

# INVESTMENT, INNOVATION AND REGIONAL ECONOMIC INTEGRATION

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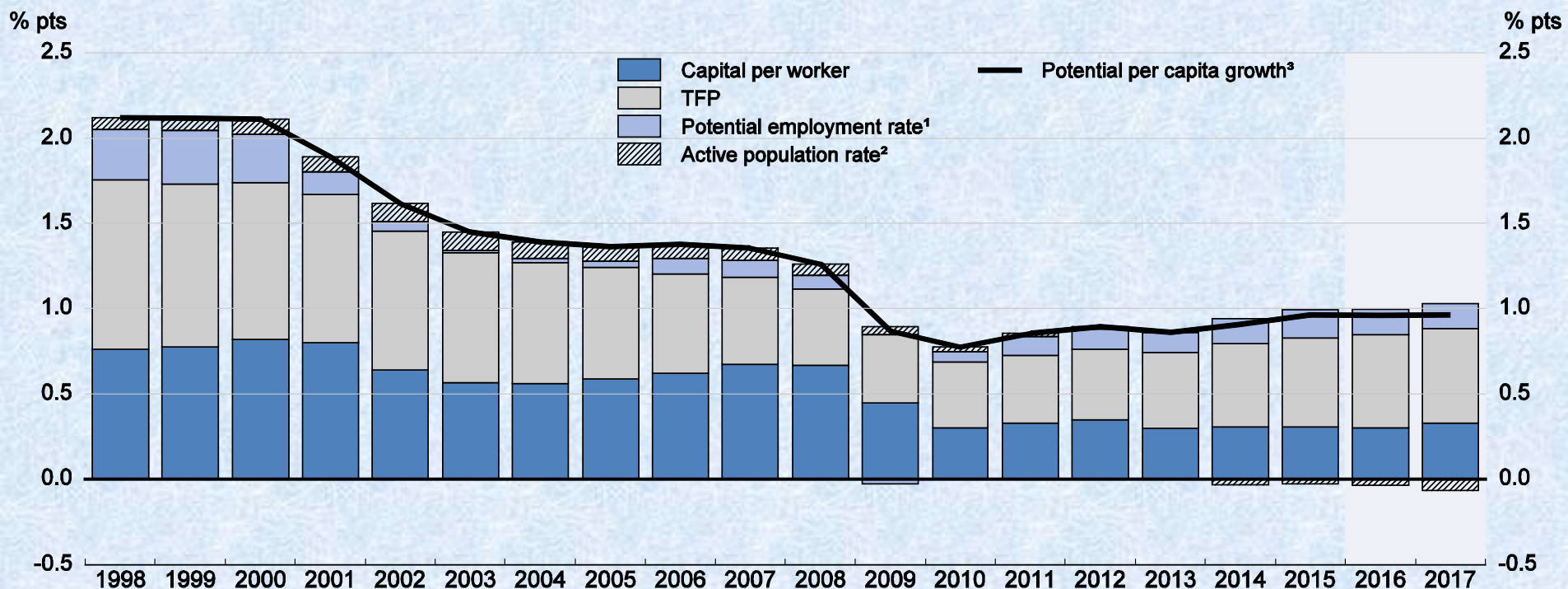
*OECD WPSMEE and UN ECE CICPPP*

# How to achieve investment, innovation and economic integration with a view to sustainable development?

- Need to refer to world economy today
- Attention to achieving the UN 17 SD goals
- World economic growth has slowed down
- World trade is declining and not a driver of growth
- Investment is not contributing to accelerate growth, while MF productivity is lagging
- In the UN SD goals, innovation is included but doesn't have a central role

# Weak investment and productivity growth contribution to potential per capita output growth

(in % - Source: OECD Economic Outlook June 2016)



# How to make it feasible to revive economic growth?

- Investment, innovation and integration are powerful levers to achieve this goal through 4 factors:
  - a) entrepreneurship,
  - b) interconnections and collaborations among firms,
  - c) private capital alongside public funds and
  - d) effectiveness of public institutions...
- against the backdrop of improving macroeconomic conditions
- I will deal in turn with these aspects, starting from macroeconomic factors

