CHAPTER I

Economic Reforms, Growth and Trade: A Synoptic View

The word 'economic reform' encompasses a broad area of adjustment between private, public, internal and external sectors of any economy to set the stage for 'getting the prices right'. Through proper balancing between sectors, the economy's productive efficiency is supposed to improve and simultaneously it reduces the volume of 'rent seeking', arising out of control and coersion within the system (Bhagwati, et.al. 1975). Still, some basic questions remain pertinent in this kind of reform measures. Growth of the economy and distribution of economic benefit among factors or regions are issues of paramount importance in the context of economic reform.

I. Trade and Growth: Micro and Macro Aspects

Growth and distribution remained as one of the fundamental issues in development economics. Achieving growth, in essence, requires effective utilization of manpower and resources available in the economy. On the other hand, the questions of distributions at best, emphasises on the allocative efficiency by ensuring due rewards for the use of factor services (a la neo-classical theory).

However, the growth experiences of different countries are not aligned with the so-called neo-classical paradigms and typically one can observe a host
of factors playing crucial role in determining the pattern of growth in each
country (Thirwall, A.P., 1972). The basic observations related to growth can be
summed up as follows.

First: Output growth in most of the countries has outpaced population
growth. Second: The growth path of each country is not uniquely determined,
rather a range of multifarious trends are observable for a relatively longer
periods of time. Third: The data observation invariably brings out the fact that
national and regional growth rates are interlinked with a variety of economic,
social and political factors, including many that are affected by government
policies. Therefore, the overall economic performance, in a way, reflects
structural and policy parameters, connecting both the local as well as global
economy is an integrated format.\(^1\)

The relevance of economic reform in enhancing growth and productivity
also assumes importance in view of the economic events in most of the third
world countries. First: much of developing countries, including many from
Asia, Latin America and Africa, are burdened with debt and macro-economic
crisis of major proportion. Barring a few success stories from the East Asian
Tigers, per capita income of most of the developing economics scarcely grew
and overall development got retarded in many such economies.\(^2\) Second: in

Innovation in the Theory of Growth.

\(^2\) See WIDER Country Study series for more details.
scores of countries; the inward oriented policies of the past came under critical scrutiny and the anti-export and anti-privatization policies of the past was mostly discredited. In the changed environment, the policy issues set aside the role of emphasising public enterprise, industrial promotion and trade protection, and instead privatization, industrial de-regulation and free trade become the key agenda for economic reform. 3

The neo-classical version of growth as developed by Solow et.al. (1956) emphasised mainly on the process of capital formation to raise per capita income in a growing economy. The process of capital formation, on the other hand, depends crucially on aggregate savings to finance additions to the capital stock. Over time, capital per unit of labour rises, leading to a decline in the marginal product of capital as well as the income out of savings generated for additions to new capital. The continuance of this process theoretically ends up in a stationary state of the economy with a halting standard of living. But Cass (1965) has shown that if consumer’s saving behaviour responds rationally to rates of return in capital, then the stationary state would not be the outcome. 4 However, the rise in capital labour ratio is certain if technology is characterized by constant returns to scale and it would diminish the incentive to accumulate

———


capital in the successive time periods. The logical frame is intensified by the INADA conditions to ensure convergence to a steady state. But the neoclassical version still promotes an optimistic view of transition of an aggregative economy, in which autonomous investment in machinery and equipment accelerates growth by altering saving rate and expanding technical knowledge throughout the process. According to Solow, the dynamics of long-run growth occurs through exogenous improvement in labour productivity which augments the stock of 'effective' labour force. Combined with increasing capital stock, it also generates additional income to sustain and maintain a steady long run growth in the economy. Grossman and Helpman (1993) point out the inherent limitations of the aggregate production function approach to explain economic growth and the need to supplement it with an analysis of technological progress, with varying returns to scale for physical capital, human capital and other accountable factors. In essence, they place the emphasis on the endogeneity of technical progress, motivated by economic incentives. The implication of technological progress for the third-world countries is taken to be synonymous as learning effect, and the rate of dissemination determined by the profitability of acquiring knowledge (Pack and Westphal, 1986).

