

Optimal trade policy and industrial development

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A small and open economy produces intermediate goods. Economic development is understood as the share of firms attaining the state-of-art production quality and the quality gap between them and the other firms. How does economic liberalisation affect the economy? If networking among firms is important for the quality dynamics, the final effect of liberalisation will depend on the development prior to liberalisation and on the timing by which this policy is performed. We find theoretical conditions under which the infant industry argument remains valid and the degree of openness that will be optimal. We discuss the validity of this model to understand the industrial performance in different regions at different stages of development.