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I. Introduction

A. Context

Over the past decade, African countries have made remarkable progress in promoting the growth of their economies, but much still remains to be achieved in terms of creating jobs, improving access to social services and reducing inequality. In response to these concerns, African countries are prioritizing structural economic transformation as a strategy for inclusive, sustained and sustainable development. The experiences of countries that have successfully transformed their economies suggest, however, that a reduction in inequality is not an inevitable outcome of the transformation process. In accordance with established economic theory (Kuznets, 1955), transformations are initially associated with widening inequality. The empirical evidence is mixed, however, and points to the role of active policies in determining the inclusiveness of the transformation process. In effect, African policymakers can benefit from an analysis of the conditions under which transformation reduces inequality, while at the same time generating wealth.

Addressing inequalities in all their dimensions is of particular importance for the following reasons: inequalities undermine the productive potential of marginalized groups and deprives society of their full contribution; inequalities threaten national cohesion, nurture social unrest and create insecurity; inequalities weaken the impact of growth on poverty reduction; and inequalities are self-perpetuating and hence intergenerational. Indeed, it is estimated that a 1 per cent increase in inequality increases poverty by 2.16 per cent in Africa.

B. Dimensions of inequality

Efforts to overcome inequality require that it be tackled in all its dimensions – economic and non-economic. The economic dimensions are manifested by disparities in income and assets and unequal access to productive employment, while the non-economic dimensions may be seen in unequal representation in social and political spheres, limited access to education, health and other vital social services that are critical for human development. A cross-cutting feature of inequality is its horizontal nature, reflecting disparities in access across different groupings of individuals (such as gender, ethnicity, religious affiliation and so forth). To the extent that inequality is self-perpetuating, it is intergenerational (McKay, 2002) and requires active policy interventions to correct or reverse the situation.

Inequality has many dimensions, which include the issue of inequality of outcomes versus the inequality of opportunities. Identical opportunities may result in unequal outcomes, depending on initial conditions and the capability to exploit such opportunities. As a result, the notion of equality of opportunities is often operationally not feasible.

C. New and emerging inequalities

In recent years, the exercise of control over financial capital, information, media and scientific knowledge have given birth to a new generation of inequalities. The combination of financial capital and scientific and technical knowledge can reinforce inequality between those who have control over this combination and those who do not (Tilly, 2005). In other words, knowledge gives political, financial, and existential advantages to its holders; returns from knowledge allow its holders to reproduce the institutions and relations that sustain their advantages. Access to public health, food supply, environmental quality and knowledge are strong determinants of winners and losers in society (UNDP, 2001).

In 2003, former United Nations Secretary-General Kofi Annan encouraged the world's scientists to take action against scientific-knowledge inequality. Recalling that 95 per cent of the new science was created in countries comprising only one fifth of the world's population, he noted that "this unbalance did not only accelerate disparity between advanced and developing countries, but also created social and economic difficulties at both national and international levels" (Annan, 2003).

D. Structural transformation and inclusion

Concerns about the limited inclusiveness of the continent's growth experience have rekindled interest in structural economic transformation as a strategy for inclusive, sustained and sustainable development. At the same time, the experiences of countries that have successfully transformed their economies suggest that reducing inequality is not an inevitable outcome of the transformation process. Indeed, according to economic theory (Kuznets, 1955), transformations are initially associated with widening inequality, followed by a gradual reduction as individuals and households adjust and adapt to new opportunities and as redistribution programmes are put in place. In contrast to theory, the empirical evidence is mixed and points to the role of active policies in determining the inclusiveness of the transformation process.

African policymakers can benefit from an analysis of the conditions under which structural economic transformation promotes wealth creation without exacerbating inequality.

The present paper is organized in three sections. The first situates the state of inequality in Africa in the context of the continent's impressive economic performance. The second assesses the likely impact of structural transformation on inequality, based on theory and evidence drawn from country experiences; it highlights the downside risks of transformation together with the lessons learned from countries that have successfully transformed while mitigating the impact on equality. In conclusion, the paper identifies the key issues that Africa needs to address to ensure a truly inclusive transformative agenda. These are intended to inform discussions at the conference.

