

Does Trade Stimulate Innovation? Evidence from Firm-Product Data

This paper investigates whether increased import competition leads firms to engage in incremental innovation reflected in product quality upgrading. The econometric analysis relies on a rich dataset of Chilean manufacturing firms and their products. Product quality is measured with unit values (prices) and imports' transport costs are used as an exogenous proxy for import competition. The estimates show a negative effect of transport costs on product quality. The paper provides explicit evidence that estimated increases in unit values capture product quality upgrading, and that competition effects of imports explain our results. Easier access to intermediate inputs also fosters quality upgrading.

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