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Responding to Disruptors and Enablers of MENA Development Pathway
ERF 30th Annual Conference

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ECONOMIC RESEARCH FORUM 30 years
منتدى البحوث الاقتصادية

2024

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Hüseyin A. ÖZER[1], Taner TURAN[2], and Halit YANIKKAYA[3]

ABSTRACT

Despite extensive research on Global Value Chains (GVCs), there remains a notable lack of empirical studies examining their impact on economic upgrading. Our study addresses this gap by investigating how different forms of GVC participation, namely backward and forward linkages, influence economic upgrading across several industries, including agriculture, fuels, minerals, and manufacturing. Our findings indicate that GVC participation plays a pivotal role in both product and process upgrading across industries. In agriculture, both forward and backward GVC participation significantly contribute to process and product upgrading, highlighting the dual benefits of GVC participation. In contrast, the fuels and minerals industries experience product upgrading through backward GVC participation. For the MENA region, while the fuels- minerals and manufacturing sectors exhibit product upgrading through both forward and backward GVC participation but they do not demonstrate an improvement in process upgrading. In the agriculture sector, both backward and forward GVC participation are instrumental in driving product and process upgrading by highlighting the comprehensive impact of GVC integration.

JEL Classification: F43, O11, O53

Keywords: GVCs, Product Upgrading, Process Upgrading, MENA countries

1. Introduction

Upgrading has been a subject of interest in numerous studies on GVCs, as they offer insights into how firms can improve their competitiveness and benefit from their participation in global production networks (see, de Vries et al., 2019; Whitfield et al., 2020; Gereffi and Lee, 2016). GVCs present a unique avenue for boosting economic upgrading by facilitating specialized roles, providing access to cost-effective inputs, encouraging learning through trade interactions, and offering benefits of higher market size and the knowledge spillovers (see,

[1] Gebze Technical University, Department of Economics, aozer@gtu.edu.tr, Contact person
[2] Gebze Technical University, Department of Economics, tturan@gtu.edu.tr
[3] Gebze Technical University, Department of Economics, halityanikkaya@gtu.edu.tr

Criscuolo and Timmis, 2017; Ndubuisi and Owusu, 2023; Constantinescu et al., 2019; Altun et al., 2023). The upgrading process is particularly crucial for developing countries, offering them an alternative route to break free from the constraints of low-value activities like raw material extraction or low-skill manufacturing. By integrating into GVCs, these countries can potentially move up the value chain to engage in higher-value activities, such as manufacturing or services. This shift not only implies greater gains from trade but also stimulates structural transformations, productivity, and, consequently, economic growth (see, Lim and Kim, 2022; Taglioni and Winkler, 2016; Jangam and Rath, 2021; Yanikkaya et al., 2022).

Economic upgrading is a key aspect of participating in GVCs. It refers to the process through which firms and industries enhance their capabilities, technologies, and market positions, enabling them to move up the value chain and capture a larger share of the value created within GVCs (see, Marcato and Baltar, 2020). More specifically, Humphrey and Schmitz (2002) lay out four types of economic upgrading: process, product, functional, and the inter-sectoral upgrading. Process upgrading is typically perceived as achieving improvements in efficiency and enhancing productivity. Meanwhile, product upgrading is characterized by enhancing the overall value of products via GVC participation (see, Tian et al., 2022). At the same time, the effectiveness of GVCs in facilitating economic upgrading is not automatic; it is contingent on a country's ability to move towards producing and exporting higher value-added goods and services. If a country remains stuck in low-value-added activities, the benefits of GVC participation can be limited and might even reinforce existing economic disparities. Therefore, a strategic focus on moving towards higher value-added exports is crucial for maximizing the potential benefits of GVC participation (see, Milberg and Winkler, 2013; Pahl and Timmer, 2020).

While numerous studies have examined the impact of GVCs on various economic indicators such as value-added growth (see, Kummritz, 2016; Yanikkaya et al., 2022; Yanikkaya and Altun, 2020), productivity (see, Constantinescu et al., 2019) and firm profitability (see, Altun et al., 2023), relatively few studies have empirically explored the implications for economic upgrading through GVC participation (see, Pahl and Timmer, 2020; Kummritz et al., 2017). In this context, our study aims to address several key questions: What effects do GVCs have on economic upgrading? How do sub-categories of GVC participation, namely backward and forward, influence economic upgrading across resource-based industries and manufacturing? And does involvement in GVCs primarily lead to process or product

upgrading in these industries? Answering these questions has significant implications for industrialization and the trade policy, especially for countries struggling with low-value-added activities such as the MENA region.

