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LATVIA'S INNOVATIVE DEVELOPMENT: FOREIGN EXPERIENCE APPLYING TO INCREASE COMPETITIVENESS

Abstract. Both positive and negative results of Latvia's economic development after joining the EU are considered in this research. The separate issues, preventing its innovative development are analyzed. The identified problems in the economic development of Latvia show the exhaustion of the existing economic performance model. Latvia should use an experience of small countries which win through the way from outsiders to the leading EU countries. The characteristics of learning economy concept and the national innovation system, developed by the Danish and Norwegian researches for the purpose of application in the innovation strategy of Latvia's development are given. The directions in transition to innovative way of development and competitiveness improving for Latvia are suggested.

Keywords: economy of Latvia; innovative development; clusters; economics of learning; national system of innovation; competitiveness.

JEL Classification: R11, R58

Світлана Страдіня

PhD (екон.), Балтійська Міжнародна Академія, Рига, Латвія

ИННОВАЦИОННЫЙ РОЗВИТОК ЛАТВІЇ: ВИКОРИСТАННЯ ЗАКОРДОННОГО ДОСВІДУ ДЛЯ ПІДВИЩЕННЯ КОНКУРЕНТОСПРОМОЖНОСТІ

Анотація. Наведено позитивні та негативні результати розвитку економіки Латвії після входження в ЄС. Виявлено окремі проблеми, що заважають її інноваційному розвитку. Аналіз цих проблем показав вичерпаність існуючої моделі функціонування економіки. Латвії варто використовувати досвід малих країн, які пройшли шлях від аутсайдерів до провідних країн ЄС. Подальший розвиток Латвії можливий лише шляхом формування нової економічної моделі, що орієнтована на створення регіональних інноваційних кластерів. У статті представлено характеристику концепції економіки освіти і національної системи інновацій, розробленої датськими дослідниками й норвезькими економістами, з метою її використання в інноваційній стратегії розвитку Латвії. Запропоновано рекомендації для переходу на інноваційний шлях розвитку та підвищення конкурентоспроможності Латвії.

Ключові слова: економіка Латвії; інноваційний розвиток; кластери; економіка навчання; національна система інновацій; конкурентоспроможність.

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ИННОВАЦИОННОЕ РАЗВИТИЕ ЛАТВИИ: ИСПОЛЬЗОВАНИЕ ЗАРУБЕЖНОГО ОПЫТА ДЛЯ ПОВЫШЕНИЯ КОНКУРЕНТОСПОСОБНОСТИ

Аннотация. Приведены положительные и отрицательные результаты развития экономики Латвии после вхождения в ЕС. Выявлены отдельные проблемы, мешающие ее инновационному развитию. Анализ данных проблем показал исчерпанность существующей модели функционирования экономики. Латвии следует использовать опыт малых стран, которые прошли путь от аутсайдеров до ведущих стран ЕС. Дальнейшее развитие Латвии возможно лишь путем формирования новой экономической модели, предполагающей создание региональных инновационных кластеров. В статье представлена характеристика концепции экономики обучения и национальной системы инноваций, разработанной датскими исследователями и норвежскими экономистами, с целью ее использования в инновационной стратегии развития Латвии. Предложены рекомендации для перехода на инновационный путь развития и повышения конкурентоспособности Латвии.

Ключевые слова: экономика Латвии; инновационное развитие; кластеры; экономика обучения; национальная система инноваций; конкурентоспособность.

Introduction. The modern development of the country is impossible without the widespread introduction of innovations in all fields of the economy, the goal of which will be the creation of potential for the future development. They contribute to the emergence of new industries, reduction of costs of production, economic growth in the long-term, the creation of new vacancies and many other things.