Skill composition of a country plays another crucial role in this context. Usually, an economy with abundant skilled labour would be in a position to

---

5 Ibid.

conduct a greater degree of industrial research since research component uses this factor intensively and the potentiality for sustainable economic growth would be higher for this country.\textsuperscript{7} The social policy related to education and welfare assumes importance in this regard.\textsuperscript{8} Most third world countries treat 'educational expenses' as 'expenditure' rather than 'investment'. In fact, it is an investment whose return is expected only with a long term time lags. The stream of marginal social benefit in the long run would outweigh the marginal social cost of the short run to acquire comparative advantage in R&D. Therefore expected profitability and social desirability helps the country to move through the endogenous path of technical progress and capital formation. This explains, in a way, the growth comparisons between developed and developing countries, as well as the 'developed' within the set of developing countries. Traditional growth theory explains little regarding the spill-over of knowledge and technological diffusion among countries through international trade. In fact the long term performance of any economy depends vitally on the exchange of goods and ideas.

There is a long-standing argument regarding the gains from trade and its implications in the context of the development of the developing economies. Adam Smith, the founding father of the modern economic analysis, advocated the principle of 'Lessez Faire', since the 'division of labour' is limited by the

\textsuperscript{7} See Coe, D. and E. Helpman (1993).

\textsuperscript{8} See Kaldor (1965).
size of the market. His was, in fact, a theory of productivity and industrialization that turned into an export-drive argument and paved the way to a series of debating issues on ‘free trade’ and ‘protection’ from the very beginning of the nineteenth century itself. \( ^{10} \) It has been recognized that export plays an important role of supporting imports of capital and intermediate inputs to raise productive efficiency of any developing economies. Essentially it brings into focus the gains from trade and its implications on the growth process.

In broad terminology, there are two types of gains from trade. The static gain flows from international specialization through comparative advantage, while the dynamic gain comes through the impact of trade on the production possibility frontier of the economy in general. Specially, the flow of technical knowledge creates a ‘vent-for-surplus’ to use unemployed resources and thereby it helps increase the productive efficiency. However, Mill (1848), on the ground of movable resources, rejected Smith’s argument of vent-for-surplus but admitted the indirect or dynamic effect of trade on production. In his words "... tendency of every extension of the market (is) to improve the process of production". \( ^{11} \) Secondly, the trade process helps to diversify the tastes and interest to ensure new dimension for the labouring class who were previously in an ‘uncultivable state’. In his own words, "The opening of a foreign trade,

---

9 Adam Smith (1976).

10 The Infant-Industry Argument Propounded by Fedreich List in the 1840.

11 See Mill (1891).
by making them acquainted with new objects of tempting them by the easier acquisition of things which they had thought previously unattainable, sometimes works a sort of industrial revolution". The analytical thrust was mainly clustered around a single notion of export-led growth, both from historical perspective and the contemporary economic rationality.

According to the Hecksher-Ohlin specification of international trade, the pattern of global exchange activities are determined by relative factor endowments, i.e., a country rich in capital would import labour-intensive goods in exchange for the capital-intensive one. Similarly, a country rich in high technology products and human capital would exports these products in exchange of labour-intensive and traditional capital goods. Following Hecksher-Ohlin specification in terms of factor abundance, trade leads to factor price equalization by extending the logic of economic rationality in the world market.

The gains from trade out of specialization is unequivocal in the neoclassical schemes, as also the relation of growth/productivity with trade. Applying the logic of openness, a monopolistically affected market structure can be rectified by using 'trade' as a major form of 'international' competition.

12 Ibid.
Currently, the extension of the Hecksher-Ohlin model can be observed through the large volume of intra-industry trade\textsuperscript{13}, with leading technology-intensive firms importing goods of less technology intensive one and vice versa. The outcome of this event is the product differentiation and the economies of scale operating between countries.

