



GLOBAL VALUE CHAINS AND EXPORT GROWTH IN TURKIYE

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Received: Feb 26, 2025

Accepted: May 02, 2025

Published: June 01, 2025

Abstract:

With its emphasis on expanding its role in the global value chain and growing exports, Türkiye has taken important steps towards economic growth. Along the way, Türkiye has recognized that the products it exports need to create more economic value and has faced a number of challenges in this regard. This study examines Türkiye's adaptation to the global value chain and how this adaptation has contributed to the Turkish export growth. Applying the Vector Autoregressive (VAR) Modelling technique and time series data from 1990 to 2018, the study finds that the participation in the global value chain has a positive impact on Türkiye's export growth in the long run, but in the short run, it can increase its external dependence and create trade imbalances. Moreover, the results show that growth in exports leads to economic growth, and there is a bidirectional causality relationship between the two. Apart from this, innovation, R&D and technology investments through foreign direct investment are seen to strengthen the alignment with the global value chain and support export growth. Based on these findings, the study concludes that the Turkey's adaptation to the global value chain and its export targets with high economic value can make economic growth sustainable.

Keywords:

Global Value Chains; Export Growth; Economic Growth; Globalization; Turkey

1. Introduction

Turkey's geographical location and economic structure make it a key player in global trade. While the economy primarily relies on industry, services, and agriculture, the importance of exports has steadily increased in recent years. With direct access to the Middle East, Europe, and Asia, Turkey plays a significant role in global supply chains (World Bank, 2020).

In recent years, Turkey has recognized the value of exports and its integration into global value chains (GVCs) is growing. GVCs refer to the interconnected production processes spanning various countries, from design to marketing and sales (Kaplinsky & Morris, 2001). Turkey's role in the GVC is evolving, especially in industry (OECD, 2013).

Sustainability of Turkey's trade growth is linked to its involvement in GVCs, which help enhance both export and economic growth. Key factors such as technological innovation, labor productivity, and infrastructure quality shape Turkey's integration into GVCs (Baldwin, 2016). GVC participation is particularly significant for developing countries like Turkey, as it can foster economic and export growth (Timmer et al., 2014).

Turkey's adoption of new methods and technologies has grown further integrated it into the global market, but its contribution to export growth has not been fully realized. This study explores Turkey's position in the global value chain and provides recommendations for strengthening its role in global trade and enhancing export growth (Gereffi & Fernandez-Stark, 2016).

2. Literature Review

2.1 Meaning of Global Value Chains

The global value chain concept was first defined in the 1980s by Michael Porter. According to him, a value chain segments a company's production to better understand costs and resources (Porter, 1985). The GVC explains how countries and firms are involved in global production and trade networks.

2.2 Situations in the Global Value Chain

Developed countries typically engage in research, development, and high-tech production, while developing countries often focus on assembly or simpler tasks (OECD, 2013). This distinction shapes their positions in the value chain, with developing nations contributing in sectors like assembly and textiles, and developed countries excelling in sectors like aerospace or automotive (Baldwin & Yan, 2014).

2.3 Impact of the Global Value Chain on the Economy

GVC participation fosters economic growth by providing access to foreign markets and driving exports. According to Timmer et al. (2014), GVCs allow countries to specialize based on comparative advantages, increasing their global economic standing.

2.4 Access to Technology

Developing countries benefit from GVCs through technological knowledge transfer. This transfer, facilitated by foreign direct investment, joint ventures, and collaborations, enhances productivity and economic growth (Baldwin & Yan, 2014). For example, Toyota's operations in Turkey exemplify how technology transfer works within the GVC, boosting both competitiveness and production capacity (Gereffi, 2016).

2.5 Challenges in the Global Value Chain

Despite the opportunities, there are challenges to fully benefiting from GVCs. Problems like inadequate infrastructure, lack of skilled labor, and high trade barriers can hinder a country's ability to maximize the potential of GVCs (OECD, 2013). Overcoming these requires significant investments in infrastructure, training, and policy reforms (Kaplinsky & Morris, 2001).