Over the 10-year period of stay in the EU, much has been taken by Latvia to improve its competitiveness; however, it remains in penultimate place in the EU according to the development of innovations. It is believed that, if the country is small in size and number of population, as well as in availability of resources and investments, then it is much more difficult to cope with these issues. To get out of the current situation is suggested to use the experience of small states (Denmark and Norway) which for twenty years have shifted from outsiders to the leading countries of the EU. Latvia should use this experience

for the establishment and development of innovative economy, contributing to the improvement of competitiveness. At that is necessary the adaptation to the existing economic and social conditions, national peculiarities, geographic location, achieved level of its social and economic development.

Considered in this article issues do not constitute the whole list of problems that prevent the introduction of innovations in Latvia. However, they are the break for the development process of innovative economy of the country as a whole.

Brief Literature Review. To the individual aspects of the issue of competitiveness are devoted the works of famous foreign scientists, such as: P. Drucker (1999) [1], M. Porter (1998) [2], P. Kotler (2009) [3] and others. Scientific and practical interest represent the works of foreign specialists in the field of theory and practice of formation of national innovation systems and learning economy, such as: Lundvall B. (1998) [4], Isakson A. and Karlsen J. (2012) [5]. Namely, these works are typi-

cal for small economies and have allowed demonstrating that innovation is a cumulative process. The researches of these authors are relevant and today the experience of such countries, such as Denmark and Norway can be used in the formation of innovation economy of Latvia.

Purpose. Based on the analysis of the economy of Latvia after the joining the EU, to reveal the reasons of exhaustion of the existing model of economic growth and to suggest the directions of innovative development.

Results. The Republic of Latvia is in the north-east of Europe. The capital of Latvia is Riga, the largest city in the Baltic States. The population as for 1 August, 2014, is 1.994,300 people. In May 2004, Latvia became a member of the European Union. The country began to get European funds immediately after joining the alliance. At the first stage of funding (2004-2006), Latvia got from the structural funds of EU about 1.355 billion Euros. From 2007 till 2013, for Latvia under the development projects was allocated approximately 5.63 billion Euros. In total, it was more than 7 billion Euros [6].

The largest charge of Latvia for the membership in the EU is emigration. In spite of the transition period which was set for migration in the developed countries of Europe – Germany, France and others, – in 10 years time, according to the unofficial data, about 400-450 thousand people have left Latvia. At the beginning, people were leaving to study and improve their qualification, in the middle of crisis – to earn money in order to return taken mortgage and consumer credits. Thus, a legal leakage of key production factor – people – has occurred in the country.

To sum up, more and more often the question is heard why for 10 years Latvia, despite the European funding, has never come close to the average level of life of the EU? Some experts say about frank plundering of the EU funds, the other – about irrational usage of money, the third see the reasons in the crisis which has eaten all former achievements. However, the fact that poorer than Latvia in the list of the European countries is only Bulgaria, gives ground to thought.

According to the data of Eurostat, in 2012, on average 23.4% of the enterprises in Latvia were innovative, while in the EU countries this index on average is 52%. The share of Latvia's GDP spent on research and development activities is equal to 0.46% of GDP [7].

Innovation Union Scoreboard data of 2014 indicate that Latvia was on the penultimate place in the EU. It is in a group of *Modest innovators* with innovation performance well below that of the EU average. Innovation performance has been increasing at a steady rate until 2012, but dropped in 2013, in particular, due to a worsened performance in patent applications [8].

In Figure, the indices of Latvia are reflected in comparison with average over EU for the 8 innovative faces (dimensions).

Latvia performs below the average of the EU for most indicators, particularly, for Non-EU doctorate students, R&D expenditures in the business sector, Public-private scientific co-publications. Relative strengths are in Youth with upper secondary level education and in Population with completed tertiary education. Other strong declines are in R&D expenditures in the business sector, Innovative SMEs collaborating with others and License and patent revenues from abroad [9].

We have conducted an analysis of the problems that prevent the further innovative development of Latvia.

1. Latvia still has well-developed human resources, a highly educated population and a relatively developed social infrastructure. They are provided at their time a free education system, including university (higher education), effective health care and other social services. Currently, the system of human resources formation is neither substantive, nor in form, which is not ready to develop people for living in a new reality. It significantly falls behind many EU countries on such issues (dimension), as: Research Systems, Linkages & Entrepreneurship, Intellectual Assets, Innovators and Firm investment.

