

EconWorld2015@Torino

Does FDI Boost the Sophistication of Domestic Firms?

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ABSTRACT

Using a rich firm-product level dataset from Turkey for the period 2006- 2009, we test whether the sophistication of new products introduced by local firms is affected by foreign firms' presence in the same region and the same, upstream or downstream sector. Exploiting the product complexity measure developed by Hausmann and Hidalgo (2009), we show that Turkish firms in sectors and regions most likely to supply foreign affiliates are also more likely to introduce more sophisticated products. This evidence, which is supported by two case studies, is in line with the view that domestic firms may benefit from knowledge spillovers through interactions with their multinational customers. We find no link between sophistication of newly introduced products and foreign presence in the same or upstream sectors. Our findings are robust to a large number of alternative specifications and to the control for selection bias and endogeneity issues.

KEYWORDS FDI; Production Upgrading; Backward Linkages; Product Innovation

JEL F23, D22, L20