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I Z A
World of Labor
Evidence-based policy making

Upgrading technology in Central and Eastern European economies

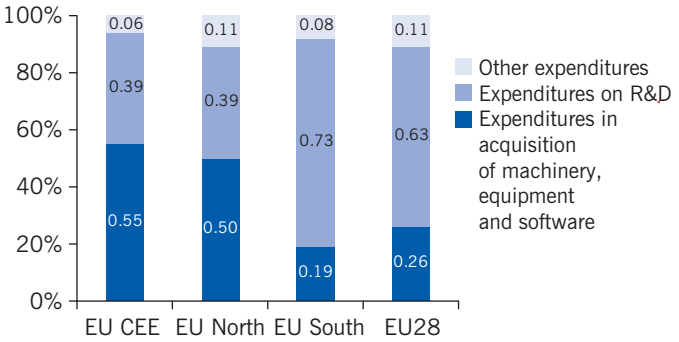
Existing policies in Eastern Europe will not sufficiently promote technological innovation

Keywords: technology upgrading, productivity, R&D and innovation, Central and Eastern Europe, EU

ELEVATOR PITCH

The future growth of Central and Eastern Europe (CEE) depends on upgrading technology, exporting and coupling domestic technology efforts while improving their position in global value chains. Current policies in the region are not geared to these tasks, despite the availability of huge financial opportunities in the form of EU structural funds. Existing policies are overly focused on research and development (R&D) and neglect sources of productivity growth, such as management practices, skills, quality, and engineering. The challenge is how to design industrial and innovation policies so that they promote modernization and drive structural change.

Structure of innovation expenditures: 2010–2012 in EU28 regions



Source: Based on Eurostat, Innovation Survey 2010–2012.Online at: http://ec.europa.eu/eurostat/web/microdata/community-innovation-survey

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KEY FINDINGS

Pros

- Coupling domestic technology efforts with the import of new equipment and management practices could help promote technology upgrading in CEE.
- Production capability and engineering, in addition to research, are important antecedents to development and innovation in CEE.
- Production capability is the most significant driver of productivity growth in CEE.
- CEE economies are specialized in the low value-added segments of the global production chain and benefit from vertical specialization with EU North firms.

Cons

- In CEE, technology transfer activities are important but neglected drivers of innovation along with non-R&D-based innovation activities.
- Innovation policy in CEE is based solely on R&D, imitating best practices in northern Europe, instead of addressing regionally specific challenges.
- CEE economies over-prioritize attracting foreign direct investment and do not place enough emphasis on the quality of subsidiary developments.

AUTHOR'S MAIN MESSAGE

CEE economies do not grow based on research-driven innovation whereby domestic research produces innovation that leads to growth; instead, they rely on the interaction of domestic R&D with more advanced technology from imported equipment and inputs. However, this situation is not reflected in policy, which is geared solely toward the traditional idea of research-driven growth. CEE countries would hence be better served by enacting policy that encourages improvements in production capability. This, in turn, would generate demand for local R&D and innovation, which is currently lacking.

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