

Impact of Trade on Industry-Level Output

ARJAD ABBAS KHOSA

This study empirically investigates the impact of country-level trade on the industry-level output of twenty manufacturing industries by conducting a cross-sectional analysis of 99 countries for the year 2015. To analyze the impact of trade on the industry-level output this research uses a two-stage least square (2SLS) econometric estimation technique by constructing the geographical component of trade as an instrument to address endogeneity in the relationship between trade and the output. The results of the gravity equation indicate that geographical variables significantly affect the bilateral trade of the countries. The first stage results suggest that the constructed trade share from the gravity equation is a strong instrument for the actual trade share of countries. The second stage results show that the impact of the predicted trade share on industry-level output and output per worker is significantly positive and larger for industries with higher differentiation.