

## **China's involving in Global Value Chains: Trends and Drivers of Productivity and Activity Upgrading**

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Increasing productivity efficiency and engaging in more skill-intensive activities are two typical paths for industrial upgrading in Global Value Chains (GVCs). This paper examines the main trends of these two upgrading patterns for China using OECD Multi-Region Input-Output Tables and occupation data on jobs. Our results indicate an ongoing process for both productivity upgrading and activity upgrading in China. However, the upgrading performance would be less exceptional if we take into account processing trade (i.e. the activity of assembling tariff exempted imported inputs into final goods for resale in the foreign markets). We find that processing exporters are less productive than non-processing exporters, and non-processing trade production has superior performance in productivity upgrading and activity upgrading. At last, we use a structural decomposition method to account for the drivers of the upgrading process observed. Undoubtedly, the growth of employment engaged in processing trade production is driven by the growth of foreign final demand. In particular, technological changes in GVCs are also significant in explaining the upgrading process. Our analysis suggests that distinguishing between processing and non-processing trade production is crucial for measuring and understanding upgrading performance in China.