The University of Nottingham

Leverhulme Centre for Research on Globalisation and Economic Policy

Research paper media briefing

Exporting and Productivity:

Firm heterogeneity, exporting and Foreign direct investment

by David Greenaway and Richard Kneller

A wide-ranging analysis of recent international research into the relationship between exporting and productivity.

Some of the main findings:

Impact of exporting on a firm:

The experience of beginning to export to foreign markets makes firms more productive.

"The evidence shows that when they compete with overseas rivals on foreign turf businesses learn to sharpen up their acts and become more competitive," said report co-author, Professor David Greenaway.

"Rubbing up against different kinds of companies teaches them to make things better, organise themselves better and adopt best practice management and manufacturing techniques."

Relationship between productivity and exporting

The research suggests there is a strong link between productivity and exporting. Firms have to raise productivity even before they try to export, to help generate the capital required to venture overseas.

Professor Greenaway said: "Entering export markets costs money – market research has to be done, existing products have to be modified and new distribution networks set up."

The research suggests that many firms which could benefit from international exposure are likely to be put off by the costs incurred, and that the Government can improve the likelihood of firms exporting by offering help with things like market research and arranging meetings with clients, authorities and overseas experts.

It also suggests that firms with export ambitions consciously improve their productivity with the international market in mind and that, simply by encouraging firms to think about exporting, governments may help set this train in motion.

In addition, when firms export, it helps raise the productivity of the whole industry, claims Professor Greenaway. "Exporting increases profits for firms, which induces the entry of new firms to the market, driving out less efficient competitors. At the same time, exporting allows the most productive firms to expand and this causes less productive firms to contract. The combination of the two raises average industry productivity."

Key Findings:

- When firms export they become more productive
- This indirectly raises the productivity of the whole industry
- Firms need to be productive to be able to afford to enter export markets
- Encouraging firms to export is good for productivity – but not with subsidies.

Productive…more productive…most productive

Small and large firms co-exist within the same industry, with differences in employment that can be measured in thousands. Similar differences exist for productivity: it is estimated that in the US the best firms have productivity 2 to 4 times that of the worst firms, while the DTI estimates that within some UK industries the differences are as large as 800%. Large and productive firms account for the dominant part of overall industry productivity.

The consensus amongst researchers is that multinationals are more productive, larger, more innovative, more capital intensive, more skill intensive, and pay higher wages than exporters, who in turn are on average 'better' than non-exporters.

Research and development

Research suggests that firms involved in international trade are also more likely to undertake research and development (R&D). Co-author Dr Richard Kneller says: "It is difficult to know whether firms that do R&D export or whether exporting encourages firms to invest in R&D, but there is some evidence to suggest that being an exporter encourages you to start to undertake R&D and that firms that export and do R&D as well, do better than firms who just export, or just do R&D. I think being exposed to competitors abroad makes you more innovative at home."

Conclusion

Professor Greenaway said: "Anything that increases productivity is good for economic growth, and it is clear from the large amount of recent research that encouraging firms to start exporting leads to increased productivity. The challenge for governments is to find ways of doing this without subsidising firms. Subsidies tend to soften up an organisation rather than make it tougher."

GEP – the Globalisation and Economic Policy Centre - is the major centre in Europe studying the impacts of globalisation and economic policy, and one of the biggest of its kind in the world. The centre has an impressive international reputation; its academics have advised the Treasury, the OECD, the World Bank and WTO.

GEP is keen to promote its research work and is committed to communicating its expertise through the media and to assisting journalists whenever able.

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Website: www.gep.org.uk

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David Greenaway is one of the world's leading experts on globalisation – and has a particular interest in China. His research interests lie primarily in the fields of exporting and productivity, cross-border investment and international trade and economic development. At various times he has been a consultant to the World Bank, UNIDO, UNCTAD, European Commission, GATT, UNECE and HM Treasury.

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Richard Kneller's research interests include cross-country comparisons of productivity and economic growth as well as the impact of globalisation on individual firms. He is currently researching how government and social institutions can encourage firms to adopt new technology and how new technological developments spread across the world.

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