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Of chickens and eggs: Exporting, innovation novelty and productivity

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ABSTRACT

While it is well-known that exporters are more productive than non-exporters it is less clear why. Is it simply that more productive firms export (the Learning to Export hypothesis)? Or, is it exporting which leads to higher productivity (the Learning by Exporting hypothesis)? The distinction is important as each hypothesis points to very different policy and strategic prescriptions. Here, we use GMM estimation and data on a large, unbalanced panel of UK firms to expose the complex interlinkages between exporting and export persistence, innovation and innovation novelty, and productivity. LTE and LBE effects prove important with export persistence playing a key moderating role in performance outcomes. Our results suggest that: i) in LTE, radical innovations increase export performance, but incremental innovations do not ii) In LBE, exports increase both radical and incremental innovation performance iii) LTE and LBE effects occur only for persistent exporters iv) Exporting has a direct positive impact on productivity, but innovation has only an indirect productivity effect via its positive influence on exporting. Building on these linkages to increase productivity suggests targeting export support at non-exporters with a technological lead in the domestic market.

Keywords: Productivity, exporting, innovation, persistence, novelty