2.6 Factors Important for Export Growth

To increase exports, Turkey must focus on:

- **Quality, Adaptation, and Competition:** Products must be tailored to the tastes of specific markets. For instance, Turkish food products need to adapt to local preferences in each export country.
- **Innovation, Information Exchange:** Research and collaboration across countries can boost production capacity and export potential.
- **Education and Employment:** Workforce training increases productivity and export capacity. Initiatives in e-export education are a prime example.
- **Managing Transportation Costs:** Strategic use of Turkey's geographic advantage can reduce logistics costs and enhance export potential.
- **Trade Agreements and Policies:** Trade policies and agreements that encourage exports are crucial.

2.7 Turkey's Position in the Global Value Chain

Turkey's strategic location, production facilities, skilled labor, and foreign investment opportunities strengthen its role in the GVC. The country is well-positioned to integrate further into global trade networks.

2.8 Turkey's Adaptation to the Global Value Chain

Turkey's adaptation to the GVC has been supported by various strategies:

- **Industrial Development Strategies:** Policies such as investment incentives, free trade zones, and the customs union have contributed to the growth of Turkish industry.
- **Foreign Investment:** Turkey's attractiveness to foreign investors and its partnerships with international companies have bolstered its GVC position.
- **Productivity and Capacity:** Investments in infrastructure and R&D have strengthened Turkey's production capacity.
- **Export-Led Growth:** Turkey has supported export growth with policies such as tax credits and discounts, while also expanding into new markets.

3. Research Methodology

3.1 Data Sources and Period

The study uses annual data from 1990 to 2018. Key sources of data include:

- TÜİK (Turkish Statistical Institute): For export and trade-related data.
- World Bank: For GDP per capita and foreign direct investment data.
- UNCTAD-Eora Global Value Chain Database: For Global value chain data

3.2 Model Specification

This study aims to analyze the relationship between Turkey's participation in global value chains (GVC) and export growth using an econometric approach based on the Vector Autoregressive (VAR) model. The primary model is formulated as follows:

$$\text{EXP2} = f(\text{GVC}, \text{GDPPC}, \text{FDI}) \quad (1)$$

Where:

- EXP2: Export growth (dependent variable),
- GVC: Global Value Chain participation,
- GDPPC: GDP per capita,
- FDI: Foreign Direct Investment.

To address heteroscedasticity and ensure a linear relationship among variables, all variables are transformed into their natural logarithms. Hence, the log-linear specification is provided as follows:

$$\ln \text{EXP2}_t = \beta_0 + \beta_1 \ln \text{GVC}_t + \beta_2 \ln \text{GDPPC}_t + \beta_3 \ln \text{FDI}_t + \varepsilon_t \quad (2)$$

Here, β_0 represents the constant term, β_1 , β_2 , and β_3 are the coefficients of the explanatory variables, ε is the error term and t represents time period. The analysis is conducted using the Vector Autoregressive (VAR) model, which is suitable for variables that are integrated of the same order, i.e. I(1). Specifically, the VAR model is specified as follows:

$$Y_t = \beta_0 + \sum_{j=1}^p \phi_j Y_{t-j} + \varepsilon_t \quad (3)$$

Where Y_t represents the vector of variables included in the model, including the dependent variables. i.e. export growth, global value chains, GDP per capita, and foreign direct investment. ϕ_j denotes a vector of autoregressive coefficients, β_0 is vector of intercepts and ε_t represents the vector for all error terms. t is the time period and while p is the lag order.

3.3 Steps in the Methodology

1. Data Preparation: The study uses annual time-series data from 1990 to 2018 obtained from and international databases such as the World Bank and UNCTAD
2. Stationarity Testing: Unit root tests, including Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP), are performed to determine the integration order of the variables.
3. Cointegration: The Johansen's cointegration test is applied to check whether the variables have a long-run relationship. This is very important since the VAR model is based on the first difference variables.
4. Model Estimation: The Vector Autoregressive (VAR) approach is applied to examine the relationships among variables. This model is suitable because the stationarity properties of the variables revealed that all the variables are integrated of the same order, i.e. I(1). This methodology provides a comprehensive framework for evaluating the impact of Turkey's GVC participation on its export performance.
5. Impulse Response Analysis: Impulse response functions (IRFs) are used to examine how shocks to explanatory variables, such as GVC participation, economic growth, and foreign direct investment influence export growth in Türkiye.

The VAR model employed in this study ensures that the study provides robust, evidence-based insights into the impact of global value chains on Turkey's export growth. By employing an econometric modeling technique, the study aims to contribute meaningfully to the literature on trade and economic development.