2. Non-uniform placement of industrial production on the territory of Latvia hassled to the number of depressed regions, where unemployment stands at about 20%. Latvia, by the European standards, still remains a cheap-labor country. There are no priority development fields for each region, taking into the consideration their peculiarities and availability of appropriate resources.

3. In Latvia, there is a strong dependence on external financing both in the form of private foreign investments and in the form of growing national debt, prices for exported goods and raw materials. During the crisis of 2008-2011, manifested drawback of system flexibility of management in a combination with a limitation of internal sources and demand had the most negative consequences.

4. For Latvia is characteristic an absence of statehood tradition, the poor quality of the political elite and, as a consequence, a heightened response to real and putative threats of security (language policy, increase in military expenditures), lack of a strategic vision and responsibility.

5. Introduction of innovations in Latvia hampers the fact that the country is dominated both small and medium business which do not have neither sufficient resources for researches, nor skilled and creative employees, who could implement the innovative projects or to develop new technologies. In the Baltic region operate some international clusters: in Germany – 10, in Norway and Finland – 6. In Latvia they are not identified [10].

In the report «The Global Innovative Index – 2013», to Latvia was allocated the 33rd place. In comparison with 2012, it fell in the ranking by three positions [11].

This allows talking not about a change of Latvia's economic growth paces, but about exhaustiveness of the previous economic development model. The high growth rates undoubtedly contributed to the emergence of an ambitious concept of «Baltic tiger». However, this growth was formed artificially without regard to the real sector, on a speculative basis and EU funds.

In search of an answer how to make Latvia competitive, let us address to the experience of the small countries of EU. Currently, the first in ranking of competitiveness of countries are small states of the Northwestern Europe, such as Denmark, Norway and Finland. According to the report «World Happiness Report», prepared by the experts of the UNO at the end of 2013, the Danes and Norwegians once again took the 1st and 2nd places as the happiest nations in the world [12]. But the paradox is that these two countries from the late 80s of the last century were considered almost as «outsiders» of the world economy, their position was very precarious. What allows them less than for twenty years to become the most successful and competitive in the world?

The basis for a successful transition to an innovative paradigm is availability of a certain scientific and educational potential and possibility to turn your knowledge into innovations, and innovations into manufacturing. In this regard was formulated the concept of learning economy and national system of innovations by Danish researchers Lundvall B., Johnson B. (almost at the same time with the concept of competitiveness of countries of M. Porter).

To achieve a high competitiveness under the conditions of a small country, Lundvall B. recognized learning as the main process. He has introduced the term «learning economy» which implies a continuous process of improving the skills and knowledge, required for the production of more improved product. Knowledge economy

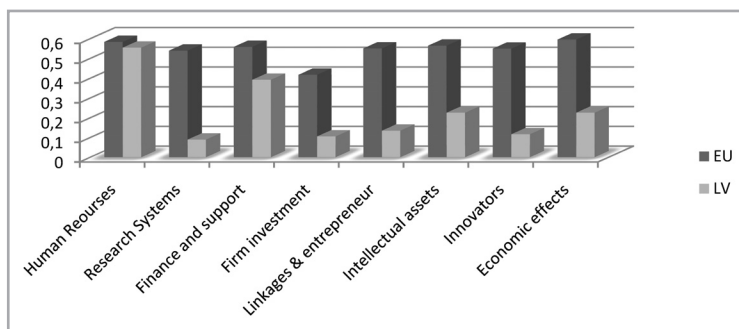


Figure: Performance scores per dimension

Source: Developed by the author on the basis of European Union Scoreboard data for 2014

means that all inhabitants of a country to greater or lesser degree are involved in the learning process and Lundvall B. has distinguished several types of learning. Let us name some of them: learning-by-doing; learning-by-using; learning-by-interaction, learning-by-exploring [13]. The first two types of training represent a common method of obtaining knowledge which is available to everyone at any state. The third type of learning by the means of interaction is typical namely for small countries of the Northwestern Europe in which interrelations buyer – producer are particularly well-developed.

