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**
• 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)
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?

<table>
<thead>
<tr>
<th>Region</th>
<th>Agriculture</th>
<th>Manufacturing</th>
<th>Non-manufacturing industry</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>S Asia</td>
<td>Earlier stage of de-agriculturalisation</td>
<td>Primary industrialisation</td>
<td>Primary industrialisation</td>
<td>Earlier stage of tertiariisation</td>
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<tr>
<td>E Asia</td>
<td>Later stage of de-agriculturalisation</td>
<td>Upgrading industrialisation</td>
<td>Primary industrialisation</td>
<td>Later stage of tertiariisation</td>
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<tr>
<td>SS Africa</td>
<td>Pre-de-agriculturalisation</td>
<td>Primary (or non) industrialisation</td>
<td>De-industrialisation</td>
<td>Earlier stage of tertiariisation</td>
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<tr>
<td>Latin America</td>
<td>Later stage of de-agriculturalisation</td>
<td>De-industrialisation</td>
<td>Primary industrialisation</td>
<td>Later stage of tertiariisation</td>
</tr>
</tbody>
</table>

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%)
EMPIRICAL PATTERNS OF STRUCTURAL TRANSFORMATION (1/2)

**Agriculture**

Employment share (%)

Value added share (%)

**Manufacturing**

Employment share (%)

Value added share (%)

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

Non-manufacturing industry

Source: GGDC 10-sector database.
RELATIVE LABOUR PRODUCTIVITY

Ratio of agricultural labour productivity to non-agricultural labour productivity (%)

Overall labour productivity (natural log)

Source: GGDC 10-sector database.
LABOUR PRODUCTIVITY GROWTH

South Asia

Sub-Saharan Africa

Source: GGDC 10-sector database.
EMPIRICAL PATTERNS OF INCOME INEQUALITY

South Asia

East Asia

Sub-Saharan Africa

Latin America

Source: WIID.
ST-IG RELATIONSHIP (1/2):
SERVICES DRIVEN ST

South Asia

[Graph showing data for South Asia]

East Asia

[Graph showing data for East Asia]

Sub-Saharan Africa

[Graph showing data for Sub-Saharan Africa]

Latin America

[Graph showing data for 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

- 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