II. Africa's recent economic performance

The Africa of today is quite different from the continent of yesteryear. African countries have experienced rapid growth over the past decade. Economic growth has averaged 5.1 per cent since 2000, double the average growth rate of the 1990s. Between 2000 and 2011, six of the world's fastest growing economies were in Africa – Angola, Chad, Ethiopia, Mozambique, Nigeria and Rwanda.

The continent has also been largely resilient to the global downturn. Following a dip in 2008, growth rebounded to 6.6 percent in 2012 with the resumption of oil production in Libya and is projected at 4.8 per cent and 5.3 per cent in 2013 and 2014 respectively (African Economic Outlook, 2013).

High but easing commodity prices, strong domestic demand often boosted by private consumption and investment, record inflows of remittances and rising levels of oil and mining-related activity have contributed significantly to Africa's accelerated growth. The continent's positive performance has been underpinned by improved macroeconomic and political stability.

Notwithstanding the remarkable performance of unemployment, particularly among youth, access to social services and inequality remain serious challenges on the continent.

A. Growth and social development

The continent as a whole is not on target to attainment of most of the Millennium Development Goals. Nearly one half (48 per cent) of Africans are mired in extreme poverty. On average, 72 per cent of the youth population in Africa live on less than $2 dollars a day. In Burundi, Ethiopia, Nigeria, Uganda and Zambia the incidence of poverty among young people is over 80 per cent (Mubila and others 2012). The underweight prevalence rate in the continent was second only to that of Southern Asia (United Nations, 2013). While the world is on track to meet the target for the proportion of population using an improved drinking water source, Africa is not. The continent accounts for more than 40 per cent of people without access to safe drinking water worldwide and is off track in respect of the improved sanitation facility target. Sanitation coverage increased just 4 percentage points over the period 1990–2010 and there are stark disparities between rural and urban areas in the availability of adequate sanitation.

B. Growth and employment

Africa’s accelerated growth has not been job-rich and the majority of jobs created are vulnerable, swelling the proportion of workers who remain poor. Approximately 132.6 million workers earned less than $1.25 a day in Africa in 2012, about the same as in 2000, constituting a 46.5 per cent share of total employment on the continent, higher than any other region in the world (ECA, 2013). Over the past 10 years Africa’s labour force grew by 91 million people but only 37 million jobs were created in wage-earning sectors.

The employment–population ratio in Africa, a measure of the proportion of the labour force that is employed, has remained largely unchanged over the last 20 years, inching up from 59 per cent in 1991 to 60 per cent in 2011. Most important, despite their increasing contribution to gross domestic product, the main drivers of Africa’s economic growth, energy and mineral exports have not been a source of job growth, largely because of their capital-intensive methods of production and the limited value addition that takes place on the continent. Mozambique’s aluminium smelter Mozal is a case in point: it contributes 30 per cent of GDP, but provides only 2, 600 jobs, subcontractors included (Hårsmar, 2013).

C. Growth and inequality

The limited impact of growth on livelihoods and access to social services may have contributed to growing gender, income and rural-urban inequalities. Africa’s Gini coefficient – a measure of income and inequality – has widened over the past six years and is hardly better than it was in 1980 (African Development Bank, 2013). The Gini coefficient for the continent was 44.2 in 2008, ranking it second only to Latin America and the Caribbean (Ortiz and Cummins, 2011). The Gini coefficient masks different dimensions of inequality, however, including deep spatial and gender inequalities in Africa. In particular, gender–wage disparities are significant and persistent on the continent. In countries like Algeria, Côte d’Ivoire and Mauritania, women’s wages are barely half those of men for similar work (ECA, 2013).

Persistent gender imbalances in wage employment in non-agricultural sectors are observed in various countries. In Côte d’Ivoire, for example, the proportion of women employed as wage-earners in non-agricultural sectors is still about four times lower than that of their male counterparts. Similarly, in Malawi, 79 per cent of men are engaged in non-agricultural activities, against a mere 21 per cent of women.