4. Empirical Results and Discussion

4.1 Preliminary Results

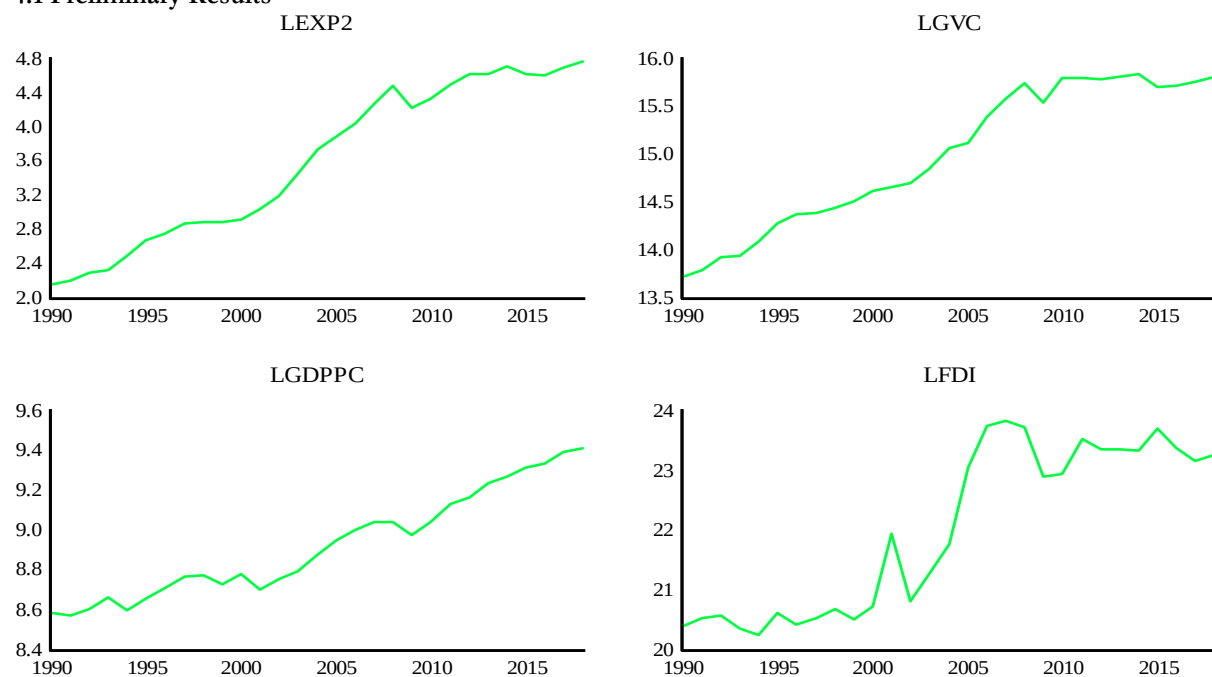


Figure 1: Time series plots of variables

Figure 1 displays the time series plots of the variables (log of export growth, global value chains, GDP per capita, and foreign direct investment). Overall, the LEXP2 has a positive trend as observed (exports may have increased since 1990). However, there is a significant slowdown around 2008 (probably due to the global financial crisis). The LGVC has a positive but more balanced increase before 2008. This may indicate that the value chain contribution is growing consistently before the global financial crisis. The LGDPPC has a similar positive trend in GDP per capita, but growth is slower and less volatile. Finally, there is a rapid increase in FDI after 2000, followed by fluctuations and stabilisation.

Table 6: Descriptive statistics

	LEXP2	LGVC	LGDPPC	LFDI
Mean	3.585901	14.98093	8.920621	22.00353
Maximum	4.765111	15.83309	9.404944	23.81644
Minimum	2.149822	13.71004	8.567302	20.22569
Std. Dev.	0.924697	0.739914	0.266737	1.393829
Skewness	-0.145711	-0.248420	0.385470	-0.025302

Kurtosis	1.449926	1.574460	1.859629	1.211167
Jarque-Bera	3.005917	2.753810	2.289542	3.869666
Probability	0.222471	0.252358	0.318297	0.14448

