

MANUFACTURING AND DEVELOPMENT IN COUNTRIES AND AREAS OF EUROPE AND EURASIA, 2000-2010

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Abstract

We analyze the evolution of manufacturing and development in 5 areas and 42 countries of Europe and Eurasia for the period 2000-2010, following our previous studies of the period 1980-1999. The variables analyzed are real value-added of manufacturing, real production, real investment and real savings per capita, as well as the evolution of population. We find some advance in industrial development of several countries for the period of study, but unfortunately we may notice stagnation and even diminution of manufacturing in several cases, as in the 4 EU countries included in the area of Latin Europe (France, Italy, Spain and Portugal) and in other European Union countries. Areas of East Europe and Eurasia, with starting low levels of manufacturing in year 2000, have experienced a positive evolution of this variable and, as a consequence, a positive impact on non-manufacturing and development for the period 2000-2010. We include an econometric model that shows the positive effects of manufacturing on economic development with a sample of 42 countries for years 2000, 2010 and 2015. The paper contributes to show empirical evidence in favour of Kaldor's perspective on the positive role of industrialization on economic development. European Union economic policies have shown a worse performance for the decade 2000-2010 than in the period 1980-2000, mainly due to the problem of not enough support to industrial development. We conclude that the EU decision making process should be more open to economics advisors, in order to support industry and development, and have into account the overwhelming demand from EU citizens in the Eurobarometer, who claim for better economic policies. Keywords: Kaldor, Industry, Manufacturing, Europe 2000-2010, Eurasia 2000-2010, Development, EU citizens opinions in Eurobarometer, Investment, Savings, Econometric Model of Manufacturing and Non-Manufacturing.

JEL codes: C5, L6, N16, O14, O53, O56, O57

1. Introduction

Here we analyze the evolution of manufacturing and non-manufacturing activities in 42 countries and 5 areas of Europe and Eurasia for the period 2000-2010, following our previous studies. In Guisan and Aguayo(2003) we have analyzed the evolution of countries and areas of Europe and Eurasia for the period 1980-1999. In other studies we have analyzed other areas of the World for the period 2000-2010: America in Guisan and Aguayo(2015), Asia-Pacific in Guisan and Exposito(2015), Africa in Guisan(2017a) and a World summary in Guisan(2017b). The countries here analyzed were included in the group of WDI-132: 132 countries with more than one million people, and available data for the period 1980-1999 in the World Development Indicators. The list of countries and data for the period 2000-2015 are included in the Annex 2 of Guisan(2017b).

Section 2 presents the evolution of manufacturing and other variables of each country for the period 2000-2010.

Section 3 presents the estimation of equations that show the positive impact of manufacturing on non-manufacturing activities, which present empirical evidence in favour of Kaldor's law on the important impact of industry.

Section 4 compares the evolution of several EU countries for the periods 1980-2000, showing a clearly lower increase of economic development during the last of these three decades, likely due to problems of EU economic policies. Regarding the non EU countries of Europe and Eurasia, there was generally a positive evolution for that period.

Section 5 presents the main conclusions and the Annex includes some supplementary tables and contents.

2. Manufacturing per head in Europe and Eurasia for years 2000-2010.

The list of European and Eurasian countries that appear in the tables of this section are those included in the group of 132 countries analyzed in Guisan, Aguayo and Exposito(2001), and listed in Guisan(2017 b). We classify the 42 countries of the study in 5 areas:

1) *Nordic and British Europe*. This area, with a population of 91.8 million in year 2010, includes 6 countries: Denmark, Finland, Ireland, Norway, Sweden, United Kingdom.

2) *Central-West Europe*. This area, with a population of 125.5 million in year 2010, includes 5 countries. Austria, Belgium, Germany, Netherlands and Switzerland.

3) *Latin Europe*. This area, with a population of 181 million in year 2010, includes 4 countries: France, Italy, Portugal and Spain

4) *Central-East Europe, Baltic and East Mediterranean*. This area, with a population of 195.7 million in year 2010, includes 4 countries of *Central-East Europe*: Czech Republic, Hungary, Poland, and Slovak, together with the 3 Baltic countries: Estonia, Latvia, and Lithuania, 7 European East Mediterranean countries: Albania, Bulgaria, Croatia, Greece, Macedonia, Romania and Slovenia, and also Turkey, which is an East Mediterranean and Eurasian country that belongs to the Council of Europe.

5) *Russia and CIS*: This area includes former Soviet Union countries (FSU) belonging to Europe and/or Eurasia: 3 East European Countries: Belarus, Moldova and Ukraine, 4 Eurasian countries, which belong to the Council of Europe: Russia and the 3 Caucasus countries (Armenia, Azerbaijan, and Georgia), and 5 Central Asian countries which belong to the Commonwealth of Independent States (CIS): Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan. All of these countries are socio-economically linked to Russia as the Commonwealth of Independent States, CIS, set up after the dissolve of the FSU.

Table 1 shows the evolution, for the period 2000-2010 of population (million people) and the following variables in each area, measured in Dollars at 2005 prices and purchasing power parities, as well as a comparison with other areas and with the World:

IH = Investment per head (Gross Fixed Capital Formation)

SH = Savings per head

QMH = Real valued added per inhabitant in manufacturing

GDPH=Real Gross Domestic Product per inhabitant

We may notice that 4 out of the 5 areas of Europe and Eurasia, had values of QMH higher than World average. In year 2000 the highest values of QMH corresponded to Central-West Europe, followed by Nordic and British Europe, Latin Europe. The group Of Central-East Europe, Baltic and East Mediterranean had lower values with a level of 2695 in year 2010, and the area of Russia and CIS had a lower value reaching a level of 1527 in year 2010, with an important advancement for the period 2000-2010.

Table 1. Investment, Savings, Manufacturing, GDP per head in 5 Areas of Europe and Eurasia (USD at Purchasing Power Parities of year 2005) and Population (million people)

Area	IH 2010	SH 2010	QMH 2000	QMH 2010	GDPH 2000	GDPH 2010	Pop 2000	Pop 2010
1.Nordic and British E.	5458	5428	5109	3819	30081	33474	87.4	91.9
2.Central-West Europe	6229	8260	6387	6668	31306	34227	123.6	125.5
3.Latin Europe	5698	4792	4761	3562	27173	27659	167.3	182.1
4.Central-E+Baltic+E.Med.	3213	2524	2150	2695	10812	15093	192.0	195.8
5.Russia, East and CIS	2435	2745	1052	1527	6038	10208	280.8	279.2
Africa	620	578	278	282	2080	2638	747.2	946.9
Asia-Pacific	2115	2315	903	1443	4004	6333	3451.9	3913.2
America	3811	3094	3312	3052	19865	21908	813.4	912.5
Europe and Eurasia	4151	4195	3220	3191	17408	20828	851.1	874.4
World	2403	2422	1494	1728	7905	9852	5863.6	6647.0

Note: Data per head of Investment (IH), Savings (SH), real value-added of Manufacturing (QMH) and real Gross Domestic Product (GDPH) elaborated by Guisan(2014), for 132 countries, from World Bank(2014) and provisional estimations. Population by area elaborated with country figures from WB(2017). QMH 2010 revised in the update of 17-08-29 in Nordic and British Europe.

