

# THE DEVELOPER'S DILEMMA

A Survey of  
Structural Transformation and Inequality Dynamics

# INTRODUCTION

- **Structural transformation** (ST) as the engine of economic growth
  - Kuznets, Lewis, Kaldor, Chenery, Hirschman, Myrdal, and Thirwall
  - Special characteristics of the **manufacturing sector**
- **Developer's dilemma**
  - Structural transformation that drives economic development has a tendency to put upward pressure on income inequality levels if not addressed
- Recent trends in many developing countries
  - **Service-centred ST** and **premature deindustrialisation**
  - **Increasing inequality** and **slow poverty reduction**

## KUZNETS REVISITED: BEYOND THE INVERTED-U

- The importance of linking **structural transformation**, within/between urban-rural **inequality**, **political/societal changes**, and **policies**
  - Upswing: “[E]ven if the differential in per capita income between the two sectors remains constant and the intra-sector distributions are identical for the two sectors, the **mere shift in the proportions of numbers** produces slight but significant **changes in the distribution for the country as a whole**” (1955).
  - Downswing: **Labour & political organisation** → Demand for **wage increases & redistribution**
- Additionally, other important factors may include:
  - **Global** factors: e.g. world interest rates, commodity prices, terms of trade (Galbraith, 2011)
  - **Domestic** factors: e.g. economic liberalisation, land inequality (Oyvat, 2016; Williamson, 2001)
  - **Technological** factors: e.g. mechanisation, automation (Roine and Waldenström, 2014)

## KEY QUESTIONS

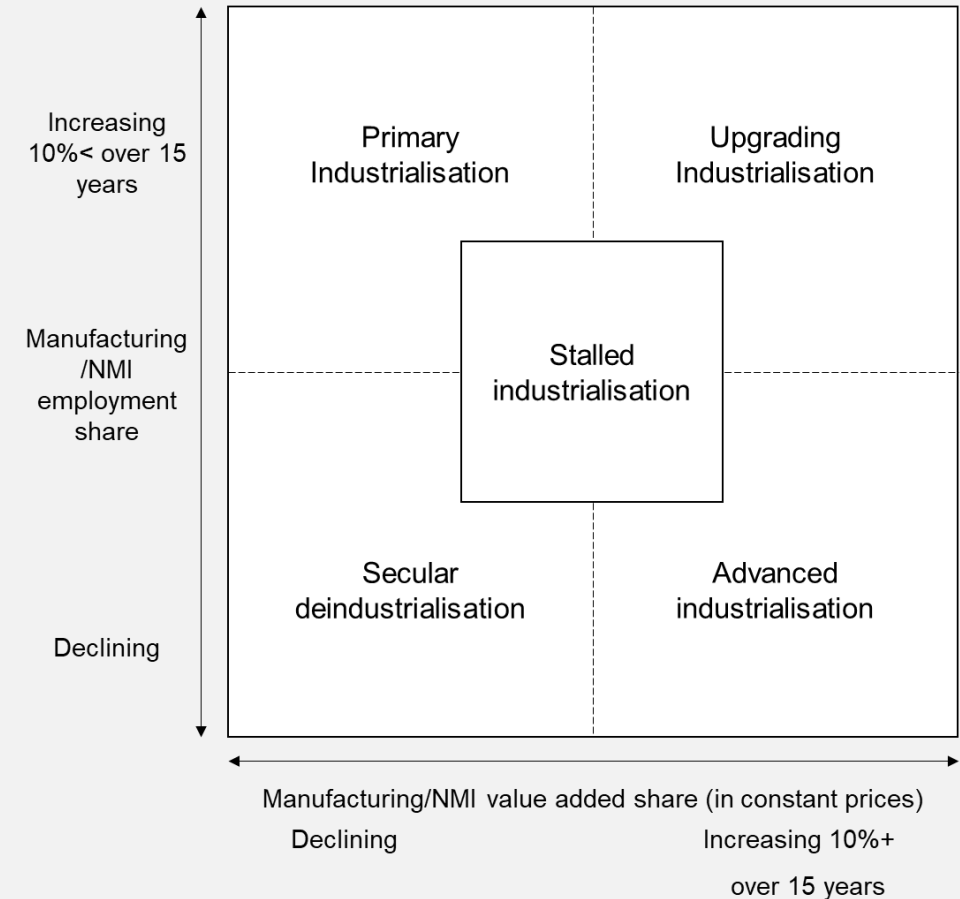
- After revisiting Kuznets' work, we derive the following questions:
  - What are the **trends in structural transformation** (ST)?
  - What are the **trends in inclusive growth**?
  - What **policies** have been put in place to shape ST, inequality and inclusive growth?
  - What is the **political economy** of ST, inequality and employment?
  - What is the **future trajectory** of the ST–inequality–inclusive growth relationship?

# CLASSIFYING PATTERNS OF STRUCTURAL TRANSFORMATION (1995–2010)

	Agriculture	Manufacturing	Non-manufacturing industry	Services
S Asia	Earlier stage of de-agriculturalisation	Primary industrialisation	Primary industrialisation	Earlier stage of tertiarisation
E Asia	Later stage of de-agriculturalisation	Upgrading industrialisation	Primary industrialisation	Later stage of tertiarisation
SS Africa	Pre-de-agriculturalisation	Primary (or non) industrialisation	De-industrialisation	Earlier stage of tertiarisation
Latin America	Later stage of de-agriculturalisation	De-industrialisation	Primary industrialisation	Later stage of tertiarization

