

## **REGIONAL DEVELOPMENT vs. INNOVATION – THE MAIN ENGINE OF ECONOMIC GROWTH**

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**ABSTRACT:** *Regional development and innovation are vital processes for social and economic growth of Europe. In the current period, deeply affected by the financial and economic crisis with major demographic changes, intense global competition, many budgetary restrictions, the competitiveness in Europe as well as its capacity to create new jobs, briefly, our life standard depends on its ability of innovation in products, services and commercial and social processes. This is the reason why innovation has been placed at the heart of Europe Strategy 2020. Furthermore, health, energy supply, major climate changes, environment with its limited resources, and the population aging are major social challenges that are approached by innovation. Starting from all these aspects, we are facing now the following questions: on what shall be based the next competitiveness in Europe? How will we generate a new growth and how will we re-launch Europe's economy?*

**KEY WORDS:** *economic growth; regional development; innovation; research and development.*

**JEL CLASSIFICATION:** *G01; R11.*

### **1. INTRODUCTION**

The European Union represents one of the most prosperous economic areas of the world, but the differences between the Member States are striking. In other words, not all the Europeans have the same advantages and successful opportunities to face the challenges of globalization phenomenon. Everything depends on the area where they live, if there are in a prosperous region or a poorer one, in a dynamic or in a declining one, in the city or at the country, in the periphery of the Union or in one of his main centres. In order to increase productivity, the European Union needs more innovation and more investment in education, training and lifelong learning. The access to new jobs, business competitiveness and investment in new technologies for electronics economy is the responsibility of economic agents and national and regional

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authorities. In this regard, the Member States implement a European regional policy since a single region of ten reached the Europe 2020 target of investing 3% of GDP in research and development.

In order to achieve the objective of sustainable development, the economy of the European Union must become dynamic, based on knowledge and growth oriented. Europe must also react more quickly to market conditions and changing preferences of consumers and it has to become more inventive. Society and economy as a whole must also become favourable to innovation.

## **2. THE REGIONAL DEVELOPMENT CONCEPT**

One of the most important and most complex policies of the European Union is the regional development policy. This acts on some significant fields for regional development like economic growth and SME sector, transports, agriculture, urban development, protection of environment, employment and training, education etc.

The regional development concept is derived from economic development and it is focused on territorial, regional or local aspects of this development. The regional development requires the use of resources, primarily the local ones, but also those attracted from the national and international environment to increase territory competitiveness. The main instrument of regional policies is given by the volume of financial resources that can be deployed to sustain regional development programs. The financial sources initially come from local taxes, respectively transfers from central budget. But sustaining the regional development only through this type of resources means entering a vicious circle of regional imbalances, whereas the areas with an intense economic activity will be able to collect more resources compared to less developed areas and therefore, they will experience a more sustainable development. This means that the chance of less developed areas will depend on the opportunities to attract investors by giving them various facilities. In addition, the transfers from the central budget are essential to create favourable conditions of social and economic developments in less developed areas. Besides financial resources derived from local taxes or from transfers from central budget, the regional policy has as additional financial sources, the community contribution made by Member States, namely its main funds: the Cohesion Fund and the Structural Fund.

The traditional objective of regional development policies is to reduce traditional disparities, achieving a relative balance between the levels of economic and social development of different areas of the national territory.

Most of the countries, including those economically developed, face regional problems and therefore they apply regional development policies. This happens because some parts of the national territories have been neglected or they have known a certain delay in their general development, as in the case of southern Italy or western Ireland. On the other hand, other regions are experiencing a strong economic growth due to the tendency of focusing some leading economic activities in certain areas of the country. When these disparities have reached a level considered unacceptable, the public authorities have sought to neutralize causes and effects by different means. The adopted policies have mainly aimed for measures for regions in difficulty. For the

implementation of these policies it is firstly necessary to identify regions confronted with problems and adopting a series of measures in public spending, infrastructure, enhancement of lands, urbanization and economic development in general.

