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Beyond Integration: How Absorptive Capacity Shapes Social Outcomes in Euro-Med Global Value Chains ^[1]

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1. Executive Summary

Global Value Chains (GVCs) have been the core of international trade over the past decades. From one side, it might enhance economic growth through industrialization, knowledge transfer and cost reductions. Yet, on the other hand the implications from a social perspective regarding labour wellbeing remains complex and uneven, particularly in the Euro-Mediterranean region, it remains a subject of debate. It is argued that the link between GVCs and labour wellbeing is not linear, such that there are other factors that conditions the full realization of the benefits, which answers the disparities across the countries.

A key factor in determining how well countries benefit from GVC participation is their absorptive capacity, their ability to leverage innovation, governance structures, and human capital to maximize economic gains. Countries with strong institutions, investment in research and development (R&D), and well-aligned education and training systems are better positioned to move up the value chain. In that regard, this study examines the impact of GVCs participation on social upgrading measured through four main pillars: employment, working poverty, labour rights, and vulnerability over 63 countries from 2010 to 2020 with a particular focus on the Euro-Mediterranean (Euro-Med) region. The study concludes that while GVC participation can enhance labour well-being, its effectiveness depends on a country's absorptive capacity. Innovation and governance quality play a crucial role in amplifying positive outcomes, whereas education investment must be aligned with industry needs to prevent skill mismatches. Policymakers should focus on regulatory improvements, workforce training, and targeted education reforms to maximize GVC benefits while minimizing associated risks.

2. Introduction

GVCs have been the core of international trade over the past decades by dividing production across multiple destinations. From one side, it might enhance economic growth through industrialization, knowledge transfer, technological advancements and cost reductions. Yet, on the other hand the implications for social upgrading in terms of labour wellbeing remains complex and uneven, particularly in the Euro-Med region.



Despite the deep connection of the region to global trade- with industries relying on GVCs to grow, compete, and create jobs- opening doors to economic opportunities, questions persist. Who actually benefits from this global integration? Right now, the answer is uneven. Highly skilled workers see better wages and more opportunities, while low-skilled workers are left behind facing job losses, unstable conditions, and growing inequality (Gereffi, G., & Sturgeon, T., 2013). It is argued that the link between GVCs and labour wellbeing is not linear, since there are other factors that condition the full realization of the benefits, explaining the disparities across the countries.

A key factor in determining how well countries benefit from GVC participation is their absorptive capacity—their ability to leverage innovation, governance structures, and human capital to maximize economic gains. Countries with strong institutions (Puppim de Oliveira & de Oliveira Cerqueira, 2014), investment in research and development (Gehl & Vallejo, 2018), and well-aligned education and training systems are better positioned to move up the value chain.

In that regard, the study examines the impact of GVCs participation on social upgrading measured through four main pillars: employment, working poverty, labour rights, and vulnerability over 63 countries from 2010 to 2020 with a particular focus on the Euro-Med region. The papers add to the existing literature by tackling which absorptive capacity (innovation, human capital and/or governance structure) matters more to enhance the realization of GVCs benefits. This would direct the policy framework in such countries to ensure that no one is left behind. In sectors like agriculture and textiles, where many in the region are employed, GVCs can displace jobs rather than create them. As companies chase cheaper labour or invest in automation, thousands of workers struggle to keep up. Without smart policies in place, the gap between economic growth and social progress will only widen.

3. Mediterranean Context

The Euro-Med region is deeply integrated into GVCs, with most countries in the region relying on global trade for economic growth. In some cases, GVC participation exceeds 40% of gross exports, with Malta and Luxembourg surpassing 60%. However, while integration into GVCs offers opportunities, the local benefits remain highly uneven, with labour market challenges persisting across the region. Despite increased GVC participation from 2010 to 2020, participation is uneven across the region. Northern Mediterranean countries, such as Cyprus, Luxembourg, and the Czech Republic, are heavily engaged in backward GVC linkages, meaning they import foreign inputs to produce exports, often in high-tech industries.

In contrast, Southern Mediterranean economies, like Egypt, Morocco, and Tunisia, rely more on forward linkages, contributing raw materials and low-skilled labour to global supply chains. This structure makes the region vulnerable to job instability and income inequality, particularly for lower-skilled workers (Lee, K., et al., 2018; OECD, 2023).

Regarding Labour market conditions, while some Euro-Med countries have reduced unemployment between 2010 and 2020, high unemployment rates remain a persistent issue, while struggling to create enough jobs particularly for young people and women. At the same time, in Southern Mediterranean countries, agriculture and textiles dominate employment, sectors known for low wages, weak worker protections, and seasonal job instability leaving thousands vulnerable to displacement.