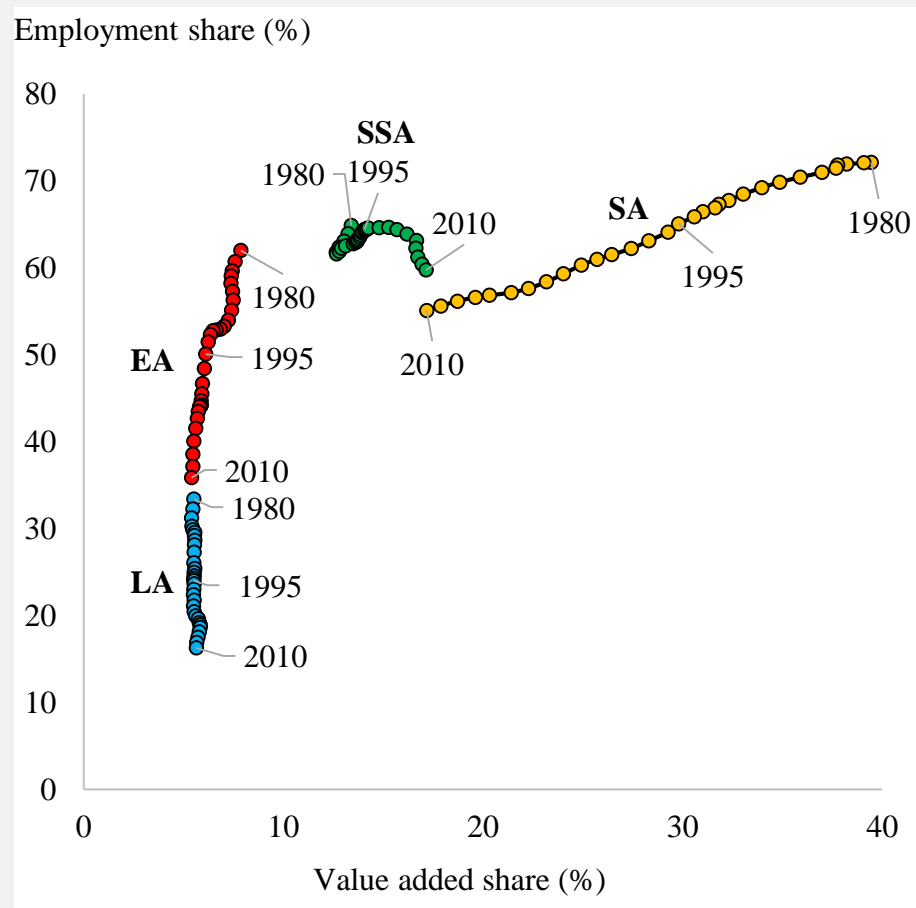
Note:

Productivity increase	Labour productivity growth, 1995–2010 ( $10% < x$ )
Productivity standstill	Labour productivity growth, 1995–2010 ( $-10\% \leq x \leq 10\%$ )
Productivity decline	Labour productivity growth, 1995–2010 ( $x < -10\%$ )

