THE DEVELOPER'S DILEMMA

A Survey of
Structural Transformation and Inequality Dynamics

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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)
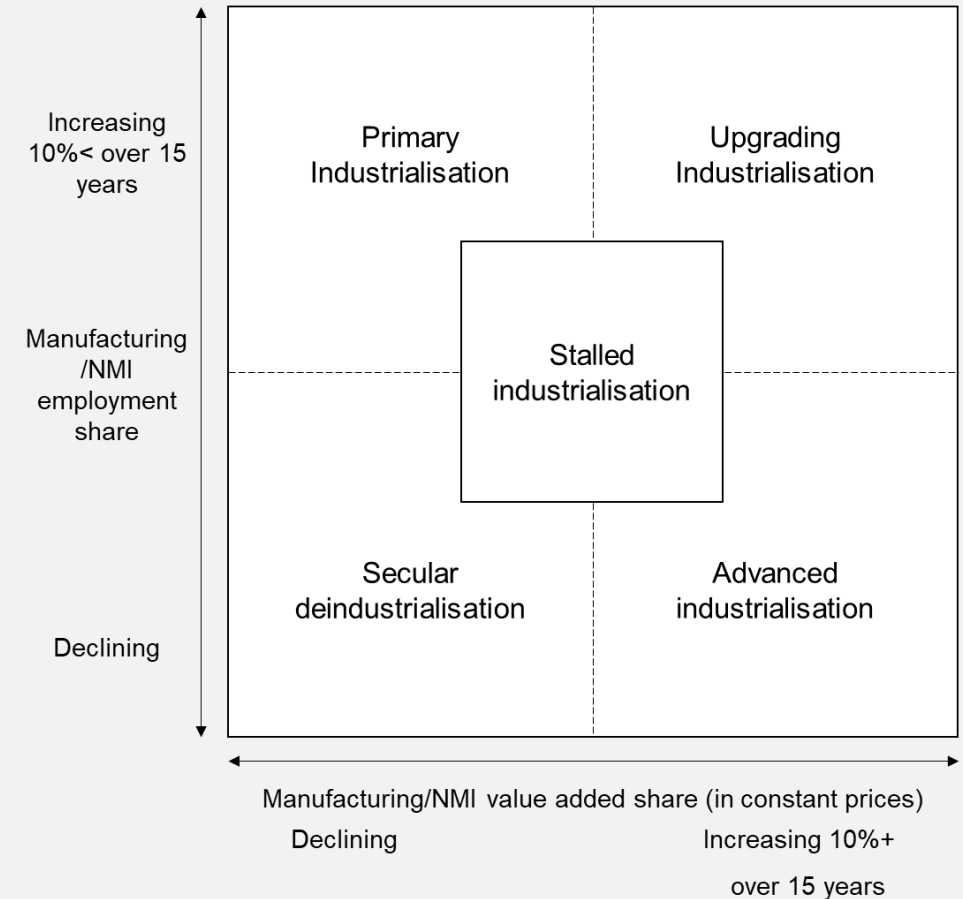
KEY QUESTIONS

- 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%≤x≤10%)
Productivity decline	Labour productivity growth, 1995–2010 (x<-10%)

Increasing 10%< over 15 years

Manufacturing /NMI employment share

Declining

Primary Industrialisation

Upgrading Industrialisation

Stalled industrialisation

Secular deindustrialisation

Advanced industrialisation

Manufacturing/NMI value added share (in constant prices)

Declining

Increasing 10%+ over 15 years

EMPIRICAL PATTERNS OF STRUCTURAL TRANSFORMATION (1/2)

