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**Within Gain, Structural Pain:**

**Capital Account Liberalization and Economic Growth\***

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### Abstract

This paper is the first to study the effects of capital account liberalization on structural transformation and compare the contribution of within term and structural term to economic growth. We use a 10-sector-level productivity dataset to decomposes the effects of opening capital account on within-sector productivity growth and cross-sector structural transformation. We find that opening capital account is associated with labor productivity and employment share increment in sectors with higher human capital intensity and external financial dependence, as well as non-tradable sectors. But it results in a growth-reducing structural transformation by directing labor into sectors with lower productivity. Moreover, in the ten years after capital account liberalization, the contribution share of structural transformation decreases while that of within productivity growth increases. We conclude that the relationship between capital account liberalization and economic growth is within gain and structural pain.

**Keywords:** Capital Account Liberalization; Economic Growth; Productivity; Structural Transformation; New Structural Economics

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