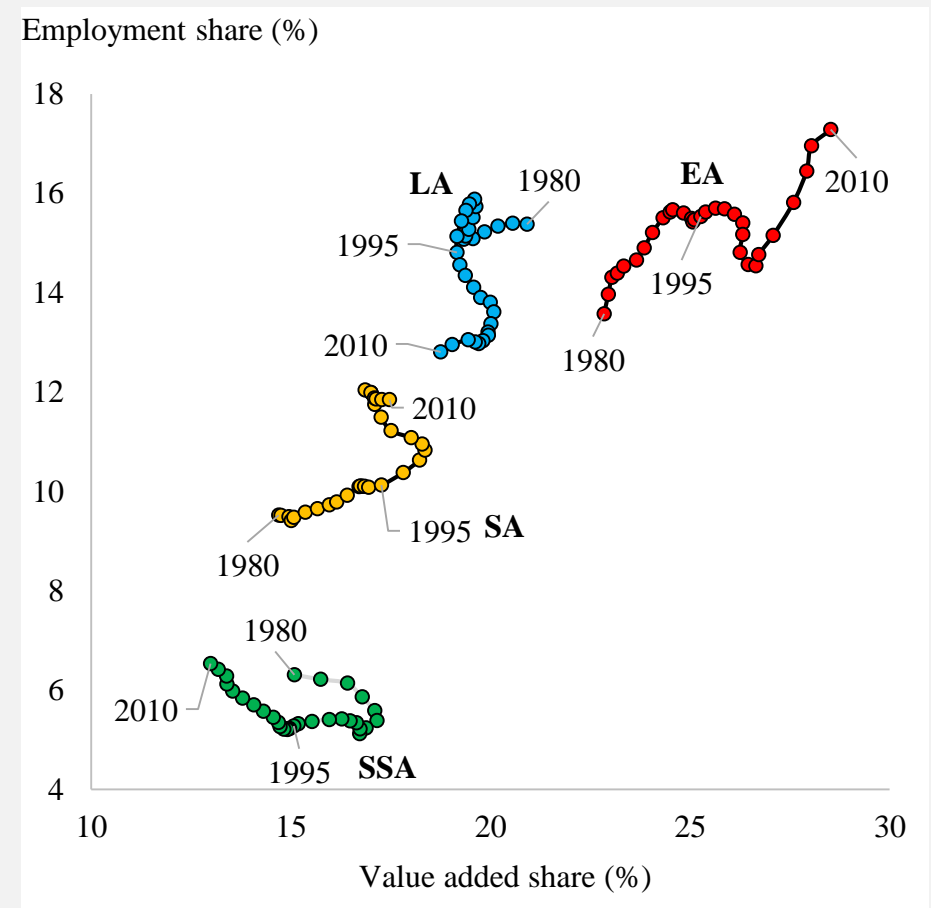


# EMPIRICAL PATTERNS OF STRUCTURAL TRANSFORMATION (1/2)

## Agriculture

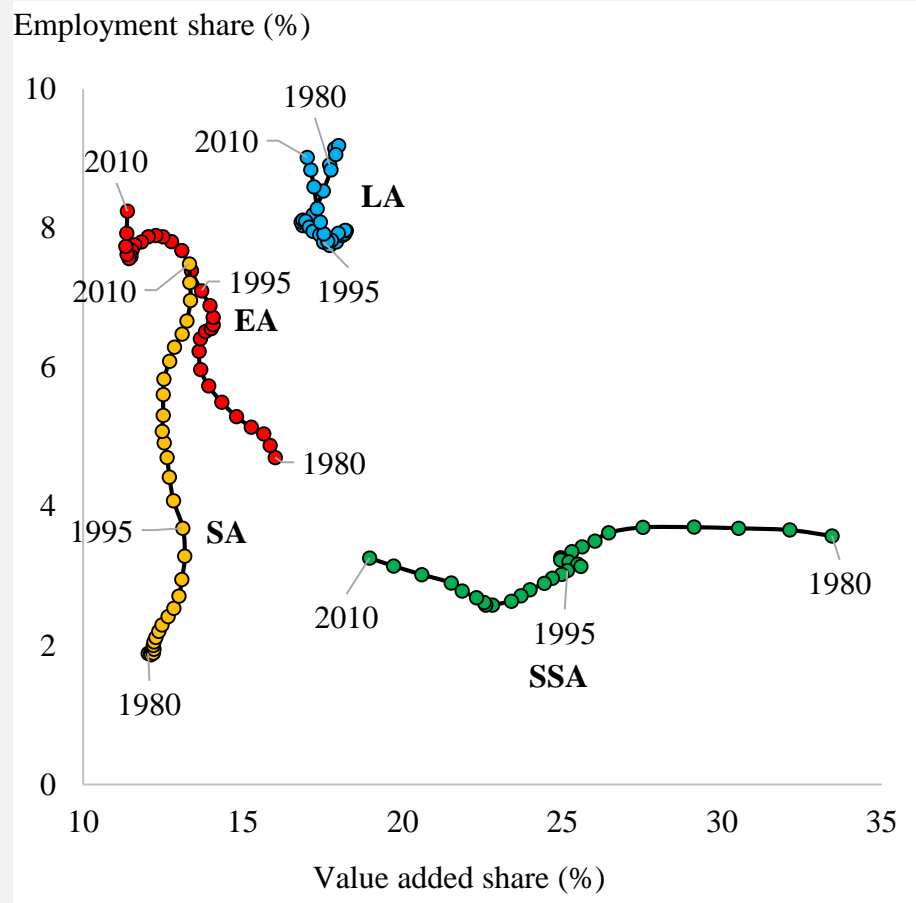


## Manufacturing

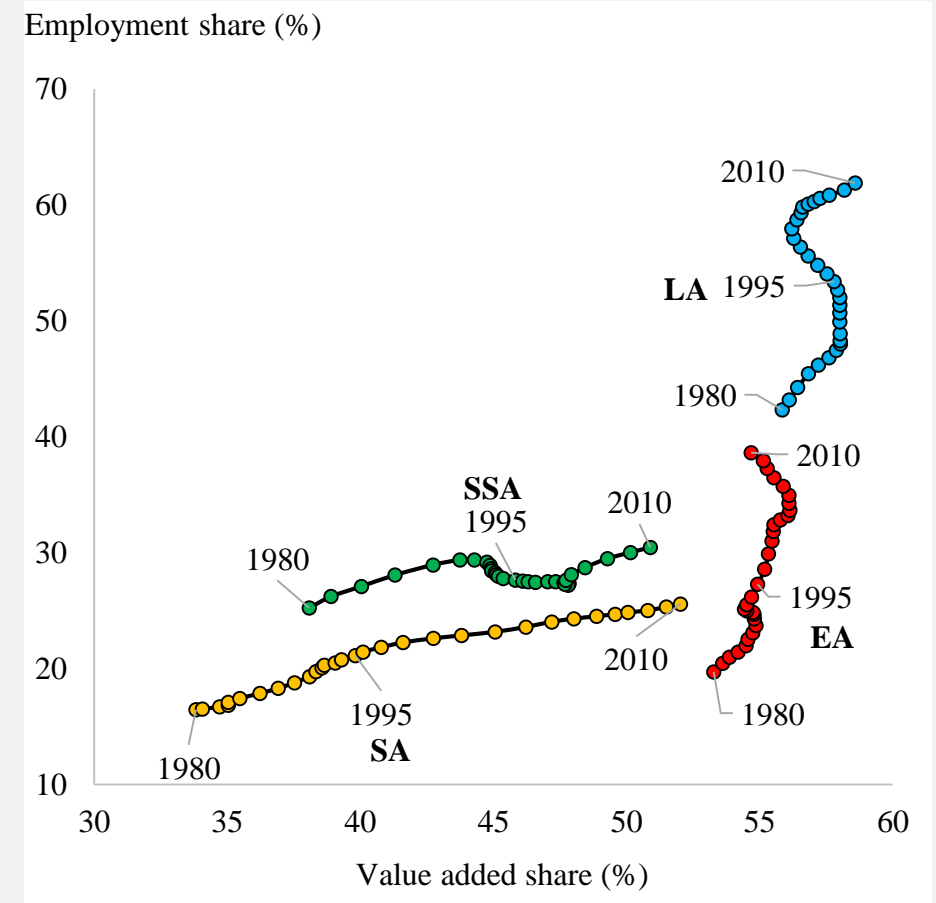


