

## **Vertical Specialization and Vertical De-specialization: New Long-run Evidence from Developing Countries**

Topic: (8.8) Global Value Chain and Vertical Specialization (2)

Author: Stefan Pahl

Countries can nowadays export goods without producing all necessary intermediates. Firms in the respective country can import intermediates from abroad and specialize in a narrow range of activities, known as vertical specialization. However, the dynamics of vertical specialization are not well understood. On the one hand, vertical specialization is argued to follow a global pattern induced by ICT technology, while, on the other hand, it is argued to follow countries'™ stages of development. By means of a new, comprehensive data set of input-output tables for 100 countries since 1970, we can show that the latter finds no support in the data once we cover the whole data set. Instead, the evidence suggests a global time trend. Secondly, we characterize the dynamics of vertical specialization by identifying structural breaks in the time series. This novel approach yields large cross-country heterogeneity and shows that many countries initiate a process of vertical specialization, but only few sustain this trend. We show that vertical specialization follows periods of specialization and of de-specialization, which are therefore crucial for understanding the dynamics of vertical specialization.