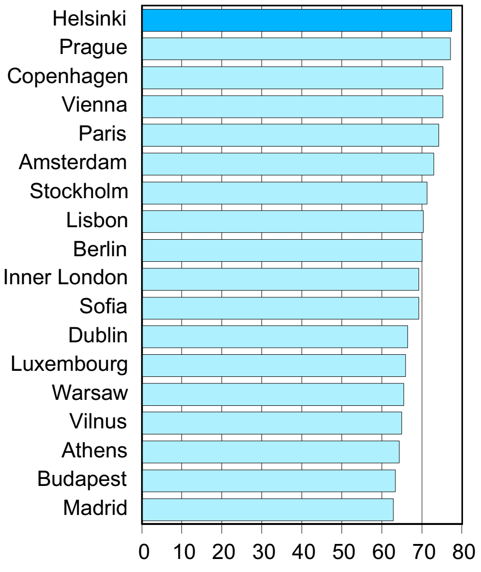

Source: Urban Audit II, European Commission, DG Regional Policy and Eurostat.

**Unemployment rate 2001**



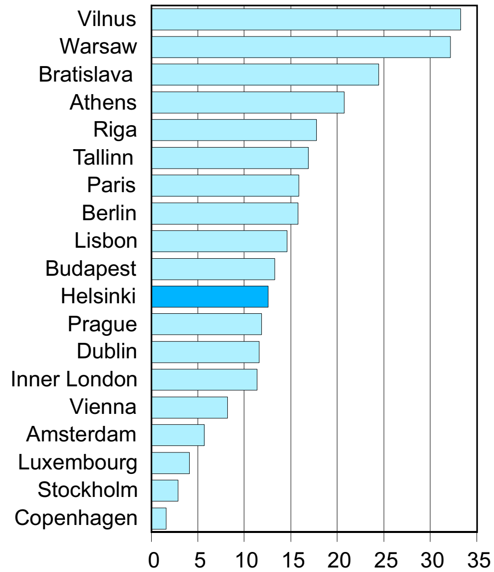

Source: Urban Audit II, European Commission, DG Regional Policy and Eurostat.

**Proportion of economically active in the population 2001**



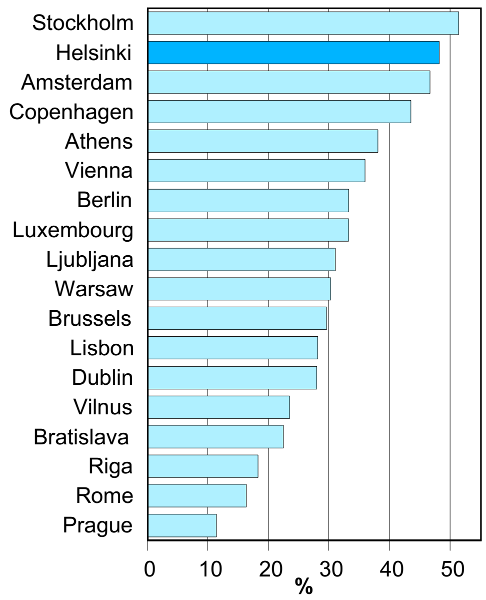

Source: Urban Audit II, European Commission, DG Regional Policy and Eurostat.

**Unemployment rate for 15–24 year-olds 2001**



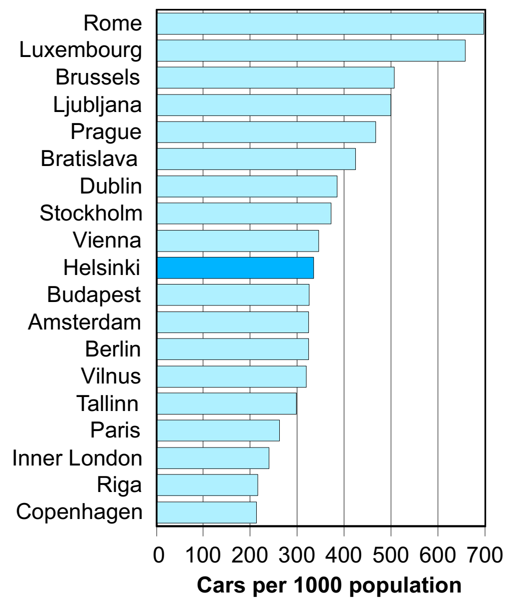

Source: Urban Audit II, European Commission, DG Regional Policy and Eurostat.

