

Effect of international activity on firm performance

Trade liberalization benefits better performing firms and contributes to economic growth

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ELEVATOR PITCH

There is evidence that better performing firms tend to enter international markets. Internationally active firms are larger, more productive, and pay higher wages than other firms in the same industry. Positive performance effects of engaging in international activity are found especially in firms from less advanced economies that interact with partners from more advanced economies. Lowering barriers to the international division of labor should be part of any pro-growth policy.

KEY FINDINGS

Pros

- + Better performing firms engage in foreign trade and offshoring activities.
- + Positive effects of exporting are often found in younger firms that export from less advanced economies to more advanced economies.
- + Exporters pay higher wages to comparable workers.
- + International trade and firm survival are positively linked.
- + The overall effect of offshoring on the labor market is modest.

Cons

- Low-skilled workers feel pressure from international outsourcing.
- The empirical picture is still incomplete due to a lack of strictly comparable international studies.

AUTHOR'S MAIN MESSAGE

Trade liberalization tends to benefit better performing firms and, therefore, to contribute to economic growth. Positive effects tend to be especially pronounced in firms in less advanced economies that are actively engaged with international partners in more advanced countries. Reduction of barriers to the international division of labor should be an element of a pro-growth policy, especially in less advanced economies.

