Premature Deindustrialization & Thin Industrialization

Sourish Dutta

PhD Student

Centre for Development Studies

Premature Deindustrialization: Concept

- Industrialization: shift of resources (including people) from the primary to the secondary sector, particularly manufacturing
- Deindustrialization (or post-industrial transition): the shift of resources (including people) from secondary to tertiary industry, or services.
- Premature deindustrialization: deindustrialization has been occurring at lower and lower levels of per capita GDP, with fewer workers absorbed in manufacturing.
- It may be better characterized as simultaneous industrialization and deindustrialization in compressed development.
 - In fact, many developing countries are nowadays transforming an existing manufacturing sector, rather than industrializing ab initio. This could be seen as reindustrialization.

Premature Deindustrialization: History (1)

- Development is fundamentally seen as the ability to shift resources from activities of low productivity to those of higher productivity
- This was long equated with a shift of labour and capital from agriculture to manufacturing through industrialization, based on the example of Britain and subsequent industrializers
- Britain began to face deindustrialization from the late 1960s. Britain was losing ground relative to later industrializers because it had matured earlier, and manufacturing had fewer surplus resources to absorb.
- Deindustrialization is typically defined as a declining share of manufacturing in total employment. There are two forms of deindustrialization:
 - Positive forms associated with rising productivity and continued competitiveness in manufacturing (in which manufacturing output may continue to expand even as employment shrinks)
 - Negative forms arising from arrested productivity growth, declining competitiveness, and shrinking output; Britain had elements of both

Premature Deindustrialization: History (2)

- As the hearth of the industrial revolution, it began to lose its industrial lead in the late nineteenth century, although significant deindustrialization only took place from the late 1960s onward.
- Britain has by no means been the only country to experience industrialization followed by deindustrialization (positive or negative form). Other countries have followed, and significantly, they have followed with increasing rapidity.
- Late developers of the nineteenth century began to industrialize from the 1980s. South Korea and Taiwan began to industrialize rapidly in the 1960s, and within three decades, were already deindustrializing.
- In the United States, manufacturing constituted a share of employment comparable to its share in Korea throughout the latter half of the nineteenth century and continued to expand its share of total employment throughout the middle of the twentieth century.
- In England manufacturing's heyday was even more prolonged, lasting almost 150 years. In Korea, manufacturing passed its peak within the span of 40 years.

Premature Deindustrialization: Causes (1)

- This is not simply a matter of followers replicating the experience of pioneers more quickly, however. There are, in fact, two intertwined phenomena within this trend.
 - First, deindustrialization is commencing at lower levels of per capita GDP.
 - Second, manufacturing is absorbing a smaller share of the total workforce, even at its peak.
- A number of possible causes of this double trend, such as
 - reclassification of certain manufacturing activities as services,
 - demand-constraining monetarist,
 - neoliberal economic policies after the 1980s,
 - rapid productivity catch-up in developing countries, and
 - for natural resource producers, Dutch Disease effects.

Premature Deindustrialization: Causes (2)

- Dani Rodrik highlights the effects of globalization. He finds cases of
 - Positive deindustrialization through technological progress mainly limited to developed countries, and
 - Negative deindustrialization in developing countries, with some Asian exceptions.
- This is because globalization throws sand into the wheels of the Kaldorian industrial upgrading process.
 - The decline in the relative price of manufacturing in the advanced countries put a squeeze on manufacturing everywhere, including the countries that may not have experienced much technological progress.
- This account is consistent with the strong reduction in both employment and output shares in developing countries.

Thin Industrialization: Genesis

- As industries and institutions extended and fragmented across national borders, powerful external actors, over which developing country states could exert only limited control, became more imbricated in the development process.
- Key aspects of development, including finance, industry organization, technological learning, and market characteristics came to lie beyond the tight control of the nation state. One consequence is thin industrialization
- Thin industrialization: a mode of industrialization that is something other than a (rapid) movement through ordered phases.
- Additionally, boundaries between sectors have become increasingly blurred, with the industrialization of agriculture, application of ICT to primary and secondary industries, and realization of scale economies in services through digitization. Financialization has permeated all sectors.

Thin Industrialization... double challenges

- Not only does informal employment persist, but forms of nonstandard employment as seen in developed countries have been growing as well.
- The muted scope of standard employment has consequences for the emergence and stability of urban working and middle classes, equality, and the feedback loops between economic and social development.
- We apply this perspective to the middle income-trap debate. The features and challenges unfold differently in high-growth and low-growth economies, and will persist and possibly accelerate in the digital economy.
- At the intersection of development and globalization studies, the analysis encompasses state-, society-, and company-level dynamics.

Thin industrialization... financialization?

- Proportionately fewer workers absorbed in the modern manufacturing sector, even during high growth;
- A geographic separation of production and innovation, fewer domestic interindustry linkages, and a narrower span of manufacturing industries.
- Global value chains (GVCs), the adoption of advanced production technologies on the periphery, and out-of-sequence service sector developments are contributing factors
- While undeniably crucial for economic development, as a driver rather than a servant, finance changes incentives and resource allocation in ways that are just as likely to intensify thin industrialization and labour market dualism

Thin industrialization... GVCs?

- Industrialization in the current era, especially in technology-intensive industries, requires some level of engagement with GVCs
- Fragmenting industries across borders and result in industrialization that is partial in some way. A more adequate term is thin industrialization
- Thin industrialization poses a number of challenges for policy makers, including whether to work with the processes contributing to thin industrialization by seeking out or upgrading to higher-value business functions within GVCs
- or to counter or complement these specializations with traditional industrial policies aimed at achieving thick industrialization.

Mixed-blessing hypothesis

- China's burgeoning industrial base was concentrated in low value-added segments of global value chains, leading to extremely fast growth, but also to thin industrialization
- Products made for the local market entirely by local firms tended to be easily copied by others, leading to hyper-competition and a failure of companies to grow to scale.
- China's policy response to thin industrialization: intensified technological nationalism
- Brazil faces thin-industrialization challenges similar to those faced by China, but it has weaker tools to address them