The novelties of our study are several: Firstly, we consider an extensive panel of 49 countries and 93 industries derived from EXIOBASE-3 database to better understand the role of GVC participation on the measures of economic upgrading. Secondly, since some studies clearly indicate that (see, Yanikkaya and Altun, 2020; Kummritz, 2016) the importance of making distinction between sub-categories of GVC participation, we investigate both backward and forward GVC participation on economic upgrading in agriculture, fuels-minerals, and manufacturing industries. Thirdly, unlike Kummritz et al. (2017) and Pahl and Timmer (2020), we distinguish economic upgrading measures as product and process upgrading. This distinction enables us to discern which type of GVC participation—backward or forward—leads to product or process upgrading across industries. Lastly, while previous studies have focused on different geographical regions (see, DeVries et al., 2019; Obasaju et al., 2021), our study considers effects of GVCs on economic upgrading in the MENA region. Characterized by its distinct natural resource wealth, the region exhibits a huge potential for shifting from primary resource-based activities to higher segments of the value chain. This investigation into economic upgrading is pivotal for understanding how the region can advance up the value chain and maximize trade gains through GVC participation.

Our empirical results reveal that GVC participation in all three industries crucially improves both product and process upgrading for the full sample. However, for the MENA region, our empirical results differ significantly, especially for the process upgrading. The fuels-minerals and manufacturing sectors show enhanced product upgrading through GVC participation but not for the process upgrading. Our results clearly indicate that the effectiveness of GVCs in facilitating economic upgrading is not bringing the anticipated benefits for all industries. While GVC participation leads to technological innovation, higher market access or cost-advantageous inputs, economic upgrading in some industries could not be materialized. Therefore, the insignificant effect of GVC participation on process upgrading in both fuels-minerals and manufacturing for MENA could be the manifestation of low absorptive capacity (see, Griffith et al., 2003; Stock et al., 2001).

This paper is constructed as follows; the next part reviews the related literature, the third part presents model and the data, fourth part discusses the empirical results, and the last part concludes and presents the policy implications.

2. Literature Review

GVC participation can influence economic upgrading through several factors, including specialization, knowledge and technology transfer and market access (see, Gereffi and Lee, 2016; De Marchi and Alford, 2022). Through GVC participation, a higher specialization would play a decisive role, resulting in higher economic upgrading. Participating in GVCs enables firms to identify and specialize in high value-added tasks that match their comparative advantage (see, Gereffi et al., 2005). Specifically, GVCs could enable firms to specialize in certain stages of production rather than entire value chain (see, Grossman and Rossi-Hansberg, 2008). Therefore, this focus on the segments of production could increase efficiency, quality and the value-added of exports. On the other hand, GVC participation could lead to continuous influence of leading firms with stringent standards in the global market. To meet the standards, local firms could upgrade their processes and products to supply the leading firms' production. In due time, this can shift the specialization patterns of leading firms' suppliers towards the high-quality exports.

As firms engage highly in GVCs, they are exposed to knowledge spillovers from lead firms in global markets. This can drive technology transfer, knowledge spillovers, research, and development (R&D) and the learning-by-exporting, ultimately results in higher economic upgrading for domestic firms (see, Lall, 2000). As domestic firms integrate into GVCs, they often collaborate with leading firms which possess advanced technologies. These collaborations can expose domestic firms to new and efficient production methods, high-quality standards, and innovative product designs. Participating in GVCs can also lead to knowledge spillovers which local firms can indirectly benefit from them. When a leading firm introduces advanced practices and technologies, local firms, even those not directly linked to the leading firms, can observe, learn, and adopt these practices. Another factor is that by actively participating in various tasks in GVCs, domestic firms could gain experience which collaborates to learning-by-exporting implications (see, Blalock and Gertler, 2004; Loecker, 2013). This learning process upgrades the firms' capabilities where firms move up more sophisticated production processes (see, Humphrey and Schmitz, 2002).

Additionally, for local firms, accessing a large market size is important to reach economic upgrading through GVC participation. This can lead to a wider consumer base and increased sales volumes for participating firms (see, Braunerhjelm and Thulin, 2008; Taglioni and Winkler, 2016). As firms reach and become a part of global production networks, they access broader market demand, stimulating production in larger quantities and lowering the average operation costs. Thus, reduced costs could increase competitiveness in global markets and thereby boost economic upgrading (see, Grossman and Rossi-Hansberg, 2008). Also, access to a broader market base through GVCs often translates to increased export revenue. These export revenues, when reinvested, can facilitate technological advancements, capacity building, research and development, and other forms of economic upgrading (see, Taglioni and Winkler, 2016). Lastly, by accessing global markets through GVCs, local firms are also exposed to high competition. This competition pressure acts as a catalyst for firms to innovate and upgrade the production segments (see, Kaplinsky and Readman, 2005).