**Percentage of women among elected city representatives 2001**



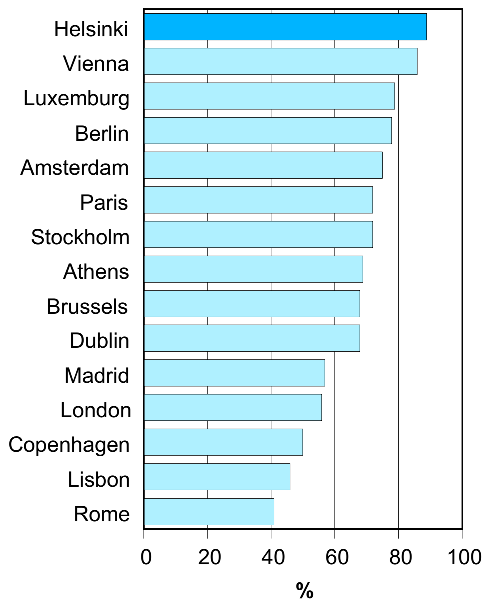

Source: Urban Audit II, European Commission, DG Regional Policy and Eurostat.

**Number of cars registered per 1000 people 2001**



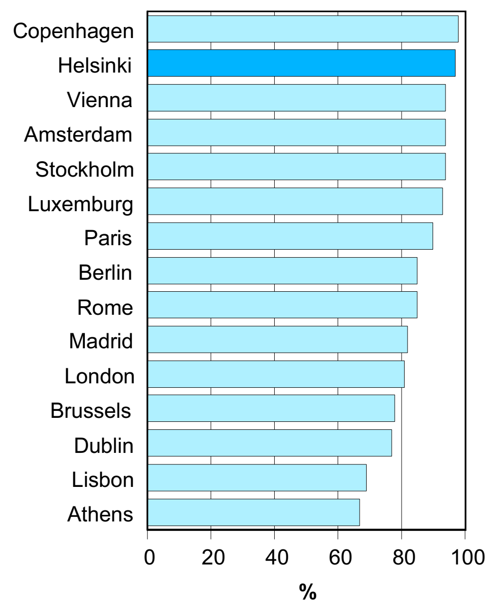

Source: Urban Audit II, European Commission, DG Regional Policy and Eurostat.

**Urban Audit perception index 2004: Satisfied with public transport**



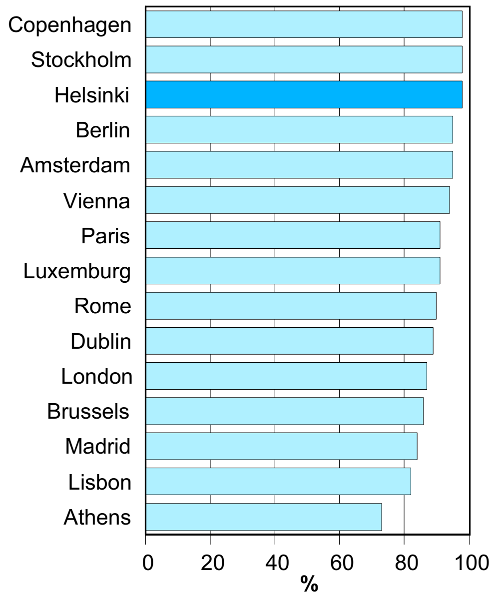

Source: Urban Audit II, European Commission, DG Regional Policy and Eurostat.