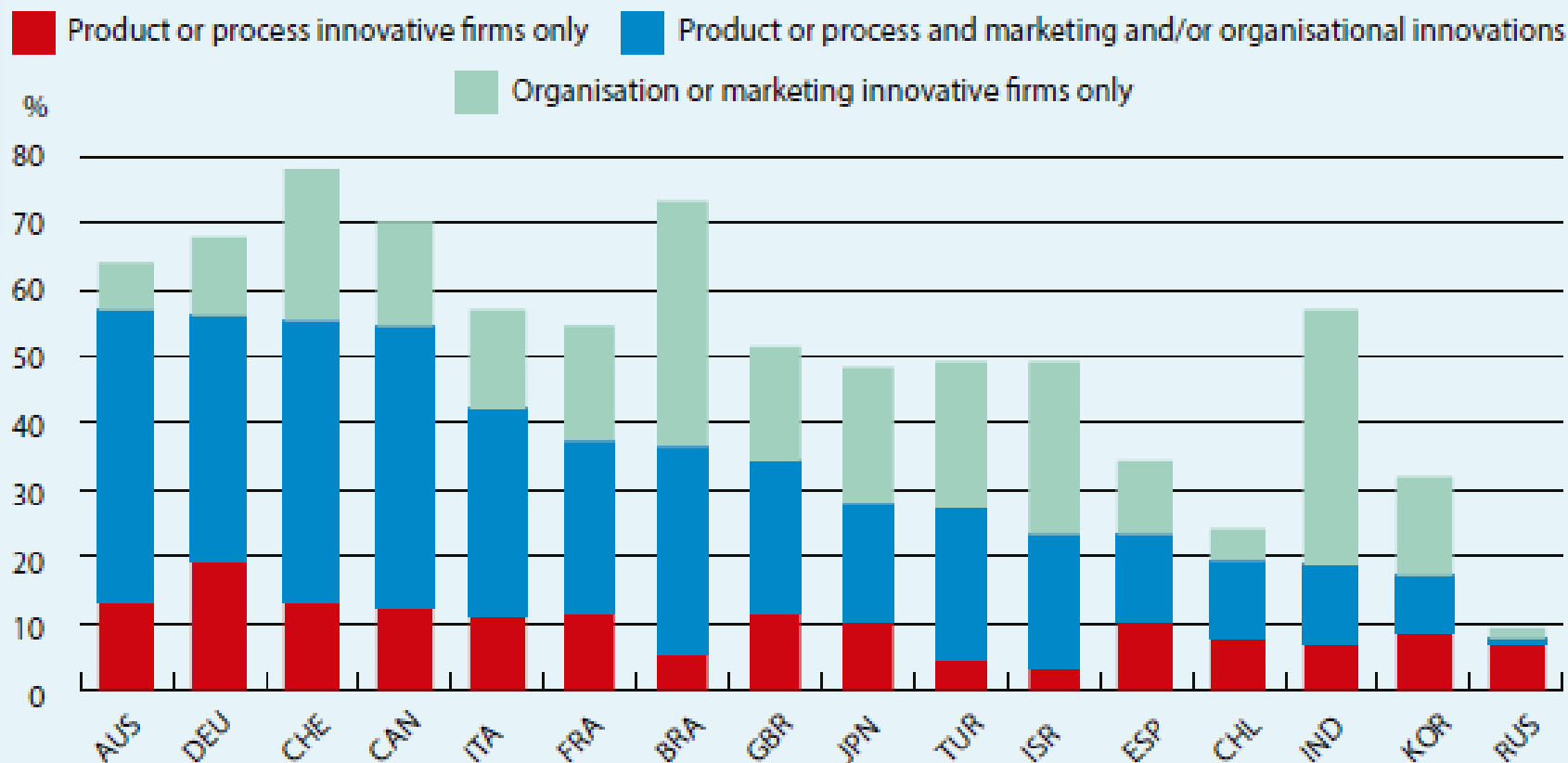


## Governments can do more to boost investment in innovation among enterprises

- Innovation is not simply R&D, but made out of different types
- To innovate, research findings have to find their way to the market
- Innovation always requires an enterprise willing to apply new knowledge
- Hence, Government's policy focus should be on enterprises
- Innovation is mostly among large firms or small tech companies.
- To make it a growth driver, gvts must invest in the diffusion of innovation, especially among SMEs
- Their task is to play active role in promoting all components of innovation system

# Density of various types of innovation in firms

(Period: 2010-2012 ; % of firms; Source:OECD, Measuring STI)



