

Abstract

Structural transformation is one of the key aspects of successful economic growth of any country and has recently regained considerable attention, especially in the context of developing countries. Additionally, this continuous change in the economic structure of developing countries is expected to alter their business cycle synchronisations with other developing as well as advanced countries. This, in turn, might have implications for macroeconomic policies, such as the desirability to coordinate fiscal or monetary policies between countries. A look at the historical patterns of economic growth of most now developed countries reveals that successful industrialisation is a critical rung in the development process. However, several developing countries today, are experiencing a nonstandard pattern of structural transformation where the share of the service sector is much higher than that of the manufacturing sector. This merits the question of whether this pattern is sustainable and whether the growing share of the service sector would lead them to achieve long-term sustainable growth. In this respect, the Thesis attempts to explore one of the inevitable and organic processes of economic development, i.e., structural transformation or, in other words, the shift or transfer of labour and other resources from the low-productive agriculture sector to the high-productivity manufacturing and then to services over the course of the growth process. Moreover, this continuous change in the economic structure of developing countries is expected to change synchronisations of their business cycles with other developing as well as advanced countries. As developing economies specialise in the provision of services, it is only reasonable to expect that changes in their sectoral composition may alter their synchronisation of business cycles with countries that experienced different dynamics of structural change. The findings indicate that an increase in the service sector's share has a negative impact on economic growth in the short-run. v However, results show that an increase in the service sector's share positively contributes to long-term economic growth. Similarly, the relationship between this non-standard pattern of structural transformation in developing countries and their degree of business cycle synchronisation with other countries is also found to be non-linear once we allow for evolutionary dynamics in the structural transformation process. Also, the Thesis delves into intra-industry trade in technology-intensive commodities between countries and its role in driving business cycle synchronisation between them. Using a panel threshold regression model, our estimates reveal that intra-industry trade in technology leads to a convergence in the business cycle of India with only those trading partners whose GDP per capita is less than a certain threshold. Our results provide strong evidence of a threshold effect in the association between intra-industry trade in technology and business cycle of India with its trade partners.