Agriculture

Manufacturing
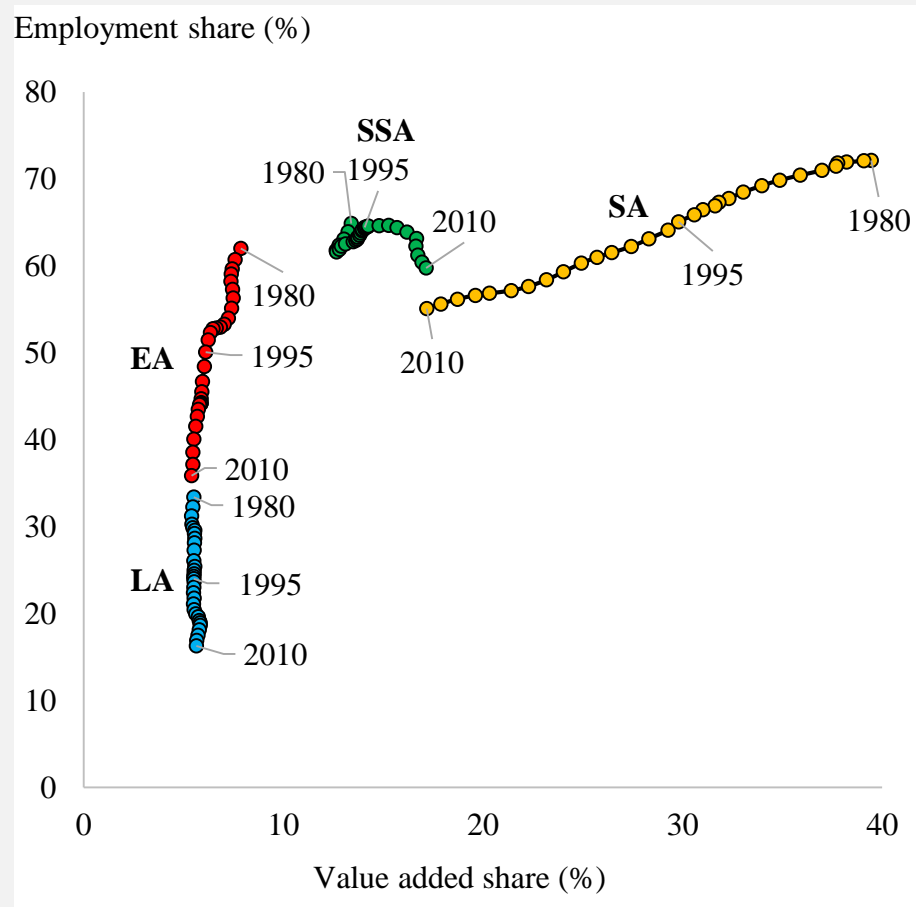
Source: GGDC 10-sector database.
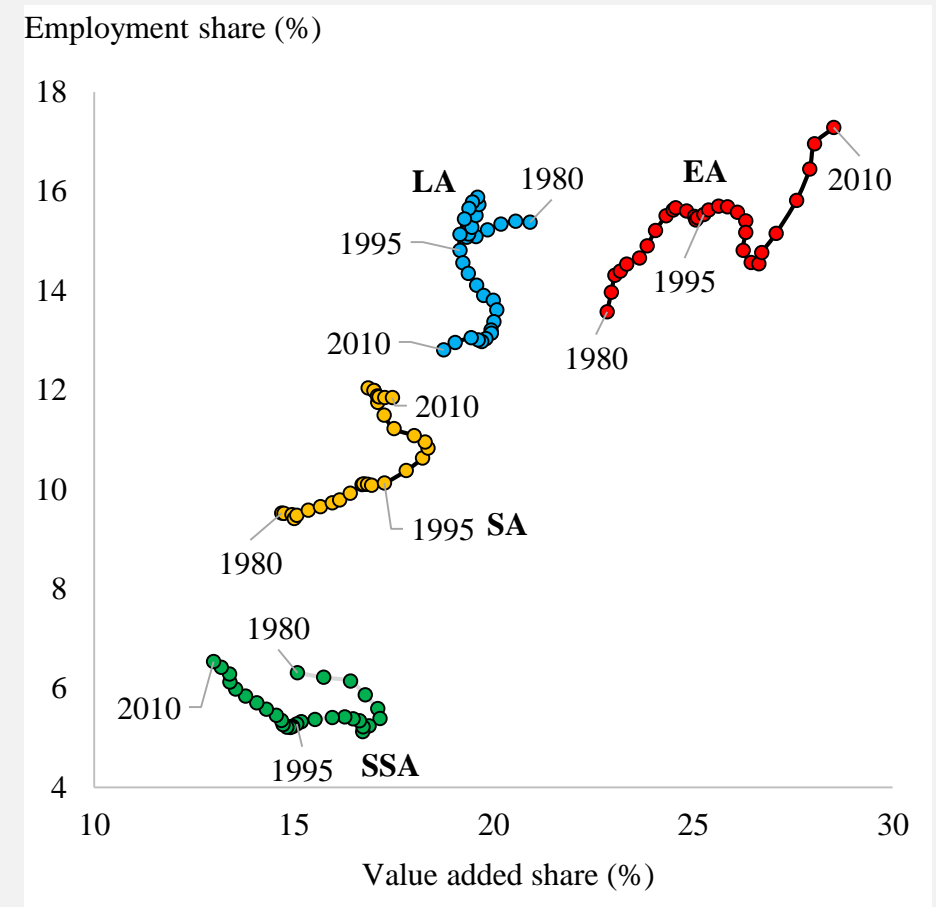
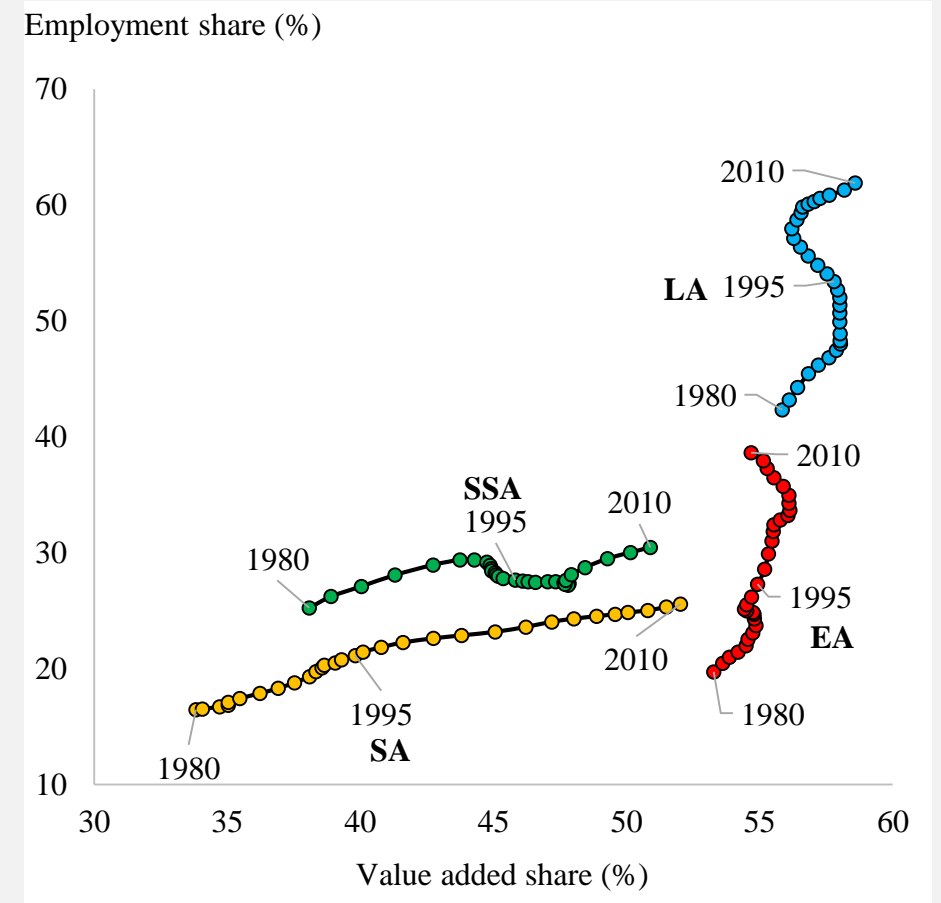# EMPIRICAL PATTERNS OF STRUCTURAL TRANSFORMATION (2/2)