In order to reduce regional disparities, for better area utilization, distribution of activities, environment protection and improvement of life quality, the main objectives of regional strategies are the following:

- the development of slightly lagging regions and growth control in regions that have been developing very fast which means reducing territorial imbalances;
- creating jobs, improving the standard of living and quality of life;
- the environment protection as well as managing human resources and their conservation;
- the balanced development of urban and rural centres and rational use of territory, in other words the large industrial complexes must be located so as to protect farmland and forestry.

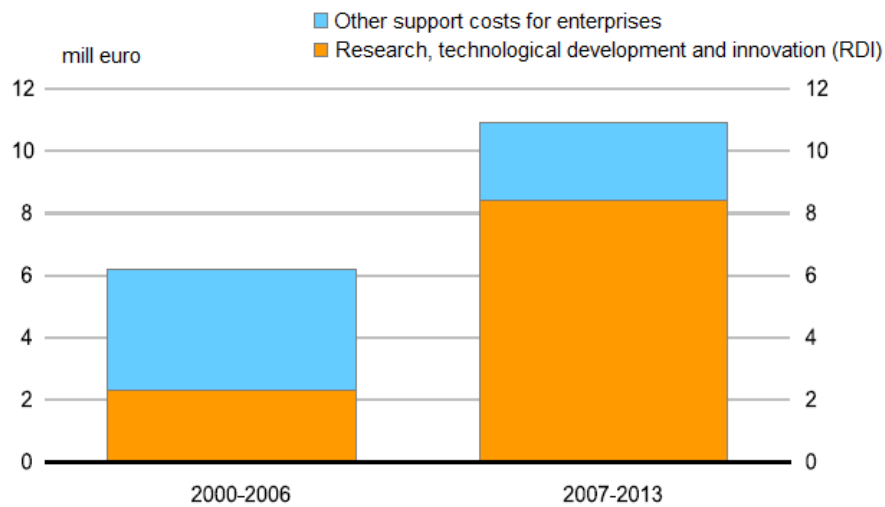
A sustainable regional development requires an efficient use of funds, not to mention a greater ability of regions to change and innovate.

### **3. THE CONCEPT OF INNOVATION**

The capacity of regional economies to change and innovate represents the essential element leading to sustainable economic growth. As such, we need to do more to create an environment that encourages innovation, research and development (R&D). Innovation supports smart, sustainable and inclusive growth and constitutes the core of Europe 2020 Strategy, agreed by Member States in the European Council in June 2010. The Initiative „An Union of innovation” is one of the seven flagship initiatives announced in Europe 2020 Strategy, and aims to improve conditions and access to finance for research and development, so that innovative ideas can be turned into products and services that create growth and jobs.

The European Union should fight to create a true „Innovation Union” until 2020 by creating a strategic policy of research and innovation that is oriented towards businesses and favourable to integration. This strategy should target major societal challenges (health and population aging, energy supply, major climate changes, environment and its limited resources), creation of new jobs and economic competitiveness. Furthermore, the Union must prioritize European innovation partnerships, investments in education, making Europe a place where the innovation and realization of ideas enjoy more rewarding.

The Cohesion Policy is the largest source of funding at EU level that aims research, technological development and innovation. There was a significant increase in the overall support for enterprises (as grants for modernization and expansion of capital base) between past and current programming periods (Figure 1). This increase, based on innovative measures includes research grants for private sector, and research institutions, investment in formal education and vocational training to provide workers with qualifications and skills, business support services, technology transfer, venture capital and loans etc.