However, a critical point is raised by Milberg and Winkler (2013), which warns against the assumption that participation in GVCs automatically leads to economic upgrading (see also, Pahl and Timmer, 2020). They present the idea of "downgrading," where firms might be stuck in low-value activities or even shift to lower value-added activities. Additionally, when firms participate in GVCs without sufficient absorptive capacity, they may fail to internalize the knowledge and skills transferred through these chains. This failure can result in firms remaining confined to low-value-added tasks despite being part of global networks. The inability to absorb and utilize advanced technologies can lead to a scenario where firms are simply executing low-skill, labor-intensive tasks without moving up the value chain.

Several empirical studies investigate the impacts of GVCs on economic upgrading in different industries and regions (see, De Vries et al., 2019; Pahl and Timmer, 2020). More specifically, some studies show that GVC participation has beneficial effect on economic upgrading (see, De Vries et al., 2019; Kummritz et al., 2017). For instance, Pahl and Timmer (2020) find that the participation in GVCs has a favorable influence on manufacturing upgrading across 57 countries. Wiryawan et al. (2022) find that a rise in manufacturing GVC participation leads to an increase in the share of high-tech sector output. They also indicate that forward (backward) GVC linkages significantly improve (decrease) the performance of high-tech (low-tech) industries' upgrading.

Also, some studies indicate that the direction of GVC participation plays a critical role in economic upgrading. Tian et al. (2021) note that backward GVC participation is particularly beneficial for developing countries. Conversely, Ndubuisi and Owusu (2021), find that GVC participation enhances export quality in developed countries through both directions of GVCs, in developing regions the positive effect is only observed though backward GVCs.

Lastly, some studies emphasize the role of human capital and technological capabilities to reach higher economic upgrading (see, Nouria and Saafi, 2022; Zhou,2018, Wu et al., 2021). Banga (2022) highlights how digital capabilities in Indian firms lead to product sophistication, and similarly Gao et al. (2023) emphasize the role of technological innovation in Chinese manufacturing upgrading.

3. Model and Data

To investigate the interrelationship between economic upgrading and global value chains, our baseline model is borrowed from Kummritz (2016). We estimate a simple model for sector *s* of country *c* at the time *t*:

$$\text{Economic Upgrading}_{c,s,t} = \beta_1 \text{Forward Participation}_{c,s,t} + \beta_2 \text{Backward Participation}_{c,s,t} + \beta_3 X_{c,s,t} + \alpha_t + \alpha_c + \alpha_i + \varepsilon_{c,s,t} \quad (1)$$

Consistent with Kummritz et al. (2017), we use domestic value added and export complexity as the measures of economic upgrading. According to Humphrey and Schmitz (2005), as industries integrate into value chains, producers should increase the technological content of their products to keep up with the competition in the global market. This type of upgrading is coined as the product upgrading. Accurately measuring the product upgrading that involves bilateral trade linkages seems to remain difficult (see, Marcato and Baltar, 2020). Therefore, we choose to represent product upgrading by export technical complexity for our dataset. Based on Hausmann et al. (2007) export technical complexity can be shown in equation (3):

$$PRODY_{ji} = \frac{vx_{ji}/\sum_j vx_{ji}}{\sum_i vx_{ji}/\sum_j vx_{ji}} * Y_{ji} \quad (2)$$

$$EXPYji = \frac{vx_{ji}}{\sum_j vx_{ji}} * PRODY_{ji} \quad (3)$$

In equations (2) and (3) vx_{ji} represents the value-added exports in industry j in country i; Y_{ji} is the value-added of industry in industry j and country i, $EXPji$ denotes the technical

complexity of exports in the industry. Higher value of $EXPji$ represents higher sophisticated technological content produced by the industry. Following Taglioni and Winkler (2016), we also use the level of value added to measure the economic upgrading. According to Kummritz et al. (2017), the level of value-added could capture the total factor productivity improvements (the process upgrading) and the gains for firms and workers such as gross profits and the labor compensation.

To gain initial insights, we depict some figures both for the full sample and the MENA countries. Figure 1 shows product upgrading trends of agriculture, fuels-minerals, and manufacturing between 1995 – 2022 for the full sample. All three sectors show an upward trend, indicating worldwide improvements in the quality and sophistication of products within these industries. Figure 1 also shows that manufacturing has experienced the highest level of product upgrading across time for the world. Figure 2 presents the product upgrading for these sectors of the MENA region. For agriculture, despite the fluctuations, there appears to be a general upward trend. This indicates that there has been a general increase in product upgrading in the agricultural sector in the MENA region after the global crisis. Unlike agriculture, it shows a more consistent and steady increase over time in product upgrading for fuels-minerals and manufacturing.

In equation (1), the backward and forward participation GVCs are derived from EXIOBASE-3 database for 93 sub-sectors (see, Stadler et al., 2016), spanning from 1995 to 2022 for 49 countries including the MENA countries[4]. While agriculture, fuels-minerals, and manufacturing sectors consist of 20, 14, and 63 subsectors, respectively. We also include some control variables in our model affecting economic upgrading in industry-level such as capital stock per worker and total employment hours, represented by $X_{c,t}$ in equation (1). Lastly, α_t, α_c, α_i and $\varepsilon_{c,s,t}$ are the time dummies, country dummies, industry dummies and the error term, respectively. The mean values are presented in Table 1.