Non-manufacturing industry

Services

Source: GGDC 10-sector database.
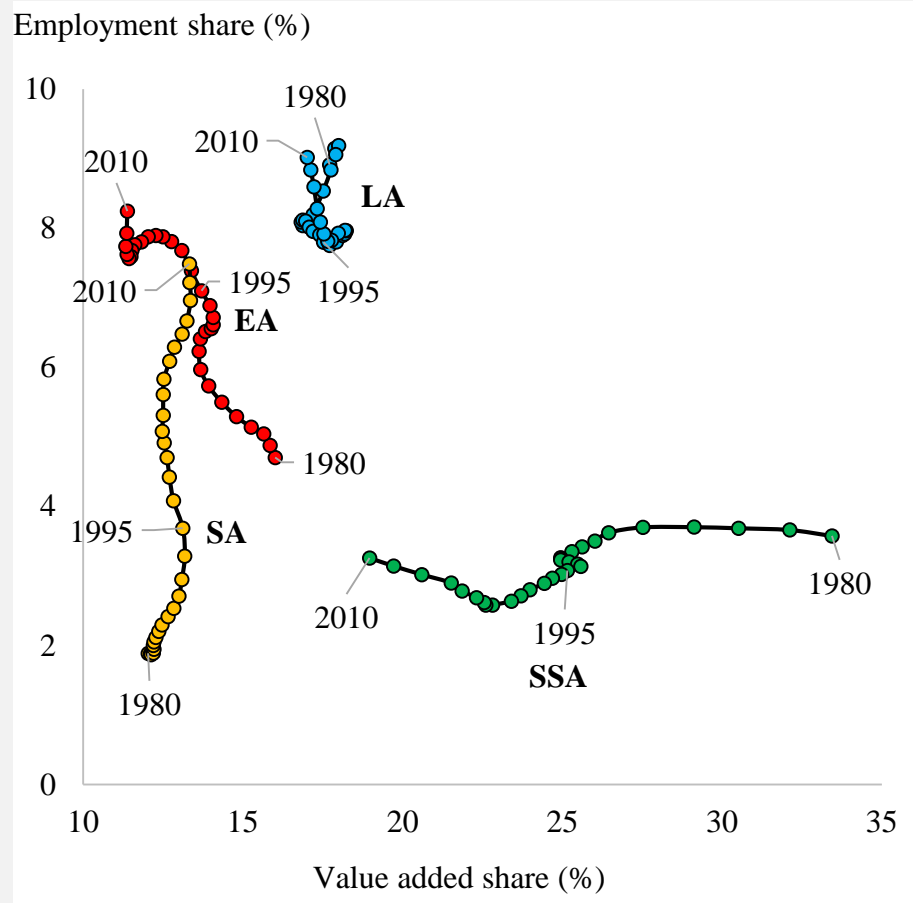
RELATIVE LABOUR PRODUCTIVITY

