

RURAL TERRITORIES AS SPACE FOR SUSTAINABLE AND SMART DEVELOPMENT

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Abstract

Rural territory is an important part of the community's living space, moreover, it is a living space for sustainable and smart development. With the growing public demand for a healthy living environment and healthy food, the role of rural territory as a living space for community and the necessity to maintain its sustainable development is increasing. However, the sustainability of the rural territories as a living space will be preserved only when residents will be ready for the changes and if the state institutions and local governments are promoting trends politically and practically. Latvia is one of the three Baltic states that geographically is located on the east coast of the Baltic Sea and has undergone the same historical development processes over the past 100 years.

The research of the authors on the economic situation of these countries over the past decade allows making a number of conclusions. Firstly, Latvia after the regaining of national independence has received the lowest competitiveness rating among the Lithuania, Latvia, and Estonia. At the same time, it showed the highest growth rates and reduced distances between these countries. Secondly, the reduction of these differences was significantly influenced by the growth rate of the economy segment in Latvia. Thirdly, the growth of the economy in the rural territories has been faster than in larger cities. Fourthly, the rural space has confirmed its suitability for the growth of the economy.

Key words: rural territories; sustainable development; smart growth.

JEL code: O4, P17.

Introduction

Rural areas and its issues of sustainable development are a topical issue for the 21st century. Rural areas as a necessary component of living space for the population is an increasing focus both in official documents of various EU institutions and in research investigations. Both the documents and the research papers stress the necessity to enhance and maintain the viability of rural areas. The viability of rural areas is ensured by employment opportunities and the readiness of residents for active and innovative economic activity. The authors in the particular research initially focus on an analysis of comparison of the economic activity competitiveness of the countries included in the research. However, the main task in the course of studies was to evaluate the economic growth of the rural areas in Latvia for promoting sustainable and smart development direction during 2009-2016.

Materials and methods

The EU and Latvian Rural Development Policy for 2014-2020 have been used as the methodological base of the research. The data were processed by quantitative (growth) and qualitative (structural change) statistical analysis, as well as grouping methods. As information sources for the analysis was used: The Global Competitiveness Index (WEF 2010/2011; 2016/2017); Eurostat classification of industries (NACE Rev 2, 2008); LURSOFT and CSB data of changes in national economy; survey results on the contribution of "growth agents" to the sustainable and smart development of rural areas.

Research and discussion

I Competitiveness of the Latvian economy among the Baltic States

Expansion of knowledge-based economy sector is treated as a development model or stage in 21th century. "The knowledge based economy" is an expression coined to describe trends in advanced economies towards greater dependence on knowledge, information and high skill levels, and the increasing need for ready access to all of these by the business and public sectors (OECD, 2005). The classification of economic sectors developed by EUROSTAT clearly indicates, which processing industries and services are a part of the knowledge economy segment (EUROSTAT, NACE Rev.2, 2008), thus opening up the possibilities for current in-depth analysis of the national economy segment.

Since 2004, when Latvia became an EU member state with the existence of a free economic market, the competitiveness positions of the national economy in this free market environment became an important indicator of the society's progress towards smart growth. A comparison of the three Baltic Competitiveness Index (WEF, 2010/2011; 2016/2017) carried out within the framework of the research showed two noteworthy results. Firstly, Latvia has the lowest rank and, as well as assessment in points both in ratings of 2010/2011 and 2016/2017.

Table 1. Changes in competitiveness assessment in the countries included in the research
(Source: The Global Competitiveness Index 2010/2011; 2016/2017)

	Estonia		Lithuania		Latvia	
	Rank	Score	Rank	Score	Rank	Score
2010/2011	33	4.61	47	4.38	70	4.14
2016/2017	30	4.78	35	4.6	49	4.45
Growth	+ 3	+ 0.17	+ 12	+ 0.22	+ 21	+ 0.31

At the same time, Latvia is showing the fastest improvement and thus significantly reduces the differences among the three Baltic States, thus, the competitiveness of the Latvian economy in three Baltic States has grown considerably as a whole. As each phenomenon has a cause and effect, the growth of competitiveness during analyzed years of the research is the consequence of some processes that have expanded in Latvia, therefore it is necessary to search and formulate the causes for the changes that have taken place. One of them definitely is the growth of the economy during the analyzed years.