[INSERT TABLE 1 HERE]

To investigate whether GVCs have upgrading effects in three industry groups, we employ the two-way fixed effects method. Firstly, the two-way fixed effects model is adept at controlling individual heterogeneity. In the context of GVCs, different countries or industries may have omitted characteristics that influence GVCs magnitude on the economic upgrading.

[4] Country list is provided in the Appendix section.

Therefore, by using the two-way fixed effects model, we account unobservable characteristics that are constant over time across countries and industries. Secondly, the two-way fixed effects model helps to eliminate the omitted variable bias. In the context of GVCs, this could be important due to the certain factors affecting economic upgrading could not be easily measurable, such as path-dependent characteristics of the industry or government policies. Lastly, in addition to controlling for individual heterogeneity and omitted variable bias, the two-way fixed effects models can also control for common shocks or trends that affect all countries or industries during the period, such as global economic crises or technological breakthroughs. This is particularly relevant in the context of GVCs as global economic conditions and technological changes can have widespread effects on how countries and industries participate in the global production networks.

4. Empirical Results and Discussion

Table 2 presents empirical results whether GVC participation leads to economic upgrading in our full sample. Estimates in columns 1 to 4 of Table 2 indicate that both forward and backward participation leads to product and process upgrading in the agriculture industry. By selling agricultural products through forward participation, agricultural producers could meet market demand and be exposed to higher competition in the global markets. This competition can drive firms to improve their efficiency, and incentives to innovate to maintain or increase their market share (see, Melitz, 2003). Also, by integrating markets with forward participation, agricultural producers might learn from the peers or leading firms through knowledge spillovers thereby leading to higher process or product upgrading (see, Aitken et al., 1997; Salomon and Shaver, 2005; Loecker, 2013). Additionally, through forward participation, agricultural producers can achieve economies of scale, especially if the exported intermediaries allow for higher production capacities. Producing at a larger scale can facilitate consistent product quality and productivity, which positively affects both product and process upgrading in agriculture industry (see, Kowalski et al., 2015).

Lastly, engaging in forward GVCs often requires compliance with international quality and food safety standards for agricultural products, this means that improving product quality to meet these stringent standards, which can be considered as the product upgrading (see, Nadvi, 2008; Montalbano and Nenci, 2022). Meantime, by participating in backward GVCs, agricultural producers import high-quality inputs like seeds, machinery, and technology from global markets. This access to superior inputs can lead to significant improvements in

agricultural productivity and product quality. The introduction of these advanced inputs can lead to more efficient farming practices, higher and better-quality yield crops, contributing positively to both product and process upgrading (see, Halpern et al., 2015).

[INSERT TABLE 2 HERE]

We also find that backward and forward participation positively contributes to product and process upgrading within the fuels and minerals industries as seen from columns 5 to 8. By integrating the backward GVCs, these industries could access to advanced, cheaper inputs (such as high-quality machinery and drilling equipment etc.) and technologies which can significantly increase the value-added content of output (see, Gereffi et al., 2005; Halpern et al., 2015). Also, backward GVC participation often opens doors to networking and collaborative opportunities with leading global firms through importing activities. These relationships can be instrumental for the fuels industry in entering into joint ventures, or embarking on collaborative R&D projects, all of which can lead to both process and product upgrading (see, Morrison et al., 2008). Similarly, there is also positive effect of forward GVC participation on both process and product upgrading for fuels and minerals industry. Integrating more deeply into forward GVCs can encourage continuous product upgrading through market access. For fuel and mineral producers, entering global market segments through forward participation can provide lucrative opportunities to expand their customer base and provide incentives to upgrade their products.

We also find that both backward and forward participation positively contribute to product and process upgrading within the manufacturing industry, at the columns 9 to 12 of Table 2. Backward GVC participation, where industries import intermediate goods for final assembly or further processing, can lead to product upgrading by allowing firms to integrate more advanced components or technologies. (see, Sturgeon and Kawakami, 2011). This result also indicates that importing technologically advanced intermediate goods can facilitate learning and spillover effects, enabling the local firms to upgrade their production processes and production quality through backward GVC integration (see, Bisztray et al., 2018; Blalock and Veloso 2007). Also, engaging in forward GVC participation allows countries to export intermediate goods that can be integrated into diverse products abroad. For instance, a firm involved in exporting car components may find its products integrated into vehicles of different specifications and standards. To meet these requirements, the firm must continually enhance its products, leading to a consistent process of product upgrading. Such an upgrading is not limited

to physical improvements of the products but also includes innovations in design, functionality, and customization (see, Ernst, 2000).