Ratio of agricultural labour productivity to non-agricultural labour productivity (%)
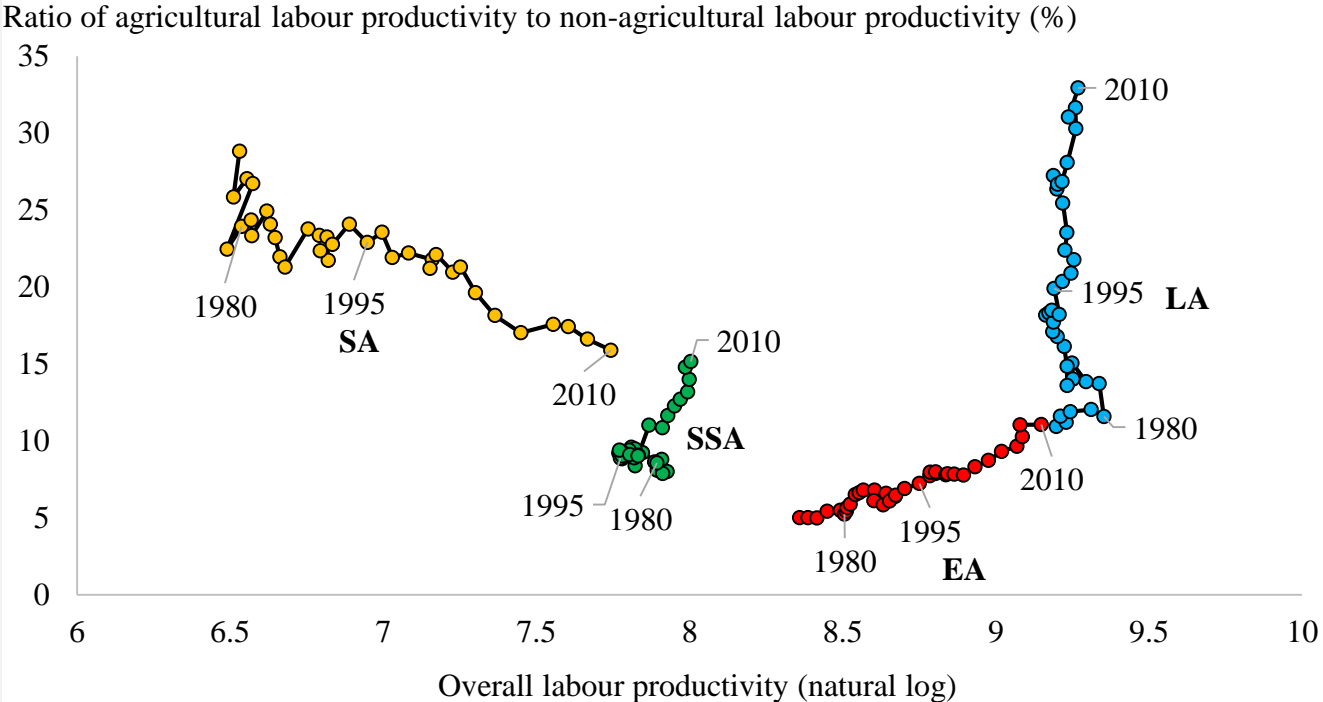
Source: GGDC 10-sector database.

LABOUR PRODUCTIVITY GROWTH (1/2)

South Asia

Sub-Saharan Africa

LABOUR PRODUCTIVITY GROWTH (2/2)