Table 6 summarises the basic statistical properties of the variables. The log of FDI has the largest mean among the variable, followed by log of GVC, and log of GDP per capita. The log of the export growth, i.e. EXP2 has smallest mean among the variables. From the standard deviation of the variables, it is clear that the log of FDI tends to be more volatile among the variables with the value of 1.394, while the standard deviations of the rest of the variables tend to be clustered around the mean. Furthermore, the skewness of the log of EXP2, GVC, and FDI is negative, i.e. slightly negatively skewed (asymmetric to the left), but the skewness of the log of GDP per capita is positive, which is asymmetric to the right. The value of the kurtosis for all the variables is positive, indicating the sensitivity of the data to extreme values. Also, since the values of the kurtosis are less than 3 which is for the normal distribution, it shows that the outliers in the data distribution are not very prominent. Consequently, the probability values for the Jarque-Bera test cannot be rejected for all the values used in this study. This implies that the variables for this study are normally distributed.

Table 7: Correlation Matrix

	LEXP2	LGVC	LGDPPC	LFDI
LEXP2	1.0000			
LGVC	0.9932*** (0.0000)	1.0000		
LGDPPC	0.9533*** (0.0000)	0.9279*** (0.0000)	1.0000	
LFDI	0.9434*** (0.0000)	0.9374*** (0.0000)	0.8764*** (0.0000)	1.0000

Values in [] show probability value, *** p value < 1%, ** p value < 5%

Table 7 assesses the correlation between the variables. From this Table, it is observed that there is a positive and significant correlation between LEXP2 and LGVC. Moreover, the correlation between LEXP2 and LGDPPC as well as LFDI is positive and statistically significant. It is also found that LGVC has a positive and significant correlation with LGDPPC and LFDI. Finally, the correlation between LGDPPC and LFDI is positive and statistically significant. All variables are highly correlated, supporting that GVC, economic growth and foreign investment jointly influence export growth. However, correlation does not prove causality; further tests such as regression analysis are required.

Table 8: Augmented Dickey Fuller (ADF) unit root test results

Variable	Level		First Difference	
	C	C&T	C	C&T
LEXP2	-0.9751 (0.7480)	-1.0293 (0.9233)	-4.0805*** (0.0040)	-4.1263** (0.0161)
LGVC	-1.6045 (0.4672)	-0.7936 (0.9543)	-5.2452*** (0.0002)	-5.6690*** (0.0005)
LGDPPC	0.5510 (0.9855)	-2.2156 (0.4632)	-5.3599*** (0.0002)	-5.3955*** (0.0009)
LFDI	-1.0901 (0.7053)	-1.9850 (0.5839)	-5.2783*** (0.0002)	-5.1845*** (0.0014)

t-statistic and probability value [], *** p value < 1%, ** p value < 5%. C denotes Constant, and C&T denotes constant with trend.

Table 9: Phillips-Perron (PP) unit root test results

Variable	Level		First Difference	
	C	C&T	C	C&T
LEXP	-0.9494 (0.7569)	-1.3279 (0.8596)	-4.0572*** (0.0043)	-4.0905** (0.0174)
LGVC	-1.6586 (0.4405)	-0.7909 (0.9546)	-5.2491*** (0.0002)	-5.6690*** (0.0005)
LGDPPC	1.6498 (0.9993)	-2.2259 (0.4580)	-5.3599*** (0.0002)	-5.3954*** (0.0009)

t-statistic and probability value [], **** p value < 1%, ** p value < 5%. C denotes Constant, and C&T denotes constant with trend.

Table 9 shows the results of the stationarity properties based on the ADF unit root test. From the results, it is clear that all the variables are not stationary at their level forms. However, all variables become stationary when first differences are taken ($p < 0.05$). These results are confirmed and/or validated by the results of the Phillips-Perron (PP) unit root test that all variables are 'first order integrated' (I(1)) (See Table 8). This order of integration, therefore, justifies the use of the Vector Autoregressive (VAR) Modelling approach used in this study.

Table 10: Cointegration Results
Unrestricted Cointegration Rank Test (Trace)

Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.803931	93.71446	63.87610	0.0000
At most 1 *	0.757356	51.35289	42.91525	0.0058
At most 2	0.354780	14.53272	25.87211	0.6134
At most 3	0.113777	3.140453	12.51798	0.8594

There are two cointegrating equations

Unrestricted Cointegration Rank Test (Max-Eigen Statistic)

Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.803931	42.36157	32.11832	0.0020
At most 1 *	0.757356	36.82017	25.82321	0.0012
At most 2	0.354780	11.39227	19.38704	0.4737
At most 3	0.113777	3.140453	12.51798	0.8594

There are two cointegrating equations

Table 10 shows the results of the cointegration among the variables based on the Johansen's cointegration test. This test has two main statistics, i.e. trace statistic and eigenvalue statistic. As can be seen from the Table, two valid cointegrating equations are detected in both trace and eigenvalue statistics. This therefore implies that there is a long-run relationships among export growth, global value chains, economic growth, and foreign direct investment.