Economic upgrading through GVCs is pivotal for the MENA region, which predominantly relies on its abundant natural resources for the integration into global production networks (see, BP, 2019). By engaging more deeply in GVCs, the MENA region can diversify its economy, moving beyond primary resource exports, thereby ensuring higher economic growth. Active participation in GVCs also allows the MENA countries to amplify their value addition by fetching higher gains from the resource wealth effectively, enhancing productivity, and narrowing technology gaps (see, Taglioni and Winkler, 2016). Building on these perspectives, we explore the potential pathways for economic upgrading via GVC participation in the MENA region, with our empirical findings presented in Table 3.

In our estimates, similar to the full sample, there are positive impacts of both forward and backward participation on both product and process upgrading in agriculture as indicated in columns 1 and 4 of Table 3. The positive coefficients associated with forward (backward) GVC participation underscore the beneficial effects of exporting (importing) intermediary goods and entering foreign markets. This lends substantial support to the notion of export-led, or forward-led (backward-led), process (product) upgrading (see Giles and Williams., 2000). Likewise, because forward participation stimulates demand in overseas markets, it is likely to positively impact the sector by boosting employment and the income, further supporting the case of both process and product upgrading (see Feenstra et al., 2019). Also, exporting to global markets through forward GVCs can also attract more investment into agricultural industry from both global and domestic firms. This could also fuel the R&D investments which lead to higher-quality agricultural products and more efficient production methods (see, Gereffi and Fernandez-Stark, 2016; Pray and Fugilie, 2015).

[INSERT TABLE 3 HERE]

Neither forward nor backward participation in GVCs lead to process upgrading in fuels-mineral and manufacturing industries, while forward and backward participation in GVCs leads to product upgrading. The positive impact on product upgrading is consistent with the theory that GVC participation allows to enhance the product quality. As Kaplinsky and Morris (2012) note that GVC integration helps firms in developing countries move from simple to more complex products by integrating market access. This could be especially relevant in resource-

rich MENA countries where participation in GVCs can lead to diversification and enhancement of their export portfolios. On the other hand, the lack of process upgrading in fuels-mineral and manufacturing industries through GVC participation might be due to the role of absorptive capacity of MENA countries. As Cohen and Levinthal (1989) highlight that the ability to exploit external knowledge (a key aspect of process upgrading) is contingent on the industry's level of prior related knowledge and its capacity to apply new knowledge. In this context, this might hinder the development of requisite absorptive capacity thereby neutralizing the impact of GVC participation on process upgrading in these industries.

Similar to fuels and mineral industry, both forward and backward participation in GVCs improve product upgrading in manufacturing for MENA region. The coefficient on forward GVC on product upgrading suggests that firms are increasingly moving from basic products to more highly sophisticated, differentiated or highly value-added products. As manufacturing firms become more entrenched in forward GVC participation, there's an increased tendency towards diversifying their product lines, introducing more complex products, thereby fetching higher trade gains. Also, the backward GVC participation has substantial and significant positive impact on both product and process upgrading in manufacturing. The strong positive relationship between backward GVC participation and product upgrading indicates that imports play a crucial role in complexity of exported goods for manufacturing in MENA region (see, Coe et al., 1997; Grossman and Helpman, 1991).

5. Conclusion

In this paper, we examine the role of GVCs on economic upgrading for three main industry groups for a large sample of countries derived from EXIOBASE-3 database. Our study underscores the significant role of GVC participation in driving economic upgrading across various industries. For the full sample, both forward and backward GVC participation notably enhance both product and process upgrading in all three main sectors of the economy. However, our results differ considerably for the MENA region, especially for the process upgrading. Our results indicate that GVC participation benefits the agriculture sector in terms of both product and process upgrading. However, the fuels-minerals and manufacturing industries, despite benefiting from product upgrading through both backward and forward participation, fail to affect process upgrading.

We have some policy implications which can be drawn from our empirical results. For the full sample, it is imperative for policymakers to facilitate GVC integration in all industries.

In the MENA region, the notable positive impact participation in GVCs on economic upgrading within the agriculture sector necessitates policy interventions that bolster market access and facilitate the importation of high-quality inputs. Conversely, the observed lack of process upgrading in the fuels, minerals, and manufacturing sectors in the MENA region highlights an urgent need for policies focused on building absorptive capacity, which encompasses investments in education and training, along with the development of technological expertise, to significantly improve the ability of these industries to utilize new knowledge effectively and reap higher gains from GVCs for economic upgrading. Lastly, a comprehensive economic strategy to integrate into GVCs is critical for the region. Such a strategy should include establishing a business environment conducive to the importation of advanced technologies and the facilitation of access to global export markets. Additionally, reinforcing regional integration and collaboration could substantially strengthen the capabilities of MENA countries to engage in GVCs. This, in turn, would promote economic upgrading across various industries, thereby contributing to the overall economic development of the region.