# EMPIRICAL PATTERNS OF STRUCTURAL TRANSFORMATION (2/2)

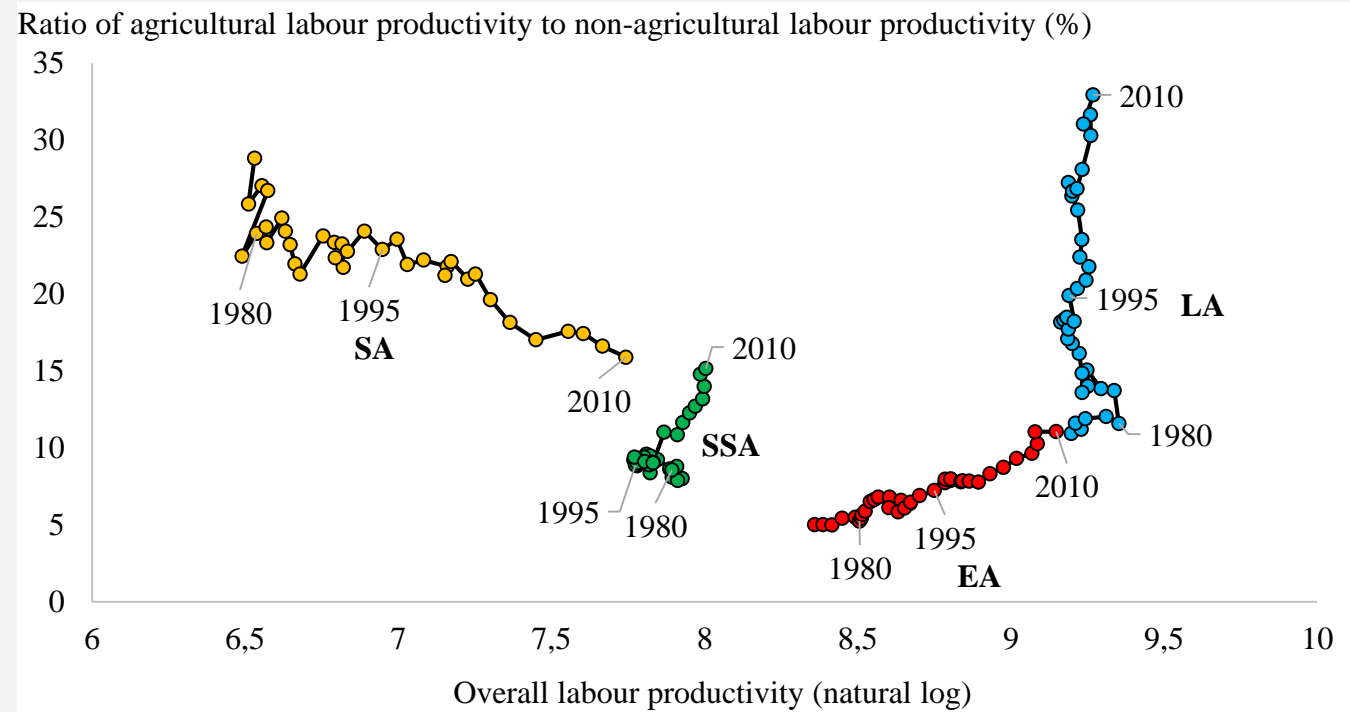
## Non-manufacturing industry



## Services



# RELATIVE LABOUR PRODUCTIVITY



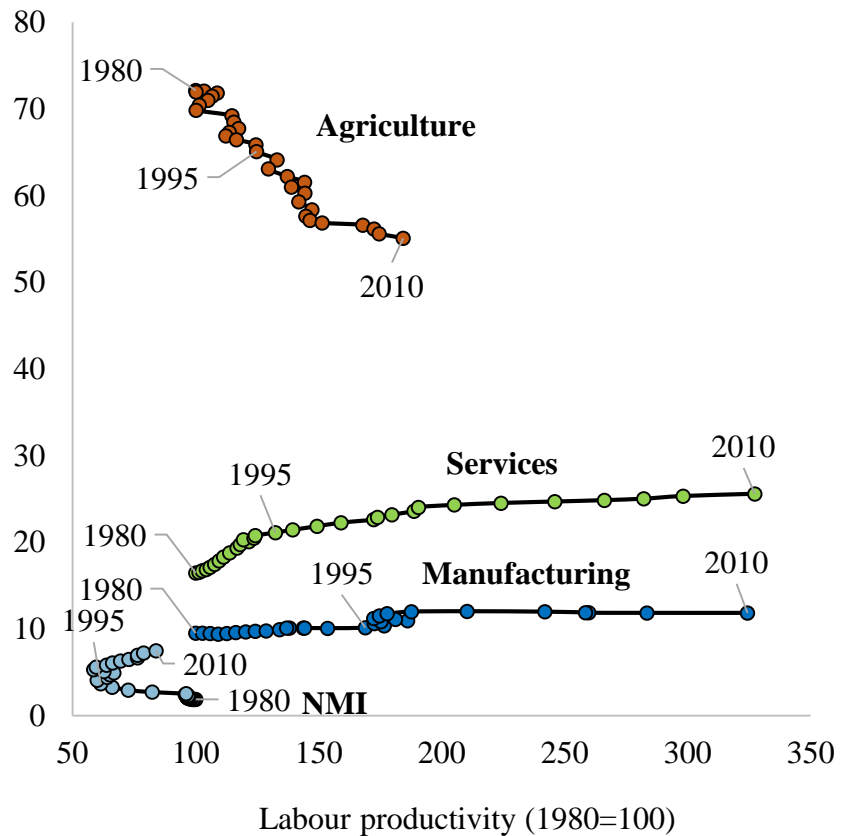
Source: GGDC 10-sector database.



