UNECA

Structural Transformation for inclusive development in Africa

The role of active government policies

Bartholomew Armah, Mama Keita, Aissatou Gueye, Valerio Bosco, Judith Ameso and Ziv Chinzara.

8/1/2014

Abstract

This study examines the relationship between structural economic transformation and the economic, social and political dimensions of inequality. It is motivated by the renewed emphasis by policymakers in Africa adopt a more inclusive growth trajectory through commodity based industrialization. Drawing on theoretical and empirical evidence the study shows that structural transformation is not a sufficient condition for inclusive growth. Indeed, even though structural transformation can result in poverty reduction, in the absence of active policies, the latter often coexists with rising inequalities. Active government policies that improve social service delivery, enhance agricultural sector productivity, minimize ethnic and gender inequalities and strengthen social protection programmes are key to an inclusive structural transformation agenda.

Introduction and objectives

The inequality debate has taken center stage in the global policy discourse. Economic inequality, specifically inequalities in the distribution of wealth and income at both national and international levels, has been a mobilizing factor of worldwide protests and criticism against the current phase of the global economic relations. For instance, the international movement *Occupy Wall Street* - which started in the U.S and later spilled over into Europe and Eastern Asia – is a poignant manifestation of an increasing global concern about widespread asset inequality (Calhoun, 2013). A study carried out by Credit Suisse finds that 10 percent of the global population holds 86 percent of the assets in the world, while the poorest 70 percent (more than 3 billion people) hold only 3 percent (Credit Suisse, 2013).

Like the rest of the world, inequality is a critical challenge for African countries. The recent experience in most African countries reveals that while growth has been remarkable over the last decade it has occurred alongside limited decent job opportunities and stark inequalities in income, wealth and access to social services. In response to these concerns, and as articulated in policy documents such as the *Common African Position on the post 2015 Development Agenda* and the *African Union Agenda 2063* initiative, African countries have prioritized structural economic transformation as a strategy for inclusive, sustained and sustainable development[1].

But does structural transformation inevitable narrow inequalities? Economic theory predicts that transformations are initially associated with widening inequalities (Kuznets, 1955). However, the empirical evidence is mixed and points to the role of active government policies in underwriting an inclusive transformation agenda (Aizeman, J., Lee, M. and Park, D. 2012; Fields, 1985; Van der Eng, 2009).

This paper seeks to explore the conditions under which transformation reduces inequality while at the same time generating decent employment and wealth. Using evidence from country experiences, the analysis provides policy perspectives on proven measures to achieve inclusive and sustainable development through structural economic transformation. It achieves this objective through a theoretical and empirical analysis of the relationship between structural economic transformation and multiple dimensions of inequality. The paper is organized as follows. The first part reviews the dimensions, trends and determinants of inequality. The second part examines the empirical interplay between inequality and structural transformation. The paper concludes with policy perspectives on how structural transformation can promote inclusive development.

Part I: Understanding inequalities

I. Definition and dimensions of inequality

Broadly speaking, inequality refers to disparities, gaps or differences in various aspects of individuals', life or living condition. Inequality is multi-dimensional with economic, social and or political underpinnings. Income disparities

[1] See the Common African Position on the Post 2015 Development Agenda, 2014; Agenda 2063 draft document.

are a widely used measure of inequality but it does not capture fully its economic and non-economic dimensions. The experiences of women and ethnic minorities in several countries suggest that social and political exclusion can coexist with improvements in economic equality. For instance, it is illegal for women in Saudi Arabia to drive regardless of economic status. Thus, tackling economic inequality does not necessarily assure social and political inclusion.

Economic inequality generally refers to disparities in income and assets as well as unequal access to productive employment. Social dimensions of inequality refer to disparities in access to education, health care and other vital social services. Social inequality is closely linked to economic inequalities that prevent poor or disadvantaged people from obtaining the same social services (e.g., housing, health care, education) as the wealthy.

Political inequality on the other hand, refers to structured differences in the distribution and acquisition of political resources and "*typically aligns along the other social stratification dimensions where its injurious effects are felt most deeply by society's disadvantaged groups*" (Dubrow, 2007). Citizen voice and participation, government responsiveness, and patterns of public policymaking are considered the main channels through which political inequalities can emerge.

All dimensions of inequality can be manifested either spatially or horizontally. Spatial inequalities within countries relate to geographic (e.g., rural-urban, regional or provincial) disparities in access to basic social and economic services such as infrastructure, health and sanitation while horizontal inequalities are typified by gender, ethnic and religion-based disparities in access to economic, social and political opportunities and services. Inequalities may also be based on age. Age discrimination primarily occurs when age is used as an unfair criterion for allocating more or less rewarding roles, resources and responsibilities. In Africa for instance, it is found that unemployment rate among young people is twice higher than among adults.