Morocco, Romania, and Turkey report high levels of working vulnerability, with informal employment exceeding 30% of total jobs—and in Morocco, it reaches nearly 50%. At the same time, Northern Mediterranean countries such as Spain and Italy have transitioned toward high-value-added manufacturing and services, leading to greater labour protections and higher wages. This structural divide reinforces economic inequalities between the north and south of the region.

Labor rights compliance is another key challenge. European nations in the region maintain stronger protection, with most scoring below 2 on the labour rights index (lower scores indicate better compliance). However, Middle Eastern and North African (MENA) countries including Egypt, Morocco, and Turkey score above 3, signaling weaker labour rights enforcement. Egypt is the least performing country with a score exceeding 6, reflecting persistent violations and poor working conditions. For most of the region, working poverty^[2] remains below 15% of total employment, in Egypt, Tunisia, and Turkey, it exceeds 20%, in fact, between 2015 and 2020, working poverty actually increased in several countries including Egypt, Tunisia, Greece, and Jordan. These trends highlight a pressing need for policies that ensure economic growth translates into real social progress, not just increased trade volumes (ILO, 2023).

Despite the region's reliance on GVCs, countries lack the absorptive capacities needed to reveal the opportunities offered by global markets. Innovation capacity remains underdeveloped in many Southern Mediterranean countries. Expenditures on research and development (R&D) remain below 1% of GDP in countries like Morocco and Tunisia, limiting their ability to integrate into high-value segments of GVCs. Without stronger investment in innovation, these economies struggle to move beyond low-cost, labour-intensive production. Human capital mismatches are another pressing concern. While education expenditures have increased, there remains a significant gap between the skills produced by national education systems and those demanded by GVC-integrated industries. Investment in vocational training and industry partnerships remains insufficient, leading to skill mismatches and job market inefficiencies.

Similarly, regulatory quality varies greatly, with Denmark, Sweden, and Luxembourg ranking among the highest, while Egypt, Morocco, and Tunisia score below -0.5, signalling weak governance and poor institutional support for labour protections (World Bank, 2023).

To address such challenges, policymakers must adopt targeted reforms that promote economic diversification, strengthen labour market institutions, and improve worker protections, ensuring that GVC participation translates into tangible social benefits across the region.

[2] According to ILO definition: Employed persons living in households with per capita consumption or income below the international poverty line.

4. Approach and Results

This study examines how GVC participation affects labour well-being, focusing on 63 countries between 2010 and 2020, with special attention to the Euro-Mediterranean region. The paper uses a two-stage least squares (2SLS) estimation method, which helps separate the real impact of GVCs from other economic factors and avoid any biasness in the results. Unlike many previous studies that only tackled labour wellbeing in terms of employment and wages, the current paper takes a broader view of social upgrading, measuring labour well-being through working poverty, labour rights, unemployment, and job vulnerability following the International Labour Organization's Decent Work Agenda (Sengenberger, 2001).^[3]

In addition, the paper tackles GVC participation from different linkages as the overall GVCs as well as forward linkages (adding value to exports used in other countries) and backward linkages (relying on foreign inputs for production). The study further adds to the existing literature by focusing on the different absorptive capacities of the participating countries and how they challenge the full realization of GVC benefits. This is measured through innovation, human capital (education and skills), and governance quality.

The results show a mixed impact of GVCs on labour markets. On the positive side, forward GVC participation helps reduce unemployment and improve labour rights compliance, as companies working within global supply chains must often meet international labour standards. However, on the other side, it increases working poverty, especially for low-skilled workers, whose wages often do not improve despite global economic integration. This suggests that while GVCs can help economies grow, they do not automatically improve social conditions, especially for the most vulnerable workers.

Focusing on the Euro-Med region, while GVCs help reduce working poverty and improve labour rights, they also increase unemployment, especially in low-skilled industries like agriculture and textiles, where jobs are disappearing due to automation and outsourcing.

[3] For more information about the model, variables and results, please refer to the paper "Global Value Chains (GVCs) And Social Upgrading: The Role of Country's Absorptive Capacity: The Euro-Mediterranean Case" - <https://www.femise.org/en/articles-en/conference-paper-12-global-value-chains-gvcs-and-social-upgrading-the-role-of-countrys-absorptive-capacity-the-euro-mediterranean-case>

This could be linked to the fact that EU-North Mediterranean countries such as Luxembourg, Czechia, and Malta benefit from participating in high-value industries, while Southern Mediterranean economies—like Egypt, Tunisia, and Morocco—remain stuck in low-value, labour-intensive work, limiting their chances for long-term improvement.