Gender and spatial disparities in access to social services are also of critical concern. On average, in Africa, births to women in the richest quintile are nearly three times more likely to be attended by a trained professional than births to women in the poorest quintile. In all, 90 per cent of women living in urban areas had at least one antenatal care visit during pregnancy, compared to 71 per cent of women in rural areas. Children and adolescents from the poorest households are at least three times as likely to be out of school as children from the richest households. Children from the poorest households are more than twice as likely to be stunted as children from the richest households.

While Africa's growth experience has taken place in tandem with rising inequality, an analysis of country experiences reveals that the relationship between growth and inequality is country-specific and not straightforward; it depends on the policies pursued. Increased growth can be associated with marked reductions in inequality, as has happened in Ethiopia and Mali, or increased inequality, as in Kenya. Similarly, even though a slowdown in growth is often associated with worsening income inequality, in some cases it is associated with a decline in inequality, such as in Guinea (see the table below).

Trends in income inequality and growth (1990s–2000s) in selected African countries

		Gini year	**Gini coefficient for income**	**GDP growth rate (%)**	**Gini year**	**Gini coefficient for income**	**GDP growth rate (%)**
	Country	*1990s*			*2000s*		
Lowered Gini coefficients	*Mali*	1994	50.7	0.9	2010	33.0	5.8
	Ethiopia	1995	40.0	6.1	2005	29.8	11.8
Small decrease in Gini coefficients	*Guinea*	1991	46.9	2.6	2007	39.4	1.8
	Nigeria	1997	50.6	2.7	2010	48.8	8.0
	Niger	1995	36.2	2.6	2008	34.6	9.6
Same Gini coefficient	*Burundi*	1992	33.3	1.0	2006	33.3	5.4
Increased Gini coefficients	*Côte d'Ivoire*	1993	37.1	-0.2	2006	44.4	0.7
	Kenya	1994	44.7	2.6	2005	47.7	5.9
	Mozambique	1996	39.6	7.4	2008	45.7	6.8
	South Africa	1993	61.1	1.2	2009	63.1	-1.5
	Zambia	1996	49.9	6.9	2006	54.6	6.2

Source: Combined data from the African Statistical Coordination Committee, *Human Development Report*, World Bank.

The complexity of the relationship between growth and inequality calls for a deeper analysis of the dimensions and drivers of inequality and how they intersect with structural transformation.

III. Towards a more inclusive growth model

Structural transformation has been widely identified by African and pan-African scholars and institutions as the agenda for Africa's path to economic growth. The Agenda 2063 framework articulates a roadmap for Africa's transformation over the next 50 years and identifies critical drivers and success factors for transformation. It is therefore important to consider how the drivers and dimensions of inequality described above are manifested in a country undergoing structural transformation.

Evidence gathered from countries that have achieved structural transformation suggests that, while structural transformation has been associated with rapid growth, increased productivity and rapid urbanization and a reduction in the relative contribution of agriculture to GDP, it is not always associated with reduced inequality.

A. Industrialization and inequality: cross-country evidence

A review of the industrialization trajectories of developed and emerging countries suggests that the social and economic impacts of industrialization are country-specific and depend on their initial conditions and policy choices.

B. Transformation and income inequality

A key feature of any structural transformation process is the gradual shift in economic activity from activities with low productivity, such as agriculture, to those with high productivity, such as industry. Associated with this shift is an increased demand for more productive or skilled workers. As individuals defect, so to speak, from the agricultural sector to the industrial sector, the intersectoral wage gap initially widens until most workers are absorbed in the industrial sector. While this theory of inequality (Kuznets, 1955) is supported by the historical experience of Western industrial economies, it does not consistently reflect the reality of emerging economies. In Indonesia, for instance, active agricultural policies – including input subsidies, exchange rate depreciation and diversification away from rice crops – supported the agricultural sector, created employment and narrowed income disparities (Van der Eng, 2009).

By contrast, changes in the structure of Portugal's economy over the period 1944–1974, when the country experienced its golden age of growth, were associated with widening wage inequality (Lains and others, 2008).