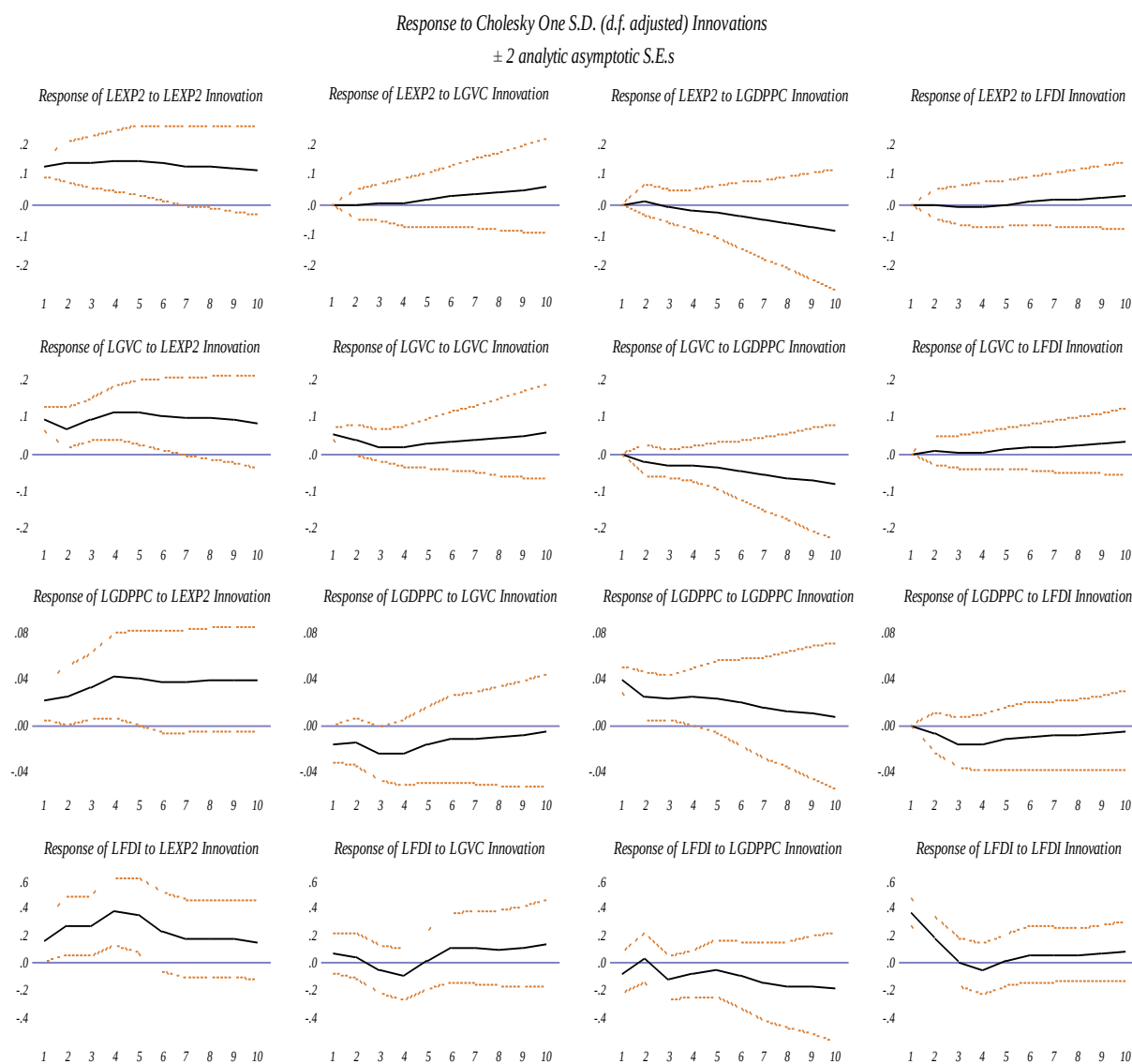


Figure 2: Results of the Impulse Response Functions (IRFs)

Impulse Response Functions (IRFs) Graphs

Figure 2 provide valuable insights into the factors influencing the Turkey's export growth. Firstly, the response of exports (LEXP2) to its own shock is initially strong and positive. This indicates that a sudden increase in exports leads to a significant short-term growth, but the effect gradually diminishes over time. As export fluctuations stabilize, it highlights the importance of maintaining long-term trade stability.