The recent theoretical development has also incorporated scale economies as a major contributing factor of international trade. It holds the view that if the trading economy’s industry is characterized by country-specific increasing returns, then economy of scale would alone explain trade even if factor endowments are assumed identical. Moreover, the gains from trade would be cumulative \ldots if the World scale of production in increasing returns industries \textemdash wherever they may be located \textemdash exceeds the national scale that would prevail in the absence of trade.’ (Krugman, 1990, page 74). The similar approaches can be traced back in the 1960s, when Linder’s hypothesis (1961) laid its stress on the role of domestic market, while Vernon’s (1966) product cycle theory emphasised the role of technology factor to explain dynamism in the trade flow among countries. In all these theoretical arguments, the comparative advantage theory as well as factor proportion argument had played, at best, a less deterministic role. On the other hand, strategic trade policy argument\textsuperscript{14} intuitively admits the role of government intervention in trade. The Japanese

\textsuperscript{13} See Grubel and Llyod (1976).

\textsuperscript{14} See Brander and Spencer (1973), Krugman etc.
success in certain key industries had provoked the idea of strategic trade intervention that tacitly goes against the 'free trade' doctrine in its 'true' form. In addition, a new impetus to protectionism and bilateralism have been felt since the early 1980s. This may be attributed to two major events shaping the course of development in many of the developed and developing countries. First, the World-wide recession of the early 1980s gave rise to the protectionist renaissance through subsidization of import-competition industries along with increasing tariff and non-tariff barriers to trade. Second, instability and uncertainty in the gains from trade has led to an intense rise in the coalition and regional groupings in the same decade. The success story of the European Union has brought in an added encouragement to this kind of trading arrangement which is well manifested in the formation of NAFTA and APEC in the 1990s.

All these events question the basic issue related to the launching of a liberal multilateral trading system as proposed in the GATT agreement and ratified by the World Trade Organization (WTO), which started functioning since the 1st January, 1995.

The following section would briefly review the existing literature on trade and industrial policy of the developing countries. However, macro-economic issues are touched upon only to the extent that they impinge on micro-economic reforms.
II. Background Studies

The agenda of economic reforms in most of the developing countries in the 1980s is aided and supported by the so-called Structural Adjustment Loans (SALs) from the World Bank. There is a great deal of uniformity in the Structural Adjustment Programmes (SAPs), which sets the course of economic events in many developing countries. The major features of SAPS were settled in the context of intense policy dialogue with the World Bank and the International Monetary Fund which Williamson (1990) termed as the Washington Consensus (WC). Regarding policy initiatives, WC emphasises on the greater use of market mechanism and private incentives to enhance outward-orientation in the economy.

In trade policy, the reforms were directed at licensing and at the quantitative restrictions, specially on high and extremely differentiated rates of tariff and restrictive bureaucratic systems.

In industrial policy, the WC emphasizes on the overall de-control and de-licensing of industrial regulations; targetting specifically on inefficient and loss making public enterprises, entry and exit provisions for private enterprises, price controls, including discretionary tax and subsidy policies. De Soto (1989) gives an account of the burden of bureaucratic regulations in Latin American countries, specifically referring to the cases of small business in these economies.
The trade policy effects on economic growth has influenced many of the earlier discussions including Little, Scitovsky and Scot (1970), Balassa (1971), Bhagwati (1978), Krueger (1978) and others. These studies were based on the empirical description and evaluation of trade regimes in different developing countries. Basically, the studies reveal that the restrictive policies had resulted in a distorted and inordinate levels of high protection that affected adversely the rate of growth in these economies. More specifically, these policies had encouraged the development of high cost industries which failed to ensure the growth of productivity in broader sense of its terms. A comparatively longer period of protection also leads to a pattern of specialization that is considered sub-optimal to reap the benefit of comparative advantage by the industries.