With the introduction of the term «learning economy», based on the interaction between people, in the scientific usage, the ideas about innovations acquire the sociological component. The model of innovations was represented as an interactive innovation model. In the modern model of innovative economy «knowledge is the main resource and learning – the main process» [14].

Considering the origin of innovations within the framework of the economy of a small country, such as Denmark, B. Lundvall came to the conclusion that innovation is a cumulative process. Under the conditions of a small country, it is impossible to separate one innovation from another one, as they are built on each other. He introduced the concept of «incremental innovation». Namely, such type of innovation is typical for small open economies. The constant exchange of opinions between the seller and the buyer contributes to the generation of additional innovations.

The research of the Organization for Economic Cooperation and Development «Glance at the education 2014» once again has shown that the Kingdom of Denmark continues to consider education as a state priority, informs the local portal. In the last few years, the official Copenhagen most from all in the world has invested in state and private educational institutions. In 2011, to support the kindergartens, schools, colleges and universities, the country spent 7.9% of its GDP [15].

In 1980s, it was recommended to the small countries to pick up the major powers not only in Europe, but throughout the whole world. Basing on the Danish experience, many states have already attempted to form knowledge economy and innovation policy of economic development and have achieved significant results. Latvia, on one hand, cannot blindly copy the developed European countries, because an adaptation is required to the existing economic and social conditions, national peculiarities, and geographic location, to the achieved level of its social and economic development, the level of integration with EU. On the other hand, it should be noted that this model of development has not lost its relevance today. We recommend using experience of small countries of EU to increase the competitiveness of Latvia. First and foremost, Latvia should publicly proclaim and develop a national innovation strategy for the next few years. As M. Porter noted, for its formation and existence it is necessary to give long-term political and economic guarantees on the part of the state [16]. The invention of innovations and the generation of new knowledge should be recognized as a way of the country's competitiveness improving; therefore, namely, these two concepts should occupy a key place in the national strategy of Latvia.

It is impossible to say that the government does not deal with these issues, but it dramatically interferes with the learning process by the laws (including language), unnecessarily regulating all the educational processes. The government should move away from the distributing and supervisory function to a strategic vision. The Latvian higher education must become more dynamic, open to the flow of international knowledge, to master the Western experience and to link the learning with business structures. It is recommended, following the example of Denmark, to combine within the frameworks of Ministry of Education both science and innovations.

Latvia requires innovative learning, contributing to the enhancement of entrepreneurial spirit; the development of ventures enterprises; information technologies and etc. The development of the abilities to the innovations in scientific technologies is the basis of the creative economy. But can be creative the economy, if the Latvian government does not pos-

sess such qualities? By the way, the Danish Ministry of Science, Innovations and Higher Education has developed a perfect Cluster Policy and Cluster Programme (smart recommendations for Policy Makers) [17]. This experience is worthy of imitation.

Due to the unevenness of Latvia's development with separate growth centers and peripheries, the Priority Development Fields should be allocated for each region, taking into the consideration their peculiarities and availability of appropriate resources. It not obligatory should be high-technology zones. But they have to be focused on the development of infrastructure, creation of work places, and improvement of their qualification.

The main feature of regional innovation systems, consider Norwegian economists Asheim B. and Isaksen A., is conjunction and combination of external and internal knowledge. In industrial regions, possibility emerges to generate not only additional, but also the radical innovations which are necessary to maintain high competitiveness. The combination of sticky and ubiquitous knowledge is the main characteristic of learning regions and their regional innovation systems [18]. As in Latvia there are historically 4 regions (Vidzeme Zemgale, Kurzeme, and Latgale), then, the solution would be to create on their base the regional clusters which have their funds for the development of infrastructure.

