

Openness, technology capital, and development

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Abstract

In this paper, we extend the growth model to include firm-specific technology capital and use it to assess the gains from opening to foreign direct investment. A firm's technology capital is its unique know-how from investing in research and development, brands, and organization capital. Technology capital is distinguished from other forms of capital in that a firm can use it simultaneously in multiple domestic and foreign locations. A country can exploit foreign technology capital by permitting direct investment by foreign multinationals. In both steady-state and transitional analyses, the extended growth model predicts large gains to being open.

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