# LABOUR PRODUCTIVITY GROWTH (1/2)

## South Asia

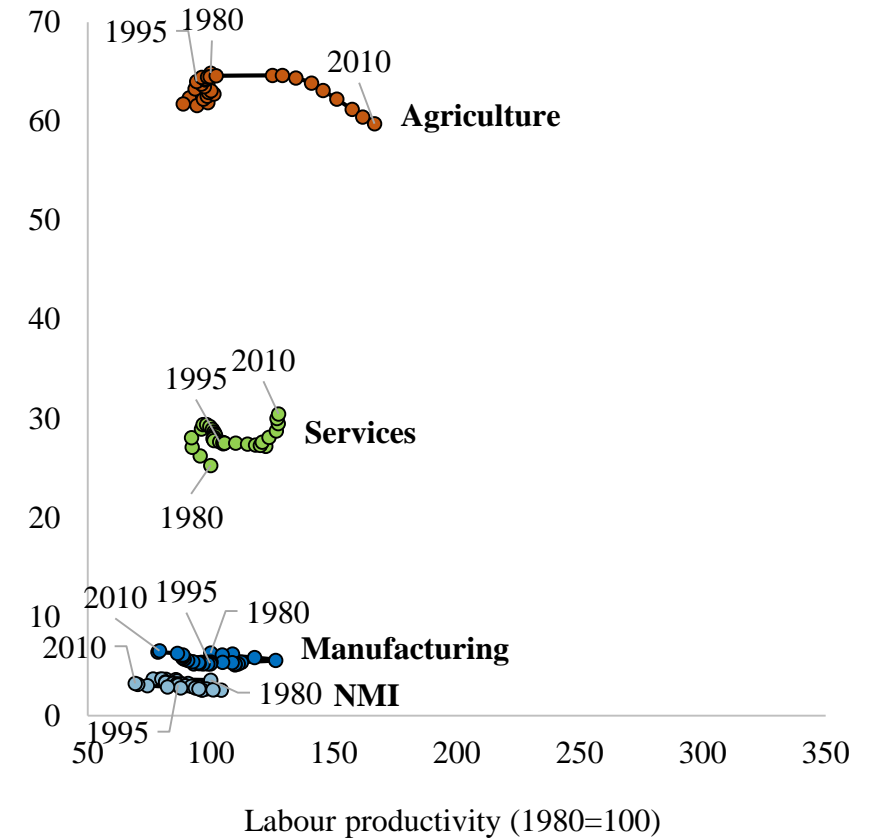
Employment share (%)



Source: GGDC 10-sector database.

## Sub-Saharan Africa

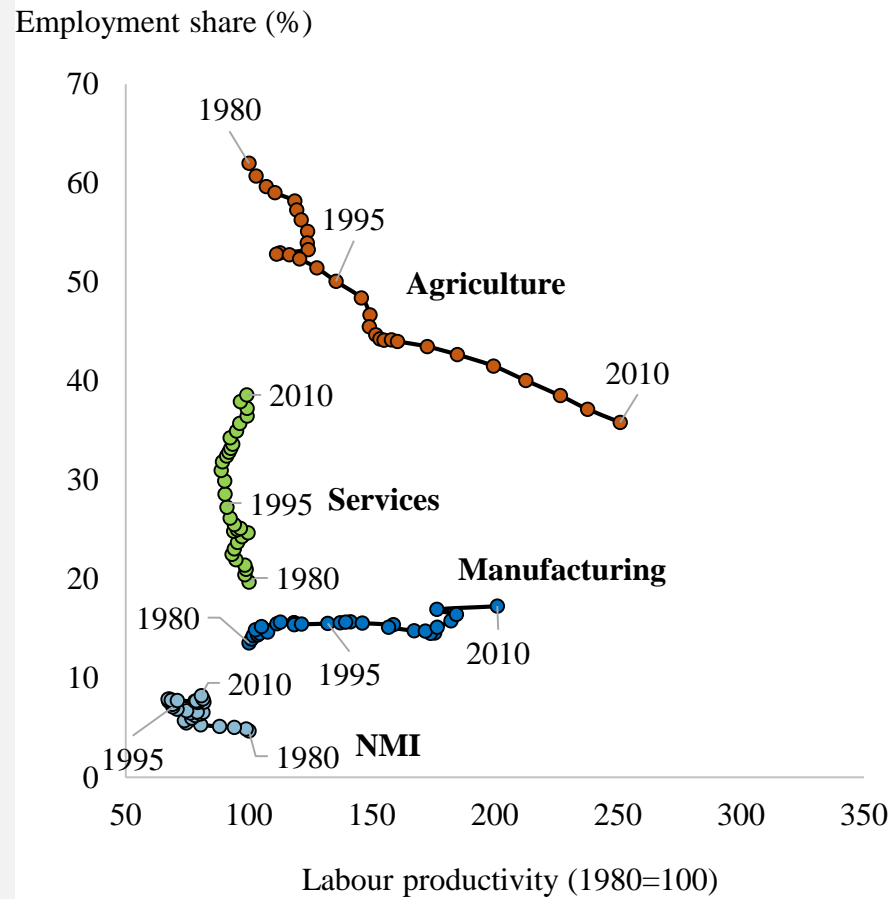
Employment share (%)