**Figure 1. Annual expenses for enterprise and innovation, the period**

*Source: Spending plan EU 25*

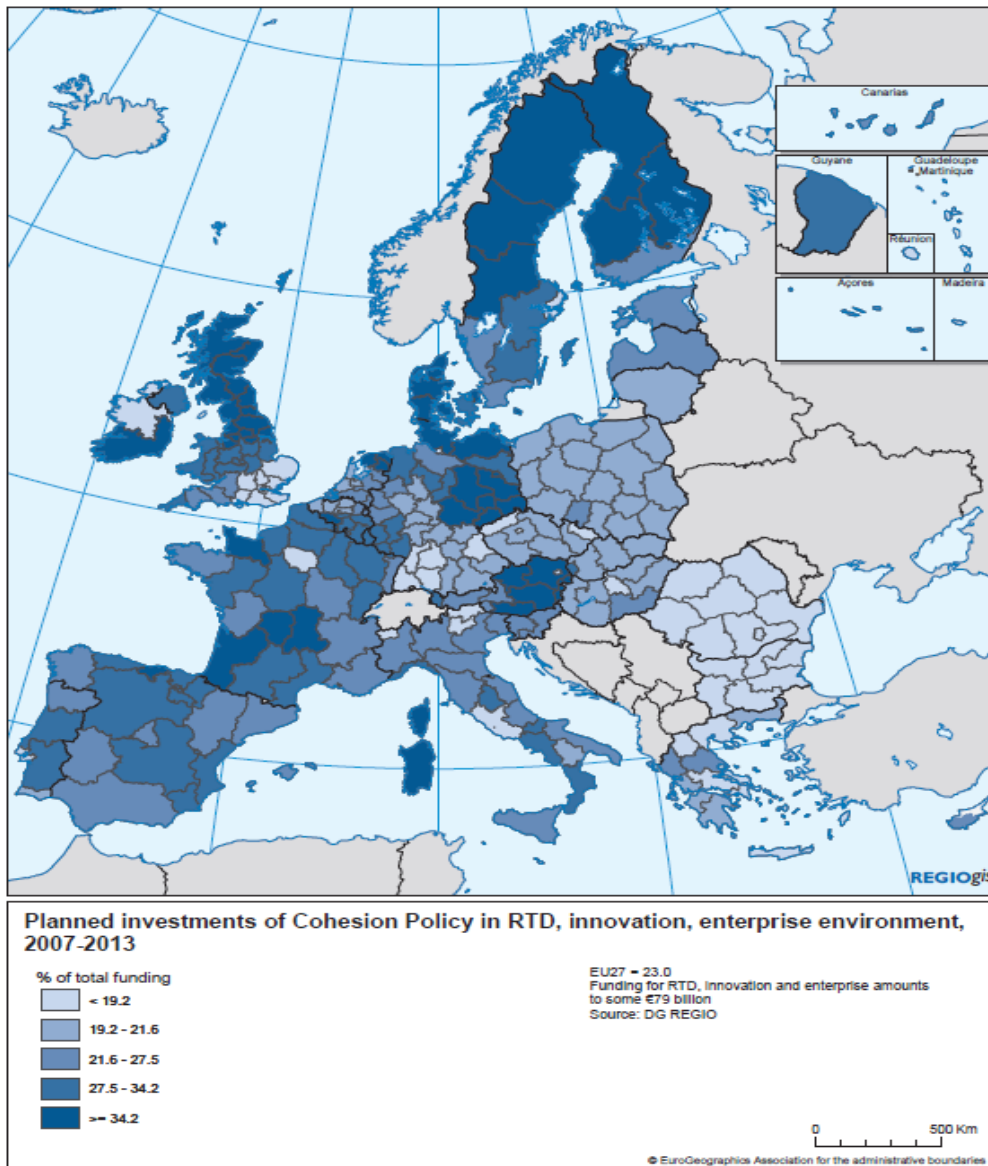
In the period 2007-2013, the instruments of cohesion policy have set out about 86, 4 billion euro (almost 25% of the total budget) for R&D and innovation, as follows:

- 50,5 billion euro will be allocated strictly to *R&D and innovation* for infrastructure related to research and technological development and competency, for investment in firms directly linked to research, assistance provided particularly to SME to stimulate research and technological development, etc.;
- 8,3 billion euros will be allocated to *entrepreneurship* for advanced support services for enterprises, to support independent activities and start-up enterprises, etc.;
- 13,2 billion euros will be allocated to *information technology and innovative communication*, to stimulate demand for ICT services and applications addressed to citizens (health and administrative online services, on-line learning and electronic integration, etc.), for services and applications for SMEs (e-commerce, education and training, network creating), etc. ;
- 14, 5 billion euros will be allocated to *human capital* to develop strategies and permanent learning systems in enterprises, trainings and services for employees, promoting entrepreneurship and change, etc.

