

THE ROLE OF COHESION POLICY IN STRENGTHENING EUROPEAN UNION'S INNOVATION AND RESEARCH POTENTIAL

Maria CHISCA¹, Boris CHISTRUGA²

^{1,2} Academy of Economic Studies of Moldova, Chisinau, Republic of Moldova

Abstract

The cohesion policy as a structural policy plays an important role in promoting growth and economic development across all EU regions, in line with the objectives of the Europe 2020 Strategy. The research paper shows that a considerable amount of resource has been dedicated to the physical development of research infrastructures and activities in business or science parks, incubators and centres of competence. In addition, soft measures have also been supported like technology transfer and improvement of cooperation networks, assistance to SMEs in research and technological development and eco-innovation uptake and developing human potential in research and innovation. This research-paper will help to understand that investing in innovation and research will contribute to transforming knowledge into growth and better jobs with concrete targets to be achieved.

Key words: EU cohesion policy, structural funds, research and innovation, economic development

JEL classification: *F15, I25, O30, R11*

1. Introduction

Taking into account the latest events, like the Brexit phenomena, refugee crisis, structural crisis in some regions of the European Union, there is a need to reconsider the necessity of investing only in production and usual economic sectors of the European Union. As Michael E. Porter said in 1999 (Porter, 1999) *No advanced economy can maintain high wages and living*

¹ *University lecturer/Ph.D. student, Faculty of International Economic Relations, ginumaria@yahoo.com*

² *Professor/Ph.D.hab., Faculty of International Economic Relations, borischistruga@gmail.com*

standards, and hold its own in global markets, by producing standard products using standard methods. We must continually improve our ability to identify and commercialize new products, services, and processes. Those must be high-value (even unique) to yield the productivity growth needed to generate profits and support high-wage jobs. So the European Union should understand that at this period of time is not enough to produce as much as you can or even more, you have to invest in innovation, education and research, because these are the main factors that lead to economic growth and development nowadays.

The Cohesion policy is the one of the policies which plays a significant role in strengthening Europe's innovation and research potential with an overall allocation of €53.2bn to 'core' innovation and research priorities in the period of 2007-2013. So, an important amount of resources has been dedicated to the physical development of research infrastructures and activities in business or incubators, science parks and centres of competence. In addition, other measures have also been supported by the resources from the cohesion policy, like technology transfer and improvement of cooperation networks, assistance to SMEs in research and technological development and eco-innovation uptake and developing human potential in research and innovation. It is important to understand that investing in human resources is one of the most important investments made, because they are the one who come with new ideas and develop them, transforming these ideas in innovations and new technologies. This support contributes to transforming knowledge into growth and better jobs with concrete targets to be achieved through supporting more than 80,000 Research and Technological Development projects and creating more than 30,000 research jobs.

2. Definition and the goal of the Cohesion Policy

The EU Cohesion Policy is one of the most useful and significant instruments with the goal at diminishing the development gap among the EU old member states and the new one. After the 2004 and 2007 circles of enlargement, the EU has faced a great number of new member states lagging behind the old member states by their development rates and economic growth. With Croatia joining the *club* in 2013 it made the European Union enlarged for 13 new member states with about 100 million new inhabitants. This fact had a significant impact to the EU budget in general, especially

taking into account that all new member states were and still are *the recipients* of the EU budgetary resources, unlike the old member states performing as *the contributors* to the EU budget. Considering the EU Cohesion policy, it needs to be understood that the biggest beneficiaries of it are exactly the new member states, even though also less developed regions than the EU average within any other EU member state, including those in the wealthier ones, are eligible to apply for the Structural funds.

According to the European Commission (An introduction to EU Cohesion policy 2014-2020, 2014) the Cohesion Policy is the EU's main investment policy. It targets all regions and cities in the European Union in order to support job creation, business competitiveness, economic growth, sustainable development, and improve citizens' quality of life.