East Asia
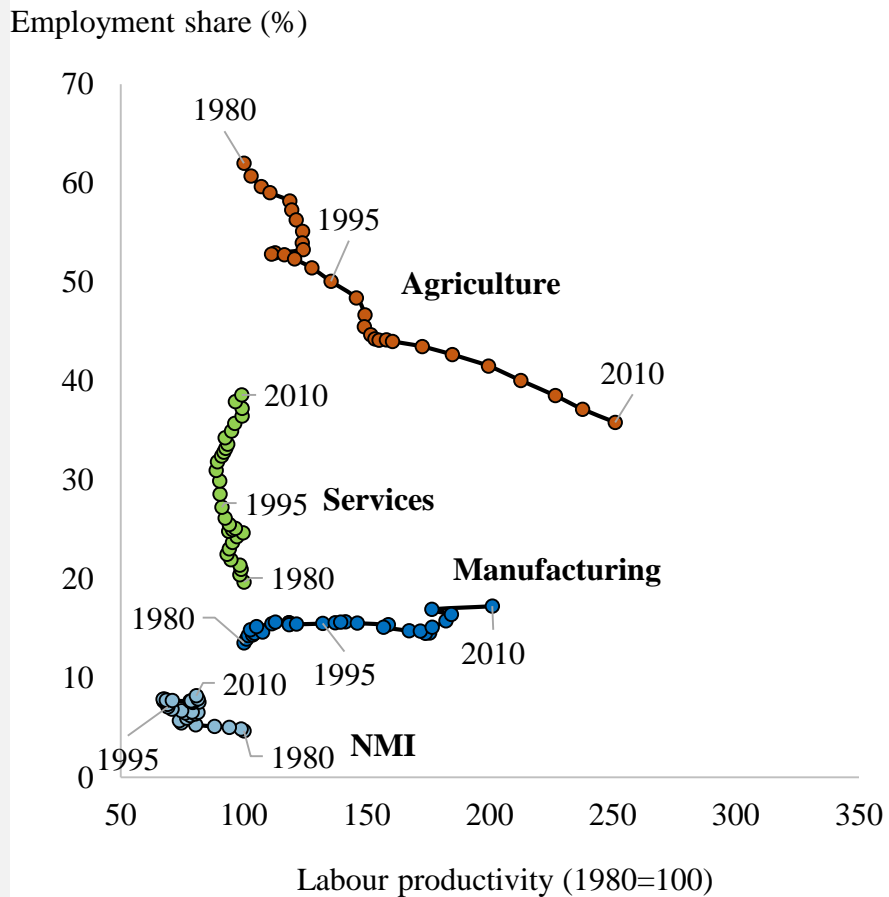
Latin America
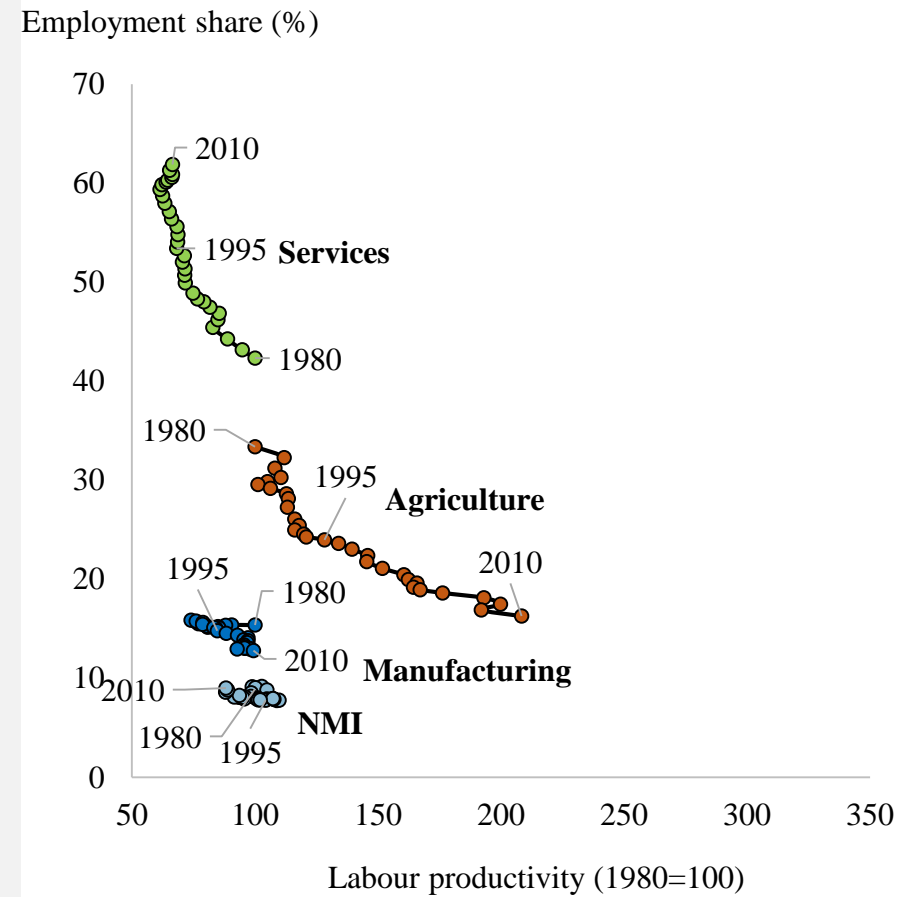
EMPIRICAL PATTERNS OF INCOME INEQUALITY