**Urban Audit perception index 2004: Feel safe in this city**



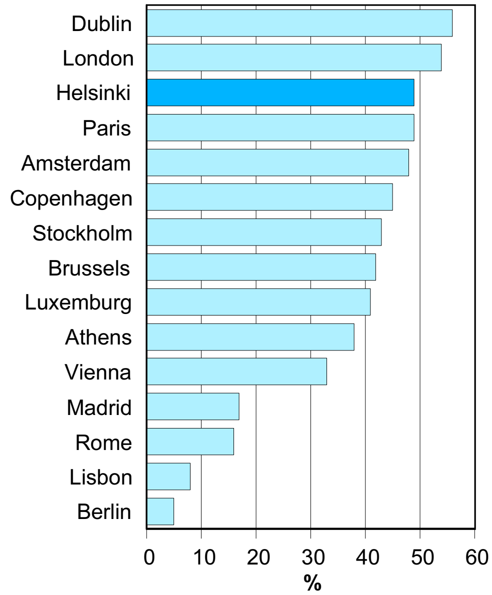

Source: Urban Audit II, European Commission, DG Regional Policy and Eurostat.

**Urban Audit perception index 2004: Feel safe in this neighbourhood**



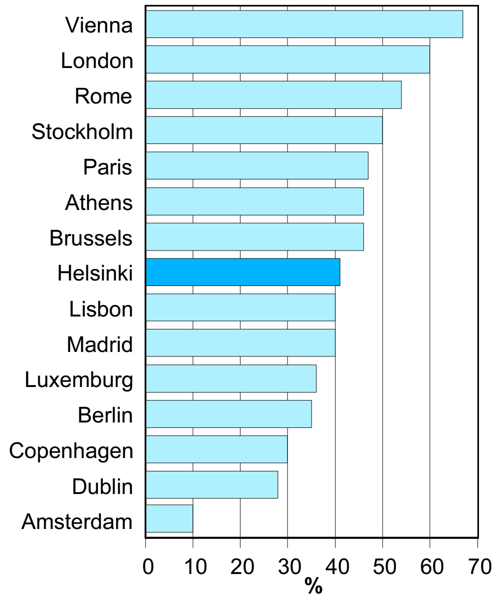

Source: Urban Audit II, European Commission, DG Regional Policy and Eurostat.

**Urban Audit perception index 2004: It is easy to find a good job here**



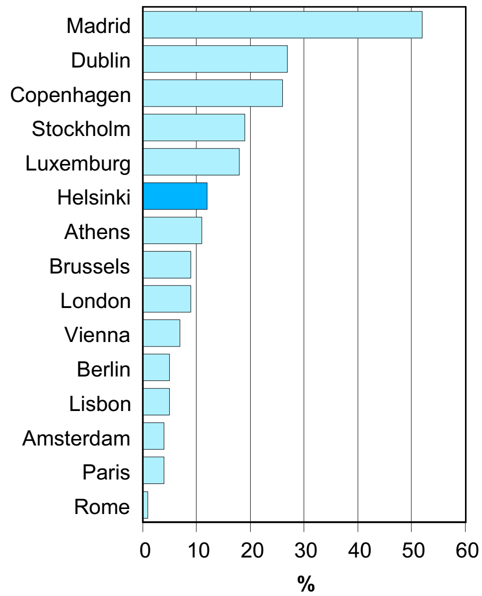

Source: Urban Audit II, European Commission, DG Regional Policy and Eurostat.

**Urban Audit perception index 2004: Foreigners are well integrated into this city**




Source: Urban Audit II, European Commission, DG Regional Policy and Eurostat.

**Urban Audit perception index 2004: It is easy to find good housing at reasonable price**




Source: Urban Audit II, European Commission, DG Regional Policy and Eurostat.