The impact of a shock in global value chain participation (LGVC) on exports is clearly positive. At first, there is a noticeable increase, and over time, this effect becomes even stronger. This suggests that Turkey's integration into global production networks plays a crucial role in enhancing its export performance. Since the long-term trend remains upward, deeper participation in global value chains appears to be a key factor in sustaining export growth.

The effect of a shock in real GDP per capita (LGDPPC) on exports is also positive, but it weakens over time. While economic growth initially supports exports, this influence gradually fades and approaches a neutral level in the long

run. This implies that domestic economic expansion alone is not sufficient to drive sustained export growth. Instead, external demand, production capacity, and competitive strength must also be considered.

Foreign direct investment (LFDI) has a positive initial impact on exports, but its influence diminishes over time. While FDI initially stimulates export growth, the effect weakens and eventually stabilizes at a lower level. This indicates that for foreign investments to contribute to long-term export expansion, they should not only focus on capital inflows but also emphasize technology transfer and production capacity development.

Overall, these findings suggest that to sustain export growth, Turkey should deepen its integration into global value chains, align economic growth with an export-oriented model, and ensure that foreign direct investments are more permanent and export-driven.

5. Conclusions and Recommendations

5.1 Conclusions

This study thoroughly examined the relationship between Türkiye's participation in global value chains (GVCs) and its export growth using a robust econometric framework. The findings highlight the transformative potential of GVCs in enhancing Türkiye's economic growth, global competitiveness, and trade performance. The key conclusions are as follows:

1. **GVC Participation and Export Growth:** Türkiye's integration into GVCs has a significant and sustained positive impact on export growth. Through this integration, Türkiye gains access to global markets, benefits from technological advancements, and improves production efficiency. GVCs enable Türkiye to leverage its comparative advantages, such as its geographical location and skilled labor force, to expand its export portfolio.

2. **Structural Challenges:** Türkiye's reliance on imported intermediate goods for production creates trade imbalances and external vulnerabilities. This dependency increases exposure to fluctuations in global supply chains and currency exchange rates. Additionally, limited diversification in export destinations and products further amplifies these risks. Addressing these structural challenges is crucial to fully capitalize on the benefits of GVC participation.

3. **The Role of Foreign Direct Investment (FDI):** FDI is identified as a key driver of export growth. By facilitating technology transfer, enhancing production capabilities, and fostering industrial diversification, FDI significantly boosts Türkiye's export performance. It also enables access to advanced manufacturing technologies and global expertise, which are essential for producing competitive, high-quality products. However, for FDI to be fully effective, it must be strategically directed toward high-potential export sectors.

4. **The Relationship Between Export Growth and Economic Development:** The study confirms a bidirectional relationship between export growth and economic development. Increased exports stimulate economic growth by driving job creation, industrial capacity expansion, and innovation. Conversely, economic growth enhances Türkiye's ability to produce higher-value-added goods, strengthening its competitiveness in global markets.

5. **Sectoral and Regional Impacts:** The benefits of GVC integration are not evenly distributed across sectors and regions in Türkiye. Industries such as automotive, textiles, and electronics have seen significant growth, while traditional sectors like agriculture and low-tech manufacturing lag behind. Similarly, regional disparities in infrastructure and workforce development hinder inclusive economic growth. Addressing these inequalities is essential to ensure that the gains from GVC participation are widely shared.

Comments

The findings emphasize Türkiye's potential to become a leading player in global trade. However, to fully capitalize on this potential, several structural and policy-related challenges must be addressed:

1. **Dependency on Imported Inputs:** Türkiye's reliance on imported intermediate goods limits the net economic benefits of export growth and increases its vulnerability to external shocks. Reducing this dependency is critical for achieving sustainable trade performance.
2. **Low-Value-Added Production:** A significant portion of Türkiye's exports consists of low-value-added goods, which yield limited economic returns. Shifting toward high-value-added production is essential for enhancing export competitiveness and profitability.
3. **Infrastructure and Technological Gaps:** Insufficient infrastructure and limited technological adoption in key sectors impede Türkiye's ability to participate effectively in GVCs. Strategic investments in infrastructure and technology are necessary to overcome these barriers.

