



Connecting the dots between industries: Linkages

What are backward and forward linkages?

Industries depend on other industries to obtain goods and services as production inputs. An industry's backward and forward linkages measure the industry's economic interdependence with other industries.



An industry's backward linkage provides a relative measure of the potential change in output induced in upstream industries in response to a change in the industry's output.

For example, an increase (or decrease) in the output of the processor chip manufacturing industry would increase (or decrease) demand for inputs from upstream industries such as utilities and water manufacturing industries.

On the other hand, the forward linkage measures the change in output induced in downstream industries in response to a change in the industry's output.

For example, an increase (or decrease) in the output of processor chips would increase (or decrease) the supply of inputs to downstream industries such as the computer manufacturing industry.

What do linkages tell us?



The strength of an industry's linkage indicates the degree of interdependence that the industry has with the economy as compared to other industries. An expansion in an industry with a higher linkage would stimulate higher levels of domestic output production. An industry would be considered a key industry if both backward and forward linkages are larger than one.