The basic arguments for liberalization and market oriented policies can be summed up as follows:

a. Economic liberalization reduces the static inefficiencies stemming from misallocation and misuse of resources in the economy.

b. Liberalization of industrial and trade policy would lead to greater industrial efficiency through improvement in Total Factor Productivity (TFP) growth by providing more access to imported intermediate goods, capital goods and technology.
c. Exposing domestic producers to competition, both domestic and abroad, would lead to greater utilization of capacity and would force them to reduce costs to meet the eventuality of a competitive market.

d. Enhancement in efficiency, along with openness, would help increase and enlarge the size of the external market to outstrip demand side constraint, if any. In this process, increased trade diversification becomes a major part of liberalization and export promotion.

There exists a wide array of empirical evidence that correlate aspects of policy regimes with the measured changes of TFP growth at the industry levels. One sign of this change has been that the countries have increased the neutrality of their trade policy incentives in an effort to give greater priority to the market as a resource allocation mechanism; it is also believed that this will result in boosting of export-oriented production to create an impact on economic growth of these countries.

Within this context, it can be observed that the trade policy of the developing countries' can be divided into two distinct categories. One group of LDCs have adopted trade policies that diverge away from the optimality condition, often significantly, by protecting the domestic industries. These

\(^{15}\) op cit.
'import substitution' policies have been employed in the consideration of stimulating production by generating enough of domestic resources that could be able to substitute imports in the long run. On the other hand, it had been asserted that the country adopting an export oriented development strategy have generally experienced rapid growth of traditional exports, but even more rapid growth of non-traditional exports (WDR, 1987, Krueger, A.O., 1980).

In the study of the sources of industrial growth in Japan for the period 1914-1965, Chenery and Watanabe (1976) found that international demand change accounted for 58%, trade effects for 15% and technical change for 26% of growth. Over the period, Japanese industrial production rose from 17% of GNP to 47%.

For the Israeli economy, Michaely (1975) found a significant inverse relationship between quantitative restrictions (QR) regime and productivity growth. The period of his analysis is divided into two phases. The year 1951-52 is considered to be peak period of the QR regime in the Israeli economy; which consists of the first phase. A period of transition towards price and tariff based mechanism took place around 1953 to 1955, which consists of the second phase. The study conducted for this period observed a rapid change in the productivity performances of the industries in this economy. However, one should also remember that during this phase, a structural change was initiated in the Israeli economy and so, according to Michaely, merely establishing the causal link between competition and productivity may be fallacious and one-
sided. This point may be extended in the words of Krueger (1978), "while there are numerous micro-economic changes that accompany devaluation, liberalization and altered (trade policy) bias, it is not possible to detect significant effect of these changes on growth performance" (p. 277). Analysing trends in total factor productivity (TFP) growth in Turkish industries for the period 1963-76, Krueger and Tuncer (1970) broadly found an inverse relation between exchange control regime and the growth in TFP, while export expansion is positively associated with the same.

The paper by Nishimizu and Robinson (1984) has basically two objectives. First, it intends to analyse the 'stylized facts' relating to productivity performance and economic growth at the sectoral level for three countries; Korea (for the period 1960-77), Turkey and Yugoslavia (1965-78). The paper added Japan (1955-73) as a comparator, the data of which was drawn from Jorgenson and Nishimizu (1981). Second, the paper intends to study the impact of trade policy on the sectoral growth of TFP which was calculated by using translog productivity index.