II. Trends in Inequality

Global trends in Income Inequality

The global distribution of income is highly uneven. The January 2014 Oxfam Briefing Paper "*Working for the Few*" reported that one percent of households own 46 percent of the world's wealth. In contrast, the bottom half of the world's population owns less than the richest 85 people in the world. The report also found that wealth of the one percent of the richest people in the world amounted to $110 trillion, almost 65 times the total wealth of the bottom half.

Inequalities between countries have narrowed over time, while within-country inequalities have increased. In 2010, high income countries (that accounted for only 16 per cent of the world's population) were estimated to generate 55% of global income. Low income countries created just above 1% of global income even though they represented 72% of global population[2] (UNDESA, 2013).

Inequality trends vary among countries as evidenced by the contrasting experiences of Brazil, India and China. While Brazil continues to suffer from record-high levels of income inequality, recent economic growth has benefited the poor due, in part to improvements in education, labour market conditions, and the expansion of social assistance programmes, including conditional cash transfer programmes. In contrast, the unprecedented growth enjoyed by China (and India to a lesser extent), has been accompanied by rising inequalities. In China, the top 10 per cent of the population had 84.6 per cent of the financial wealth in 2012; the number of billionaires in India increased from less than 6 to 61 in the past decade, concentrating approximately $250bn among a few dozen people in a country of 1.2 billion (Stiglitz, 2012). Latin American countries, the majority of which are middle-income countries, have been more unequal throughout their history than countries in other regions, even though many of them have begun to successfully tackle the phenomenon.

Inequality continues to mark developed countries as well. In Europe, the recent financial crisis put additional pressure on inequality and poverty: Portugal and United Kingdom became the most unequal countries in the

[2] High-income countries are those with a gross national income (GNI) per capita of $12,476 or more in 2011, while low-income countries are those with a GNI per capita of $1,025 or less, according to the World Bank

Organisation for Economic Development and Cooperation (Beladi, *et al*., 2013; OECD, 2013). In the United States the hourly wage of the 400 wealthiest Americans was $97,000 in 2009 which is double the rate in 1992 (Stiglitz, 2013).

