THE IMPACT OF TRADE LIBERALIZATION ON INDUSTRIAL PRODUCTIVITY

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Abstract
An empirical finding by Trefler (2004, AER) and others that industrial productivity increases more strongly in liberalized industries than in non-liberalized industries has been widely accepted as evidence for the Melitz (2003, Econometrica) model. We show that under fairly standard assumptions a multi-industry version of the Melitz model does not predict this relationship. Instead, it predicts the opposite relationship that industrial productivity increases more strongly in non-liberalized industries than in liberalized industries. (JEL: F12, F13.)

Keywords: Trade liberalization, firm heterogeneity, industrial productivity.

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