In order to analyze the impact, the following regression model was proposed

$$ TFPG = \beta_0 + X_{ce} + \beta_2 X_{ts} + \epsilon $$  

(1.1)
where

$$\text{TFPG} = \text{annual rate of TFP growth.}$$

$$X_{eo} = \text{output growth allocated to export expansion}$$

$$X_{is} = \text{output growth allocated to import substitution; and}$$

$$\epsilon = \text{the random error term.}$$

For each industry, in the sample of countries, they took the annual rate of change in TFP as dependent variable and the annual rate of change of output growth, alongside other sources of demand-side growth, as the explanatory variables. The total demand in each industry is composed of

$$\Delta Y_t = U_t \Delta D_t + U_t \Delta W_t + \Delta E_t + \Delta U [D_{t-1} + D_{t-1}] \quad (1.2)$$

Where $Y_t$ is the gross domestic product, $D$ is the vector of final demand, $W$ is the vector of intermediate demand, $E$ is the vector of export demand and $U$ represents the estimated diagonal matrix of domestic demand ratio, which is defined as the ratio of domestic demand to total of domestic and import demand and finally the subscript $t$ denotes time.

In the above specification $\Delta E$ and $\Delta U [D_{t-1} + W_{t-1}]$ give export expansion and import substitution component of demand change, which, when divided by $\Delta Y$, gives a measure of shares in export expansion and import substitution in the gross output changes for each industry and in each country in the sample groups.
The derived result in this study is consistent with the hypothesis that TFP growth is positively related to export expansion through competitive incentives and scale factor. Secondly, the results are also consistent with the hypothesis that lower productivity growth is associated with increasing resort to import substitution. In another paper by Nishimizu and Page (1986) the scope of the model is extended to include agricultural growth, output growth, export growth and also the factors like import penetration, QR regime and non-market allocation. To analyse the impact of the above factors on TFP growth, they pooled time series and cross section data covering 22 industries and 18 countries. Finally they conclude that exposing more to competitive process leads to greater industrial productivity, while quantitative restriction on imports have an adverse affect on it. However, both in Korea and Turkey, export sector contributed significantly only after following a strict phase of import substitution. The phasing experience tend to support Balassas (1979) hypothesis that a period of protected policy is beneficial to the future success of export oriented strategy. Westphal’s (1981) argument also correlates phase restriction to future export growth, specially in the cases where restrictions are tied up with potential export oriented industries.

Among recent studies, Doliar and Sokoloff (1990) analysed TFP growth in South Korean manufacturing industries for the period 1963-79 and found that productivity increase, at best played a relatively marginal role in heavy industries compared to the medium and small industries. The reason is believed
to be lying with the prevalence of credit subsidy policy for heavy industries, that mainly encouraged capital deepening process in the sample of industries. Conversely, the study of TFP growth by Waverman and Murphy (1992) for the automobile sectors of Argentina, Mexico, Korea and Canada, broadly derived a mixed result. After Korea, Waverman and Murphy found TFP growth to have been high in Argentina both during its initial liberalization period (1978-81) and earlier.

In the project related work of NBER, Bhagwati and Krueger (1983) define trade liberalization as a process of moving away from quota restrictions at disequilibrium exchange rate to tariff based mechanism, at an equilibrium exchange rate. In these studies, "static" inefficiency is evaluated on the basis of the effects of protection on resource allocation, capacity utilization and inventory holding. One conclusion of the findings is that the various dynamic losses reinforce, rather than offset, the static losses. Bhagwati et.al.(1975) conclusively brought out the fact that the exchange controls regime merely supports industrial licensing policies aimed at regulation and discrimination. On the other hand, it is assumed that an open trade policy can bring about sufficient flexibility in the system to influence resource allocation through the operation of price incentives in various forms. In their study, export biased index is used to find out the elasticity of exports with respects to prices. The ratio of effective exchange rates on exports (EERX) to that of import (EERM) is defined as the index of bias against export. While the emphasis is on price variables, it is
suggested that the availability of imported raw materials could be an important factor in affecting exports in QR regime.