M. Porter believes that the competitiveness of the country should be considered through the prism of international competitiveness, but not its individual firms and clusters – combinations of firms of different industries. Besides, the fundamental importance has the ability of these clusters to use effectively the internal resources [19]. Latvia has started work on the formation of clusters; however, these clusters are created without the state support and are based on private initiative.

With the adoption of strategies of Baltic (2009) and Danube (2011) macro-regions, EU has begun, actually, to modify their classical model of unification, built on the principle of national economies convergence in the direction of the cluster approach [20]. The driving force of innovations will allow forming new structural network alliances (instead of sovereign states) trans-sector cluster networks (instead of industrial fields).

In 2010, a strategy «Europe 2020» was adopted. It contains the recommendations to the states' authorities on the acceleration of economic growth paces. The central place in the «Strategy 2020» takes the initiative of the EC on creation of «Innovative Union» [21]. This initiative of EU is aimed at the promotion of full innovation chain from idea to market of finished product, creation of conditions for development of an innovative economy as well as construction of a single European market of innovations in order to increase competitiveness. Thus, in the process of innovative development should be involved all sections of society and all regions. Latvia cannot be behind this process.

Conclusion. The carried out research allowed revealing the issues of Latvia's economic development, which has shown the existing economic performance model's exhaustiveness. Among main problems are: low competitiveness, poor financing of scientific research (R&D) and modest introduction of innovations, unevenness of core and the periphery development, low level of clustering in the economy.

Having conducted the analysis of successful small economies which of the leading EU countries, we believe that a key place in the national strategy of Latvia should become the issues of continuous learning, staff training, capable of innovative thinking and generation of new knowledge. It is reasonable, following the example of Denmark, to combine within the frameworks of Ministry of Education also the science and innovations. This will tie training to business entities and contribute to the creation of innovative «oasis» and territorial clusters.

In our opinion, improving of competitiveness of Latvia is possible only by the means of a new economic model formation – clustering of the economy. Therefore, the further research is suggested to direct into the tideway of regional innovation clusters creation and tracking of events that may prevent the clusters development.

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FACTORS OF FOREIGN DIRECT INVESTMENT ATTRACTING INTO ECONOMY OF UKRAINE'S REGIONS

Abstract. Introduction. In the last decade we observed a new wave of globalization where the economic linkage between countries has been strengthened mainly by foreign direct investment (FDI) flows. FDI is generally considered as a driving force in the integration of countries region into the globalization process that characterizes the world economy.

Purpose of the article is to determine modern investment processes features on the regional level, to fetch out and systematize factors that influence immediately foreign direct investment attraction into economy of Ukraine's regions.

Results. The authors investigate modern investment flows trends into the regions of Ukraine. These flows' aspects in the context of globalization are defined. The authors fetch out and systematize factors, which have immediate influence on foreign direct investment attraction into economy of Ukraine's regions, and unravel the set of indicators characterizing them.

Conclusion. Among the major factors contributing to foreign direct investment attraction, are: natural-resources, labor, political-legal, economic, innovative, infrastructure, geographical and business factors.

Keywords: foreign direct investment; region; factors of FDI attracting; investment activities; region's investment attractiveness.

JEL Classification: E20, F21, G31

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ФАКТОРИ ЗАЛУЧЕННЯ ПРЯМИХ ІНОЗЕМНИХ ІНВЕСТИЦІЙ В ЕКОНОМІКУ РЕГІОНІВ УКРАЇНИ

Анотація. У статті досліджено сучасні тенденції інвестиційних потоків у регіонах України. Визначено особливості інвестиційного процесу в умовах глобалізації. Систематизовано фактори, які впливають на залучення прямих іноземних інвестицій в економіку регіонів України та розкрито низку складових, що характеризують виявлені фактори.

Ключові слова: прями іноземні інвестиції; регіон; фактори залучення прямих іноземних інвестицій; інвестиційна діяльність; інвестиційна привабливість регіону.