TABLES AND FIGURES

1. TABLES

Table 1. Mean Values

Full Sample						
	Agriculture		Fuels-Minerals		Manufacturing	
Variable	Obs.	Mean	Obs.	Mean	Obs.	Mean
log(BP)	20736	1.393	15327	1.394	67541	3.158
log(FP)	20660	1.227	15261	2.171	67469	3.606
log(EXPY)	20618	0.542	15264	0.550	67468	0.590
log(VA)	20736	5.526	15327	3.919	67541	5.627
log(K/L)	20736	0.022	15327	0.072	67541	0.029
log(Employment Hours)	20736	4.413	15327	2.114	67541	3.344
MENA Region						
	Agriculture		Fuels-Minerals		Manufacturing	
	Obs.	Mean	Obs.	Mean	Obs.	Mean
log(BP)	459	2.774	384	3.528	1333	4.240
log(FP)	459	4.241	384	4.841	1333	5.057
log(EXPY)	459	.859	384	2.038	1333	0.560
log(VA)	459	7.812	384	7.032	1333	7.343
log(K/L)	459	0.021	384	0.129	1333	0.007
log(Employment Hours)	459	6.015	384	4.755	1333	4.542

Table 2: GVC Effects on Economic Upgrading for 49 countries

	Agriculture				**Fuels-Minerals**				**Manufacturing**			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Product Upgrading		Process Upgrading		Product Upgrading		Process Upgrading		Product Upgrading		Process Upgrading	
Dep. Variables	log(EXPY)	log(EXPY)	log(VA)	log(VA)	log(EXPY)	log(EXPY)	log(VA)	log(VA)	log(EXPY)	log(EXPY)	log(VA)	log(VA)
log (K/L)	0.029	0.026	0.222***	0.208***	0.179***	0.112**	0.696***	0.547***	0.100***	0.089***	0.292***	0.264***
	(0.057)	(0.052)	(0.049)	(0.048)	(0.057)	(0.052)	(0.144)	(0.115)	(0.017)	(0.014)	(0.059)	(0.049)
log(Employment Hours)	0.113***	0.058***	0.604***	0.544***	0.227***	0.194***	0.776***	0.638***	0.238***	0.173***	0.738***	0.616***
	(0.019)	(0.016)	(0.030)	(0.030)	(0.028)	(0.030)	(0.039)	(0.040)	(0.013)	(0.012)	(0.017)	(0.017)
log(BP)	0.432***		0.173***		0.490***		0.478***		0.341***		0.344***	
	(0.033)		(0.028)		(0.046)		(0.039)		(0.015)		(0.016)	
log(FP)		0.425***		0.264***		0.366***		0.522***		0.391***		0.495***
		(0.027)		(0.025)		(0.036)		(0.033)		(0.015)		(0.017)
Observations	20,618	20,598	20,736	20,660	15,264	15,243	15,327	15,261	67,468	67,442	67,541	67,469
R-squared	0.609	0.647	0.881	0.889	0.634	0.624	0.844	0.866	0.537	0.569	0.888	0.905

Notes: Robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1. Time, industry, and country dummies are included in all specifications, but not reported.

Table 3: GVC Effects on Economic Upgrading for MENA Region

	Agriculture				Fuels-Minerals				Manufacturing			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Product Upgrading		Process Upgrading		Product Upgrading		Process Upgrading		Product Upgrading		Process Upgrading	
Dep. Variables	log(EXPY)	log(EXPY)	log(VA)	log(VA)	log(EXPY)	log(EXPY)	log(VA)	log(VA)	log(EXPY)	log(EXPY)	log(VA)	log(VA)
log (K/L)	0.058**	0.062**	-0.006	-0.004	0.559	0.752*	0.162	0.289	-2.697***	-3.005***	-0.083	-0.280
	(0.020)	(0.021)	(0.007)	(0.006)	(0.320)	(0.369)	(0.495)	(0.496)	(0.981)	(1.123)	(0.989)	(0.992)
log(Employment Hours)	0.102	0.081	0.005	-0.002	0.161	0.138	0.000	-0.015	-0.066	-0.085	0.036	0.026
	(0.061)	(0.052)	(0.020)	(0.014)	(0.147)	(0.153)	(0.095)	(0.091)	(0.076)	(0.081)	(0.074)	(0.074)
log(BP)	0.237**		0.101*		0.456***		0.298		0.200***		0.119	
	(0.084)		(0.051)		(0.134)		(0.200)		(0.051)		(0.079)	
log(FP)		0.313**		0.119**		0.299**		0.200		0.148***		0.116
		(0.133)		(0.051)		(0.132)		(0.156)		(0.053)		(0.074)
Observations	459	459	459	459	384	384	384	384	1,333	1,333	1,333	1,333
R-squared	0.884	0.888	0.994	0.994	0.965	0.961	0.965	0.964	0.870	0.866	0.975	0.975

Notes: See notes at Table 2.

