

# **Beyond the Hump: Structural Change in an Open Economy**

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## **Abstract**

This paper investigates the role of trade in driving structural change. First, I attribute change in manufacturing shares to adjustments in international sourcing decisions, sectoral expenditure shares, and aggregate trade deficits. Using a structural model, I interpret these as endogenous responses to exogenous shocks. Applying the decomposition to data from twenty economies between 1965 and 2011, I find that 40% of the observed change in manufacturing shares was due to specialization subject to comparative advantage and compositional effects due to international borrowing. Moreover, these mechanisms were key in driving both the cross-country heterogeneity and churn within the aggregate manufacturing. Finally, I inspect two popular narratives that link industrialization and trade. I show that China has caused global deindustrialization via the borrowing channel and pushed economies towards low-technology manufacturing. In South Korea, trade specialization was responsible for both its rapid industrialization, and its shift towards high-technology manufacturing.