South Asia

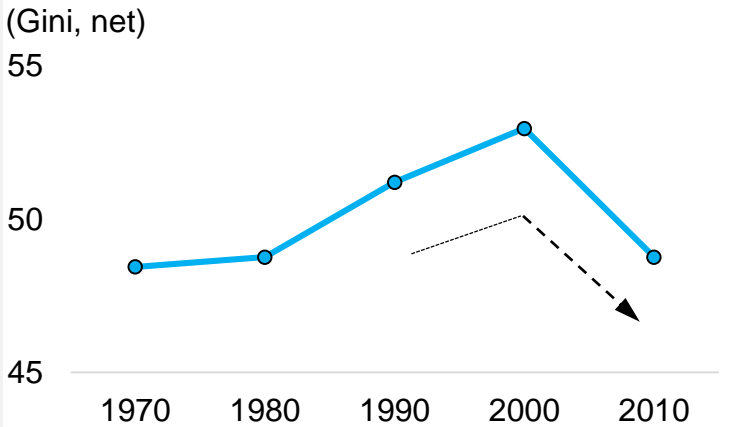(Gini, net)

East Asia

(Gini, net)

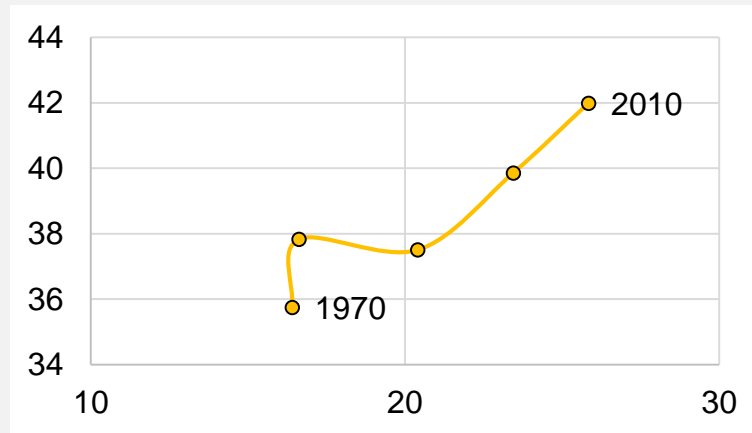## Sub-Saharan Africa

(Gini, net)
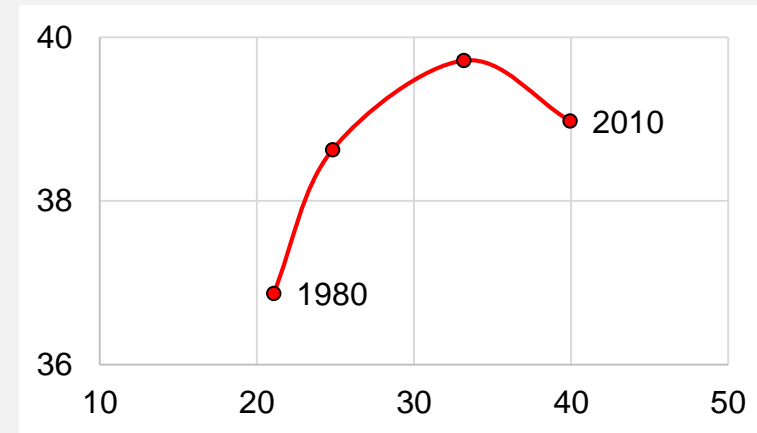
Latin America

(Gini, net)