All the areas of Europe and Eurasia present values of Manufacturing (QMH) higher than the averages values of Africa and Asia-Pacific. The highest average correspond to the group of Central-West Europe and the lower values to the group of Russia, East and Eurasia. Regarding the evolution for the period 2000-2010 we notice a diminution in the following areas: Nordic and British Europe and Latin Europe, while the other three areas experimented an increase of manufacturing production per head.

Tables 2.1 to 2.5 show the evolution of manufacturing and total real Value-Added per head in countries and areas of Europe and Eurasia, for the period 2000-2010 as well as the level of investment and savings per head and population (thousands).

2.1. Countries of Area 1: Nordic and British Europe in years 2000-2010

	ih10	sh10	ph00	ph10	qmh00	qmh10	Pob00	pob10
Denmark	5533	7384	31721	32235	4758	3546	5340	5547
Finland	5871	6509	27463	31493	7140	6149	5176	5364
Ireland	3973	4407	32146	35988	8358	8277	3813	4475
Norway	10526	16906	43642	46908	4364	3284	4491	4889
Sweden	6231	8429	28986	33771	6087	5403	8869	9378
United Kingdom	5008	3880	29172	32474	4668	3247	59743	62232
Total Area 1	5458	5428	30081	33474	5109	3901	87432	91885

Note: Data per head, in Dollars at 2005 prices and Purchasing Power Parities, for year 2000 (00) and 2010 (10): Investment (IH), Savings (SH), GDP (PH), real value.added of Manufacturing (QMH). The two last columns: Population (Pop). Source: See footnote in table 1.

In *Nordic and British Europe* we notice an important decrease of manufacturing per head, from 5109 Dollars, at 2005 prices, per head in year 2000 to only 3901 in year 2010. The highest level of manufacturing per head in year 2010 corresponded to Ireland, Finland and Sweden.

2.2. Countries of Area 2: Central-West Europe in years 2000-2010

	ih10	sh10	ph00	ph10	qhm00	qmh10	Pob00	pob10
Austria	7657	8746	32149	35379	6430	6368	8012	8390
Belgium	6625	7501	30266	32808	5751	4265	10252	10896
Germany	5795	7725	30611	33414	6734	7351	82210	81777
Netherlands	6909	8669	33576	36996	5036	4809	15925	16616
Switzerland	7231	13520	34778	37583	6260	7141	7184	7826
Total Area 2	6229	8260	31306	34227	6386	6668	123583	125505

Notes and Sources: See table 2.1. Dollars at 2005 prices and PPPs.

All the countries of area 2.2 show high levels of manufacturing (qmh) and total production per capita (ph) , with Germany and Switzerland in the top positions, in this area, of qmh in year 2010.

2.3. Countries of Area 3: Latin Europe in years 2000-2010

	ih10	sh10	ph00	ph10	qhm00	qmh10	Pob00	pob10
France	5736	5178	29225	29640	4384	2964	58896	64895
Italy	5535	4612	27720	27137	5544	4342	57690	60483
Portugal	4247	2260	20402	21660	3468	3032	10226	10638
Spain	6194	5072	25119	26941	4521	3502	40500	46071
Total Area 3	5698	4792	27173	27659	4761	3562	167312	182087

Notes and Sources: See table 2.1. Dollars at 2005 prices and PPPs.

All the countries of Latin Europe have experienced an important decrease of *qmh*. The average of the area went from 4761 in year 2000 to 3562 in year 2010.

2.4. Countries of Area 4: Central-East, Baltic and East Mediterranean

	ih10	sh10	ph00	ph10	qhm00	qmh10	Pob00	pob10
Albania	1986	1029	4787	7658	335	689	3062	3205
Bulgaria	2864	2729	6854	11490	1234	1953	8060	7534
Croatia	3772	3528	10570	16128	2114	2581	4380	4418
Czech R	5100	4751	16886	22575	4390	5644	10273	10520
Estonia	3308	4022	11053	16561	1879	2484	1370	1340
Greece	3920	1120	20574	24206	2183	2421	10917	11316
Hungary	3121	3463	13597	16958	3263	3900	10211	10000
Latvia	2676	3072	8533	12948	1195	1554	2372	2239
Lithuania	2605	2876	9417	15534	1789	2951	3500	3287
Macedonia	2336	2231	7231	9192	1519	1103	2010	2060
Poland	3636	2931	11743	17352	2231	3123	38648	38184
Romania	3424	2872	6838	10921	1094	1747	22443	21438
Slovak R	4717	4054	12722	20164	3181	4234	5389	5430
Slovenia	5667	5517	19718	25048	5127	5260	1989	2049
Turkey	2501	1708	9275	12547	2041	2258	67420	72752
Total Area 4	3213	2524	10812	15093	2150	2695	192044	195772

Notes and Sources: See table 2.1. Dollars at 2005 prices and PPPs.

In table 2.4 we find a group of 5 countries with values of QMH10 below 2000: Albania, Bulgaria, Latvia, Macedonia and Romania. Macedonia decreased and the other four countries of experienced a high percentage of increase for the period 2000-2010, but were already in low values. A group of 7 countries presented intermediate values of QMH10, between 2000 and 4000: Croatia, Estonia Grecia, Hungary, Lithuania, Poland, and Turkey. A group of 3 countries presented a value of QMH over 4000: Czech R., Slovak R. and Slovenia.

Table 2.5 presents data of 12 countries: Russia, East Europe and Eurasian countries belonging to the Commonwealth of Independent States (CIS).

2.5. Countries of Area 5: Russia, East Europe and CIS

	ih10	sh10	ph00	ph10	qhm00	qmh10	Pob00	pob10
Armenia	1635	921	2290	4901	435	539	3082	3092
Azerbaijan	1527	4116	2490	8913	149	357	8049	9054
Belarus	5076	3129	5810	12494	1859	3748	10005	9490
Georgia	889	450	2342	4552	211	592	4720	4452
Kazakhstan	2741	3055	5406	10916	973	1310	14884	16323
Kyrgyz Republic	570	395	1501	2008	285	281	4915	5448
Moldova	660	442	1455	2790	233	391	4275	3562
Russian Fed	3240	3921	8615	14183	1465	2127	146303	141750
Tajikistan	443	49	1003	1940	341	213	6159	6879
Turkmenistan	4349	3638	3668	7422	403	816	4502	5042
Ukraine	1167	1041	3696	6029	702	904	49176	45871
Uzbekistan	737	664	1632	2786	147	362	24724	28228
Total Area 5	2435	2745	6038	10208	1052	1527	280794	279191

Notes and Sources: See table 2.1. Dollars at 2005 prices and PPPs.

Several countries of this area present a very low value of QMH in year 2010, below 1000: Armenia, Azerbaijan, Georgia, Kyrgyz R., Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. Only 2 are over 1000 and below 3000: Kazakhstan and Russian Federation, and only one, Belarus, reached a value over 3000.