Furthermore, the study finds that the benefits of GVC participation depend on a country's absorptive capacity, or its ability to fully absorb the opportunities it offers. It is found that innovation capacity plays a crucial role in enhancing GVC benefits. Countries that invest more in R&D gain more from GVCs, as innovation helps create better-paying, more stable jobs, hence reducing working poverty and improving labour rights compliance. However, when innovation-driven advancements do not align with existing workforce skills, they may exacerbate unemployment. Similarly, strong governance frameworks are found to contribute to improved labour conditions by reducing working vulnerability and ensuring labour market stability.

Nevertheless, the findings on education and human capital investment challenge expectations. Despite the wide literature that spending more on education improves job opportunities (Ribich & Murphy, 1975; Clarke et al., 2015), the study finds that higher government spending on education can increase unemployment and working poverty if the education system does not provide the right skills for GVC-related jobs. Hence, merely increasing education spending does not guarantee positive labour outcomes, as mismatches between education systems and industry needs persist, limiting job opportunities for newly educated workers. This means that in many Euro-Med countries, workers are being trained for jobs that no longer exist, rather than the ones GVCs are creating.

As a result, many remain unemployed or stuck in low-wage positions. These findings send a strong message to policymakers. GVC participation alone will not solve labour market problems without the right policies, as it can increase inequality. To ensure inclusive growth, governments in the Euro-Med region must invest in R&D and innovation, strengthen labour protections, and reform education and training systems to better match the needs of global industries. If these steps are not taken, the region risks becoming trapped in a cycle of low-wage jobs, rising unemployment, and limited economic progress. The need for action is urgent, as today's policy choices will determine whether GVCs create prosperity for all or deepen existing labour market divides.

5. Conclusion

The current study analysed the impacts of GVC participation on labour wellbeing using a panel of 63 countries between 2010 and 2021 using 2SLS estimation. In the Euro-Mediterranean region, the analysis reveals that GVC participation helps reduce working poverty, improve labour rights, and decrease vulnerability. However, rising unemployment remains a challenge, that could be linked to low-skilled sectors like agriculture and textiles. The mismatch between the workforce's skills and the evolving needs of modern GVCs has exacerbated regional disparities.

Innovation and Skill Mismatches

Innovation in the region aligned with GVCs has a positive impact by reducing poverty and enhancing labour rights but increases unemployment due to skill mismatches. To maximize benefits, innovation must be paired with targeted investments in educational quality and workforce training.

The Role of Governance and Education

Governance quality is found to be the key aspect that plays a crucial role, with strong regulatory frameworks enhancing GVC effectiveness, improving working conditions, and attracting investment. Finally, human capital investments are undermined by educational inequalities, particularly in rural and marginalized areas, contributing to high unemployment.

Addressing these educational disparities, with a focus on vocational training, is essential for improving labour market outcomes in the region.

In conclusion, the ability to benefit from GVCs isn't automatic, it depends on how well countries invest in education, innovation, and governance frameworks. A more targeted focus on skills training, fair labour policies, and research & development can help ensure that global integration is translated into better working environment. Currently, the region stands at a turning point. Without action, working poverty will rise, unemployment will grow, and entire industries may stagnate in low-value production. The solution isn't to turn away from global trade, it's to make it work for everyone. Governments must step up policies that protect workers, enhance skills, and create a more inclusive, resilient economy.

6. Implications & Recommendations

The findings of this study highlight critical implications for the Euro-Mediterranean region. While GVC participation offers significant opportunities for economic growth and social upgrading, its benefits remain unevenly distributed. Without targeted interventions, low-skilled workers risk falling further into working poverty and unemployment, exacerbating regional disparities. If countries fail to address governance and skill mismatches, GVCs may deepen existing inequalities rather than fostering inclusive development. In the long run, persistent inaction could result in labour market fragmentation, where only a small segment of the workforce benefits from high-value jobs, while the majority remain trapped in precarious conditions.

Divergent Impacts of GVC Participation

The implications of GVC participation differ significantly between Northern and Southern Mediterranean countries. In the Northern Mediterranean, countries such as Italy, Spain, and France generally benefit more from forward participation in GVCs due to their well-developed infrastructure, strong institutional frameworks, and higher levels of innovation. These countries are better positioned to engage in high-value activities such as design, branding, and advanced manufacturing. In contrast, Southern Mediterranean countries, including Egypt, Morocco, and Tunisia, face structural challenges that limit their ability to capitalize on GVC participation. These countries tend to be more reliant on backward linkages, where they contribute low-cost labour and raw materials to supply chains dominated by higher-income nations.

This reliance on low-value segments of GVCs contributes to stagnant wages, high job vulnerability, and persistent working poverty. Additionally, weak governance structures and regulatory inconsistencies often result in labour rights violations, informal employment, and wage suppression (Ayadi, R., et al., 2022). Without significant policy reforms, the integration of these economies into GVCs may intensify economic dependency rather than enhancing sustainable growth.

