ABSTRACT
This paper investigates the nexus among innovative capability (total R&D expenditure), absorptive capacity (openness to trade) and economic growth in the G7 and BRIC countries over the period of 1996-2011, and makes use of panel cointegration and Granger causality approaches to test the dynamic relationships in different country groups. The empirical results show that absorptive capacity and innovative capability progressively become more important drive of growth as the development process over time.

Keywords: Innovative capability; Absorptive capacity; Economic growth; Cointegration; Granger causality