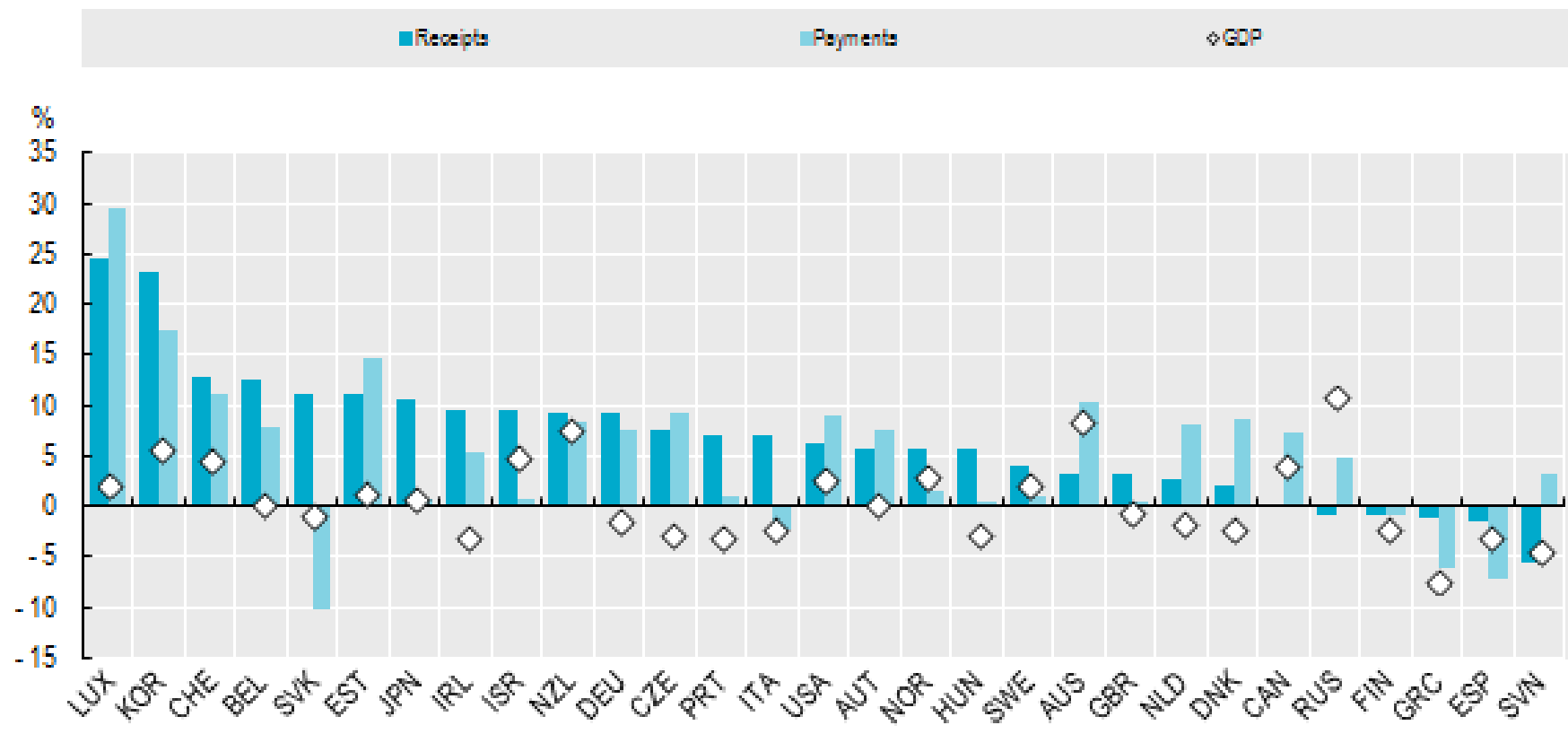
Source: OECD, based on the Eurostat Community Innovation Survey (CIS-2012) and national data sources.

# Barriers to innovation

- SMEs difficult access to outside finance,
- lack of competition in the market place,
- unfavorable investment climate,
- the social culture,
- some regulatory constraints,
- the weak linkages between large and small companies,
- the dearth of cooperation between universities and entrepreneurs, particularly the start-ups.