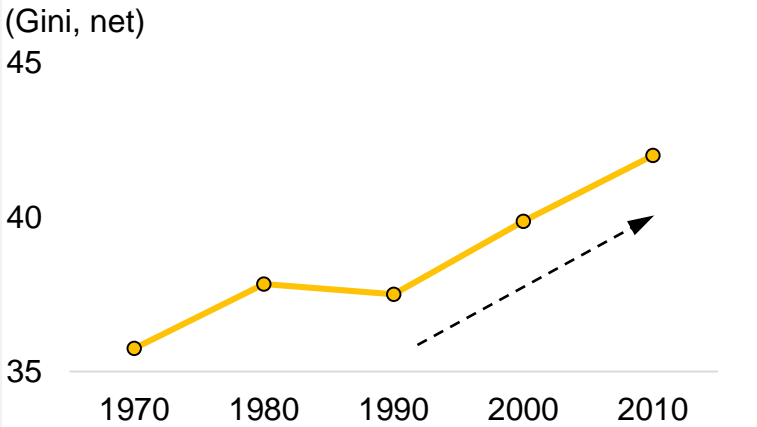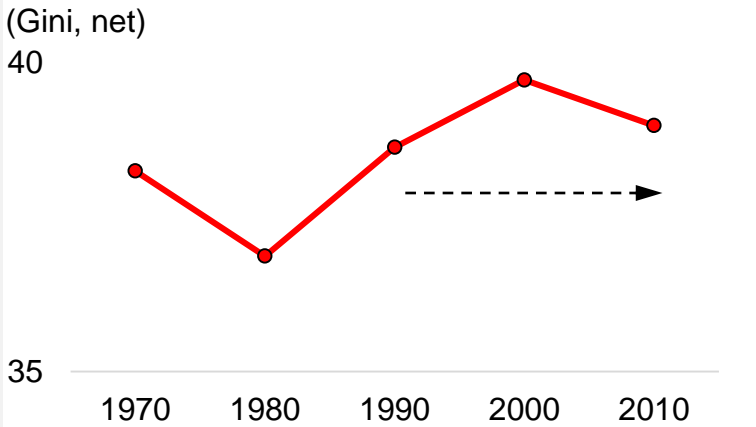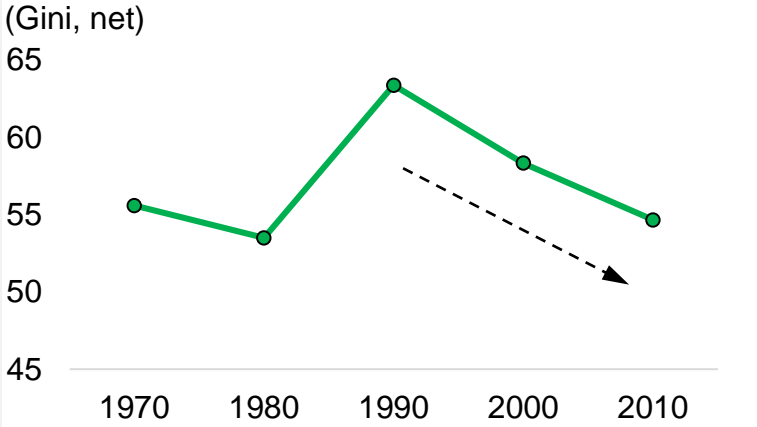
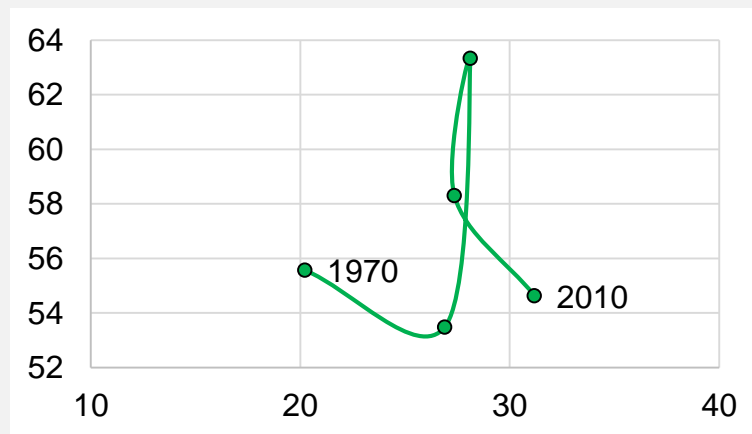Source: WIID.

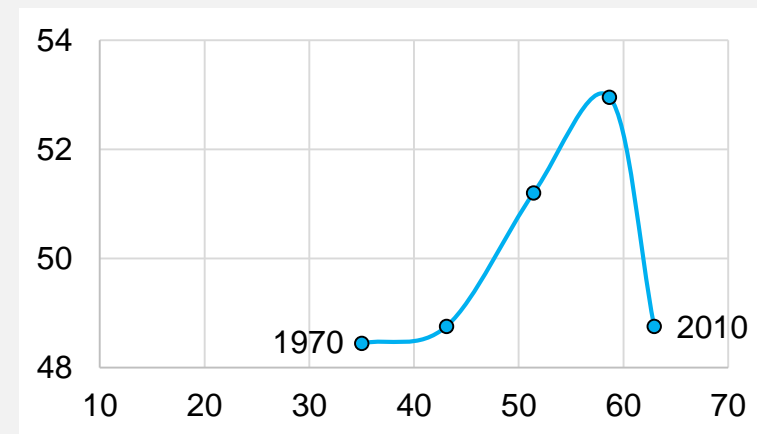# ST-IG RELATIONSHIP (1/2): SERVICES DRIVEN ST