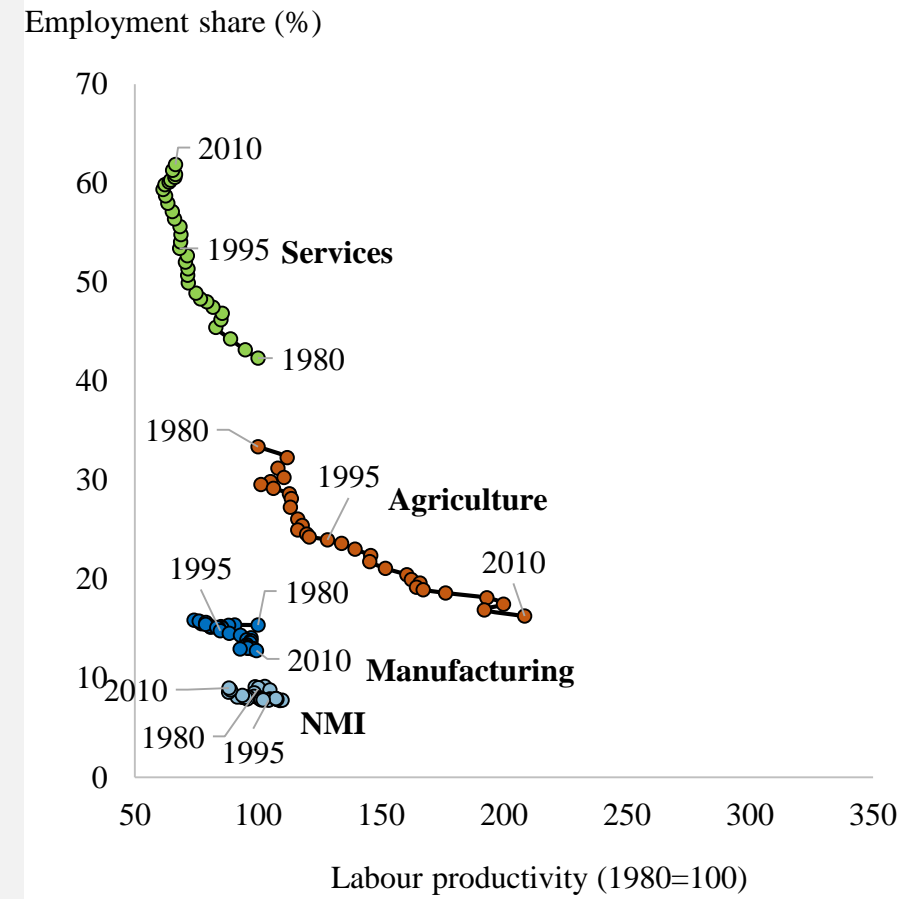
Source: GGDC 10-sector database.