# International flows of knowledge assets

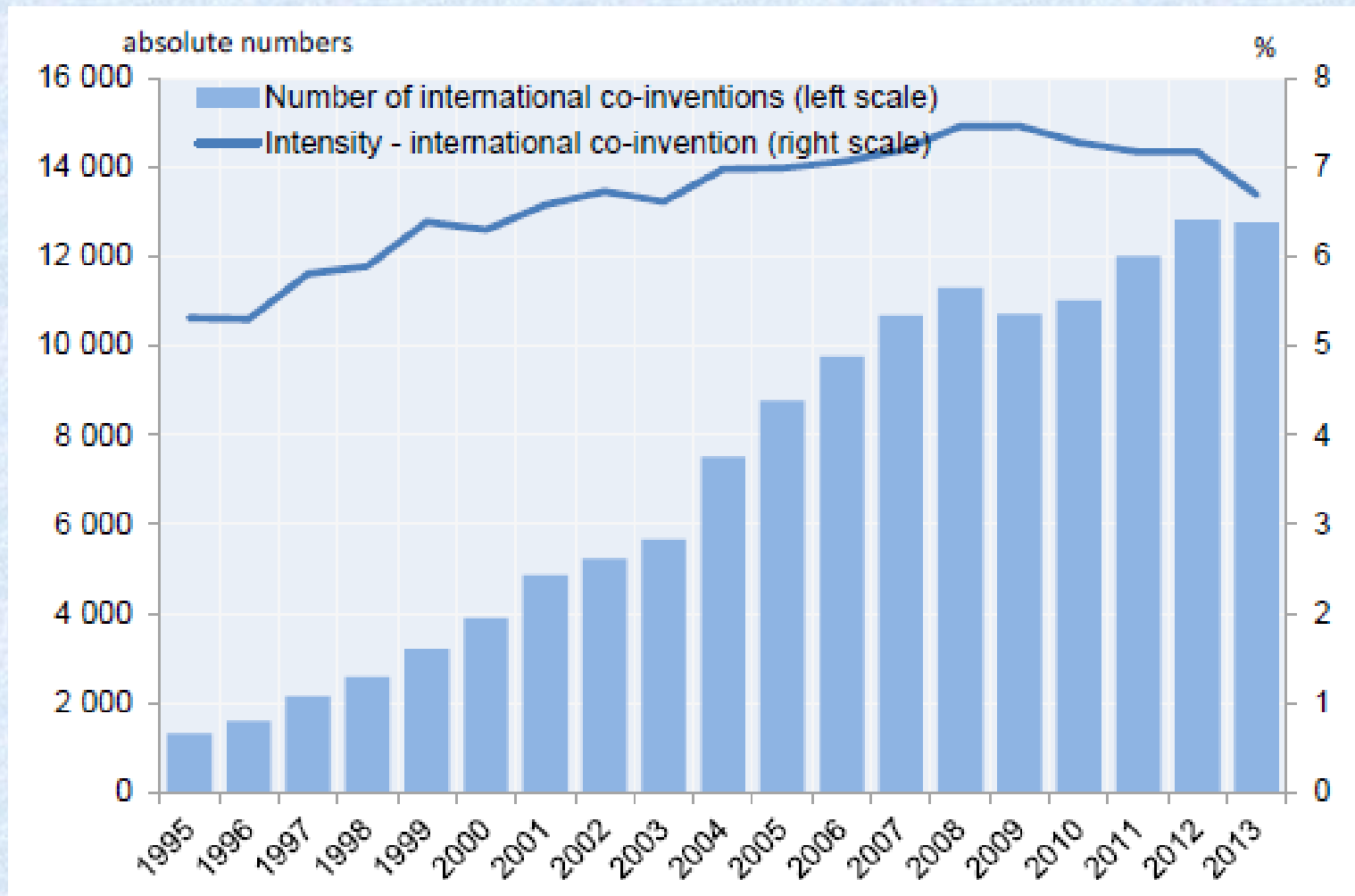
( 2009-13 – Average yearly growth % based on US\$ data)