II Characteristics of national economy development in Latvia during 2009-2016

Changes in the economy can take place and be evaluated: among sectors, within the sectors, i.e. among industries of the sector, including changes in sector and industry specialization (Palan N., 2010).

Comparing the eight years of change in the indicators important for the economy - the number of companies, the number of employees and the net turnover - it can be seen that growth has mainly expanded quantitatively, mainly due to an increase in the number of companies, rather than net turnover.

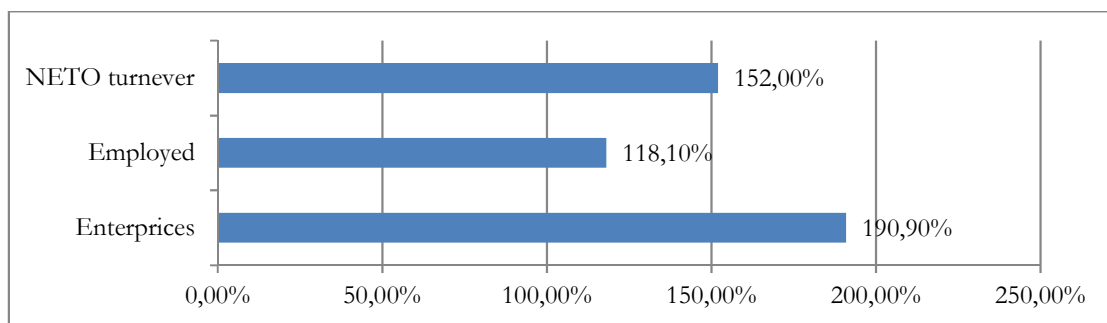


Fig. 1. Business growth in 2009/2016 in Latvia in total (Source: The LURSOFT data 2009/2016)

An innovation is a new product or service, material or immaterial, with a market demand that separates it from an invention. Innovation is one of the most widely used concepts in the current literature of economic geography highlighting the importance of regions in innovative development. Regions themselves are targets of numerous policies enhancing a complex interaction between processes of education, the labor market, and the economy (Inkinen, 2015).

However, positive signs of growth are observed, as the increase in NET turnover exceeds the increase in the number of employees, which witnesses on innovative changes in economic activities.

III Rural areas at the pace of development are ahead of cities of national significance

In the 21st century, the question of rural viability and, hence, the optimization of opportunities provided by rural areas has been raised. Researchers focus on the impact of rural space on economic growth, including the knowledge economy, the use of riches provided by the rural environment for the production of organic food and other needs (COTER, Territorial impact, 2017; Ronkkoi E. and Aarvevaara E., 2017; Chotovinsky O. and Altmann V., 2017, etc.)

As the provision of the viability for the rural area in order to increase its smart growth and create a vital rural area is a topical issue in the European Union (Making Europe ...), the authors also paid particular attention to the economic growth in the rural area, which in Latvia, in the broader sense of the word, is formed by 110 municipalities and where 49.2% of all residents of the country live. The comparison made in the research on the growth of economic activity in nine cities of national significance and 110 municipalities creating rural area led to the result that the economic development processes in the rural area have been faster than in the cities of national significance.