Table 3 present a comparison of the evolution of qmh, qnmh and the sum of both variables (ph), for the period 2000-2010, of areas of this study and with other areas

Table 3. Increase of QMH, QNMH and PH in 5 areas of Europe and Eurasia, 2000-2010

Area	qmh 2000	qmh 2010	qnmh 2000	qnmh 2010	ph 2000	ph 2010	$\Delta 1$	$\Delta 2$	$\Delta 3$
1.Nordic and British Europe	5109	3819	24972	29655	30081	33474	-1290	4683	3393
2.Central-West Europe	6387	6668	24919	27559	31306	34227	281	2640	2921
3.Latin Europe	4761	3562	22412	24097	27173	27659	-1199	1685	486
4.Central-E+Baltic+E.Med.	2150	2695	8662	12398	10812	15093	545	3736	4281
5.Russia, East and CIS	1052	1527	4986	8681	6038	10208	475	3695	4170
Africa	278	282	1802	2356	2080	2638	4	554	558
Asia-Pacific	903	1443	3101	4890	4004	6333	540	1789	2329
America	3312	3052	16553	18856	19865	21908	-260	2303	2043
Europe and Eurasia	3220	3191	14188	17637	17408	20828	-29	3449	3420
World	1494	1728	6411	8124	7905	9852	234	1713	1947

Notes: Values in Dollars per capita at 2005 prices and Purchasing Power Parities (PPPs). The three last columns are the increases or real values of QMH($\Delta 1$), QNMH($\Delta 2$) and PH($\Delta 3$) for the period 2000-2010. See notes in table 1. Source: elaborated from table 1.

Regarding Manufacturing per capita (QMH) in year 2010 the areas of Europe varied between 1527 in Area 5 (Russia, East and CIS) and 6668 in Area 2 (Central-West Europe) with an average of Europe and Eurasia of 3191, much higher than Africa (282) and Asia-Pacific(1443), and very alike to American average (3062).

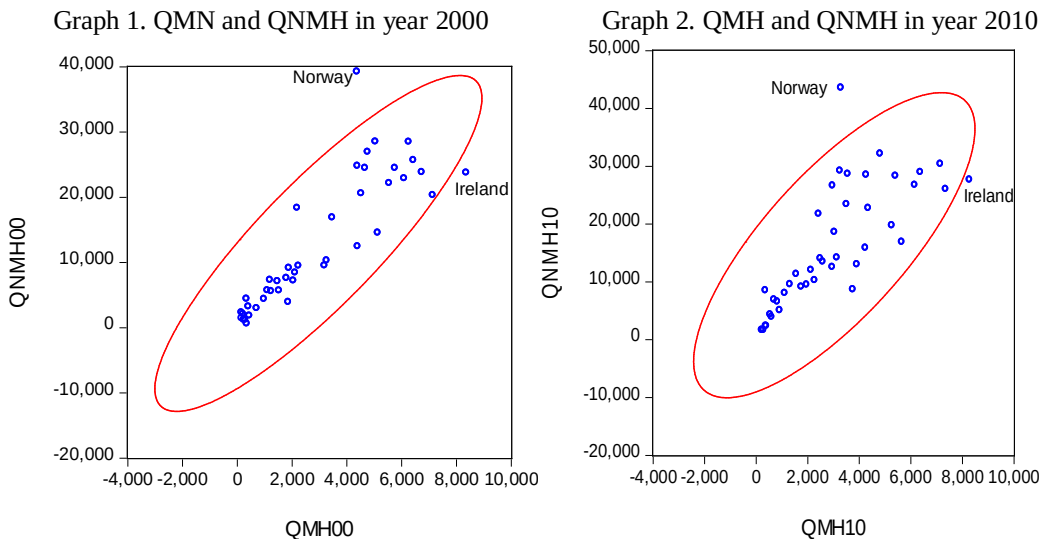
The five areas of Europe and Eurasia showed in year 2010 values of QNMH higher than World average, with values of Non-manufacturing per capita (QNMH) between 8681 in Area 5 (Russia, East and CIS) and 29655 in Area 1 (Nordic and British Europe).

Regarding the evolution for the period 2000-2010 we find that the Areas 1 and 2 experienced an increase of PH around 3000 while Areas 4 and 5, with a much lower starting point in year 2000, experienced averages increases around 4000. Area 3 experienced a small increase slightly below 500, due to a diminution of QMH and to a moderate increase of QNMH (in comparison with the other areas of Europe and Eurasia).

The five areas of Europe and Eurasia, and many of their countries, experienced a positive evolution of QMH and QNMH, as expected accordingly to the strong positive impact of Manufacturing on Non Manufacturing production. A few areas experienced an increase of QNMH in spite of an stagnation or diminution in QMH for the period 2000-2010. This may be explained by the effects of foreign trade, particularly in countries with high levels of income per capita from investments abroad. The substitution of domestic production by imports, of manufactured intermediate inputs for non manufacturing production, is not always possible because it needs to be sustainable in order to avoid excessive levels of international debt.

3. Kaldor's law and econometric models of positive impact of manufacturing on non-manufacturing activities in 42 countries of Europe and Eurasia.

Graphs 1 and 2 show a high positive correlation between manufacturing value-added per head (QMH) and non manufacturing value-added per head (QNMH) in the set of 42 countries of Europe and Eurasia analyzed in this study.



Source: Elaborated by M.C. Guisan from data of tables 2.1 to 2.5.

We may notice that only in special cases, as Norway and Ireland, there were values of QNMH outside the confidence ellipse. In the case of Norway the high value of QNMH was influenced by a missing variable (the income from oil production) and in Ireland it seems that the quick process of industrialization was not accompanied by a so fast development of services in the domestic market, as seen in the Annex of Guisan(2017b).

Econometric models relating QNMH and QMH for the period 2000-2010

Here we present our estimations of several equations, with data of 42 European and Eurasian countries, relating QNMH and QMH for the years 2000, 2010 and 2015. Data of years 2000 and 2010 correspond to tables 2.1 to 2.5 and data for 2015 data appear in the Annex. QNMH represents Non Manufacturing real value added per head and is calculated as the difference between PH and QMH:

$$QNMH = PH - QMH$$

Equations 1 to 3, present the estimation of a basic model relating QNMH and QMH, for years 2000, 2010 and 2015, while equation 4 present the estimation of a mixed dynamic model for QNMH in year 2010 as a function of its lagged value in year 2000 and the increase of QMH (D(QMH)) for the period 2000-2010.

$$QNMH = F(C, QMH) \quad \text{Basic model}$$

$$QNMH = F(QNMH(\text{lagged}), D(QMH)) \quad \text{Mixed dynamic model}$$

The empirical results show the important positive impact of Manufacturing value-added per head (*qmh*) on Non Manufacturing value-added per head (*qnmh*) in Europe and Eurasia. We have found also evidence favourable to Kaldor's theory of positive effect of industrial development on economic development in other studies with samples of Africa, America and Asia-Pacific, cited in the bibliography: Guisan and Aguyao(2015), Guisan and Exposito (2015) and (2017), among other ones.

Of course other variables have important positive effects on *qnmh*, as it has been shown in our international econometric studies cited in the bibliography and in other studies that have into account inter-sectoral relationships. but generally many of those effects are linked to the evolution of manufacturing and industrial production.

The coefficient of QMH in equations 1,2 and 3 does not represent only the direct effect to QMH but also the effect of a set of other missing explanatory variables which have correlation with QMH, for example the effect of foreign trade, or the lack of the lagged value of the endogenous variable in the basic model. Regarding the effect of foreign trade it is important to remark that usually the positive evolution of QMH increases Exports per head and the capacity to Import per head. The net effect of foreign trade is usually positive as explained in Guisan(2015) and other studies,

The coefficient of QMH is very alike in the three equations and higher than the estimated effect of an increase on QMH on QNMH in the mixed dynamic models of equation 4. The mixed dynamic model is usually better than the basic model, and the coefficient of the basic model is overestimated, affected by the effect of an important missing variable: the lagged value of the endogenous variable. In some cases there are other effects of missing variables with positive impact and linearly related with the included explanatory variable.

