

Abstract

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Is Manufacturing still an Engine of Growth in Developing Countries?

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Since the middle of the eighteenth century, manufacturing has functioned as the main engine of economic growth and development. However, in recent research, questions have been raised concerning the continued importance of the manufacturing sector for economic development. In the advanced economies some two thirds of value added is now generated in the service sector. In developing countries, service sectors such as software, business services, tourism and financial services seem to have become more important as potential drivers of growth. This paper will empirically and theoretically reexamine the role of manufacturing as a driver of growth in developing countries in the period 1950-2005 and reflect on the implications of this analysis for future developments.

The paper makes use of a newly constructed panel dataset of annual value added shares (in current prices) for manufacturing, industry, agriculture and services for the period 1950-2005. The panel dataset includes data for 67 developing countries and 21 advanced economies. The paper starts with a review of the theoretical debate on the role of manufacturing. It continues with a discussion of the construction of the dataset. Subsequently regression analysis is applied to analyse the relationships between sectoral shares and per capita growth for different time periods and different groups of countries. The countries are clustered into subsets using regression tree methods.

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