There are big disparities between member states and EU in innovation and R&D, disparities much more persistent at a global level. Europe must quickly react to market conditions and changing preferences of consumers and it must become more inventive. Society and economy as a whole must also become favourable to innovation.

The performances in R&D and innovation vary widely within the EU. The discrepancy between the targets of 3% of GDP expenses related to R&D varies a lot from a region to another: only 27 regions of EU, approximately one of ten have reached the target (see map 1). The agglomeration effects make the resources of R&D to focus in some leader-regions (for example, in Braunschweig, Germany, where the

expenditures with R&D represents almost 7% of GDP) and very low in others (for example, in Severentsentralen, Bulgaria, where these represent less than 1 %.)



**Map 1. Cohesion Policy Investment in terms of expenses for Research, Development and Innovation in EU**

*Source: Communication from the Commission to the European Parliament, Council, European Economic and Social Committee and Committee of the Regions, Contribution of the Regional Policy to smart growth in Europe 2020, European Commission, Brussels, 6.10.2010*

Europa must invest in the development of better ideas. This is mainly the role of private sector. However, Europe is investing approximately 15 billion EUR per year less than the United States in venture capital, and concerning research and development in enterprises, in order to reach the objective of 3% of GDP dedicated to research and development we need investments 100 billion EUR higher each year. Also, there are little investments in the knowledge base, spending each year 0,8% of GDP less than in the United States and 1,5% less than Japan for research and development – with big differences related to research and development in enterprises and venture financing – while education systems need reforms. In the private sector, research and development are increasingly outsourced to emerging economies, while the best researchers and innovators go by thousands in countries where conditions are more favourable. Countries like China or South Korea are catching up and go from being imitators to leaders in innovation. Unlike the EU, these countries follow a strategic approach to create an environment open to innovation. Their development creates huge commercial opportunities and new possibilities of cooperation, but they exert a considerable pressure on our enterprises. Meanwhile, the United States and Japan continue to position themselves ahead of EU in the field of innovation performance. The European Union must face challenges and exploit its huge potential in science and innovation.

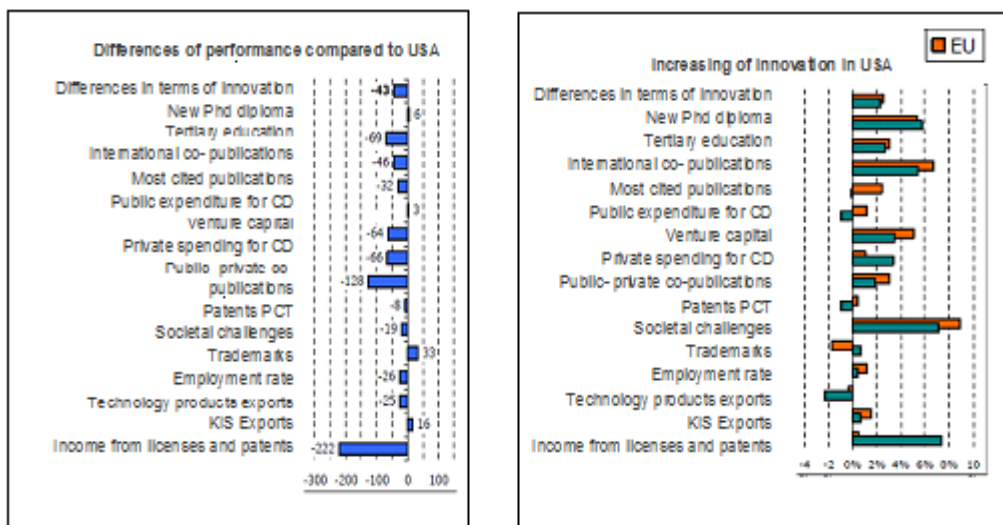


Figure 2. Compare between EU and USA

Source: Communication from the Commission to the European Parliament, Council, European Economic and Social Committee and Committee of the Regions, Emblematic initiative of Europe 2020 Strategy, An Innovation Union, Brussels, 6.10.2010