Equations 1 to 3 include an intercept and some dummies in order to have into account the average effect of an important missing variable, as the lagged value of the endogenous variable, and particular effects, of other missing variables, on some countries.

Equation 1. Basic model of QNMH in year 2000: intercept and coefficient of QMH

Dependent Variable: QNMH00				
Method: Least Squares. Sample: 1 132 IF DEUR=1. Included observations: 42				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1074.220	378.0488	2.841486	0.0084
QMH00	3.763997	0.125810	29.91801	0.0000
R-squared	0.987114	Mean dependent var		12914.36
Adjusted R-squared	0.980432	S.D. dependent var		10129.28
S.E. of regression	1416.927	Akaike info criterion		17.62282
Sum squared resid	54207428	Schwarz criterion		18.24342
Log likelihood	-355.0793	Hannan-Quinn criter.		17.85029
F-statistic	147.7356	Durbin-Watson stat		1.531652
Prob(F-statistic)	0.000000			

Notes: Data in USD at 2005 prices and PPPs. See tables 1 and 2.1 to 2.5.

Equation 1: Coefficients of Dummy variables

Dummy	Country	Coefficient	Std. Error	t-Statistic	Prob.
D10	Belarus	-4120.492	1441.640	-2.858198	0.0081
D33	Czech R.	-5102.169	1468.260	-3.474976	0.0017
D34	Denmark	7979.680	1477.815	5.399647	0.0000
D42	Finland	-7626.162	1571.568	-4.852583	0.0000
D43	France	7265.415	1468.116	4.948801	0.0000
D47	Greece	9099.973	1441.153	6.314368	0.0000
D56	Ireland	-8745.711	1638.723	-5.336907	0.0000
D86	Netherlands	8510.289	1485.949	5.727174	0.0000
D91	Norway	21777.69	1467.638	14.83860	0.0000
D107	Slovak R.	-3505.496	1446.889	-2.422782	0.0224
D108	Slovenia	-5781.235	1488.781	-3.883201	0.0006
D113	Switzerland	3881.156	1530.780	2.535411	0.0173
D124	United Kingdom	5859.440	1475.350	3.971559	0.0005

Equation 2: Basic model of QNMH in year 2010: intercept and coefficient of QMH

Dependent Variable: QNMH10				
Method: Least Squares. Sample: 1 132 IF DEUR=1. Included observations: 42				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3855.684	963.9464	3.999894	0.0004
QMH10	3.617836	0.271422	13.32920	0.0000
R-squared	0.910684	Mean dependent var		16353.40
Adjusted R-squared	0.885564	S.D. dependent var		10379.56
S.E. of regression	3511.232	Akaike info criterion		19.36958
Sum squared resid	3.95E+08	Schwarz criterion		19.78331
Log likelihood	-396.7611	Hannan-Quinn criter.		19.52123
F-statistic	36.25334	Durbin-Watson stat		0.811937
Prob(F-statistic)	0.000000			

Notes: Data in USD at 2005 prices and PPPs. See tables 1 and 2.1 to 2.5.

Equation 2: Coefficients of Dummy variables.

Dummy	Country	Coefficient	Std. Error	t-Statistic	Prob.
D10	Belarus	-8669.333	3572.304	-2.426818	0.0210
D11	Belgium	9257.246	3585.429	2.581907	0.0146
D33	Czech R.	-7343.750	3646.710	-2.013801	0.0525
D34	Denmark	12005.47	3568.663	3.364137	0.0020
D43	France	12097.05	3562.870	3.395311	0.0018
D86	Netherlands	10932.14	3605.090	3.032419	0.0048
D91	Norway	27888.34	3565.190	7.822400	0.0000
D124	United Kingdom	13624.20	3564.814	3.821856	0.0006

Equation 3: Basic model of QNMH in year 2015: intercept and coefficient of QMH

Dependent Variable: QNMH1115				
Method: Least Squares. Sample: 1 132 IF DEUR=1. Included observations: 38				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6999.375	1837.690	3.808790	0.0006
QMH1115	3.552541	0.371676	9.558163	0.0000
R-squared	0.836959	Mean dependent var		23942.05
Adjusted R-squared	0.798917	S.D. dependent var		12494.24
S.E. of regression	5602.707	Akaike info criterion		20.28455
Sum squared resid	9.42E+08	Schwarz criterion		20.62931
Log likelihood	-377.4065	Hannan-Quinn criter.		20.40721
F-statistic	22.00046	Durbin-Watson stat		2.537118
Prob(F-statistic)	0.000000			

Note: Data in USD at 2011 prices and PPPs, included in the Annex. The sample does not include 42 countries, but only 38, due to not availability of data for some countries.

Equation 3: Coefficients of Dummy variables.

Dummy	Country	Coefficient	Std. Error	t-Statistic	Prob.
D33	Czech R.	-13925.36	5883.427	-2.366880	0.0246
D43	France	11456.70	5689.647	2.013604	0.0531
D52	Hungary	-9967.678	5735.160	-1.737995	0.0925
D56	Ireland	-48509.48	8879.001	-5.463394	0.0000
D86	Netherlands	14664.10	5708.775	2.568694	0.0154
D91	Norway	33383.99	5700.526	5.856299	0.0000

The estimation of the basic model in years 2000, 2010 and 2015 shows a positive and significant effect of QMH on QNMH, with values close to 3.6 in the three years. The coefficient is overestimated due to the effect of the lagged value of the endogenous variable. In order to get a more realistic estimation of the coefficient of QMH we present the estimation of a mixed dynamic model.

The goodness of fit is better in the mixed dynamic model of equation 4, in comparison with the basic model of equation 2, for year 2010. We prefer the mixed dynamic models in the relationship between *QNMH* and *QMH*. We notice a positive and significant impact of QMH on QNMH in all the equations. In the case of equation 2 the coefficient of QNMH is overestimated, in comparison with equation 4, due to the effects of missing variables related with the lagged value of QMH (see Guisan(1997) chapter 5 for the effects of missing relevant variables, and Guisan(2015)).

Equation 4. Mixed dynamic model of QNMH10: Coefficients of QNMH00 and D(QMH)

Dependent Variable: QNMH10PP05				
Method: Least Squares. Sample: 1 132 IF DEUR=1. Included observations: 42				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
QNMH00	1.222405	0.017015	71.84160	0.0000
D(QMH)=QMH10-QMH00	2.541376	0.337150	7.537831	0.0000
R-squared	0.980595	Mean dependent var		16353.40
Adjusted R-squared	0.977900	S.D. dependent var		10379.56
S.E. of regression	1543.032	Akaike info criterion		17.65245
Sum squared resid	85714147	Schwarz criterion		17.90069
Log likelihood	-364.7015	Hannan-Quinn criter.		17.74344
Durbin-Watson stat	1.408399			

Note: Data in USD at 2005 prices and Purchasing Power Parities (PPPs)

Equation 4. Coefficients of Dummy variables.

Dummy	Country	Coefficient	Std. Error	t-Statistic	Prob.
D8	Azerbaijan	5165.743	1545.780	3.341835	0.0020
D42	Finland	8066.021	1721.638	4.685084	0.0000
D45	Germany	-4692.401	1627.662	-2.882909	0.0066
D113	Switzerland	-6657.508	1675.400	-3.973682	0.0003

The negative coefficients of dummies in the case of two countries with high Net Investment International Position (NIIP), as Germany and Switzerland in equations 4 and 5, may be due to that the effects of income generated in manufacturing on non manufacturing are only partly invested in the domestic market.