The analytical argument considers export promotion policies to be the superior to its import substitution counterpart, because under the former regime, the incentives are likely to be more ‘neutral’ among industries, as export subsidies are an open cost in national budgets. In addition, the export promotion policies help to remove supply bottlenecks that are considered essential in boosting the growth of productivity in industries. However, the empirical analysis of the NBER project does not provide any firm conclusions on the overall superiority of export promotion policies over IS. While deciding the policy framework, the behaviour of the most of the countries of the world should also be considered. Even the case for trade liberalization in terms of removing distortions is not so robust because in a less than perfect world, LDCs cannot restore equilibrium with the help of policy variables. Krueger’s study (1978) showed that one per cent rise in export growth rate could explain 0.2% rise in GDP growth rate. For a similar growth rate of exports, 1.6% of growth rate in GDP could be explained under liberalization regimes, but the explanatory power of the variable was observed to come down to 0.8% with strict controls in the domestic economy. (Meir, 1983) The results depend on cross-section and time series data for various countries and various restrictive assumptions, e.g., choice of the same base year to deflate GDP in different countries, etc.
In the cross country data, there are also problems of international comparisons of purchasing power. Another unrealistic assumption observed in this kind of model is that the domestic or international demand never works as a constraint on the possible growth of efficient units, and hence, the theory depends on Say's Law, ruling out the structural or long run unemployment.\textsuperscript{16} It seems that the efficiency gains and export growth are treated as the immediate goals of liberal regimes.

For India, the cross industry study by Golder (1986) for the period 1959-79, was extended further to include export intensity as an explanatory variable. It is hypothesised that higher export intensity is associated with higher TFP growth. He took seventeen industries for his cross-section study and to capture the impact of internal competition on productivity, the 20 factory concentration ratio was used.

The regression result has found a positive impact of output growth rate and export intensity on productivity. While negative impact was found in the cases of IS and concentration factor.

A slightly modified model in terms of the rate of change in import availability ratio has also been estimated by the same author. Assuming an inverse relation between import availability and import substitution, the estimated result found a positive co-efficient of this variable. Though the result

are mostly statistically insignificant, the co-efficient terms mainly support the hypothesis that IS affects adversely the TFP growth, or to put another way, competition fosters greater productivity growth of industries. But with growing protectionism and competitiveness in the world market, the regression model remained incomplete in the sense that it did not capture the competitiveness effect by the inclusion of this term as an explanatory variable.

It is evident from the study of Goldar (1986) that productivity performances in the second and third five year plan were not satisfactory. However, the study corresponding to post 1965 shows better productivity performance compared to pre-1965 years, a result in contrast to the industrial stagnation theory of the mid 1960s in the Indian industries (see Nayar, D. (1964).

Goldar's study on productive efficiency is not in congruence with the study by Ahluwalia (1986) or Bramhandanda (1982). The basic source of difference might have been due to the adoption of different methodology, data source or the period under the coverage of each study.

III. Openness and Economic Growth

The word 'openness' has at least two implicit interpretations: first: the trade GDP ratio and second the relative ease in the government intervention through commercial policy measures. Whether openness has created any
positive impact on growth and industrialization, is a matter of debate, but still one can be assured of the fact that these interpretations have a broad implications for the overall development strategy.

The mainstream view provides one answer: high trade GDP ratio is associated with high growth rate. The answer is based on compact and typical empirical method without taking into account a country's own economic evolution and historical trend. In Syrquin and Chenery (1989), a sample of 108 countries have been drawn out in terms of their size and specialization. The query was that whether countries with higher export shares are the one who have experienced faster growth rates. Empirical observations showed that average rate of growth was high specially for the sub group of small and high exporting countries in the period 1950-83. In this process, a possible linkages can be established between reduced internal disruption and opening up of profitable channels of exports as a pre-condition for ensuring economic viability. However, it may be too early to predict that liberalization of the economy would automatically lead to a process of trade expansion and growth. McCarthy et.al. (1987) in their empirical study observed that during the period 1962-84, the fast expanding economies in average did not have an increasing share of export in their GDP. Still, the empirical literature observed some crucial features. First, it is observed that the ratio of manufactures to primary

