International Journal of Society Reviews (INJOSER) e-ISSN: 3030-802X
Vol. 2 No. 10, August 2025, pages: 1668~1687

AN ANALYSIS OF THE FACTORS AFFECTING DEINDUSTRIALIZATION IN FOUR COUNTRIES

Muhammad Rizki Taufik [1], I Nyoman Wahyu Widiana [2]
[1,2] Faculty of Economics and Business, Udayana University
Email : rizkiiigs@gmail.com

Abstract: The phenomenon of premature deindustrialization is increasingly prevalent in developing countries, where the manufacturing sector experiences a decline in its contribution to GDP before reaching the stage of industrial maturity. Indonesia, India, Colombia, and South Africa are examples of countries that have shown this tendency in recent decades. This study aims to analyze the simultaneous and partial effects of Gross Domestic Product (GDP) per capita, exchange rate, and trade openness on deindustrialization in these four countries during the period 1995–2023. This research utilizes secondary data obtained from the World Bank and applies panel data regression analysis. The Chow and Hausman tests indicate that the most appropriate model to use is the Fixed Effect Model (FEM). The results reveal that, simultaneously, the three independent variables have a significant effect on the contribution of the manufacturing sector. Partially, GDP per capita and exchange rate have a negative and significant effect, while trade openness has a positive and significant effect on the contribution of the manufacturing sector. These findings highlight the need for adaptive industrial development policies, particularly in maintaining exchange rate stability and promoting open trade that can enhance the competitiveness of the manufacturing sector in these four countries.
Keywords: Deindustrialization, GDP per capita, Exchange Rate, Trade Openness,

INTRODUCTION

The modern world, in many respects, is the result of industrialization. The Industrial Revolution marked the beginning of sustained productivity growth in Europe and the United States, which eventually divided the global economy into rich and poor nations. Industrialization also enabled several non-Western countries to catch up and match Western nations—such as Japan in the late 19th century, and South Korea, Taiwan, and a number of other countries since the 1960s. Meanwhile, in countries still trapped in poverty—particularly in sub-Saharan Africa, Latin America, and parts of Asia—many observers and policymakers believe that future economic growth prospects rely heavily on the development of new manufacturing industries (Rodrik, 2015). This view aligns with Kaldor's first law of growth, proposed in 1996, which asserts that the manufacturing sector functions as the engine of economic growth in a country (Dasgupta & Singh, 2006).

The manufacturing sector generally follows an inverted U-shaped pattern throughout the development process. While this pattern is also observed in developing countries, the turning point occurs earlier and at significantly lower income levels. In many developing nations, the manufacturing sector has begun to shrink—or is on the path toward decline—while their income levels remain far below those of advanced economies