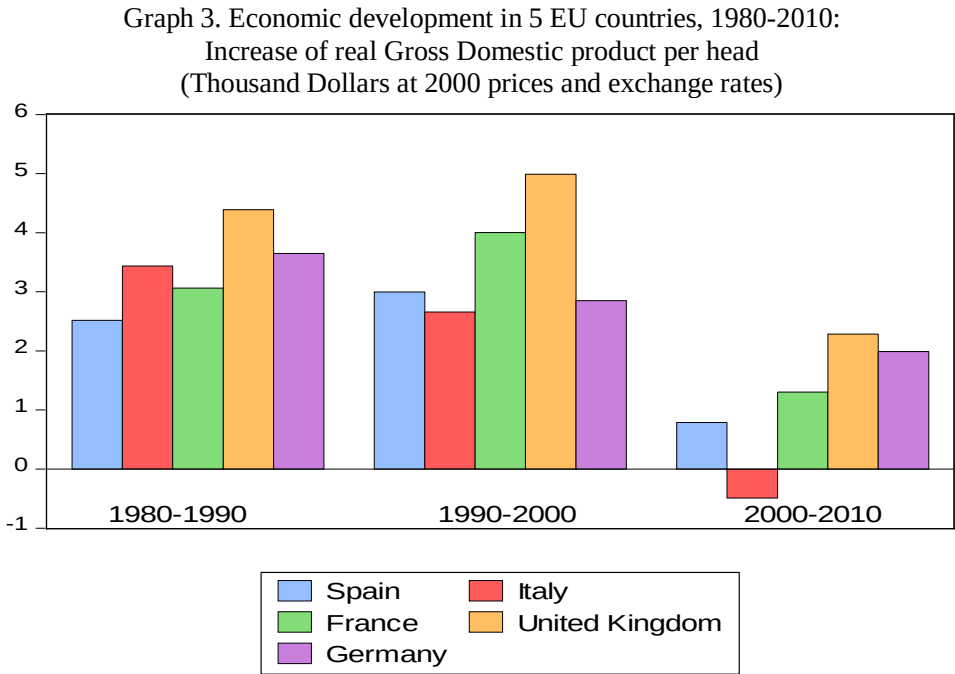
Equation 4 shows that an increase of one unity on manufacturing production implies on average an increase of 1.59 in non manufacturing production. Besides the coefficient of the lagged value is significantly higher than unity, with an interval of estimation between $1.1161 - 2 * 0.0258$ and $1.1161 + 2 * 0.0258$ as to say (1.0645 1,1677). This mean that, besides manufacturing, other variables like tourism for examples have contributed to increase non-manufacturing activities.

Guisan(2017) presents a comparison of equation 4 estimated in Africa, America, Asia-Pacific, Europe and Eurasia. The coefficient of the lagged depended variable presents values between 1.20 and 1.25, while the coefficient of D(QMH) present a value of 3.58 in Africa, 2.35 in America, 0.93 in Asia-Pacific and 1.22 in Europe and Eurasia. The difference between Asia-Pacific and other areas was significant in a text of homogeneity.

We must have into account that the lower value of the coefficient in Asia-Pacific may be due to the effects of some missing variables (effects of tourism, development of social services and other ones) or to differences in the statistical classification by sector of services to industrial firms. Accordingly to the level of inside services, or out-sourcing of services, in industrial enterprises, the real value added of services to firms may appear increasing QMH or QNMH. QMH is overvalued, and QNMH is undervalued, in countries with low levels of outsourcing in comparison with other countries and, as a consequence, the coefficient of QMH may appear undervalued in the equation of QNMH.

4. Economic policies for the development of Europe and Eurasia.

Graph 3 shows the evolution of the increase of real production per capita in the 5 major European Union economies in three decades: 1980-1990, 1990-2000 and 2000-2010, and shows that the third of those decades was the worst for the evolution of the increase of real GDP per inhabitant in the 5 countries.



Source: Elaborated by M.C. Guisan from OECD National Accounts.

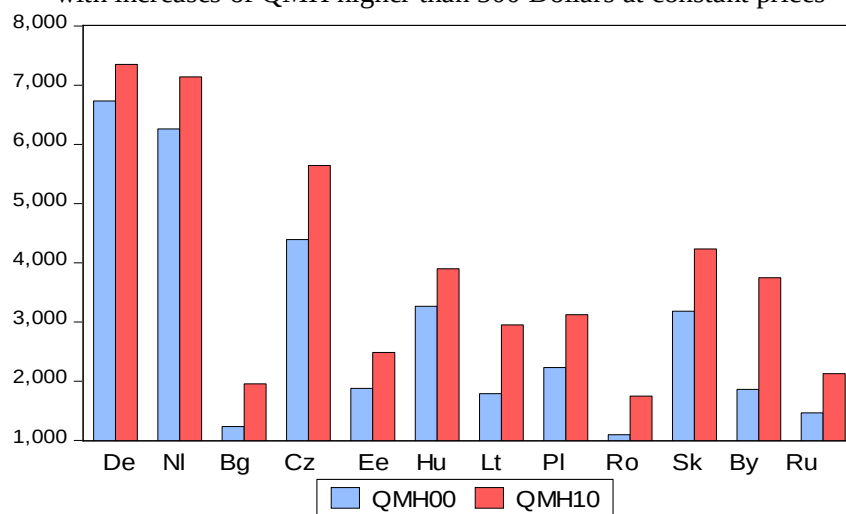
Several problems affected the European Union during the period 2000-2010, with a lack of enough support to industry, lack of enough democratic channels for voices of citizens as seen in the Euro-Barometer, a lack of presence of enough economists voices in the social media (press, television, etc.), lack of European support to the preparation and dissemination of economics research addressed to foster industry and development, and lack of enough economists advising in decision making process at European Union level and, often also, at country level. As cited in the Annex it is important to get real changes and improvements, in the quality of governance of the European Union, in order to keep the EU going on both for domestic development and for cooperation with international development.

Non-EU countries and Areas with low starting levels of manufacturing per head in year 2000, generally experienced a positive evolution for the period 2000-2010 with positive impact on non-manufacturing activities and development.

Graph 4 shows the values of real value-added of Manufacturing per head in the European and Eurasian countries of this study with increase higher than 500 Dollars, at 2005 prices and PPPs, for the period 2000-2010. The countries are indicated by their internet code: Germany (De), Netherlands (NL), Bulgaria (Bg), Czech Republic (Cz),

Estonia (Ee), Hungary (Hu), Lithuania (Lt), Poland (Pl), Romania (Ro), Slovakia (Sk), Belarus (By) and Russian Federation (Ru)

Graph 4. QMH in years 2000 and 2010. Countries of Europe and Eurasia with increases of QMH higher than 500 Dollars at constant prices



Note: Data from tables 2.1 or 2.5 in USD Dollars at 2005 prices and exchange rates.

The positive effects of the increase of industrial production per head on the development of services and other activities is of uppermost importance to reach high levels of productivity, real wages and employment. In Guisan and Exposito (2005) we find that the elasticity Employment/Output in a group of European countries is higher in services (0.7780) than in industry (0.2169) and other sectors.