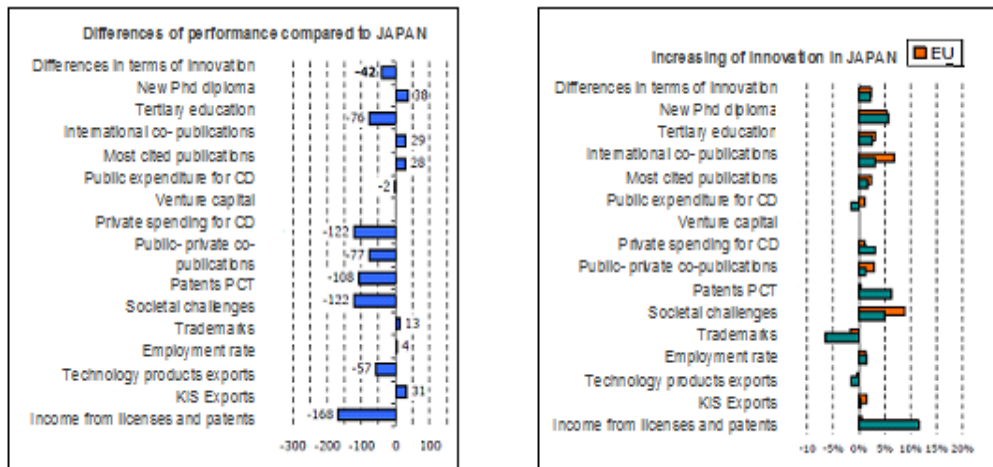


Figure 3. Compare between EU and JAPAN

Source: Communication from the Commission to the European Parliament, Council, European Economic and Social Committee and Committee of the Regions, Emblematic initiative of Europe 2020 Strategy, An Innovation Union, Brussels, 6.10.2010

At national level, The National Plan for Research, Development and Innovation 2007- 2013 represents the main instrument through which The National Authority for Scientific Research (ANCS) implements the National Strategy for Research, Development and Innovation (RDI). **The general objective** of innovation programme is to increase innovation capacity, technological development and uptake of research results to improve national economy competitiveness and life quality.

**The specific objectives** are to strengthen the innovation capacity of enterprises and consolidation of their contribution to create new products and markets, stimulate the partnership between economic agents and research entities, the development of the capacity of technological transfer in universities, creation and development of innovation infrastructures, infrastructure and quality management, etc.

Despite unfavourable economic conditions, the Member States and the regions committed themselves to support smart growth. To achieve the goal of spending 3% of EU GDP for research and development (RD) until 2020, according to recent estimates, we could create 3,7 million jobs and annual GDP could increase with almost 800 billion EUR until 2025. Although EU market is the biggest in the world, it is still fragmented and insufficiently open to innovation.

#### 4. CONCLUSION

Innovation is important for all regions, both for the most advanced, in order to keep their position, and for those less advanced in order to catch up the advanced. (Wintjes & Hollanders) The European Commission encourages Member States and regions, as well as enterprises, universities and research centres to optimize their

investment opportunities. To achieve the objective of smart growth for Europe 2020, we have to mobilize the entire potential of innovation of EU regions.

The times in which economic growth was going away by itself and in which the regional policy had only to steer this growth are outdated today. The economic policy is responsible to promote economic growth throughout the country by encouraging competitiveness and ability of regions to develop through themselves. It is considered that we should be given a broader sense to the concept of regional disparity, a disparity which in actual sense is limited to production, incomes and unemployment. In the current period new types of imbalances appear, especially in terms of environment quality, endowment with infrastructure elements, education possibilities, capital possibilities, access to competition and others. All these elements relate to upstream disparities which affect the context in which the enterprises and local authorities operate. Based on these aspects, a region's economic growth requires a sustainable regional development, an efficient use of public funds, an increased capacity of regions to change and innovate and maybe an increased influence on private investments.

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