2. FIGURES

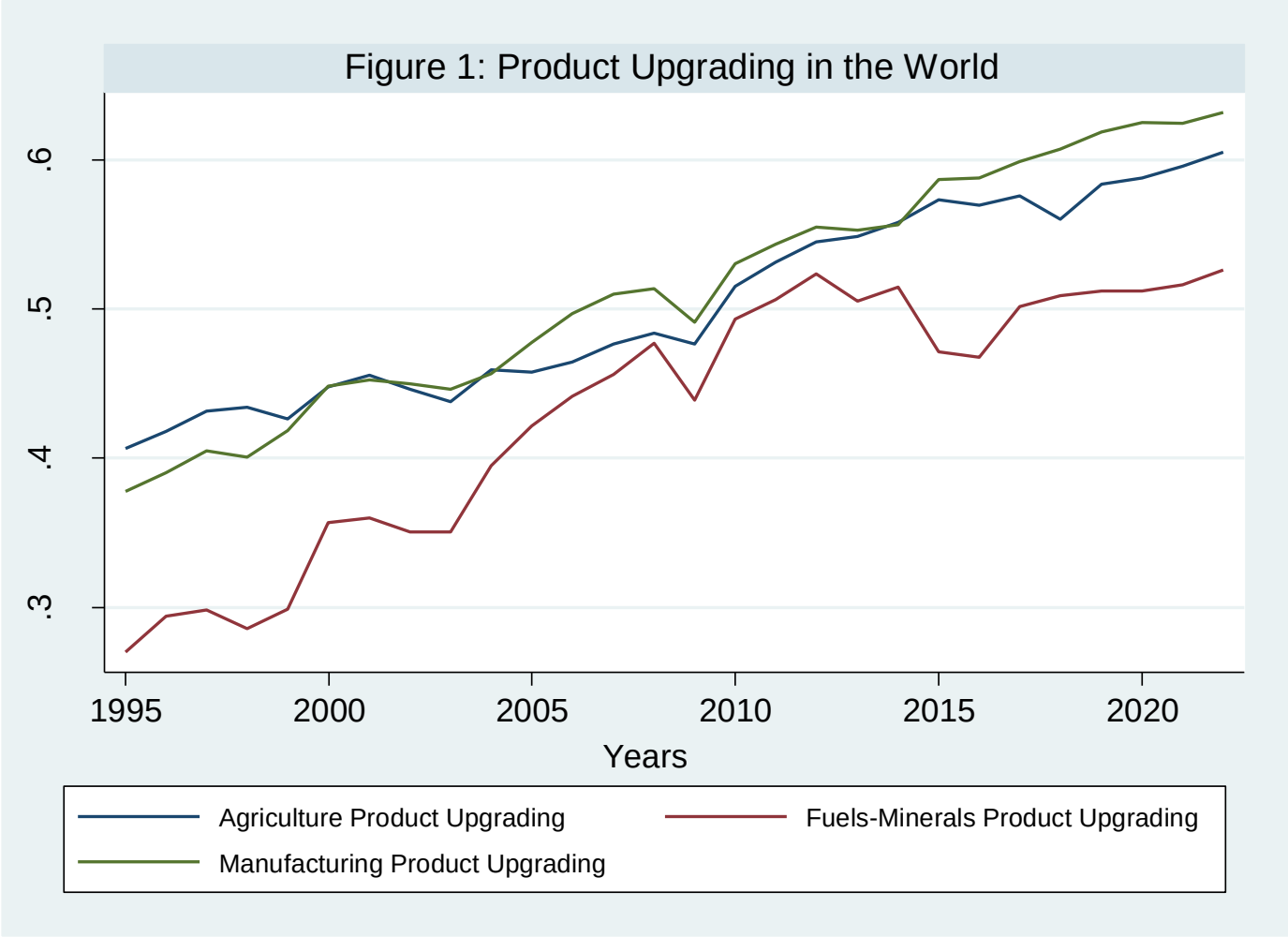
Figure 1: Product Upgrading in the World
.3
.4
.5
.6
1995
2000
2005
2010
2015
2020
Years
Agriculture Product Upgrading
Fuels-Minerals Product Upgrading
Manufacturing Product Upgrading

