Firm innovation and productivity in middle-income countries

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Productivity growth in advanced economies has slowed down markedly.

Labour productivity growth

Source: OECD via Thomson Reuters
And so did emerging markets convergence – even if growth picks up in 2017-18

Source: IMF WEO, EBRD REP 05/2017;
Earlier convergence in post-communist countries was driven largely by productivity growth

- The TFP catch-up potential in Emerging Europe (legacy of ineffectively combined factors under central planning) now exhausted
- Need to find new sources of growth

Source: PWT, authors’ calculations.
Firm innovation in the EBRD region: Evidence from the BEEPS V survey

BEEPS V:
Around 16,000 firms in 30 countries and similar surveys in Jordan and Israel

Source: BEEPS V and authors calculations
EBRD uses BEEPS for research and operations

Research to guide strategy

- Identify binding constraints to private sector growth
- Develop products that help address them

Analysis to inform project assessment

- EBRD’s guiding principles in choosing projects
  - Sound banking
  - Additionality (to private sector)
  - Transition impact
- Transition impact: project is assessed based on its contribution to building a sustainable market economy
- Sustainable market economy is (i) competitive, (ii) well-governed, (iii) green, (iv) inclusive, (v) resilient and (vi) integrated
- Analysis of BEEPS at the country/sector level identifies priorities
  - ... which are then translated into incentives for project teams
In EBRD countries there are firms as productive as the best firms in advanced economies …

... but there are also many unproductive firms

- So the distribution has fat tails
- Why? Lack of competition, political connections

**Source:** BEEPS V and authors calculations
Laggards must adopt and adapt – or exit – to raise aggregate productivity

Source: BEEPS V and authors calculations
Exporting firms are more productive, innovate more than non-exporting firms

Source: Enterprise Surveys.
... importing also boosts productivity.

Importer premia across all regions; productive companies in MENA are particularly reliant on imports

Labor productivity premium of importers vs. non-importers

Source: Enterprise Surveys.
Firms that are part of global value chains tend to be more innovative.

Source: BEEPS V and authors’ calculation
High-tech industries and knowledge-intensive service sectors innovate more...

Incidence of product innovation in selected industries, %

Source: BEEPS V, MENA ES and author's calculations
But returns to innovation are actually higher in low-tech sectors!

Source: BEEPS V and MENA ES. Firm-level productivity is measured as turnover per employee in US dollars.
In less advanced countries, the quality of management is key.

In former Soviet countries, returns to quality of management are higher than to process innovation.

Source: BEEPS V and authors calculations
Concluding remarks

**Implications**

- Investment: Invest in connectivity
- Policy engagement: reduce trade barriers
- Technical cooperation: support management training

**Many questions remain**

- What are the binding barriers to entry and growth?
- Impact of populist policies?
- How to identify causal effects?
Future work

**BEEPS VI: 2018**

- Joint with WB and EIB
  - 40 countries including Western Europe
- Green economy module
- More detailed questions on management practices
  - CEO management style

**Transition Report 2017-18**

- Focus on middle-income trap
- Chapter 2: entry/exit/growth of firms, innovation and patents