Referee Report

Costs of trade and self-selection into exporting and importing: The case of Turkish manufacturing firms

In the first part the paper aims to investigate the self-selection effect of imports and exports. The paper corroborates previous results, extending the analysis to Turkish firm-level data. The data and methodology used are not new. The second part of the work instead aims at analyzing the difference in the sunk costs between exporting and importing activities. This part, although in principle interesting, is definitely not well executed as it lacks both a convincing econometric analysis and a robust interpretative framework. This paper can only be published after a substantial revision. It is necessary that the revision includes a clear argument for the heterogeneity in the export and import sunk costs. As I see it, the current empirical strategy does not suffice for drawing any conclusions about the differences in the costs between the two trade activities.

Comments

- The paper is too long relative to its content, and at time too verbose.To enhance the readability and thus the impact of the paper, the authors should really try to communicate the main message of the paper in a much more concise manner. To achieve this, I suggest trimming the discussion of the existing literature in the paper throughout (i.e., in all sections). I would cut Section 2 entirely, which reads like a literature review and is not a substantial contribution. Moreover, it is largely redundant since the authors can refer to existing work both in the introduction and as they discuss their empirical findings. In referring to existing work, I urge the authors to be short and to the point. There are many points in the text where they run on for too long regarding issues that they really can't say much about or where they make the nearly identical point somewhere else in the paper.

- Some important citations are missing, especially those concerning the existing empirical analyses using Turkey data. See for instance, the recent paper of Lo Turco and Maggioni (*forthcoming* the World Economy) which investigates the role of importing, exporting and the joint involvement in both activities on the firm product scope and new product introduction.

- I really think that there is too much in the paper, so that the potential contributions are not fully developed, risking to actually downgrade the paper itself to just a long list of results, rather than a thorough discussion of one or two main topics or issues. In this respect, my suggestion is to move many of the preliminary analyses in a Online Appendix. I also suggest to cut entirely Section 5.3.

- Concerning the econometric analyses, I thing that the authors should focus only on firms' productivity (both LP or TFP) and drop from the paper the results concerning the other dependent variables. When focusing on firms' productivity they should re-run all the regression by using capital, size, skilled intensity as controls as these are time variant variables which might influence both a firm's efficiency and its propensity to trade. This would make the empirical analyses more consistent with the underlying theoretical framework which has typically focused on selection based on productivity.

- If the aim of the paper is to investigate the differences in sunk costs between exporting and importing firms I would focus only on those regressions in which a direct comparison between the two trade activities is possible.[1] This would mean estimating equation 1 and the equation with trade starters (without number). I would exclude instead the results concerning the dynamic probit model where a direct comparison is not possible.

- To test directly to what extent fixed and variable costs differ between exports and imports, the author should think about a specification in which only export starter and only import starter are interacted with some proxies of fixed costs. A similar analysis has been run in Davies and Jeppensen (*forthcoming* Review of World Economy) in the context of direct, indirect traders.

- In general, the regression with the Probit model are not at all clear, especially those with the tariffs. Is the probability of exporting or importing country-specific? If not, how can tariff be included in this specification? Shouldn't be the same for all firms?

- In Table 9 there are two variables (exporter dummy $t-1$ and importer dummy $t-1$) but not the corresponding coefficients. Why?

[1]To make the coefficients comparable the authors should jointly estimate the export and the corresponding import equations using the seemingly unrelated regressions (SUR) methodology and then using a Wald tests.

- Reduce the number of footnotes consistently. The paper is almost unreadable as it is now.

- The paper needs absolutely to be proof-read by a native English speaker. There are several mistakes.