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Addressing the social and economic challenges in Europe

D2.3

Import competition and firm productivity

WP 2 – Globalisation and productivity

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CO	Confidential, only for members of the consortium (including the Commission Services)	



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History of the changes

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Key word list

Productivity; multi-product firms; import competition

Definitions and acronyms

Acronyms	Definitions
R&D	Research and Development
TFPQ	Quantity Total Factor Productivity

1. Introduction

1.1. General context

Is globalisation associated with efficiency and welfare gains, not least due to the 'disciplining' effects of intensified competition?

1.2. Deliverable objectives

This research aims at contributing to our understanding whether firms improve efficiency and productivity as a reaction to intensified import competition.

2. Methodological approach

Econometric estimation of total factor productivity (TFPQ) at firm level. Subsequent estimation of the causal effect of import competition on firm productivity using econometric techniques.

3. Summary of activities and research findings

This study analyses empirically the effects of import competition on firm productivity (TFPQ), using administrative firm-level panel data from German manufacturing. We find that only import competition from high-income countries is associated with positive incentives for firms to invest in productivity improvement, whereas import competition from middle- and low-income countries is not.

4. Conclusions and future steps

To rationalize the abovementioned findings, we further look at the characteristics of imports from the two types of countries and the effects on R&D, employment and sales. We provide evidence that imports from high-income countries are relatively capital-intensive and technologically more sophisticated goods, at which German firms tend to be relatively good. Costly investment in productivity appears feasible reaction to such type of competition and we find no evidence for downscaling. Imports from middle- and low-wage countries are relatively labor-intensive and technologically less sophisticated goods, at which German firms tend to generally be at disadvantage. In this case, there are no incentives to invest in innovation and productivity and firms tend to decline in sales and employment. As R&D does not seem to be the major driving force behind productivity in this case, further productivity enhancing measure such as improvements in the allocation of resources and/or the use of IPRs constitute promising avenues for further research.

5. Publications resulting from the work described

Submitted to a journal.