

Slavo Radosevic: A more proper innovation mix for CEE countries

The future growth of Central and Eastern European economies is hugely dependent on technological advances and exporting, therefore improving their positions in global value chains is highly essential, **writes Slavo Radosevic** from UCL, in IZA World of Labor



Kids playing with a robot prototype in the Copernicus Science Centre in Warsaw

CEE future growth dependant on technology

The future growth of Central and Eastern European economies is hugely dependent on technological advance and exporting, therefore improving their positions in global value chains is highly essential. For this reason, current policies mainly focus on Research and Development (R&D), yet often neglect the sources of productivity growth, such as quality and management skills or engineering. That's according to Slavo Radosevic, Professor of Industry and Innovation Studies at University College London. His full article in IZA World of Labor is found [here](#).

Professor Radosevic asks: What is the optimal mix of policies to promote modernisation and structural changes in the region? Is it enough to copy developed countries' innovation strategy to catch up with them?

The concept of innovation is traditionally that domestic research produces innovation that leads to

economic growth. However, this is not always true for middle-income countries such as CEE economies, as they are not mainly research-driven. Rather their key factor of growth is production capability, according to Radosevic (2017). He notes that in these countries innovation is most often located in “downstream” activities (e.g. management and quality skills and engineering) that aims better productivity at a certain stage of technology.

Key factors in improving productivity and modernisation

As the Bloomberg 2019 Innovation Index denotes, developed countries have higher scores, because they spend more on R&D and have higher added-value, while CEE economies' scores still fall below that. Is it due to some natural regional differences that cannot be bridged or rather a policy mistake? The economic structure across Europe is quite different, although policy mixes are really homogenous. According to the technology upgrading perspective (Radosevic, 2017), countries at different innovation levels require different policy mixes reflecting their specific technology challenges.

To better understand the nature of innovation and economic growth, it is worth paying attention to the main drivers that could induce them. Innovation activities consist of three main groups: production, technology, and R&D development. Compared to more developed (Western European) economies, CEE countries have a comparative advantage (yet still absolute disadvantage) in productivity capability as opposed to technological capability. Also, econometric research shows that the number of patents (as a measure of technological capability) has little effect on economic growth, thus is not a key driver of innovation. On the contrary, the number of ISO licences (as a measure of management knowledge) is significant and the primary driver of innovation. In accordance, to catch up with developed countries, CEE countries have to specialise in importing and adapting new technology and knowledge as well as coupling them with their domestic knowledge-generating activities (local R&D). This process is usually not automatic and needs appropriate policy support.

The integration of imported technologies and domestic knowledge remains a key factor in improving productivity

Consequently, the integration of imported technologies (e.g. machines) and domestic knowledge (e.g. management and engineering) remains a key factor in improving productivity and promote modernisation in the CEE region. Also, more targeted policies could help reach higher Bloomberg Innovation Index rates. “Thus policy focus needs to shift from the singular emphasis on R&D towards non-R&D fields (e.g. productivity capability). Most importantly, greater attention should be paid to helping innovative enterprises and promoting technological cooperation between foreign and local firms”. All things considered, this article provides an insight into the specific nature of innovation and drivers of growth in the CEE region. It also suggests a considerable shift in policy focus regarding innovation activity mix. According to this analysis, CEE policies should put a greater emphasis on interactions between imported technologies and domestic productivity capability in order to keep up sustainable economic growth and catch up with more developed countries.

Read the full report [here](#)

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