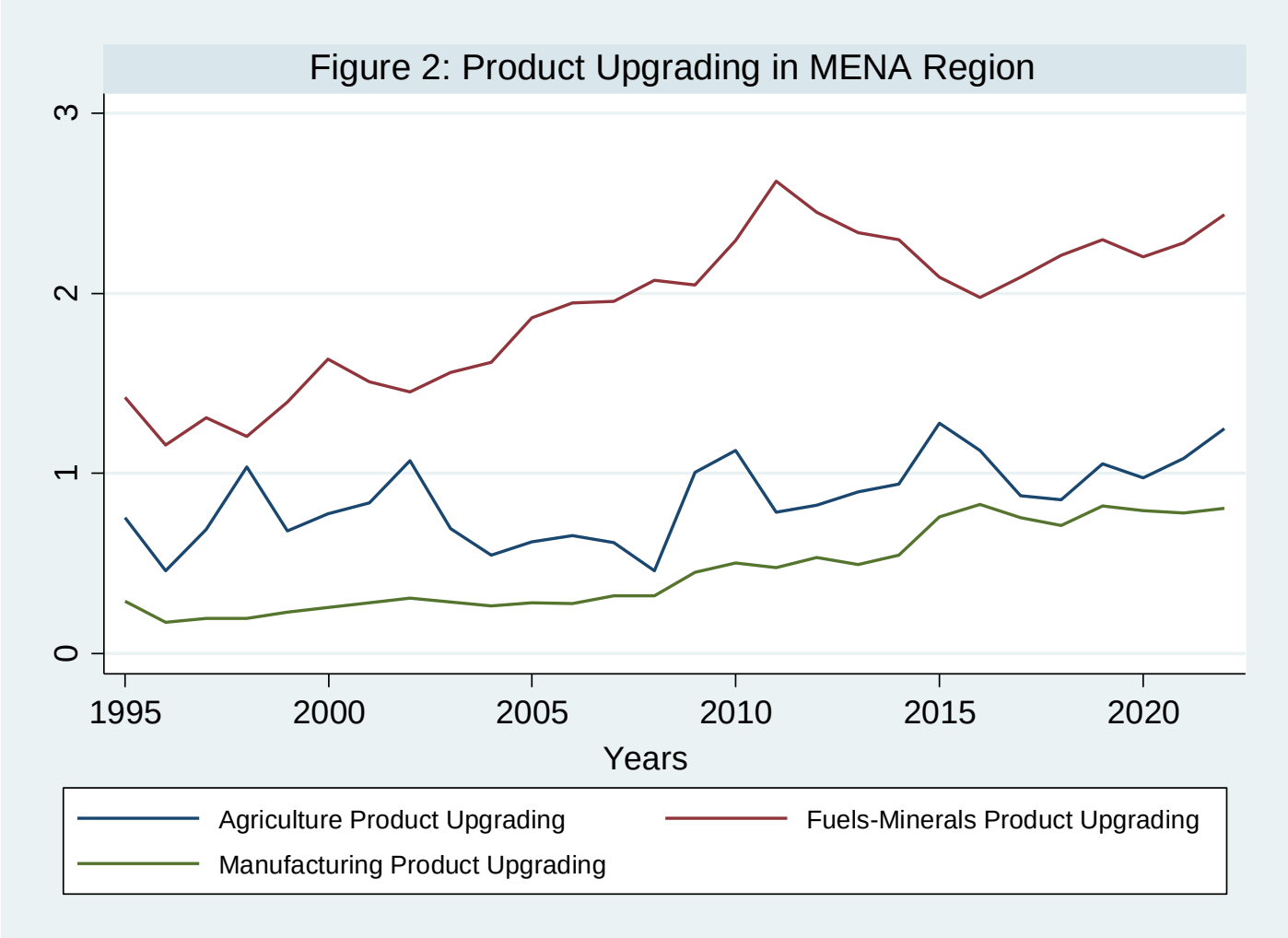
Figure 2: Product Upgrading in MENA Region
0
1
2
3
1995
2000
2005
2010
2015
2020
Years
Agriculture Product Upgrading
Fuels-Minerals Product Upgrading
Manufacturing Product Upgrading

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APPENDIX

A1. Country list

Table A1. Country List

Austria	Slovenia	**MENA RoW: Countries included**
Belgium	Slovakia	United Arab Emirates
Bulgaria	Great Britain	Bahrain
Cyprus	United States	Egypt, Arab Rep.
Czechia	Japan	Israel
Germany	China	Iraq
Denmark	Canada	Iran, Islamic Rep.
Estonia	Korea (Republic of)	Jordan
Spain	Brazil	Kuwait
Finland	India	Lebanon
France	Mexico	Oman
Greece	Russia	Palestine
Croatia	Australia	Qatar
Hungary	Switzerland	Saudi Arabia
Ireland	Turkey	Syrian Arab Republic
Italy	Taiwan	Yemen, Rep.
Lithuania	Norway	
Luxembourg	Indonesia	
Latvia	South Africa	
Malta	RoW Asia and Pacific	
Netherlands	RoW America	
Poland	RoW Europe	
Portugal	RoW Africa	
Romania	RoW Middle East	
Sweden		