

Abstract

It is well-documented that international enterprises are more productive. Only few studies have explored the effect of internationalization on productivity and innovation at the firm-level. Using propensity score matching we analyze the causal effects of internationalization on innovation in 10 transition economies. We distinguish between three types of internationalization: exporting, FDI, and international outsourcing. We find that internationalization causes higher levels of innovation. More specifically, we show that (i) exporting results in more R&D, higher sales from product innovation, and an increase in the number of international patents (ii) outward FDI increases R&D and international patents (iii) international outsourcing leads to higher sales from product innovation. The paper provides empirical support to the theoretical literature on heterogeneous firms in international trade that argues that middle income countries gain from trade liberalization through increases in firm productivity and innovative capabilities.