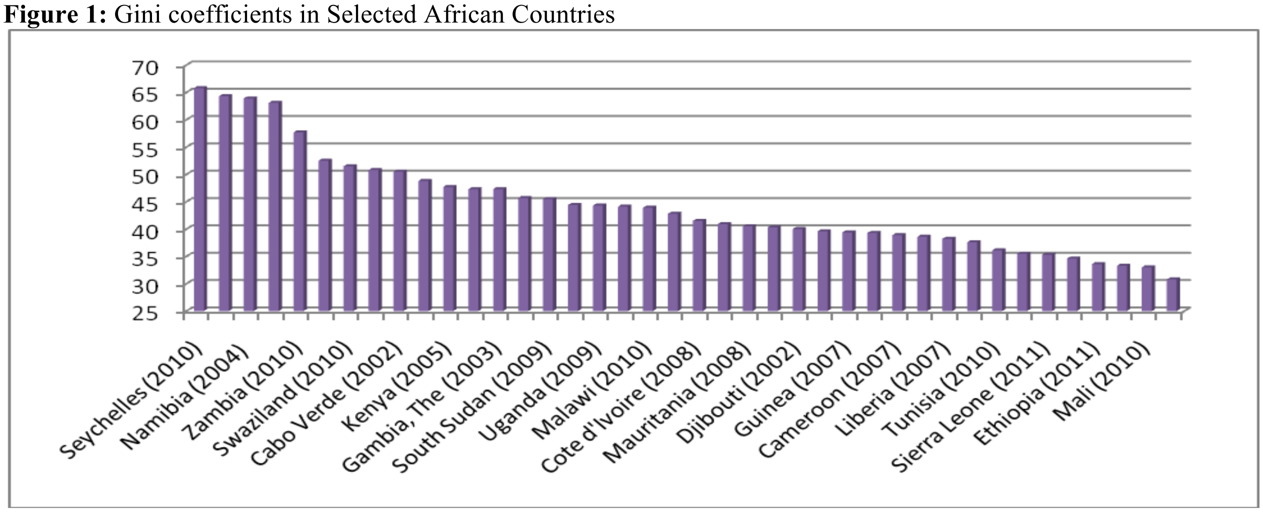
Trends in Africa

With an average Gini coefficient of 43.9 percent over the period 2000-2009, income inequality in Africa is second only to Latin America which averaged 52.2 percent over the same period (African Development Bank, 2012). Incidentally, this trend has occurred in the backdrop of a remarkable growth record in the last decade. In 2010, six out of the 10 most unequal countries worldwide were in Africa, and more specifically in Southern Africa, which appears as the most unequal sub-region of the continent, based on income distribution. Namibia, Comoros, South Africa, Angola, Botswana, Lesotho and Swaziland count among the continent's top ten most unequal countries. The most striking increase in inequality is found in South Africa and the Central African Republic where Gini coefficients increased from 58 to 67 between 2000 and 2006, and from 43 to 56 between 2003 and 2008, respectively (African Development Bank, 2012). In West Africa, some countries have made remarkable progress in reducing income inequality. The Gini coefficient dropped by almost 7 points in Côte d'Ivoire, falling from 48.4 to 41.5 between 2005 and 2008 and Mali, from 40 to 33, while in Niger, the reduction was almost 10 percentage points – from 43.9 in 2005 to 34.6 in 2008 (UNECA, 2014).

Notwithstanding the high levels of inequality in Africa there has been a decline over time even though substantial country variations are observed. Out of a total of 35 African countries with data, 13 (37.1 percent) experienced an increase in income inequality while 19 (54.3 percent) experienced a decline over the period 1990 to 2012. In contrast 58 percent of countries in Asia experienced rising inequality versus 32.3 percent which experienced falling inequality. Latin American countries also experienced net reductions in inequality during this period; inequality rose in 20 percent (4 out of 20) of the countries in this region and fell in 70 percent (14 out of 20) of the same (UNDESA, 2013).

The figure below illustrates substantial disparities across countries in the levels of income inequality in Africa for a selected sample of countries.

Figure 1: Gini coefficients in Selected African Countries



Source: World Bank Indicators (WBI), World Bank (2014).

Characteristics of Inequality in Africa

Women and youth are disproportionately impacted by limited access to productive employment in Africa. These categories of workers are predominantly underemployed or self-employed in the informal and/or agricultural sectors. The unemployment for African youth in 2012 was around 12 per cent, compared to 6 percent for adults. In 2012, 84.9 per cent of women in Africa were employed in vulnerable employment against 70.6 per cent of men. In particular, women are disproportionately represented in low-productivity, low-pay and subsistence agricultural activities (61%), the informal sector and unpaid household work. Apart from low pay, these sectors are also characterized by poor working conditions and high vulnerability of employment (ILO, 2012). The situation is compounded by the fact that social protection programmes in Africa are limited in coverage and benefits (ILO, 2013). Gender wage discrimination is also a challenge in Africa. In countries such as Algeria, Côte d'Ivoire, Mauritania, and South Africa, women's earnings are much lower than those of men for comparable work (UNECA, 2014; Unni, 2012).

Disparities in access to social services are pervasive but more pronounced in the rural areas. For instance, on average, 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; and 90 per cent of women living in urban areas have at least one antenatal care visit during pregnancy, compared to 71 per cent of women living in rural areas (UNECA 2011).

Good progress has however been achieved by several African countries in promoting gender equality at the political level. For instance, in 2012 only Latin America and developed regions surpassed Africa's impressive achievements in increasing the proportion of seats held by women in national parliaments (UNECA, 2013). Similarly, progress in promoting gender parity in primary school enrollment has been strong even though women's access to higher education as well paid non-agricultural jobs still remains a challenge.

Inequalities are characterized by a vicious inter-generational cycle due to their impact on the life chances of children. Children and adolescents from the poorest households are at least three times more likely to be out of school than children from the richest households; and the poorest households are more than twice as likely to be stunted as children from the richest households, leading to further school dropouts (UNECA, 2014).

III. Some causes of Inequality

The different dimensions of inequality, namely economic, social and political are mutually reinforcing; being disadvantaged in one dimension contributes to disadvantages in other dimensions (Carter and Barrett, 2006; Sen, 1991; UNDP, 2010; UN, 2014). The lack of adequate economic resources prevents families from ensuring adequate nutrition and healthcare for their children and consequently hampers the development of their cognitive skills. Furthermore, parents with low income tend to have more children with the hope of increasing family's aggregate income. However, high fertility rates further curtail the ability of parents to invest in quality education for their children (Perotti, 1996). Low levels of education, lack of appropriate skills and poor health are often important factors limiting people's ability to secure good jobs and adequate salaries. This phenomenon in turn leads to lower possibilities of savings and investments, reducing further possibilities for increasing income.

Political inequality is intertwined with the other dimensions in a number of ways. Wealth can be used to leverage political power; in turn, political power can be used to shape government policies that are financially beneficial to the wealthy. Hence, by wielding a disproportionate share of resources, the economically advantaged groups can influence the outcomes of democratic processes. Access to knowledge and privileged information gives substantial political, financial, and existential advantages to its holders. The combination of financial capital, information, scientific-technical knowledge, and media can reinforce inequality between those who control the combination and those who do not. Plus, returns from scientific and technical knowledge are believed to allow its holders to reproduce the institutions and relations that sustain their advantages ((Tilly, 2000; Stiglitz, 2012; Tilly, 1998).