The European Union should avoid excessive delocalization of industrial production, with a policy able to foster, at the same time, European development and international cooperation with other areas. It is clear for many economists and citizens that the EU economic policies of the period 2000-2010 has not been the best that would be desired by society.

The positive impact of industrial development on real income per head is very important not only to increase productivity and real wages but also for education, research, social services and quality of life, because usually there are positive impacts of real income per capita on several indicators of wellbeing as seen in Guisan(2009), Guisan and Aguayo(2011) and other studies.

5. Conclusions

In table 3 we may see the evolution of real values of manufacturing (qmh), non-manufacturing (qnmh) and total production per head (ph) in 5 areas of Europe and Eurasia. The highest increases of ph corresponded to Area 4 (Central-East Europe, Baltic and East Mediterranean) with an average increase of 4281 Dollars per head, followed by Area 5 (Russia, East Europe and CIS countries) with an increase of 4170. Those areas have experienced a positive evolution of manufacturing and non-manufacturing per head.

Area 1 (Nordic and British Europe) and 2 (Central West Europe) experienced increases of production per head around 3000 Dollars. In Area 1 there was an important increase of non-manufacturing in spite of a strong average decrease in manufacturing per head. Area 2 experienced a low increase of qmh and a higher increase of qnmh. The increase of qnmh when it is not accompanied by increases in qmh may be due, in many cases, to the increase of manufacturing imports as intermediate inputs for non manufacturing production. This may be sustainable if the country has a positive International Investment Position (IIP) and receives income from abroad, or may be unsustainable in other cases.

Area 3 (Latin Europe) experienced a lost decade for the period 2000-2010, with an average increase of production per head lower than 500 Dollars, with an important decrease of more than 1000 Dollars in manufacturing per head, and a moderate increase of non-manufacturing per head. These countries have been negatively affected by some excesses of globalization in the EU, and to many strong restrictions and lack of support from European Union to the development of those countries for that period. Many citizens have shown in the Eurobarometer, as seen in the Annex, an strong concern about those wrong economic policies.

Econometric models of section 3 contributes, as well as other studies, to show the empirical support to Kaldor's laws related with the positive role of industrialization on economic development, and thus on real wages and productivity. These equations may be completed with more variables (particularly with foreign trade) in the context of macro-econometric models of demand and supply with intermediate inputs as seen in Guisan(2013), Guisan(2014) and other studies.

The main conclusion is that Europe and Eurasia need to increase industrial development in order to achieve good levels of real income per head and improve quality of life, both in countries with low starting levels as in more developed ones.

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² Revista Galega de Economia: <http://www.usc.es/econo/RGE/benvidag.htm>

³ Ideas.Repec: <https://ideas.repec.org/i/a.html>

⁴ http://ec.europa.eu/commfrontoffice/publicopinion/archives/eb/eb54/eb54_en.pdf

⁵ <http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Archive/index>

⁶ http://ec.europa.eu/commfrontoffice/publicopinion/archives/eb/eb81/eb81_publ_en.pdf

⁷ <http://www.europarl.europa.eu/news/en/headlines/priorities/20160824TST40022>

Annex on line at the journal Website: <http://www.usc.es/economet/eaat.htm>

Annex 1. Data of Europe and Eurasia for the periods 2000-2010 and 2010-2015

Table A1. Countries of Europe and Eurasia by alphabetical order (Dollars at 2005 prices and PPPs)

Area	N132	Country	ih10	sh10	ph00	ph10	Qhm00	Qmh10	Pop00	Pop10
4	1	Albania	1986	1029	4787	7658	335	689	3062	3205
5	5	Armenia	1635	921	2290	4901	435	539	3082	3092
2	7	Austria	7657	8746	32149	35379	6430	6368	8012	8390
5	8	Azerbaijan	1527	4116	2490	8913	149	357	8049	9054
5	10	Belarus	5076	3129	5810	12494	1859	3748	10005	9490
2	11	Belgium	6625	7501	30266	32808	5751	4265	10252	10896
4	16	Bulgaria	2864	2729	6854	11490	1234	1953	8060	7534
4	32	Croatia	3772	3528	10570	16128	2114	2581	4380	4418
4	33	Czech R	5100	4751	16886	22575	4390	5644	10273	10520
1	34	Denmark	5533	7384	31721	32235	4758	3546	5340	5547
4	40	Estonia	3308	4022	11053	16561	1879	2484	1370	1340
1	42	Finland	5871	6509	27463	31493	7140	4724	5176	5364
3	43	France	5736	5178	29225	29640	4384	2964	58896	64895
5	44	Georgia	889	450	2342	4552	211	592	4720	4452
2	45	Germany	5795	7725	30611	33414	6734	7351	82210	81777
4	47	Greece	3920	1120	20574	24206	2183	2421	10917	11316
4	52	Hungary	3121	3463	13597	16958	3263	3900	10211	10000
1	56	Ireland	3973	4407	32146	35988	8358	8277	3813	4475
3	58	Italy	5535	4612	27720	27137	5544	4342	57690	60483
5	62	Kazakhstan	2741	3055	5406	10916	973	1310	14884	16323
5	66	Kyrgyz R	570	395	1501	2008	285	281	4915	5448
4	68	Latvia	2676	3072	8533	12948	1195	1554	2372	2239
4	71	Lithuania	2605	2876	9417	15534	1789	2951	3500	3287
4	72	Macedonia FYR	2336	2231	7231	9192	1519	1103	2010	2060
5	79	Moldova	660	442	1455	2790	233	391	4275	3562
2	86	Netherlands	6909	8669	33576	36996	5036	4809	15925	16616
1	91	Norway	10526	16906	43642	46908	4364	3284	4491	4889
4	98	Poland	3636	2931	11743	17352	2231	3123	38648	38184
3	99	Portugal	4247	2260	20402	21660	3468	3032	10226	10638
4	100	Romania	3424	2872	6838	10921	1094	1747	22443	21438
5	101	Russian Fed.	3240	3921	8615	14183	1465	2127	146303	141750
4	107	Slovak R	4717	4054	12722	20164	3181	4234	5389	5430
4	108	Slovenia	5667	5517	19718	25048	5127	5260	1989	2049
3	110	Spain	6194	5072	25119	26941	4521	3502	40500	46071
1	112	Sweden	6231	8429	28986	33771	6087	5403	8869	9378
2	113	Switzerland	7231	13520	34778	37583	6260	7141	7184	7826
5	115	Tajikistan	443	49	1003	1940	341	213	6159	6879
4	120	Turkey	2501	1708	9275	12547	2041	2258	67420	72752
5	121	Turkmenistan	4349	3638	3668	7422	403	816	4502	5042
1	124	UK	5008	3880	29172	32474	4668	3247	59743	62232
5	123	Ukraine	1167	1041	3696	6029	702	904	49176	45871
5	127	Uzbekistan	737	664	1632	2786	147	362	24724	28228

Note: Column (1) Number of Area within Europe and Eurasia (table1). Column(2) N132 is the number, in alphabetical order in the list of 132 countries of the World Development Indicators

included in Guisan (2017b). Sources and names of the variables as in table 1. Values in Dollars per inhabitant at 2005 prices and Purchasing Power Parities (PPPs). Population in thousand people.

Table A2. Manufacturing, Non Manufacturing and total Production per head 2010-2015
(Dollars at 2011 prices and PPPs).