The investments help to deliver many other EU policy objectives. It complements EU policies such as those dealing with education, employment, energy, the environment, the single market, and especially the research and innovation. In particular Cohesion Policy provides the necessary investment framework and strategy to meet the agreed growth goals (Europe 2020 Strategy). By 2020 the EU aims to meet five significant objectives – on employment, innovation, education, social inclusion, and climate/energy. Each Member State has adopted its own national targets in these specific areas. In order to reach these goals and address the diverse development needs in all EU regions, EUR351.8 billion – almost a third of the total EU budget – has been set aside for Cohesion Policy for 2014-2020. Cohesion Policy supports European solidarity. The bulk of Cohesion Policy funding is concentrated on less developed European countries and regions in order to help them to catch up and to reduce the economic, social and territorial disparities that still exist in the EU. Taking into account national contributions and other private investment, the impact of Cohesion Policy for 2014-2020 is expected to be about EUR450 billion.

Speaking about the research and innovation, the reform of Cohesion policy for 2014-2020 is ensuring maximum impact on boosting research and innovation at national and regional levels. It does so by creating favorable conditions for innovation, education and research so encouraging R&D and knowledge-intensive investment and moves towards higher value added activities. It can so help meet the major challenge for Member States and regions of increasing innovation capacity and R&D in businesses and strengthening their links with universities and research centres. Regions have a

central role as they are the primary institutional partners for universities, other research and education institutes and SMEs, which are the key to the process of innovation, making them an indispensable part of the Europe 2020 strategy.

3. The role of Cohesion policy in strengthening the innovation and research potential

The reform of cohesion policy for 2014-2020 is aimed to ensure maximum impact on boosting research and innovation at national and regional levels.

To help Europe make a sustainable recovery from the economic crisis need actions and investments that would help countries and regions to unlock new growth potential and to raise their game when it comes to innovation, productivity and competitiveness. Therefore, the European Union has earmarked €110bn for innovation investments – close to one third of the €351.8bn cohesion policy funds for the next seven years. This money will be spent on research and technological development and innovation, ICT, competitiveness of small and medium-sized businesses, and the shift towards a low-carbon economy.

The introduction of the smart specialization concept in the strategic planning of EU member states and regions has been a key factor in aligning the European regional development fund with other growth policy measures through intelligent policy design. It is also a tool to achieve a higher effectiveness and strategic relevance, as well as increased efficiency of the EU cohesion policy support to research and development and innovation. The approach was triggered by including smart specialization strategies as a conditionality for investment priorities under research and technological development and innovation for all member states. (Vitcheva, 2014)

The common provisions regulation for the European structural and investment fund endorsed the proposal of the commission and defines 'smart specialization strategies' as "national or regional innovation strategies which set priorities in order to build competitive advantage by developing and matching research and innovation own strengths to business needs in order to address emerging opportunities and market developments in a coherent manner, while avoiding duplication and fragmentation of efforts; a smart specialization strategy may take the form of, or be included in a national or regional research and innovation strategic policy framework."

The obligation to develop smart specialization strategies in order to tap into the European Regional Development Fund for innovation related investments has triggered a massive process where regions and member states reconsider their research and innovation policies and strategies. This led in many member states and regions to a significant change in the policymaking culture in terms of stakeholder involvement, inter-departmental cooperation, evidence-based policymaking and a shift towards a holistic and systemic innovation policy concept.

Policymakers in member states and regions are committed to using these funds to maximum effect. Rather than following a top-down approach, primarily involving public authorities, this new innovation investment agenda needs to be bottom-up, crafted by a collaborative effort of 'entrepreneurial discovery' that involves the private sector and the academic community, building on each region's inherent strengths, entrepreneurship and competitive advantages. Through such a process, smart specialization strategies can unleash economic transformation through modernization, diversification or radical innovation in all regions of the union. (Vitcheva, 2014)

This is an approach, that is innovation-driven, place-based, entrepreneurial process. It targets the economic transformation of EU regions towards higher added value and more knowledge intensive activities. That is why all member states and their regions are asked to develop smart specialization strategies and it is a condition for receiving funding from the new programmes under the European regional development fund.

According to Jose Manuel Barroso (Barroso, 2013), the European regions need to move upwards on the innovation ladder. Member States that invest a lot in innovation fare better than those that could make it better. Though the average spending on research and innovation has remained stable at 2% of GDP throughout the crisis, the European Union is still lagging far behind its main global competitors, The United States and Japan, as well as South Korea, spend more than the EU on research and innovation, because they understand that nowadays is not enough to invest in production, you have to invest in research, innovation, technologies and creative businesses in order to get successful on international arena.

