Firm innovation and productivity in middle-income countries

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Productivity growth in advanced economies has slowed down markedly





And so did emerging markets convergence – even if growth picks up in 2017-18





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



Firm innovation in the EBRD region: Evidence from the BEEPS V survey





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



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





Premium of Exporting Groups vs. Non-Exporters

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

Firms that are part of global value chains tend to be more innovative



% of firms innovating and spending on R&D, GVC vs non-GVC



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!





Percentage of firms engaged in product innovation — Impact of product innovation on productivity

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



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