INVESTMENT AND INNOVATION IN SUPPORT OF RURAL DEVELOPMENT IN ROMANIA

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ABSTRACT: Globalization, migration trends, information's, changes in rural policies and the emergence of important non-farm niche markets put rural regions in direct competition confronting them with threats and opportunities that require new policy approaches at the national and sub-national level. Against this fast changing scenario, policy makers need to re-think their priorities for rural investments. These research's paper try to answer to key questions: 1) What sectors hold potential for rural development? 2) What kind of investments and policies can help release such potential? Evidence from across the OECD shows that the capacity of regions, whether urban or rural, to support processes of learning and innovation is a key source of competitive advantage. Innovation in rural areas can be about 'doing traditional activities in a new way', about starting up new businesses or about changing the way government interacts with citizens. In all these cases innovation is strongly linked with social processes such as the creation of networks, the strengthening of local identities, and the creation and dissemination of knowledge.

Keywords: innovation, support of development, technology platforms

JEL Codes: O10, O20, O30, O31

Introduction

Successful economic development is a process of successive upgrading, as nations develop, they progress in terms of their characteristic competitive advantage and modes of competing.

Technological innovations comprise new products and processes and significant technological changes in products and processes. An innovation has been implemented if it has been introduced on the market (product innovation) or used within a production process (process innovation). Innovations therefore involve a series of scientific, technological, organizational, financial and commercial activities". The complete innovation process involves creation of the new and its implementation. The later can be done directly or after a transfer process through the knowledge market. The innovation infrastructure bridges the research system and the innovation drivers, basically including:

- Incubators, which provide basic infrastructure for start-ups;
- Technological parks, which provide experimental facilities;
- The knowledge market (transfer of intellectual property and technological transfer).

In particular, the evolving views reflect the transition from the linear view on the innovation process to the current systemic one. While both of them position RD as either the initiating or the decisive factor of the innovative process most recent approaches tend to give always-higher emphasis to factors defining innovation outside research and even outside the technological

progress, as well as to other related sides of the phenomenon as organizational and managerial changes.

Policies fostering investment and innovation in support of development

The proposed framework is based on the most recent theoretical background underpinning the Lisbon strategy and its further developments and describes both the role of innovation in the economic structure of a country, and the functionality parameters of the innovation system defined. Usually the innovation process involves five elements:

- the research system (which is the center of knowledge production);
- the innovation drivers (enterprises, which transform knowledge into market products);
- the innovation infrastructure;
- the capital and financing channels;
- the labor resources and education services (human capital).

In reality the five elements are often overlapping, as for instance a research unit can also function as an innovation driver, companies might have their own research units, etc. but theoretical simplification may be more useful in order to grasp better the different functions of an RDI system.

Most of the domestic firms produce goods or services designed in other, more-advanced countries. Technology is assimilated through imports, foreign direct investments and imitation. Firms have limited roles in the value chain, focusing on assembly, labor intensive manufacturing, and resource extraction. However, there is also a part of the economy, which may be considered investment-driven. The last couple of years have brought new investment in efficient infrastructure and policy measures aimed at creating a business-friendly administration. The products and services become more sophisticated. Technology is accessed through licensing, joint ventures, FDI and imitation. At the same time, embryos of an innovation-driven economy have developed, especially in the Information and Communication Technology sector, which has a high competitive potential.

At the current level of development of Romanian economy the urge for structural reforms tends to shadow the more subtle, whilst equally important, issue of innovation. While EU is currently most concerned with social cohesion, job creation and priority to research and innovation, this seems less applicable to Romania in the short-run, where restructuring (incl. job destruction), wage limitation, control on inflation and improving basic business environment (incl. control on payment arrears) are the top priorities. Romania, as candidate country is guided primarily by the Copenhagen criteria following the target of "establishing a functioning market economy and having the capacity to withstand competitive pressure and market forces within the Union". While integration into the single market without market economy is not possible, lack of emphasis to preparing the capacity of the country to withstand the competitive pressure might hinder the country position in the longer run. A decisive action in the field of Research-Development and Innovation might be the key of reconciling the two sets of objectives.

Policies fostering investment and innovation are considerer in European Union as increasing economics vector, competitiveness and rural development. The global economy has helped to create for many business today an environment of hyper competition. Because the competition is direct and intense, any competitive advantage that is realized is temporary. Successful of company are often copied and firms must continue to find new strategies (new products, services, organizational informational) that deliver new sources of competitive advantage.

