Quality differentiation supports a ‘nestedness’ pattern of international specialization

**Empirics**
- According to theoretical model: country is competitive for a product if it can produce at preferred quality
- Censored regression model
  \[
  \ln \left( \tilde{q}_{i,t} \right) = d_i \alpha_i + \beta_i \ln (y^R_{i,t}) + u_{i,t} \]
  
  \[
  u_{i,t} | d_i, y^R_{i,t} \sim N(0, \sigma^2) \]
  
  \[
  \ln \left( \tilde{q}_{i,t} \right) = \ln \left( \tilde{q}^b_{i,t} \right) \quad \text{if } \tilde{q}^b_{i,t} \geq 1
  \]
  
  \[
  \text{NaN otherwise}
  \]

- OLS ML
  - Mean \( \tilde{\beta}_{i,GDP/cap} \) (cap): 0.13 0.96
  - Share \( \tilde{\beta}_{i,GDP/cap} \) Pos. at 5% 51.3% 98.3%
  - Share \( \tilde{\beta}_{i,GDP/cap} \) Pos. at 1% 39.2% 98.3%
  - Share \( \tilde{\beta}_{i,GDP/cap} \) Neg. at 5% 4.8% 0%
  - Controls No No
  - Year FE Yes Yes
  - Mean(R^2) 0.64 0.64
  - Mean(N) 1429 2215