

The Circular Relationship Between Innovation and Export Activities of Firms in the Turkish Manufacturing Sector

Fatma Muazzez Utku İsmihan

University of Ankara, Turkey

fmutku@yahoo.com

Mehmet Teoman Pamukçu

Middle East Technical University, Turkey

pamukcu@metu.edu.tr

Abstract

In this paper we examine the interplay between exports and innovation of firms in the Turkish manufacturing sector by using enterprise-level data for the period 2003-2015. Both the industrial policy literature and the systems of innovation literature examine the relationship between these two variables and agree that there is a strong relationship between them. However, while the industrial policy literature indicates that exports impact on firms' innovation capabilities and thus on firm-level competitiveness, the innovation systems literature argues that the relationship goes rather from the innovation capabilities to the export performance of firms. In this paper, we integrate the foundations of these two literatures and test for a possible circular relationship between firm exports and firm innovation in the case of Turkey. We use enterprise-level data from different sources for the Turkish manufacturing industry: (i) Structural Business Survey (ii) Research and Development Survey and (iii) Foreign Trade Survey from 2003 to 2015. We use panel data econometric techniques in order to explore the scope of the relationship between innovation and exports by accounting for a possible endogeneity of both dependent variables.

Keywords: Innovation, exports, research and development, endogeneity, manufacturing sector, emerging economies.

JEL Codes: O31, O38, O43