N132	N42	Country	QMH11 10	QMH11 15	QNMH11 10	QNMH11 15	PH11 10	PH11 15
1	1	Albania	623	676	9304	10349	9927	11025
5	2	Armenia	731	847	5971	7333	6703	8180
7	3	Austria	8062	8333	35113	35742	43175	44075
8	4	Azerbaijan	819	969	15131	15729	15950	16699
10	5	Belarus	4164	4102	12071	13128	16235	17230
11	6	Belgium	6048	5954	35038	35769	41087	41723
16	7	Bulgaria	2059	2637	13225	14363	15283	17000
32	8	Croatia	2848	3034	17270	17602	20118	20636
33	9	Czech R	6634	8195	21656	22186	28290	30381
34	10	Denmark	5575	6655	38424	38829	43998	45484
40	11	Estonia	3568	4328	19173	23001	22741	27329
42	12	Finland	7781	6614	32067	32380	39848	38994
43	13	France	4148	4242	32724	33524	36872	37766
44	14	Georgia	819	1139	5915	7886	6734	9025
45	15	Germany	8971	9987	31458	33797	40429	43784
47	16	Greece	2353	2285	26373	21810	28726	24095
52	17	Hungary	4819	6106	17459	18725	22277	24831
56	18	Ireland	9848	22505	35813	38439	45661	60944
58	19	Italy	5726	5450	30475	28794	36201	34245
62	20	Kazakhstan	2404	2548	17693	20974	20097	23522
66	21	Kyrgyz R	524	516	2266	2722	2790	3238
68	22	Latvia	2453	2836	15799	20222	18252	23057
71	23	Lithuania	3956	5216	17114	21754	21069	26971
72	24	Macedonia FYR	1299	1669	10057	11091	11355	12760
79	25	Moldova	497	663	3414	4084	3911	4747
86	26	Netherlands	5374	5423	40150	40930	45525	46354
91	27	Norway	5032	5115	57236	58555	62268	63670
98	28	Poland	3850	5028	17921	20271	21771	25299
99	29	Portugal	3582	3654	23656	22894	27238	26548
100	30	Romania	4251	NA	13567	NA	17818	20538
101	31	Russian F	3425	3322	19683	20803	23108	24124
107	32	Slovak R	5235	6344	19924	21910	25159	28254
108	33	Slovenia	5782	6759	22897	22338	28678	29097
110	34	Spain	4316	4586	28190	27630	32506	32216
112	35	Sweden	7982	7734	34960	37755	42943	45488
113	36	Switzerland	10660	10149	44882	46362	55542	56511
115	37	Tajikistan	314	NA	1793	NA	2106	2641
120	38	Turkey	3085	4435	14875	18948	17959	23382
121	39	Turkmenistan	NA	NA	NA	NA	9942	14992
123	40	Ukraine	1170	1046	6655	6419	7824	7465
124	41	UK	3615	3759	32580	34750	36196	38509
127	42	Uzbekistan	NA	NA	NA	NA	4240	5700

Note: QMH, QNMH and PH=QMH+QNMH are, the real value in Manufacturing, Non Manufacturing and Total, per head. Source: Elaborated from World Bank(2017): WDI.

We may notice an increase of QMH in 28, out of the group of 38 countries with

available data for the period 2010-2015. The case of Ireland is very outstanding, as explained in Guisan (2017b).

Annex 2. Madroeconometric models of demand and supply and Kaldor's laws.

Table 3 in Guisan(2013) present a synthesis of some selected approaches from supply and demand, including the following model:

Disequilibrium model of Demand and Supply of primary and intermediate inputs:

$$GDP = \min (Q^d, Q^{s1}, Q^{s2})$$

being Q^d explained by demand,

Q^{s1} by production function (supply of primary inputs)

Q^{s2} by a model of inter-sector relationships, based on Kaldor and Input-Output supply analysis (supply of intermediate inputs)

$$Q^{s2} = \sum Q_{it} \quad \text{for } i=1,2,\dots, n \text{ (sector) and } t=1,2,\dots,T \text{ (time).}$$

Where there are inter-sector relationships among some sectors. In the case of only two sectors, as in this study: 1.Manufacturing (M), 2. Non-Manufacturing (NM), the inter-sector relationship may be explained by:

$$QNM = F(QNM(t-1), D(QM), D(Exports), D(Imports), \text{other variables})$$

Where $D(X)$ means first difference of the variable (X). In the case of equation 4 of this study there are some missing variables because we did not include foreign trade, but in spite of that the goodness of fit was very high due to the existence of linear correlation between missing variables and the explanatory variables included in the model. In several studies we have estimated a more completed model, with more production sectors and with the effects of foreign trade but here we are simplified the equation. It is enough to show the important positive impact of QM in QNM.

Accordingly to the macro-econometric approaches, analyzed in Guisan(2013) and in other studies there are important positive impacts of QM on Exports, productivity, real wages and employment, among other variables.

Marconi et al(2016) present an empirical analysis of 63 countries in 1990-2011 and found:

Kaldor's first and second laws hold; distinct results according to income levels.

Changes in value added contribute to the increase of manufacturing productivity.

Manufacturing output growth stimulate the economy's aggregate growth rate.

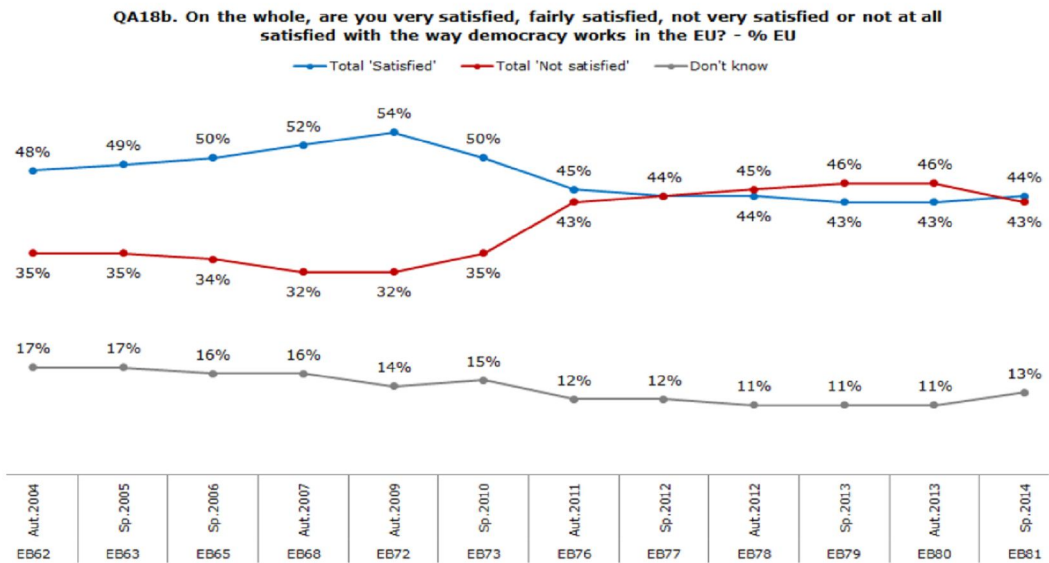
Manufactured exports and RER are relevant for output and productivity increases.

Annex 3: Eurobarometer and citizens opinion on EU economic policies

Eurobarometer and other social reports provide information about citizens opinions on European Union policies. Some studies like Manzi et al(2017) analyse the impact of European Union in Citizens quality of life.