Education and Training

To mitigate these risks, several targeted policy recommendations are proposed. First, governments should pay more attention to the quality of education in addition to its quantity. Governments in the region should prioritize vocational training and reskilling programs aligned with industry needs. Investing in demand-driven education, particularly in technical and digital skills, will help workers transition into higher-value roles within GVCs. Vocational training should focus on key sectors such as manufacturing, renewable energy, and digital services, where job demand is expected to grow. Additionally, upskilling initiatives for women and youth should be integrated to promote labour force inclusivity.

Moreover, Public-private partnerships can play a crucial role in ensuring that training programs are market-relevant and effectively implemented. Governments should collaborate with multinational companies, local businesses, and academic institutions to design and deliver targeted vocational training programs. A notable example is the German Dual System of Vocational Training, which could be adapted to the regional context by combining classroom education with on-the-job training (Deissinger, T., 2015).

Moreover, strengthening governance and regulatory frameworks is essential to safeguarding labour rights and ensuring fair wages. Governments should establish monitoring mechanisms to prevent labour exploitation and enforce compliance with international labour standards like Mandatory Supply Chain Transparency Laws as the UK's Modern Slavery Act (2015) (Lindsay, R., et al., 2017). In addition to the establishment of Whistle blower Protection and Reporting Hotlines such that governments establish confidential channels for workers to report violations. For instance, Brazil's "Disque 100" hotline allows workers to report labour abuses anonymously (de Medeiros Taveira, L., & de Oliveira, M. C., 2017) and Worker Education and Awareness Campaigns, which requires collaboration between national governments, trade unions, and multinational corporations involved in GVCs. Countries with weak regulatory environments should seek technical assistance from international organizations such as the ILO and the EU to enhance enforcement mechanisms.

Bridging the North-South Divide

Furthermore, regional cooperation should be enhanced to create a more integrated and resilient labour market. The Euro-Mediterranean Partnership should be leveraged to facilitate labour mobility, knowledge transfer, and policy harmonization. Trade agreements should incorporate binding labour clauses to ensure that social upgrading accompanies economic integration. Additionally, financial and technical support from the EU could be directed toward Southern Mediterranean countries to build institutional capacity and support labour market reforms.

To bridge the divide between Northern and Southern Mediterranean countries, stronger economic and technological partnerships should be fostered. Northern Mediterranean nations should support industrial upgrading in the South by investing in higher-value industries and facilitating technology transfer. This can be achieved through joint ventures, cross-border investment programs, and research collaborations that enable Southern Mediterranean countries to move up the value chain. Furthermore, multinational corporations from the North should engage in fairer trade relationships with Southern partners, ensuring that labour conditions are improved, wages are fair, and local suppliers are empowered to compete in the global market.

Another key recommendation is the establishment of regional innovation hubs that integrate expertise from both North and South. These hubs could serve as incubators for technology-driven businesses, providing access to funding, mentorship, and international markets. Such initiatives would help reduce dependency on low-skilled labour and encourage more diversified economic development in the Southern Mediterranean.

Toward Sustainable and Inclusive GVC Integration

In conclusion, policymakers must take proactive steps to ensure that GVC participation leads to broad-based improvements in labour well-being. By addressing skill mismatches, strengthening governance, and fostering regional cooperation, the Euro-Mediterranean region can maximize the benefits of GVCs while mitigating their risks. A coordinated approach involving governments, businesses, international organizations, and civil society is crucial to achieving sustainable and inclusive social upgrading.

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About FEMISE

FEMISE, the Forum Euroméditerranéen des Instituts de Sciences Économiques, is a Euro-Mediterranean network of over 100 economic and social research institutes from both shores of the Mediterranean. Established in Marseille, France, in 2005 as an NGO, FEMISE promotes dialogue on economic and social policies to foster cooperation and mutual benefit between Europe and its Mediterranean partners. Coordinated by the Economic Research Forum (ERF) in Egypt, FEMISE focuses on strengthening research capacity, fostering public-private dialogue, disseminating research findings, and building partnerships to support regional collaboration and sustainable development.

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The European Institute of the Mediterranean (IEMed), founded in 1989, is a think-and-do tank focused on Euro-Mediterranean relations. Guided by the Euro-Mediterranean Partnership (EMP), European Neighbourhood Policy (ENP), and Union for the Mediterranean (UfM), it promotes cooperation, mutual understanding, and intercultural dialogue to build a shared space of peace, stability, and prosperity. IEMed is a consortium of the Catalan Government, the Spanish Ministry of Foreign Affairs, the EU, and the Barcelona City Council, with contributions from civil society through its Board of Trustees and Advisory Council.

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