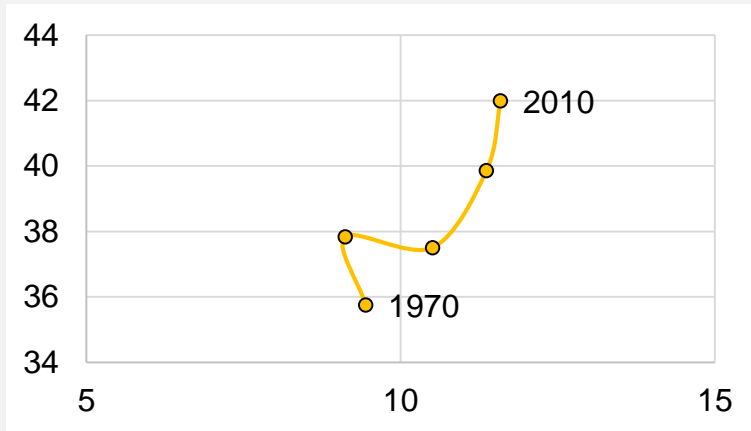## South Asia

East Asia

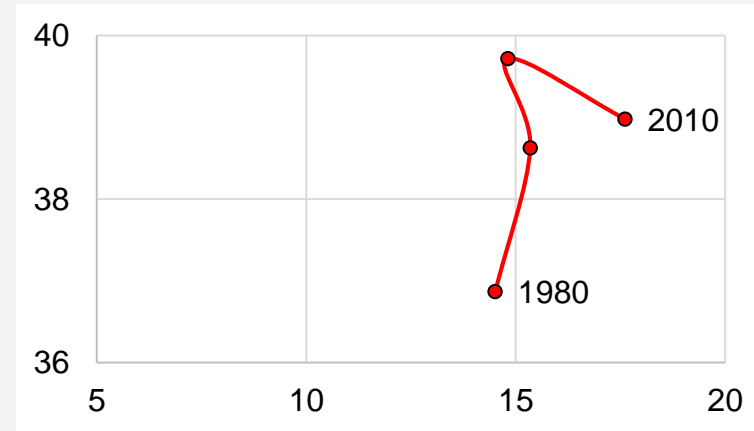## Sub-Saharan Africa

Latin America

Note: Share of employment in Services (percentage) on the horizontal axis and Net Gini on the vertical axis.
Source: GGDC and WIID.
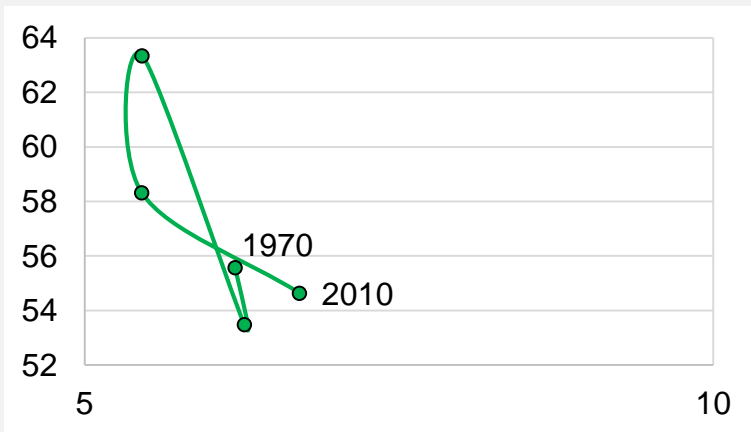
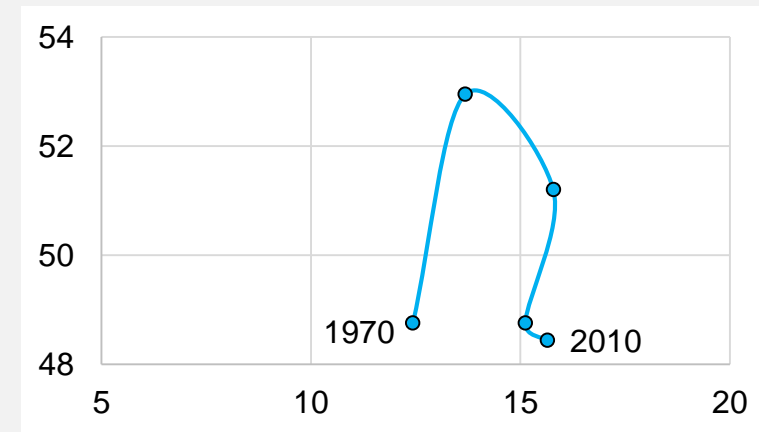# ST-IG RELATIONSHIP (2/2): MANUFACTURING DRIVEN ST

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

	Weak	**Strong**
Increasing		Kuznetsian tension: High South Asia
Inequality		
Stable or declining	Kuznetsian tension: Ambiguous Latin America Sub-Saharan Africa	Kuznetsian tension: Low ('benign') East Asia

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**