

**Abstract**

We examine the effect of trade on productivity growth using data from nine manufacturing industries across twelve OECD countries over the period 1978-1997. Since causality between productivity growth and trade share runs both ways, geographical characteristics of countries are used to instrument for average bilateral trade volumes over the 20-year period. In addition, to exploit the time-series nature of the data, we construct a panel data set and employ dynamic panel data techniques. After controlling for industry-specific heterogeneity, our results indicate that increased exposure to trade, in particular higher import volumes, exerts a positive influence on industries' productivity growth. However, the effect is rather small.