4. Regional Disparities: Economic and infrastructural disparities between regions pose challenges to inclusive growth. Bridging these gaps will ensure that the benefits of GVC participation are distributed equitably.
5. Environmental Sustainability: As global markets increasingly prioritize sustainability, Türkiye must adopt green production practices and align its trade strategies with environmental standards to maintain its competitiveness.

5.2 Recommendations

To maximize the benefits of GVC participation and address the identified challenges, the following comprehensive recommendations are proposed:

1. Encourage High-Value-Added Exports:
 - Implement robust policies that incentivize R&D and innovation in high-potential sectors such as automotive, electronics, renewable energy, and biotechnology.
 - Foster partnerships between local firms and multinational corporations to facilitate technology transfer, skill development, and knowledge sharing.
 - Support branding and marketing initiatives to position Turkish products as high-quality offerings in global markets.
2. Strengthen Domestic Production Capabilities:
 - Provide financial incentives and technical support for local industries to develop the capacity to produce intermediate goods, reducing reliance on imports.
 - Encourage the creation of domestic supply chain networks to enhance resilience and self-sufficiency.
3. Invest in Infrastructure and Logistics:
 - Modernize industrial zones with state-of-the-art facilities to support advanced manufacturing.
 - Expand and upgrade transportation networks, including ports, railways, and highways, to improve connectivity and reduce logistics costs.
 - Develop smart logistics systems to streamline production and distribution processes.
4. Attract and Optimize FDI:
 - Position Türkiye as a stable and attractive investment destination by ensuring political and economic stability.
 - Simplify bureaucratic procedures and offer tailored incentives, such as tax breaks and subsidies, to attract long-term investments.
 - Direct FDI toward strategic sectors that align with national export growth objectives, such as high-tech industries and renewable energy.
5. Diversify Export Markets and Products:
 - Establish new trade agreements with emerging markets in Asia, Africa, and Latin America to reduce dependency on traditional markets in Europe and the Middle East.
 - Organize international trade fairs, business forums, and promotional campaigns to showcase Turkish products in untapped regions.
 - Diversify the export portfolio by investing in sectors with high growth potential, such as digital services and green technologies.
6. Enhance Workforce Development:
 - Develop targeted vocational training programs to equip workers with the skills needed in high-value-added industries.
 - Strengthen collaborations between educational institutions and the private sector to align curricula with industry demands.
 - Promote STEM (science, technology, engineering, and mathematics) education to prepare the workforce for future technological advancements.
7. Promote Environmental Sustainability in Trade:
 - Encourage industries to adopt environmentally friendly production practices, aligning with global trends toward sustainability.

- Develop and market green products to appeal to environmentally conscious consumers in international markets.
 - Provide financial incentives and technical support for firms investing in sustainable technologies.
8. Strengthen Trade Policies and SME Support:
- Simplify export procedures, reduce administrative barriers, and enhance transparency to facilitate trade.
 - Provide export financing, credit guarantees, and insurance schemes to support SMEs entering global markets.
 - Establish advisory programs to guide SMEs in complying with international trade standards and leveraging GVC opportunities.
9. Reduce Regional Disparities:
- Invest in underdeveloped regions to create balanced economic growth.
 - Establish regional trade hubs and logistics centers to support GVC integration in less-developed areas.
 - Provide targeted support for industries in disadvantaged regions to ensure equitable participation in GVCs.
10. Monitor and Adapt to Global Trends:
- Continuously assess global trade trends and adapt policies to maintain Türkiye's competitiveness.
 - Develop a comprehensive national strategy for GVC participation that incorporates emerging technologies and sustainability goals.

Final Remarks

By implementing these recommendations, Türkiye can unlock the full potential of its participation in global value chains, driving sustainable economic growth and enhancing its global trade position. These efforts will enable Türkiye to transition from a producer of low-value-added goods to a leader in innovative, high-value-added industries. Strategic investments, policy reforms, and workforce development will ensure Türkiye's long-term resilience and prosperity in an increasingly interconnected global economy.

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