# LABOUR PRODUCTIVITY GROWTH (2/2)

## East Asia

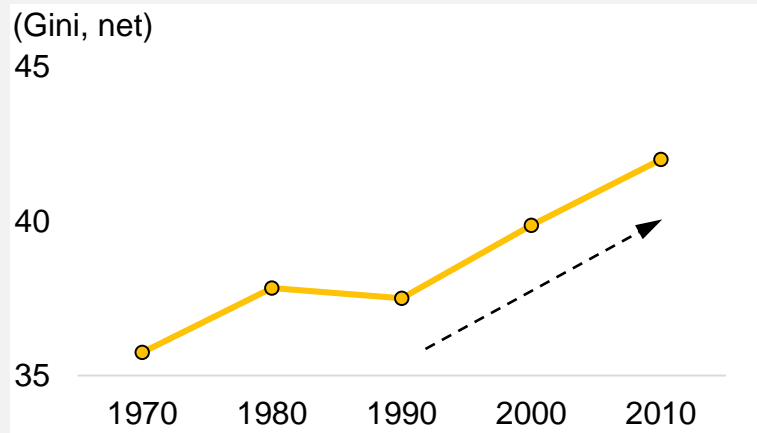


## Latin America

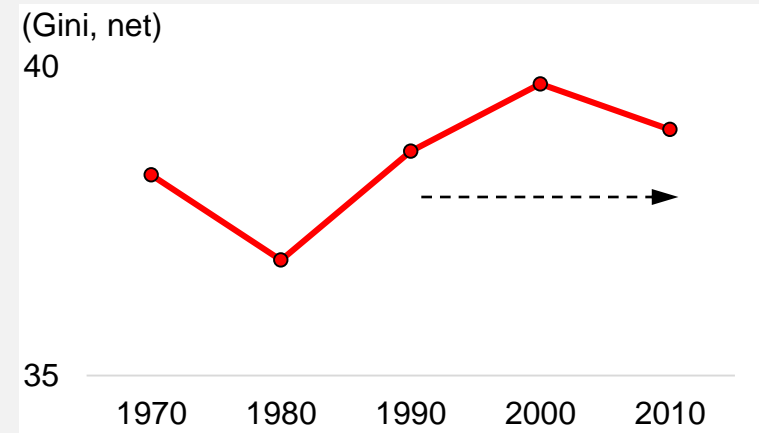


# EMPIRICAL PATTERNS OF INCOME INEQUALITY

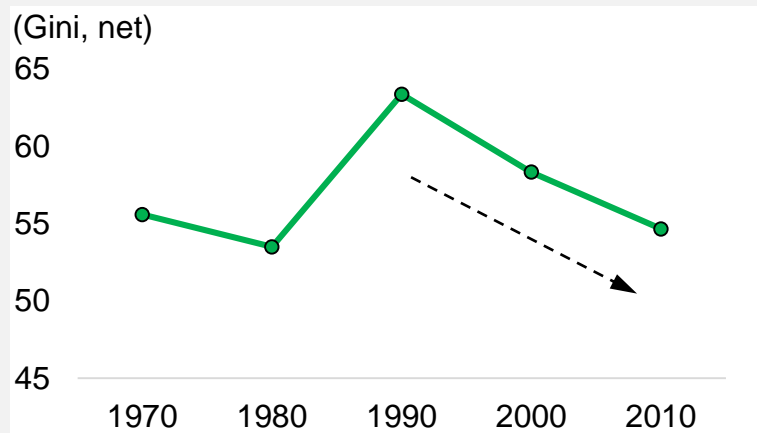
## South Asia



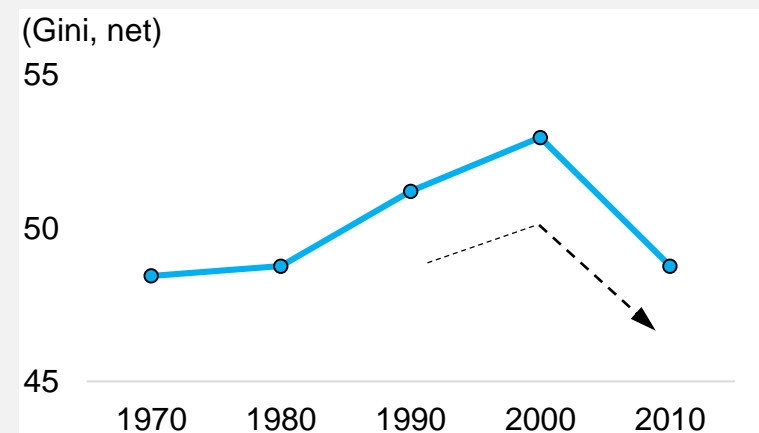
## East Asia



## Sub-Saharan Africa

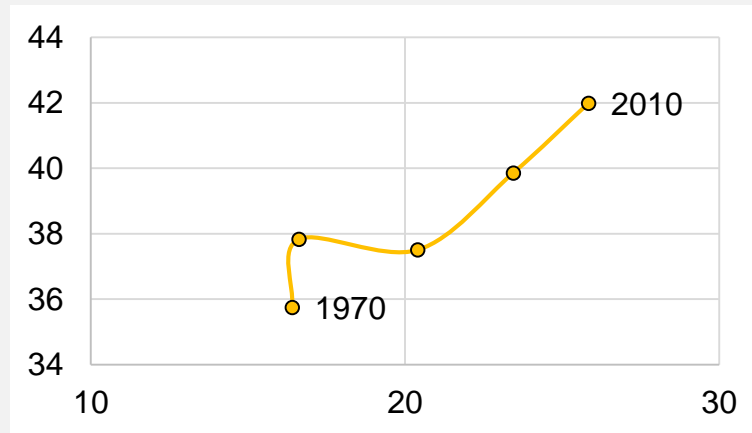


## Latin America

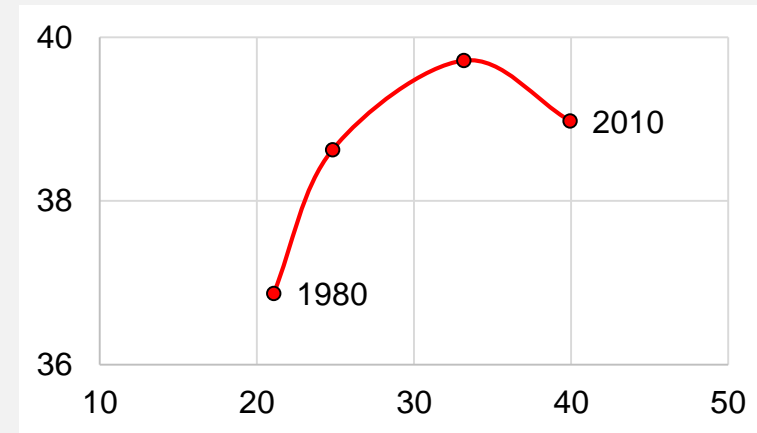


# ST-IG RELATIONSHIP <sup>(1/2)</sup>: SERVICES DRIVEN ST

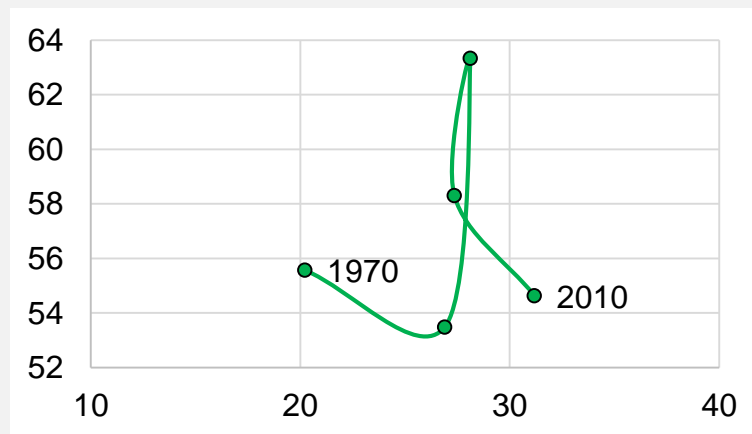
South Asia



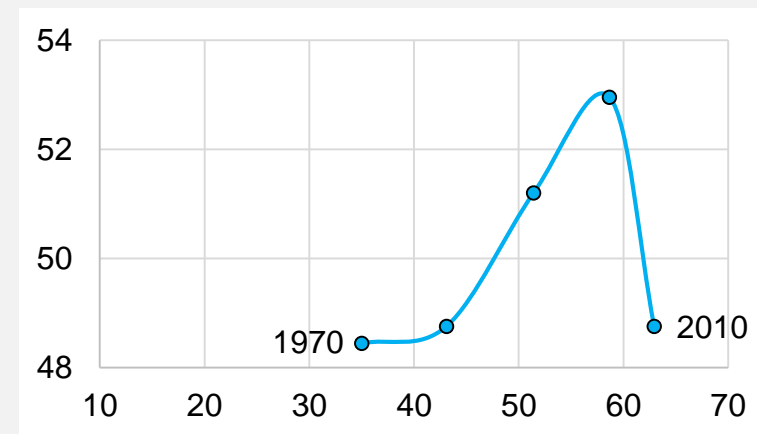
East Asia



Sub-Saharan Africa



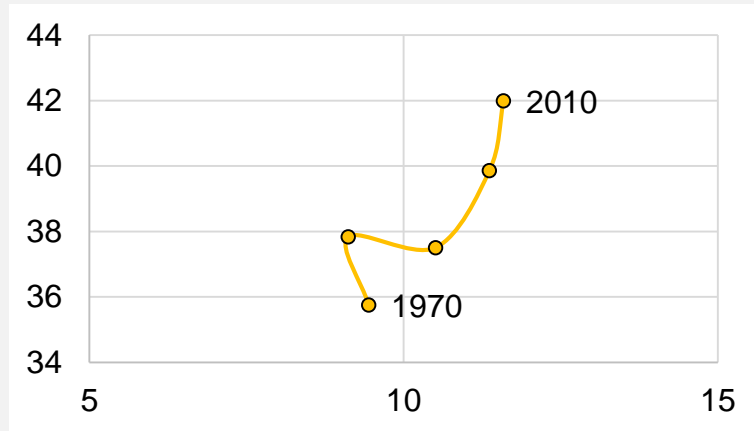
Latin America



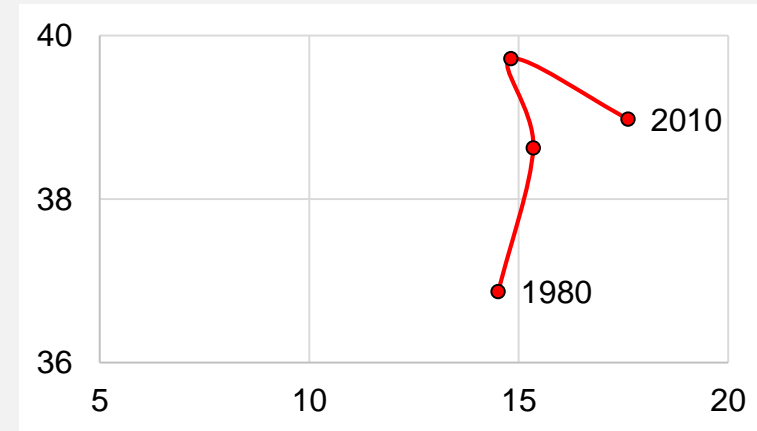
Note: Share of employment in Services (percentage) on the horizontal axis and Net Gini on the vertical axis.  
Source: GGDC and WIID.

# ST-IG RELATIONSHIP (2/2): MANUFACTURING DRIVEN ST

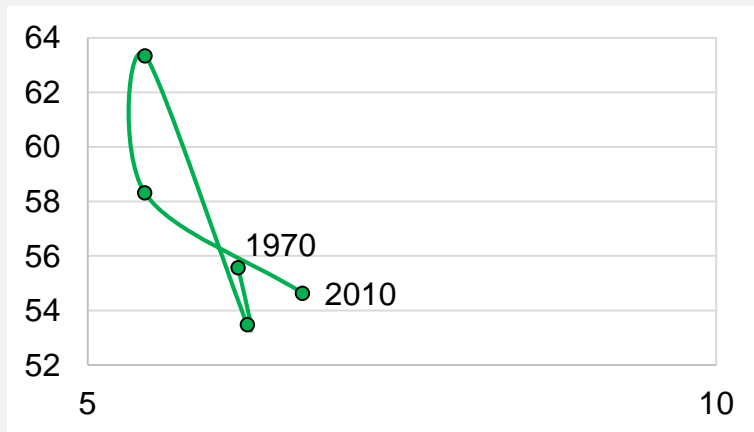
