RESUMO EXPANDIDO (PARA ASSOCIADOS AKB) / EXTENDED ABSTRACTS (AKB MEMBERS) - ÁREA 5. COMÉRCIO INTERNACIONAL, TAXA DE CÂMBIO E DESENVOLVIMENTO ECONÔMICO

EFFECTIVE DEMAND, STRUCTURAL CHANGE AND LABOR PRODUCTIVITY DYNAMICS

Tiago Couto Porto (tiagocoutoporto@gmail.com)

Hugo Carcanholo Iasco Pereira (hugo.carcanholo@gmail.com)

There is a long tradition in economic thinking that associates the change in the productive structure towards the manufacturing sector as the main mechanism behind economic development. Recently, however, the emergence of global value chains (GVCs), the growing importance of the service sector, and the experiences of premature deindustrialization challenged or reinforced the need to reexamine the traditional view. Rodrik & Sandhu (2025) and Rodrik & Stiglitz (2026) investigates employment dynamics and argues that the manufacturing sector is not a promising sector for generating good jobs, thereby reducing its potential as a dynamic sector of the economy, which has shifted to modern services. Rodrik (2018) argues that new technologies pose problems for less developed countries in the context of GVCs since these countries are normally less prepared in terms of capabilities and skills, and thus their comparative advantage in labor-intensive manufacturing and other activities is reduced. Additionally, GVCs have oligopolistic characteristics that push producers in developing countries (normally suppliers) to lower their margins to the point of making it very hard for them to innovate (Milberg and Winkler, 2013).

Concurrently with the advent of globalization and GVCs, scholars have observed the process of premature deindustrialization (Palma, 2005; Rodrik, 2016; Rowthorn & Ramaswamy, 1999) in both developed (van Neuss, 2018) and developing countries (Rodrik, 2017). However, Tregenna & Andreoni (2020) have shown that in developed countries, there is strong sectoral heterogeneity as they have reasonably maintained market share in medium-high and high technological sectors and only reduced the size of medium-low and low economic activities. Alternatively, several scholars see the deindustrialization patterns as key features to comprehending catch-up and divergent trajectories in developing countries (Bresser-Pereira, 2021; Palma, 2009; Wood, 2019). These studies have shown, often recovering illustrative descriptive statistics, that the manufacturing sector still plays a vital role in economic development, as did Lautier (2024) in a more recent study. Nonetheless, to what extent the manufacturing sector and shifting the productive structure towards manufacturing activities currently, and with the advent of globalization, causes countries' overall productivity growth is still a relevant theoretical and empirical question.

This paper addresses this inquiry by testing the so-called Kaldor Third Law, which asserts that a country's overall productivity is positively associated with output and employment in the manufacturing sector and negatively associated with the growth of employment outside manufacturing. While there are vast empirical literature that investigates Kaldor's 1st and 2nd laws (Basu & Budhiraja, 2021; Di Meglio & Gallego, 2022; Doré & Araújo, 2025; Magacho & McCombie, 2020; Marconi et al., 2016; McCombie & Spreafico, 2015), there are no systematic research about the 3rd law, which has broader implications for economic growth and development . Therefore, empirically assessing Kaldor's third law has two significant contributions to economic literature, as it consists of the first systematic and robust empirical investigation of this relevant theoretical framework (Blecker & Setterfield, 2019; Lance Taylor et al., 2019), and represents a reassessment of it in the context of globalization and global value chains.

To accomplish such a purpose, it is crucial to address empirical challenges related to the fact that statistics related to gross manufacturing production and exports are strongly biased because of trade and production fragmentation (Los et al., 2015, 2016; Los & Timmer, 2020; Losa et al., 2012; Pahl & Timmer, 2019). Therefore, we use recent methodologies of trade-in-value-added and the Inter-regional Input-Output Matrices of (OECD, 2023) to calculate an original

indicator of countries' effective demand for manufacturing products, for 76 countries from 1995 to 2020. This indicator correctly addresses the fact that imported inputs are increasingly embodied in domestic production and exports, that a larger share of domestic demand is not met by domestic production – the demand leakages -, and the increasing importance of accessing foreign markets. Afterward, we use dynamic panel data econometric techniques (system and difference GMM estimator) to test the traditional equation of Kaldor's Third Law, its recent developments to incorporate the role played by capital stock, and an extension to control for economic complexity. Multiple robustness checks have been performed, and the results corroborate the validity of the hypothesis.

Palavras-chave: kaldor's third law; effective demand; structural change; productivity growth.