

Chapter 18

Turkey's Participation and Economic Upgrading in Global Value Chains

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ABSTRACT

This chapter assesses Turkey's position in global value chains (GVCs) and identifies the conditions under which the country can better exploit the advantages from GVC participation, in particular how the country can economically upgrade its GVC position by reaping the benefits of spillovers to the domestic economy. The chapter reviews Turkey's participation in three key industries: the automotive sector, the textiles and apparel sector, and the agri-food sector. The results show that Turkey is relatively present in GVCs. However, the country seems to specialize in assembly and low value added segments of the value chain. It is also important to evaluate the spillovers from foreign direct investment (FDI) to the domestic economy. The results show that high R&D expenditure and/or a high technological intensity are beneficial for Turkey's manufacturing firms. In addition, supplying fully foreign-owned companies significantly helps boost the productivity of domestic firms.

INTRODUCTION

Global value chains (GVCs) have changed the shape of international trade, creating increasing competition and co-dependency between countries. While countries compete to attract jobs and

investment, they increasingly depend on each other's demand, capital and production. With the dramatic growth of outsourcing practices, i.e. the practice to subcontract non-core activities to independent suppliers, competition between companies has shifted from being horizontal, i.e.

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firms compete in the same sector for the same customer-base, to being vertical, i.e. firms in the same value chain compete to perform specific and specialized tasks. Lead firms compete with first-tier and lower-tier suppliers (strong vertical competition), but the extent of vertical competition varies depending on the nature of power relations within the specific value chain (see, e.g., Milberg, 2004).¹

Technological advances (in particular of information and communication technologies [ICTs]), political developments (including the integration into the world economy of formerly communist or closed countries, as well as multilateral and bilateral trade agreements), and business strategies (in particular the focus on core competence and the focus on increased flexibility) all allowed companies to leverage countries' differences in endowments and input costs. As a result, competition not only

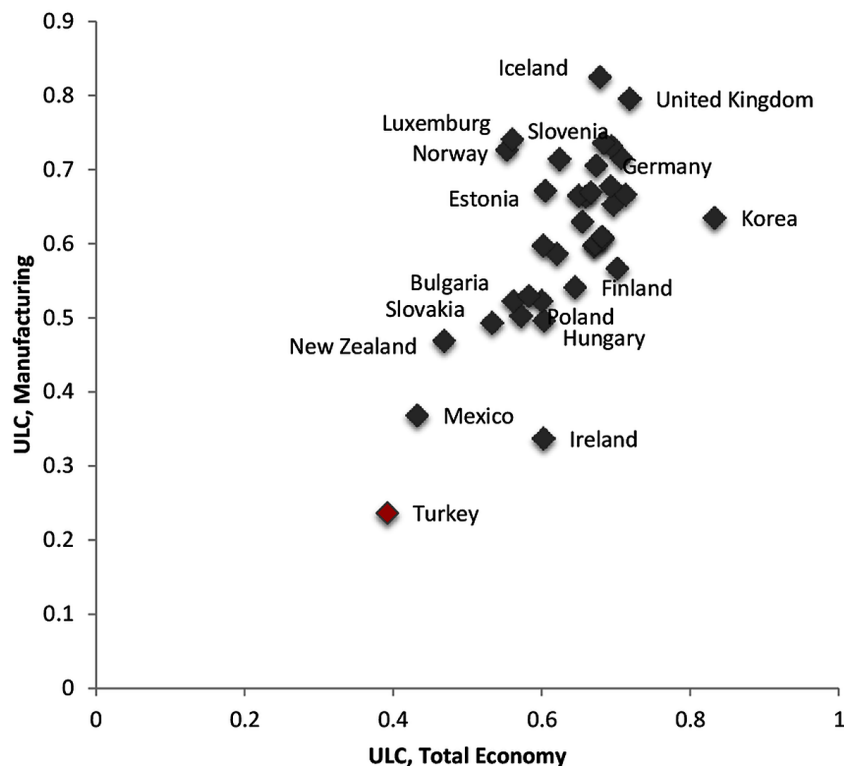
between firms, but also between countries has become increasingly vertical. Interestingly, both horizontal and vertical competition is driven by similar forces: the interplay between traditional cost advantages, institutional factors, and proximity to the final consumer, which determine what tasks are more profitable in given locations.²

In this context, what role does Turkey play? And how can it fully benefit from GVC participation? Is the country equipped to upgrade its position within GVCs and create substantial spillovers to the domestic economy in view of the rapid changes that GVCs are facing?

Turkey is an emerging country with important labor cost advantages, in particular when compared to regional trade partners. Figure 1 shows that its exchange rate-adjusted unit labor costs (UCL) are the lowest in the region and across OECD countries. Does Turkey exploit its comparative

Figure 1. Unit labor costs in OECD countries and selected non-OECD countries, exchange rate adjusted (2006)

Source: OECD. Note: 2006 is the latest year for which ULC data for Turkey are available.



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