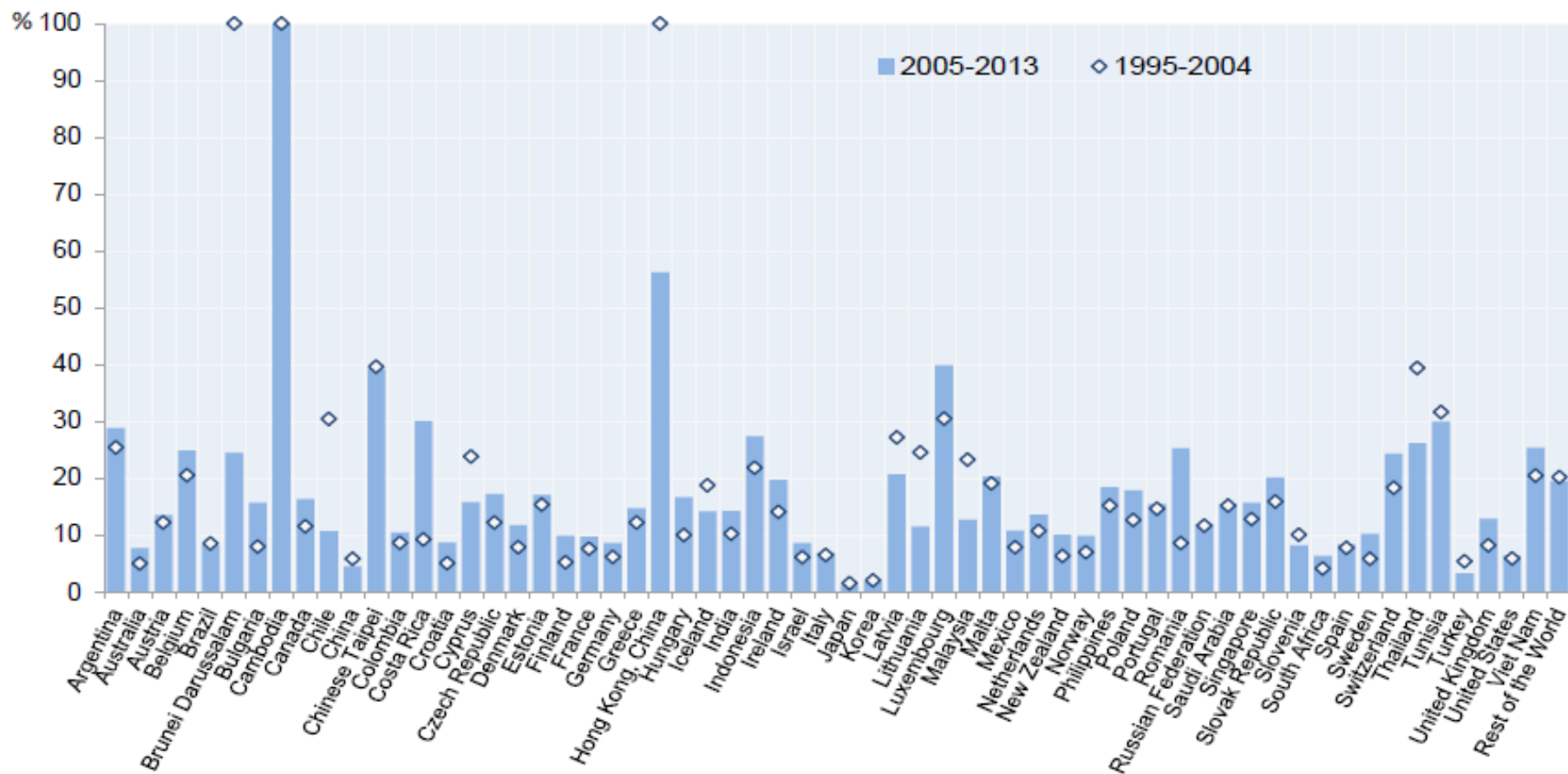
# International co-inventions

(absolute number and % of total Patent Co-operation Treaty applications; Source: OECD)



# International co-invention intensity by country

(Period: 1995-2013; % of total PCT applications; Source: OECD)