Often the successful entrepreneurial is usually based on a significant *innovation.* This might be a technological innovation, for example a new product or a new way of producing it, it might be an innovation in the way something is marketed or distributed, or possibly an innovation in the way the organization is structured and managed, or in the way relationships are maintained between organization.

Many OECD and non-OECD countries face severe challenges in terms of providing services to their rural citizens. The combination of geographic remoteness with an ageing and shrinking rural population and low tax bases questions the financial sustainability of rural services even in the most developed OECD countries, while on the other hand access to quality services may be seen as a basic entitlement of citizenship and as an element of social justice.

The innovative companies in the economies - Technology platforms

The knowledge economy puts in the center of the innovation system the **innovative enterprise**, of which technological / knowledge investment decision, therefore behavior, is the very driver of economic growth (Soete, 2004). It balances the expected benefit from innovation given the perceived consumer preferences with the cost of developing traditional products at the average profit margin, on a specific market, and are initiating the innovative process, based on their market strategies. Therefore, firms acting as innovation drivers should not be regarded as a passive demand for knowledge, but rather as active designers of the innovation.

Sustainable development is development that meets the needs of current generations without compromising the ability of future generations to meet their needs. In this context, environment and natural resources are capital that must be maintained in order to support sustained economic activity. Protecting the environment thus preserves the very basis for development.

Environmental sustainability refers to the need to protect biological and physical systems that support life (e.g. ecosystems, the hydrological cycle and climatic systems). Environmental sustainability is a cross-cutting principle which needs to be integrated across all areas of decision making.

This requires development planners to assess the environmental impact of all proposed policies, programmes and projects, and to take action to minimize the adverse environmental impacts and to take advantage of opportunities for environmental improvement

Policy makers across the OECD increasingly recognize that strategies for rural and urban areas cannot be discussed as separate items. The development dynamics of these region types are strongly linked and the understanding of such linkages can open up new opportunities for both rural and urban development. Of particular focus are issues such as comparative advantage, land use, transport and communication infrastructure, and co-operation between local governments.

The Technology platform-is consider the key benefits of the development. European Technology Platforms are playing a key role in the preparations for the EU Seventh Framework Programme (FP7) For the 7th R&D Framework Programme, EU Commission has created a new tool, Technology Platform, characterized by

- Shared vision
- Long-term perspective (2030)
- Major challenges

Technology Platforms unite stakeholders from industry, the research community, public authorities, the financial community, regulators, consumers and civil society around a specific technological challenge. The key concepts for the Technology platform are:

- Development of a shared long-term vision
- Creation of a coherent, dynamic strategy to achieve the vision
- Implementation of an action plan to deliver agreed programmes of activities
- Leading role of the industry.
- The Technology Platform is managed as a project with a High Level Group as the decision body. For Romania national support groups are important elements of the organizational structure. They will have a key role in securing national support for the platform.

Conclusion

Noteworthy, for all companies, the quality of the business environment is strongly correlated with their propensity to innovate. In Romania, the business climate has improved over the last years, but much remains to be done in order to create a friendly environment for doing business and for innovating. Several monitoring instruments have shown, among others, that in Romania businesses complain about market entry and exit procedures, which they still perceive as obstacles, about legislative instability or about the high amount of red tape, which increases the cost of doing business. All these regulatory and administrative barriers hamper business creation and development, thus reducing the number and the economic power of potential innovation drivers. Product market regulations are generally complying with the relevant *aquis*, being of moderate stringency. Strong employment regulation, instead, as Romania has, would favor, according to the OECD countries, high-tech high-concentration industries. For these, innovation is incremental, therefore it is less costly to further train a current employee than to hire and prepare a new one. Further development of the ICT sectors, currently perceived as most innovative, are favored by this structure.

The technology Platform will serve as an important catalyst in all these areas, not least by bringing stakeholders together for common goals. The key benefits are:

- Engages all key stakeholders and provides a forum for public-private dialogue and partnership.
- Facilitates targeted investments in research and development.
- Mobilizes and focuses existing research and development capabilities, thereby fostering a more efficient approach to innovation.
- Stimulates coordination of European and national research agendas.
- Supports the ongoing development of a relevant knowledge base for the sector.
- Contributes to the overall growth of the EU economy.

The knowledge economy puts in the center of the innovation system the innovative enterprise, of which technological/knowledge investment decision, therefore behavior, is the very driver of economic growth. It balances the expected benefit from innovation given the perceived consumer preferences with the cost of developing traditional products at the average profit margin, on a specific market, and are initiating the innovative process, based on their market strategies. Therefore, firms acting as innovation drivers should not be regarded as a passive demand for knowledge, but rather as active designers of the innovation.

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