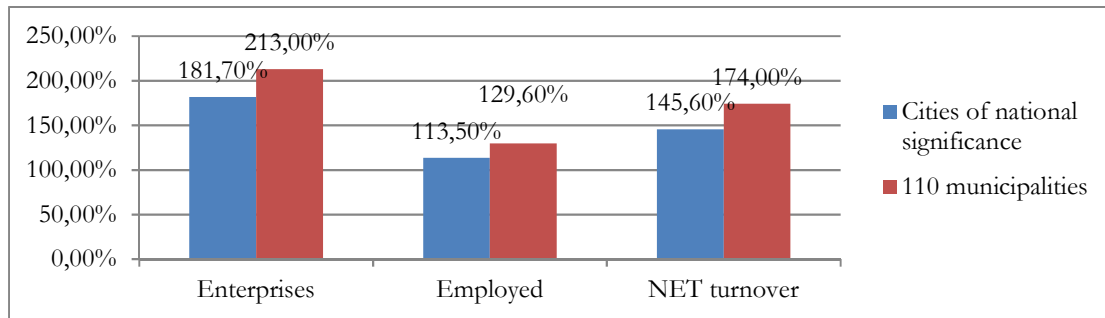


Fig. 2. Comparison of indicators characterizing business in terms of development in rural areas
(Source: The LURSOFT data 2009/2016)

This applies both to the increase in the number of companies, as well as to the increase in the number of employed and net turnover. As a result, it has to be concluded that the rural area, as a living environment, is not lagging behind cities, but slowly reducing the disproportion of urban and rural economic activity, which makes it possible to increase viability.

Table 2. Vertical growth – percentage change (Source: authors’ calculations based on LURSOFT data)

	Number of enterprises	Number of employees	Total net turnover	Net turnover per employee
Cities of national significance (9 cities)				
All enterprises	152.9%	114.8%	143.7%	125.2%
KBE segment	185.1%	129.7%	146.9%	113.3%
Rural territory - 110 municipalities (incl. towns in municipalities)				
All enterprises	179.6%	128.5%	169.2%	131.8%
KBE segment	236.6%	143.1%	133.1%	133.8%

Results acquired during data analysis also approve the more rapid increase of knowledge based economy in rural area than in cities of national significance, which witnesses rural area has the possibility of entrepreneurship modernisation, which comes together with the expansion of knowledge economy.

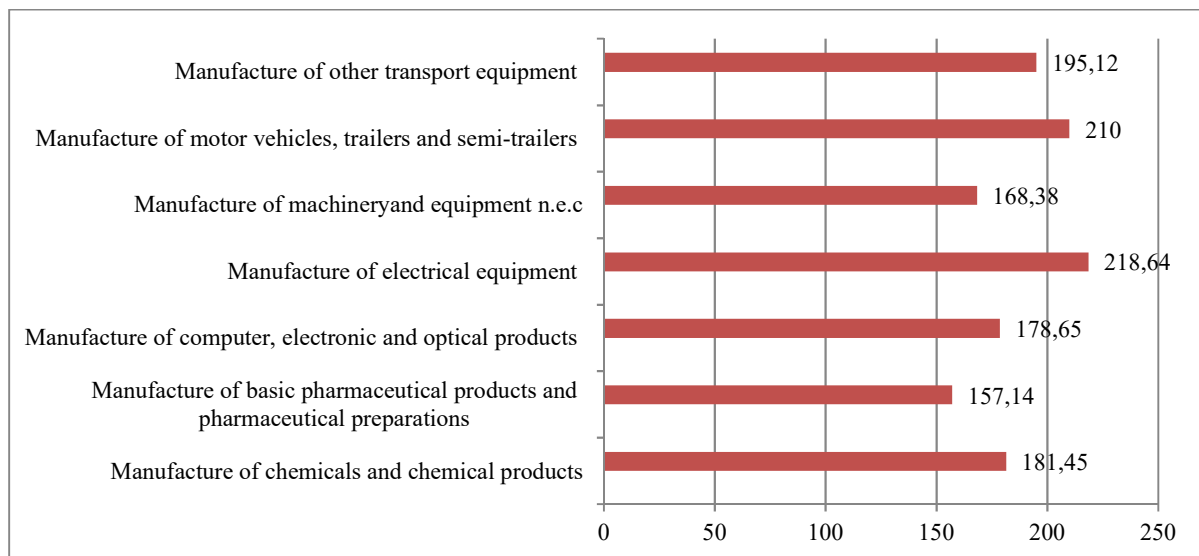


Fig. 3. Growth of entrepreneurship by industries in rural areas in the period 2009-2015
(Source: The LURSOFT data 2009/2016)