For its part, the experience of the Republic of Korea demonstrates how industrialization can widen income and asset inequalities through the creation of conglomerates that gobble up small and medium-sized enterprises. The country's decision to migrate from light to heavy industry in the 1980s gave birth to its automotive, engineering, chemicals and electronics sectors, paving the way for the Republic of Korea to break into the global market with such now established brand names as Hyundai and Samsung. Both firms are the product of a deliberate government-sponsored scheme to nurture the growth of family-owned industrial conglomerates known as "chaebols".

An unintended consequence of chaebols, however, has been high industrial and market concentration, a phenomenon which has crowded out small-scale enterprises. As a result, the Republic of Korea now has such problems as widening inequality – the top 10 per cent of households earn 4.7 times more than the bottom 10 per cent; a rising proportion of temporary workers, second only to Spain among the Organisation for Economic Co-operation and Development (OECD) countries; and a sizeable informal sector – the largest among OECD countries (Stiftung, 2012). In an endeavour to tackle this issue the State introduced regulatory reforms to improve competition to levels consistent with global standards. It is debatable, however, whether this outcome was in fact inevitable and African countries might wish to consider how they can avoid this so-called "inequality trap".

C. Industrial transformation and gender inequality

There are competing views on the effect which development and structural transformation in particular have on women. Some scholars argue that a gender Kuznets curve exists for women. According to such views, in the initial stage of economic development, labour-force participation enhances female domestic bargaining power and affords women greater social and economic visibility (Easton and Prakash, 2013). Extant patriarchal institutions however attempt to limit this advancement and it is only with active policies that gender disparities can be addressed. Hence, rather than the inverted U curve theory, such scholars posit here an S curve: an initial reduction is shown in gender wage disparities as women gain employment opportunities as a result of industrialization, which is followed by a pushback from patriarchal institutions, and, finally, active policies that restore the initial momentum.

The more traditional view mirrors the inverted U curve theory. According to this view, gender inequalities initially widen and then narrow with transformation because the industrialization process requires higher and specialized skills that many women do not necessarily have because of gender inequalities in education, in particular in science and technology. This perspective is validated by the experiences of the Republic of Korea and Taiwan Province of China, where the concentration of women in labour-intensive export industries (apparel, footwear, plastics, rubber), the increased use of informal work arrangements and the high mobility of export industries have weakened the bargaining power of women, undermined their conditions of employment and widened gender–wage disparities (Seguino, 2005). Ironically, these trends occurred even in the face of increased participation of women in the labour force.

Policymakers need to consider how they should tackle the gender inequalities in opportunity and outcomes, as part of an industrialization strategy to narrow gender wage disparities.

D. Transformation and spatial inequality

Some scholars (Williamson, 1965) argue that structural transformation is initially associated with a geographical concentration of economic activity, thus resulting in disparities in regional income distribution. For instance, the accelerated industrialization processes and structural transformation undertaken in Italy and Spain in the 1950s and 1960s was associated with widening regional inequalities and wage disparities across different sectors of the labour force (Rau and Roncek, 1987). In Indonesia, substantial public investments and infrastructure have been channelled into the development of the manufacturing industry in Java and widened disparities between Java and other areas of the country (Van der Eng, 2009).

Industrialization in China has also been characterized by regional disparities, with the country's eastern zone enjoying higher per capita output, higher levels of employment and productivity and higher exports at the expense of the central and western zones (Yao, 1997).[1] This trend is an apparent result of fiscal decentralization and trade and industrial policies that favour coastal areas closer to international trade routes. The spatial pattern of income distribution not only has economic and social implications but also political implications for future development. This prompts the question of the extent to which Africa's transformation is mindful of spatial inequality and of the policies that should be put in place to narrow spatial inequality in the process of transformation.

[1] The eastern zone includes the provinces and cities along the eastern coast: Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong, Hainan and Guangxi. The central zone covers the provinces and autonomous regions of Shanxi, Inner Mongolia, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei and Hunan. The western zone includes Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.

E. Transformation and employment

Structural transformation is characterized by value addition underpinned by such factors as the creation of employment in higher productivity activities; changes in the kinds of economic activity pursued; an increase in the proportion of the labour force working as employees and decrease in that of casual employees, own-account workers and unpaid family workers; rising levels of education; changes in the occupational distribution of employment; and changes in the sectoral composition of employment.