Eurobarometer (2000) reports a percentage of citizens very satisfied with EU democracy of 43% in the Spring report and 40% in Autumn report, and similar percentages are reported in other years, although with some upwards and downwards movements.

Eurobarometer (2014 b) presents the following graph:



Source: Eurobarometer (2014 b). European Commission.

In the survey of 40 years Eurobarometer(2014 a) states:

“Although attitudes have become less positive in recent years, the changes have tended to be small, except in the Member States most affected by the crisis. The view that membership of the EU is a good thing declined most between 2007 and 2013 in Spain (47%, -26 percentage points), Greece (34%, -21) and Portugal (36%, -19).”

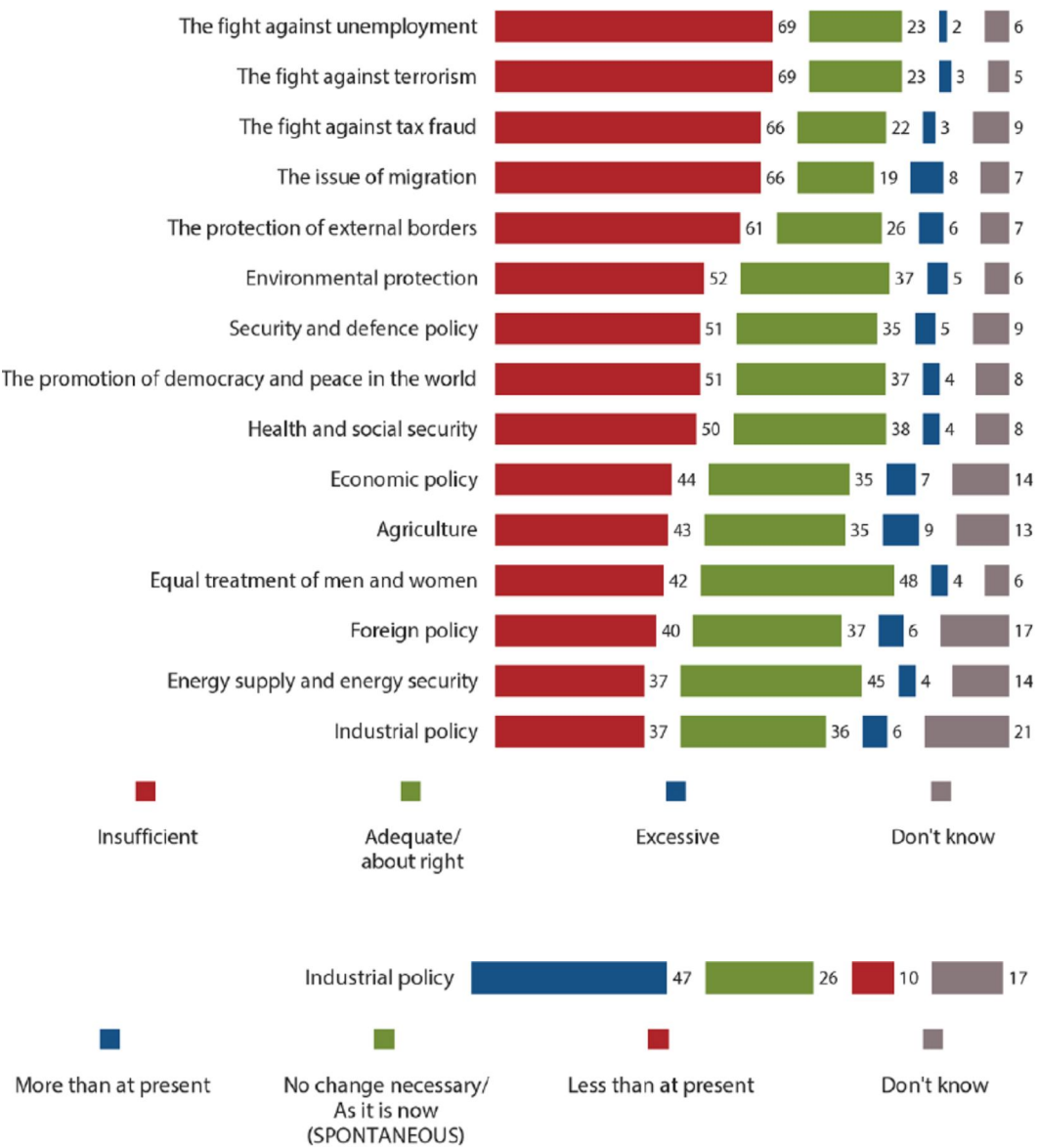
Eurobarometer (2016) presents the following results regarding European citizens opinions on EU economic policies.

as regards the **fight against unemployment**: **69%** of respondents consider EU action to be insufficient and **77%** would like to see the EU take more action;
as regards **economic policy**: **44%** consider EU action to be insufficient and **52%** would like to see the EU take more action;
As regards **industrial policy**, however, opinion on EU action is **divided**, with **37%** considering it insufficient and **36%** considering it adequate. **47%** consider the EU should take more action in this field.

– on the **protection of external borders**: **61%** consider EU action to be insufficient and **71%** would like to see the EU take more action.

In table QA10 (page 19) present this graph:

For each of the following, would you say that current EU action is excessive/adequate/about right or insufficient? (%)



Source: Eurobarometer(2016). European Parliament.

There is an overwhelming majority of citizens (higher than 65%) who consider that EU policies should be more effective for several questions including employment policies. Regarding industrial policy 47% and 10% do not agree with the EU (47% declare to wish more action and 10% less action). Both are two faces of the same question: It seems to many citizens that some problems arise due to the lack of policy (for example lack of protection of domestic industry in the cases of unfair competition from transnational enterprises that produce in countries with lower fiscal charges and lower standards of environmental protection), while other citizens are preoccupied for the excesses of EU rules and rigidities that difficult investment and profits in industrial activities. Naturally in this important question a percentage of citizens (21%) higher than in other questions declare “don’t know”, because it is not so obvious for general public to know the important positive impact of industry on development and employment.

Eurobarometer(2014 b) states. *“A majority of respondents are dissatisfied with the way democracy works in the EU in ten Member States, with absolute majorities in Greece (70%, -5 percentage points), Portugal (64%, -11), Cyprus (59%, -2), Spain (57%, -2) Italy (54%, -4) and Slovakia (50%, -2) and relative majorities in Austria (47% versus 46%, compared with 54% versus 42%), Germany (46% versus 44%, compared with 45% versus 48%), France (44% versus 43%, compared with 47% versus 41%) and the United Kingdom (40% versus 36%, compared with 45% versus 36%). The most striking change within this group concerns Portugal, where dissatisfaction has decreased significantly (64%, -11).”*

These questions should be analyzed more often in social media, particularly in television and radio, and the voices of economists, addressed to a better development of the European Union countries and its international cooperation, should be listen to by the EU governments and bodies in charge of decision making. University researchers should have a more relevant presence in the social means. There should be more communication between EU Parliament representatives, citizens, experts and social media and to get channels for voices of citizens and get that the European Commission policies should represent in higher degree the claims of citizens for more effective improvement of economic development and quality of life.

More information about the European Union and international development in the Blogs of our Association:

<http://euroamericanassociation.blogspot.com.es> (English)

<http://economyaydesarrollointernacional.blogspot.com.es> (Spanish)