# Focus on 3 main channels of knowledge links for innovation

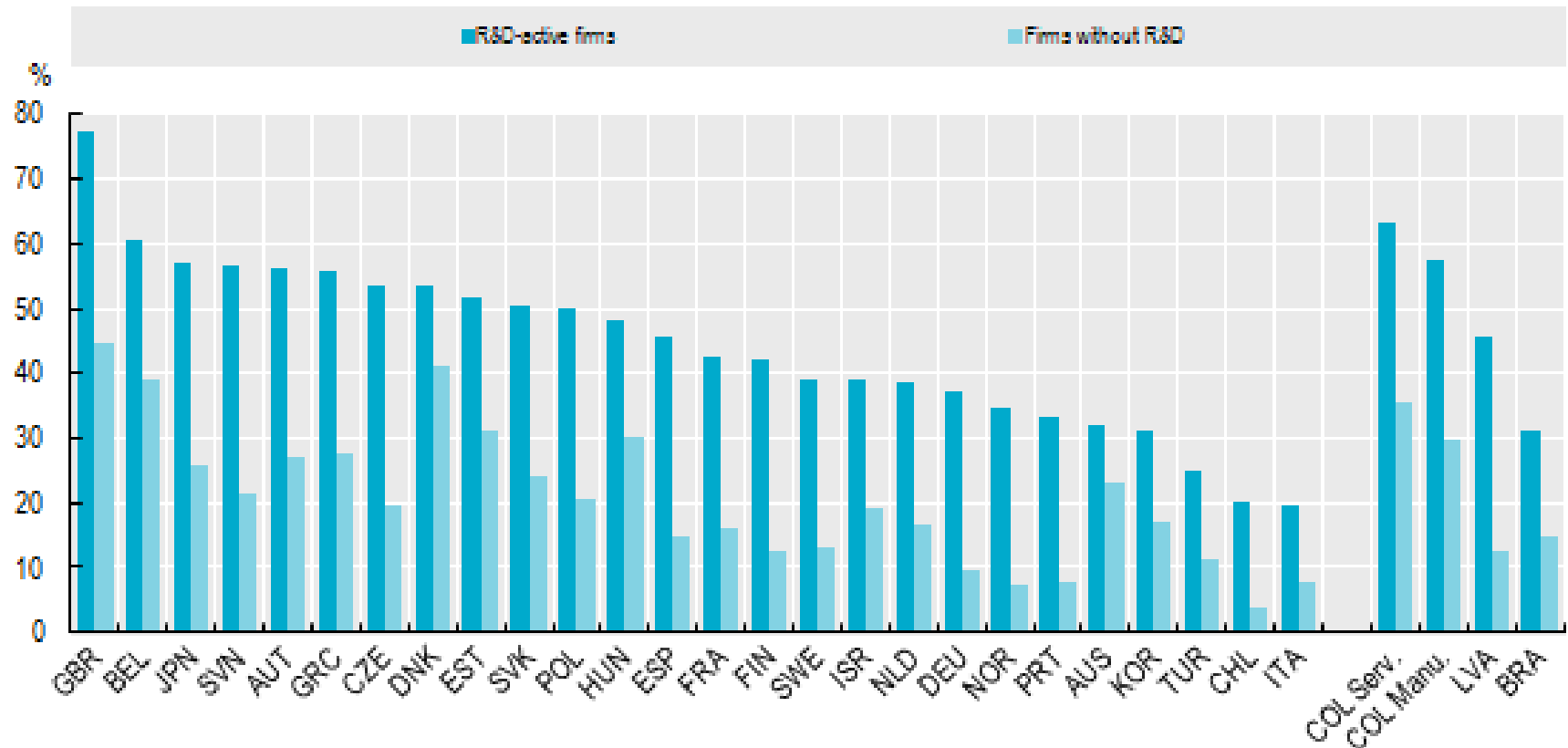
- Foreign direct investment
- Global value chains and global innovation networks
- Clusters of firms

On FDI, the major issue is protection of both investment itself and intellectual property rights

- For both GVC and GIN geographical distance matters
- GVCs are drivers of GINs
- MNEs are the main driver of GINs
- GVCs lead to intense trade relationships and GINs
- There is no evidence of the reverse
- Countries' policies on trade and towards MNEs are critical factors

# Firms collaborating on innovation

(Period 2010-12 - % of R&D-active and non-active firms )





## Enablers and framework conditions for innovative entrepreneurship

- Competition in product markets and open trade
- Facilitated access to innovation funding
- Public co-financing with private capital
- System for promoting new knowledge and its diffusion
- Develop entrepreneurial capabilities
- Social culture favourable towards innovation and entrepreneurship
- Skilled human capital
- Flexibility in labour market
- Education and training infrastructure in new tech and non-tech approaches
- Help SMEs in raising their absorption capacity of tech and non-tech innovation
- Enlightened policy makers and efficient bureaucracy

## Few policy conclusions

- There is no policy model valid for all - Each policy approach has to be tailor-made to the country's specific weaknesses
- Consistency and coordination needed across all actors in innovation system
- Develop an innovation system strategy with bottom-up support
- Entrepreneurship and mkt competition are drivers of innovation
- New knowledge diffusion across SMEs as important as knowledge creation
- Networking large and small firms in clusters, value chains and innovation networks
- Diversify funding tools, use public procurement, regulatory tech shifts, private-public partnership
- Benchmark, monitor and evaluate policy outcomes to adjust.

- The main role of government is to prod, smooth and support the innovation process to reach a well-working innovation system through a number of policies, from Trade to Free flow of knowledge.
- It is not easy, but it can be done!!!