The employment effects of industrialization are also not inevitable, however. They depend on the type of industrialization strategy pursued (heavy or light industry) and the extent to which such industries are labour-absorbing (in particular, unskilled labour). A defining element of the success of East Asian economies in achieving full employment, rising real wages, and favourable income distributional effects was their focus, in the early stages of their growth, on export industries which were intensive in the use of unskilled labour and in which they had a comparative advantage.

The Republic of Korea, Singapore, Taiwan Province of China and Hong Kong, China, all experienced rapid labour-intensive and export-led growth which contributed to significant declines in unemployment. In Singapore the unemployment rate fell sharply, from 10 per cent in the 1960s to 3 per cent in the 1980s. The unemployment rate in the Republic of Korea fell from 8.2 per cent in 1964 to 4.1 per cent in 1981. Unemployment in Hong Kong rose to 9.1 per cent in 1975 but declined to 4.3 per cent in 1980.

These trends were associated with a relative decline in the sectoral share of agriculture and a rising share of manufacturing in the Republic of Korea, Singapore and Taiwan Province of China. In Hong Kong, transformation was underpinned by the rising share of financial services as a proportion of GDP (Fields, 1985). In addition, the composition of manufacturing employment has increased as workers have moved from agriculture to manufacturing, attracted by real wages that were four times higher. Starting from relatively low bases, the Republic of Korea and Singapore both increased the share of employment constituted by manufacturing: in the former it increased from 21.6 to 32.8 per cent between 1960 and 1980 and, in the latter, from 17.4 to 29.2 per cent between 1957 and 1979. Hong Kong’s employment shifts were most pronounced in financial services.

Exports of metal products (including electronics and motor vehicles), and textiles and garments were the fastest growing sources of manufacturing employment. By contrast, food, beverages and tobacco have experienced a declining share of manufacturing employment, combined with rising real wages, in response to the adoption of more capital and skill-intensive methods of production in that product line. In the Republic of Korea, the contribution of metal products to employment in the manufacturing sector rose from 12 to 28 per cent, while in Singapore it rose from 20 to 55 per cent (Fields, 1985). The sectors with the fastest employment growth experienced below average wage growth.

With the exception of the Republic of Korea, all three economies experienced a narrowing in inequality.

F. Trade and inequality

The global trade architecture and the dynamics of market access (that is tariff and non-tariff barriers) have implications for the distribution of the benefits from trade and the success of transformation in promoting inclusion. The capacity of countries to diversify their economies away from primary commodities depends on access to external markets. The phenomenon of tariff escalation, whereby processed goods attract high tariffs, can undermine efforts towards industrialization. In turn, factors that restrict industrial development also reduce opportunities for employment creation and income generation. The question arises as to the strategies which African countries should pursue to expand markets for their industrial products and the extent to which regional integration can foster Africa's industrialization.

IV. Effective policy responses to inequality

Country experiences suggest that rising inequality and marginalization, as predicted by Simon Kuznets (Kuznets, 1955), are not inevitable outcomes of industrialization and transformation. Appropriate policy responses aimed at promoting inclusive transformation should focus on narrowing inequalities both of opportunity and of outcomes. The policy choice depends on the target group. For instance, vulnerable groups such as the elderly and disabled, who are no longer capable of being productive members of the labour force, are suitable candidates for social protection programmes that help them to cope with economic hardship. In the case of women, rural dwellers and marginalized groups, measures such as targeted investments in education and health, affirmative action and conditional and unconditional transfers can play an important role in levelling the playing ground, thus narrowing inequalities in opportunity.

Studies have demonstrated the important role of effectively targeted policies, such as conditional cash transfers, in reducing inequality. Conditional cash transfers were in fact responsible for about 21 per cent of the fall in both the Brazilian and the Mexican Gini index between the mid-1990s and mid-2000s (Soares and others 2007).

V. Conclusion and way forward

It is the aim of the present conference to identify with greater specificity how countries can transform their economies and create wealth while narrowing inequalities. In this context, it will analyse the likely impacts of Africa's transformation on the key dimensions of inequality: employment; income; assets; and access to social services, in particular health, education and water and sanitation. The spatial and gender dimensions of inequality cut across all these categories.

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