South Asia



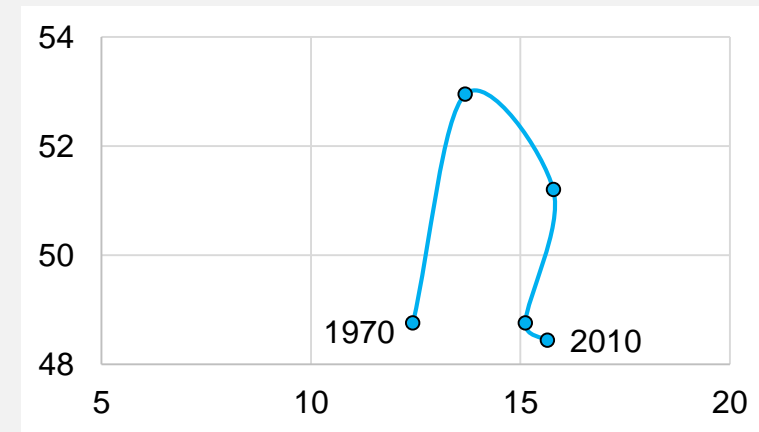
East Asia



Sub-Saharan Africa



Latin America



Note: Share of employment in Manufacturing (percentage) on the horizontal axis and Net Gini on the vertical axis.  
Source: GGDC and WIID.

# CONCLUSION

Inequality	<i>Increasing</i>		Kuznetsian tension: High  South Asia
	<i>Stable or declining</i>	Kuznetsian tension: Ambiguous  Latin America Sub-Saharan Africa	Kuznetsian tension: Low ('benign')  East Asia
		<i>Weak</i>	<i>Strong</i>
Growth-enhancing structural transformation			

- Heterogeneity in the regions' experiences
  - The present consensus: No universal law
- Kuznetsian multidimensional framework for understanding ST & IG
  - Stronger emphasis needs to be given to:
    - Historical context: Initial conditions & subsequent waves
    - Endowments
    - Political & institutional factors
    - ST & IG policies

► **This is the approach we take in our OUP book**