

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

**DE-INDUSTRIALIZATION  
AND THE BALANCE OF PAYMENTS  
IN ADVANCED ECONOMIES**

*Robert Rowthorn*  
*Ken Coutts*

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**DISCUSSION PAPERS**



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# DE-INDUSTRIALIZATION AND THE BALANCE OF PAYMENTS IN ADVANCED ECONOMIES<sup>1</sup>

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## *Abstract*

*This paper defines de-industrialization as a secular decline in the share of manufacturing in national employment. De-industrialization, in this sense, has been a universal feature of economic growth in advanced economies in recent decades. The paper considers briefly what explains this development and quantifies some of the factors responsible. It then examines the experience of the United Kingdom and the United States, which are two countries that have combined rapid de-industrialization with a strong overall economic performance. The paper considers both the domestic situation of manufacturing industry in these countries and its foreign trade performance, and examines in detail the United Kingdom balance of payments, and documenting how improvements in the non-manufacturing sphere have helped offset a worsening performance in manufacturing trade. It concludes that manufacturing still matters to economic performance even at the highest levels of economic development, and that “premature de-industrialization” could lead to serious mismanagement of the integration of developing countries into the global economy.*

## **I. DE-INDUSTRIALIZATION**

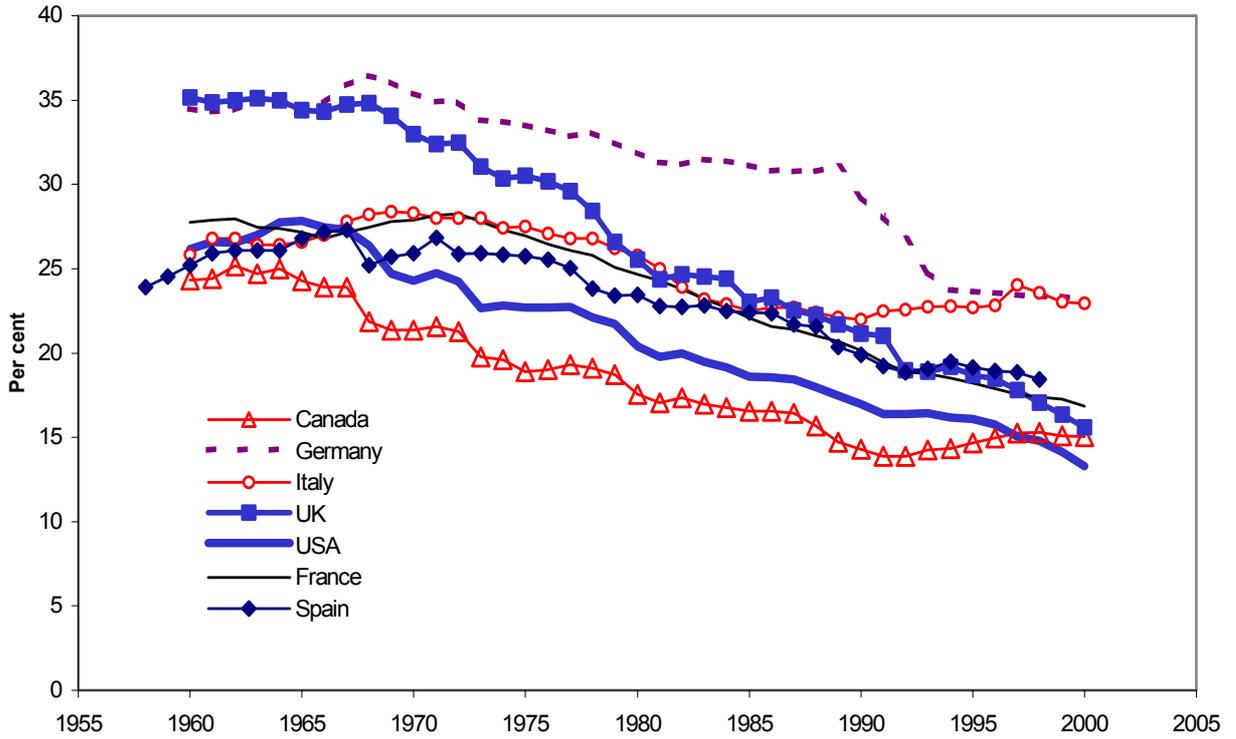
In the course of economic development virtually all countries follow a broadly similar trajectory. As development gets under way, the share of agriculture in national employment falls and there is a rapid increase in the share of manufacturing. This process is known as ‘industrialization’. At a certain point, however, the share of manufacturing stabilizes and then starts to fall back again. There is a corresponding increase in the share of services in national employment. By analogy with the preceding phase, this process is often described as “de-industrialization”. Note that we are talking here about relative shares. If total employment is growing fast enough, then the share of manufacturing may decline rapidly even though the absolute number of people working in this sector is actually rising. This has been the situation in Spain in recent years. Note also that employment is not the same thing as production. In many advanced economies, manufacturing productivity is increasing rapidly with the result that this sector is producing more output with fewer workers. Thus, de-industrialization in employment terms does not imply falling production.

Chart 1 provides some information about the manufacturing sector in Western Europe and North America. There has been a dramatic fall in the share of this sector in national employment in all of the countries shown. This decline is still continuing in most of them, although there are a few exceptions, notably Canada and Italy, where the manufacturing share has now stabilized, for the time being at least. As can be seen from chart 2, the employment share of manufacturing has also been falling rapidly in Japan, the Republic of Korea, Singapore and Taiwan Province of China. These Asian countries are now facing the same problems and uncertainties that have been confronting Europe and the United States for decades.

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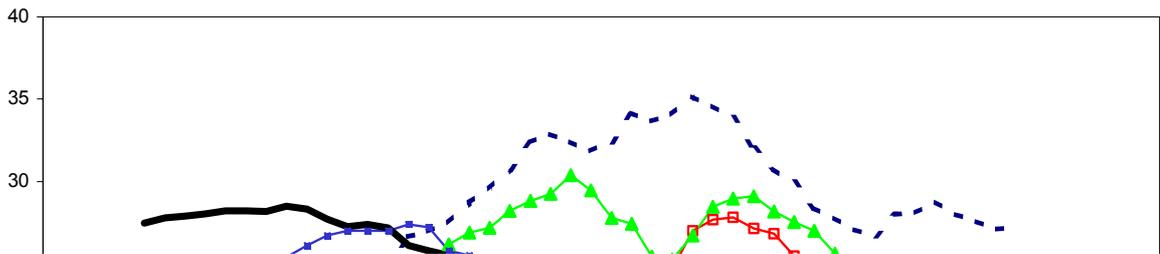
<sup>1</sup> This is an expanded version of a paper by Robert Rowthorn at an International Conference on “De-industrialisation and Industrial Re-structuring” on 5 December 2003 at the Renaissance Seoul Hotel, Seoul, Republic of Korea. The authors are grateful to Alicia Rapin of UNCTAD for providing in convenient form most of the data used for the regression analysis and some of the charts, and to Andrew Glynn for helpful comments on an earlier version.

**Chart 1**  
Share of manufacturing employment in Europe and North America



Sources: OECD Labour Force Statistics supplemented by the ILO Database on Labour Statistics and the Statistical Yearbook of the Republic of China (Taiwan Province of China), various issues.

**Chart 2**  
Share of manufacturing employment in selected Asian countries



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