There is no doubt that the reformed cohesion policy is crucial in boosting research and innovation in Europe. In 2007- 2013, nearly 25% of the EU Structural Funds – this is about EUR 86 billion – have been invested in

research and innovation. Member States and regions are now required to identify their particular assets and strengths, and focus resources on them to enhance their competitive advantage. Juan Manuel Barroso believes that those, so-called ‘smart specialization strategies’, will lead to smarter investments with greater impact, and will activate the innovation potential of every region in Europe. They should be developed together with the business world, the academic sector and the innovation community with the support of cohesion policy.

Each member state and region can define, through their smart specialization strategy, their priority investment agenda for knowledge-based jobs and growth. This opens up excellent opportunities for joining forces and for coordination between regional and national institutions and across borders, as well as exploiting synergies between different European and national instruments to enhance Europe's global competitiveness and industrial renewal.

In the coming years, the commission will support action plans to develop and implement the remaining regional innovation smart specialization strategies, support the regions and member states in their efforts to strengthen the inter-regional and trans-national cooperation on smart specialization fields in order to achieve critical mass, complementarity and the transformation of value-chains and internationalization clusters, monitor the implementation of the research, innovation and smart specialization strategies of the member states and regions and strongly support cooperation across borders.

We should understand that innovation also means to think outside of the box, be creative and reflect on new ways of exploiting current knowledge and new ideas to adapt our society to the new paradigms. It is no longer business as usual and all European countries, as well as the Republic of Moldova, have to fully participate in designing and achieving more competitive models of economic development.

4. Conclusions

In conclusion, we should underline that the competitiveness of the European economy and entities operating within it should be a priority that must be the focal point of the EU's cohesion policy. Investing in areas of high growth potential will give high returns. High returns are available on investments in regions with the potential to catch up rapidly with the rest of

the EU, but where domestic funds may be insufficient to pursue all available opportunities, so in this case, the cohesion policy funds should support these regions. Also, the cohesion policy should focus on investing in the drivers of growth and employment, in human and physical capital that are critical to growth and employment potential, including physical and ICT infrastructure, research capacity and innovation, education and training and adaptability of workers.

Cohesion policy is the only policy to provide a stable seven-year framework of investment, so the regions in need should take advantage of this and gain as much funds as they can, in order to reach the level of development of the most developed European regions.

To conclude this study, we can say that the Cohesion policy programmes should focus on innovation and research due to the fact that these are the key elements to a successful economy and economic growth of a country.

5. References

- Barroso, Jose Manuel (2013), *Cohesion policy - a real driver for economic growth in Europe* Panorama Inforegio, winter 2013, no.48. p.4-7. Available at http://ec.europa.eu/regional_policy/sources/docgener/panorama/pdf/mag48/mag48_en.pdf
- Crudu, R. (2015) *Integrare Economica si Economia Uniunii Europene*, Editura ASEM, p.130-146.
- Porter, Michael E.; Stern, S. (1999), *The New Challenge to America's Prosperity: Findings from Innovation Index*. Council on competitiveness. Available at http://www.hbs.edu/faculty/Publication%20Files/Downloads_Porter_index1_el_be68d54c-4990-45da-88c0-ee754c99ffdb.pdf
- Samecki, P. (2009) "Orientation Paper on future Cohesion Policy".
- Truskolaski, T. (2015) "Competitiveness must be 'focal point' of EU Cohesion policy". *The Parliament Magazine*, available at <https://www.theparliamentmagazine.eu/articles/opinion/competitiveness-must-be-focal-point-eu-cohesion-policy>
- Vitcheva, C. (2014) "Cohesion policy 'strengthening' EU innovation". *The Parliament Magazine*, available at <https://www.theparliamentmagazine.eu/articles/feature/cohesion-policy-strengthening-eu-innovation>
- *An introduction to EU Cohesion policy 2014-2020* (2014) European Commission, available at http://ec.europa.eu/regional_policy/sources/docgener/informat/basic/basic_2014_en.pdf
- *The future of Cohesion policy* (2016) EPP Group, available at <http://www.eppgroup.eu/our-priority/The-future-of-cohesion-policy>