If the industries are analysed in depth, it can be seen that the number of industries that are connected with bioeconomy, i.e., manufacture of chemicals and chemical products (C20), as well as manufacture of basic pharmaceutical products and pharmaceutical preparations (C21) is increasing in rural areas, which means rural areas are directed towards bioeconomic development not less than in cities of national significance. Moreover, the number of companies, providing manufacture of computer, electronic and optical products (C26), are increasing, showing the rural areas of Latvia are directed towards digitalization.

IV Differentiation expressed in the development of rural areas

However, the growth of economic activity in the rural areas of Latvia is only an average indicator. The average figures on the one hand are informative, but on the other hand also misleading, therefore, the authors carried out a more detailed analysis of the economic activity of the municipalities. The three statistically significant criteria were used to characterize business characteristics allowed for the possibility of grouping the municipalities. As a result, the analysis of the 2016 data showed the distribution of three groups.

The first group consists of municipalities with high business characteristics (3 municipalities), the second group – with medium characteristics (23 municipalities), and the third group with the smallest number of enterprises, the lowest employment and also the lowest net turnover (84 municipalities).

Table 3. Geographical location of the groups of municipalities obtained in the analysis

Region	Number of municipalities	Low	Medium	High
Pieriga	28	15-53.6%	10-35.7%	3-10.7%
Vidzeme	25	21-84.0%	4-16.0%	0
Zemgale	20	15-75.0%	5-25.0%	0
Kurzeme	18	15-83.3%	3-16.7%	0
Latgale	19	18-94.7%	1-5.3%	0
Rural area	110 municipalities	84-76.4%	23-20.9%	3-2.7%

Municipalities of the second and third group are located in all statistical regions of the country. Three municipalities where knowledge-intensive services dominate in business, of course, are located in the Pieriga region. The Pieriga region also includes the largest number of municipalities with medium business ranking. At the same time, more than a half of the municipalities of the Pieriga region receives only a low rating. The obtained data leads to the conclusion that the proximity of the capital affects the processes, but is not the only factor influencing the business expansion, which is confirmed by the geographical location of the average high-ranking municipalities in the rural area of Latvia.

An expert survey of factors contributing positively to rural development, carried out in 2016, identified the skills of state institutions and municipalities to obtain and use the financial resources of the various European Union funds, but noted the lack of cooperation between municipalities and the residents of the municipalities and the readiness of the residents themselves for economic co-operation (Kruzmetra M. etc). Exactly this latter set of factors can explain the achievement of an average level of development in municipalities that are remote from the capital and cities of national significance. The territorial transfer of knowledge and skills is still a topical issue to promote the sustainable existence of rural areas (Council of Europe, 2017).

Conclusions

Economic development over the period covered by the research has increased in Latvia – the number of employees has increased and the net turnover has become larger. In the rural area, these processes were more rapid than in the cities of a national significance. Thus, the rural area of Latvia is more vital.

The question remains whether this liveliness is sufficient to increase the viability of the rural area in perspective if there is a decline in population in all European Union countries, an increase in the age of the current population and poorer living conditions (Council of ...). The survey conducted by an experts shows that, at the moment, all possibilities have not been used to increase the capacity of local community to cooperate more closely with local governments and residents of the region, as well as the people themselves in order to increase the fulfillment of their living space with innovative ideas and actions.

Vitality in the rural area is quite differentiated, and therefore it is important not only to continue to reduce the gap among cities and rural areas, but also among regions representing rural areas, and among the municipalities, in particular. The potential for reducing these differences is the task of further research work.

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