Does Trade Strengthen the Investment into Firm’s Economic Competencies, Innovation and Stimulate Productivity: The Case of Transition Countries

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Abstract

The paper studies the relationship between the involvement in global value chains (in particular exporting) and the intensity of firm investment in intangible capital, in particular the investment into economic competencies and innovation in transition countries. The development literature has been stressing the role of export-led growth (Paley, 2011), primarily in relation to increasing demand, thereby production and stimulating domestic development also through knowledge transfer, opening markets and stimulating innovation. Technological improvements (innovations, product and process) as well as other innovations (organizational, market and marketing) and knowledge accumulation and strengthening of corporate capabilities and competencies represent a major part of investment into intangible or knowledge-based capital (Corrado et al., 2009, 2012), which strengthens competitiveness, enhances productivity and promotes firms’ long-run success. We study the position of companies from different transition countries based on the Business Environment and Enterprise Performance Survey database by the EBRD (panels IV and V) to assess the differences in the accumulation of intangible capital (in particular economic competencies and innovation) between those companies that are active in global markets and those that are not. The results highlight particularly significant differences between transition countries in the importance or intensity of investment into strengthening economic competencies and into different innovation activities from the perspective of corporate performance, long run competitiveness and productivity. Second, the results show that besides trade other variables matter for intensity of investment into intangible capital.

Keywords: transition countries, trade, exports, economic competencies, innovation, productivity