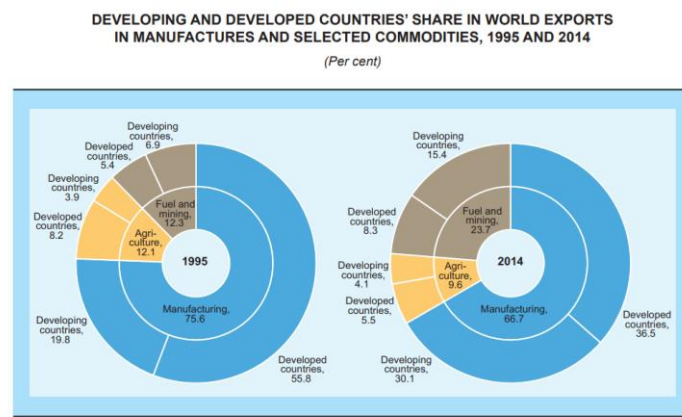


Position Paper IV

Since the modern world is globalizing more and more, there are many challenges that are being observed with the projected trends. One of them is the deindustrialization of the developed world with the concomitant industrialization of developing economies. Some argue that this trend is a result of internationalization via trade, which has been increasing in its amount until now, leading to the worsening of wage gap between the high-skilled and low-skilled labor groups globally, whereas some others claim that the reason lies in the nature of technological progress. Different aspects should be analyzed to determine the likely causes of this issue.

First of all, the process of deindustrialization of the Western world is reflected in the decline of manufacturing with a parallel stagnation of wages. According to Fiona (2009), the manufacturing has to be defined properly for it can be measured using both the manufacturing employment and the share of manufacturing products in either exports or GDP, leading to diverse conclusions. As seen in Figure 1, the developing economies are observed to have industrialization, which implies the deindustrialization for developed ones, with increased share of manufacturing exports of developing countries in the world trade in the period from 1995 to 2014 (UNCTAD, 2016; Hamilton Project, 2017). One possible explanation for the stagnation of wages in the developed world is the decreasing trend of value added by manufacturing as a percentage of GDP. According to Figure 2, it was decreasing since 1960s with some volatility in between.



Source: UNCTAD secretariat calculations, based on UNCTADstat.
Note: In this chart, data for developing countries include data for transition economies. The totals of the inner and outer rings each equal 100 per cent. Each category includes the following SITC Rev. 3 codes: manufacturing = 5, 6, 7, 8 less 667 and 68; agriculture = 0, 1, 2, 4 less 27 and 28; fuel and mining = 27, 28, 3, 667, 68, 971.

Figure 1. Retrieved from: UNCTAD, *Trade & Development Report, 2016 De-Industrialization*.

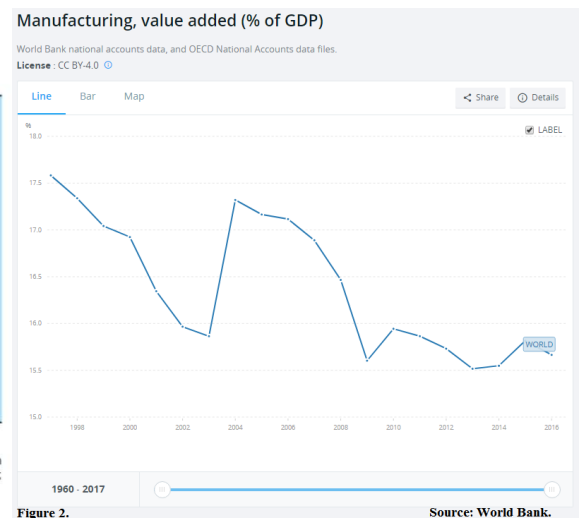


Figure 2. Source: World Bank.

Secondly, there is an increasing trend of the employment in the services sector around the globe, taking place of the manufacturing industry employment. According to the graphs above, world employment in industry has a slight declining trend since 1991, while the world employment in services hitherto had a considerable and constant growth (see Figures 3-4). Connecting this tendency to international trade and theoretical framework of Heckscher-Ohlin model, services sector can be associated with the specialization of the North and manufacturing as specialization of

Employment in industry (% of total employment) (modeled ILO estimate)

International Labour Organization, ILOSTAT database. Data retrieved in September 2018.
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Figure 3.

Source: World Bank.

Employment in services (% of total employment) (modeled ILO estimate)

International Labour Organization, ILOSTAT database. Data retrieved in September 2018.
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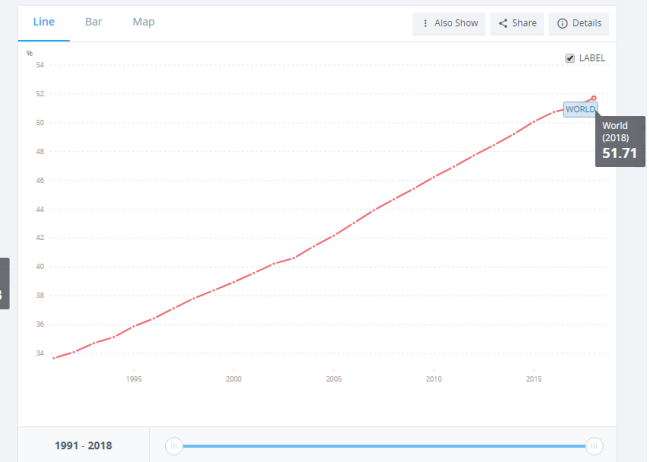


Figure 4.

Source: World Bank.

the South. Moreover, in the same way developed countries likely seem to have unskilled workers in manufacturing diminished, which leads to the wage gap, with an increase of unskilled workers in developing economies.

Finally, there is a distinct view on deindustrialization of the developed and industrialization of developing economies. Golub (2004) claims that historically many centuries ago the industrial center of the world and the main industrial exporter was China with India and few other Asian countries, which were replaced by the Western countries, which will be replaced in their turn again in a form of cycle. His viewpoint suggests that the industrialization process is determined by the cyclical alterations.

To conclude, many economic events are balanced by harmonious equilibrium. If it is not the case, for the benefit of humanity some related policies can be implemented.

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