---

17 For an excellent sum up, see Rodrick, D. (1994).
product rises as the country experiences growth of GDP. Broadly it shows that industrialization and economic growth are intertwined. Second: the empirical observation, both at the two digit and three digit level of classification shows that usually import substitution strategy precedes export oriented production (Krueger 1978). However, the lag structure of this kind of movement varies across nations, depending upon its economic conduciveness and elegancy.\textsuperscript{18}

Third, it is observed that the production and trade share of larger economics vary in narrower range, while opposite is the outcome for the small economics.\textsuperscript{19} This observation points out the importance of domestic market to shape the structure of production in these economies. Fourth, the large domestic market and inward looking industrialization creates condition for production and trade (internal) concentration in and around urban cities. This in one way reflects inter-regional disparity within nation and small export-orientation on the other. The simulation study of this fact formed the core of Krugman et.al’s hypothesis (1991-1993) relating to growing metropolisation of the third world economies. Fifth, the study related to industrialization and trade observed that a country with poor natural resources, tend to have high manufacturing growth in both exports and GDP compared to its counterpart.\textsuperscript{20}

\textsuperscript{18} WIDER country studies.

\textsuperscript{19} Ibid.

\textsuperscript{20} op cit.
Finally the export orientation of a particular country may be the result of the response related to external stocks (specially the Latin American countries). But it remains an open question as to how far these policies have its impact on the growth and distribution of these economies.

IV. Objectives of the Present Study

The objective of the present study is to highlight two aspects of the developmental process. The first aspect is related to productivity growth and trade policy issues in general, while the second aspect reflects on the regional implications of growth as perceived in the locational pattern of trade and industrial concentration in the cities of the third world economies. These two aspects have been studied in the context of the growth experiences of India and Latin American countries.

In any reform process, the role of trade and industrial policy has long been controversial. The standard neo-classical trade theory puts emphasis on utilizing comparative advantage to increase productive efficiency both at the regional as well as at the national level to gain from international trade. (Ohlin, 1953) Using production process in line with comparative advantage, however, does not mean ensuring trade neutrality or free trade. The various cross-country experience shows that sometimes in a deficit and crisis-ridden economy, state intervention in trade and industry has proved to be beneficial rather than inimical to growth. However, the theoretical arguments for government
intervention co-exists with the 'second-best' reasoning, where optimal policy-mix opts for a minimum attainable intervention, given the welfare implications for the aggregative economy along with political and institutional constraints. The specific nature of the constraints and welfare consideration raises different rival opinions regarding the policy choices and its impact on the functioning and adjustment of the economy. On the other hand, it has been argued that apart from the physical volume of transaction, the trade between countries can bring in informational flow and with technological spill-over it helps to enlarge the size of externalities among trading nations. The debate is still on regarding the size of externalities, slopes of the learning curve etc. to focus specifically on the growth implications of inward as well as outward-oriented strategies. But crucially the arguments regarding externality effect also brings into focus the question of linkages (Hirschman, 1958) and the re-inforcing agglomeration process that are intertwined with a regional set-up. The major identifying sources of globalization, then, find its root in the geography of economic activity within region of the economy. Yet the inadequate data-set and its limited empirical plausibility tend to obscure some of the critical linkages between trade, productivity and spatial factors. The present study is an attempt to re-discover these linkages in the light of experiences of the above-mentioned countries.

The observations and analysis can be used to draw out some common features of the developing economies even if admitting limitations inherent in
this kind of study. The following chapter would focus attention on the productivity trend in the Indian industries. The next Chapter II deals with the methodological details on the growth accounting factors, along with its calculation for some of the two-digit and three-digit industries of the Indian economy. Chapter III would seek explanation for inter-industrial productivity differences, specifically taking into account the trade policy measures initiated in the late seventies in the Indian economies. Chapter IV gives a detailed description of the experiences of the Latin American countries, where stabilization cum structural adjustment holds the sway of economic reform. Chapter V brings into the picture of some of the aspect of regional dimension. And finally Chapter VI summarises.