Cultural practices, patriarchal systems, including inequitable inheritance traditions, early marriages and customary household power dynamics tend to perpetuate gender inequalities and foster continuing discrimination against girls and women in education systems in most spheres of socio-economic activity. For instance a study by FAO attributes 90 percent of the gender wage gap to gender-based discrimination (FAO 2010). The latter is reinforced by patriarchal societies which accord a higher status to boys over girls in terms of roles and expectations (Virgi, 2012).

Racial and ethnic-based horizontal inequalities may result from policy neglect or from deliberate efforts by policy makers to reinforce and perpetuate political and economic power of dominant groups. By denying equal access to opportunities such as education and health, such practices reinforce and reproduce inequalities thus creating a perpetual cycle of inequality and domination**.** As far as spatial inequalities are concerned, they are either deliberate or result from poor policy design and execution (Kanbur and Venables, 2005).

Part II: Nexus between Inequality and Structural Transformation: Some evidence

IV. Empirical Impact of inequality on Structural Transformation in Africa

Although there is limited theoretical or empirical literature that explicitly examines the impact of inequality on structural transformation, inference can be implicitly drawn from the strand of literature that links inequality and economic growth. Within this body of work, the majority of studies hypothesize a negative effect of inequality on growth. This theoretical literature can be broadly categorized into economic and political economy dimensions.

The economic dimension recognizes that initially inequality affects the ability of some economic agents to effectively participate in economic activity. This in turn results in misallocation/underutilization of resources, slower economic growth, and possibly a weaker industrialization and structural transformation process as well. Theory proposes at least three channels through which inequality impacts on growth.

Firstly, inequality in resource endowment affects the ability of poor agents to borrow in order to carry out productive investments (Aghion and Bolton, 1993; Benerjee and Newman, 1993; Piketty, 1997). This problem is compounded by the fact that capital market imperfections make it difficult for lending institutions to verify whether borrowers will fulfil their loan obligations. Consequently, lenders demand some form of collateral from the borrowers to cushion against potential default. Agents with inadequate collateral face a higher cost of borrowing or are unable to access capital markets at all. Capital markets also make it possible for borrowers to diversify risk, and thus those with access are able to undertake high-risk high-return projects, while those with no access will be stuck with poor return projects (Obstfeld, 1994). Consequently, beyond reinforcing inequality, capital market imperfections result in underutilization of resources, low investment, and low pace of growth and industrialization.

Secondly, inequality in resource endowments affects growth through its impact on human capital and fertility. Poor parents with relatively low level of education often fail to invest in the education of their children, partly because of inadequate resource endowments. Low income also affects decisions on fertility (Ehrhart, 2009). Parents with low income tend to have more children with the hope of increasing the aggregate household income. However, high fertility further curtails the ability of the parents to invest in quality education for their children (Perotti, 1996) thus contributing to intergenerational poverty and inequality.

Thirdly, if initial inequality is such that the majority of the population has low incomes, the size of the domestic market will be small. In contrast to the supply-side mechanisms discussed above, this mechanism works through the demand-side of the economy; the poor tend to consume mainly basic necessities while rich people consume both basic necessities and high value goods produced by industrial and services sectors. Thus the presence of inequality affects the size and composition of aggregate demand, industrialization and economic growth (Nurkse, 1963). Infant industries tend to be particularly affected by wide income inequalities given their dependence on domestic markets which are relatively easier to access than international markets. Consequently, Zweimüller (2000) argues that redistribution of wealth can promote innovation and industrialization by boosting domestic demand.

The political dimension to the impact of inequality on growth emphasizes two main channels through which the former affects the latter. In a perfectly democratic society, if income inequality is so high that the majority of the population is poor, any vote will result in result in poor agents favoring a high tax on capital and for redistribution policies that are potentially harmful to productivity and economic growth (Alesina and Rodrik, 1994; Persson and Tebellini, 1994). This then results in low rate return on investment, low private investment and consequently slow economic growth. In non-democratic societies, where citizens have limited channels to express their preferences, excessive inequality often results in political instability, which in turn undermines investment and future growth (Alesina and Perotti, 1996; Perotti, 1996). Political instability may also weaken the legal system resulting in deterioration of property rights thereby further curtailing private investment, industrialization and future growth. The revolutions of 2011 in Egypt, Libya and Tunisia have been linked to poverty and inequality across age (i.e. youth unemployment) and gender. Similarly, political instabilities in Central Africa Republic, DRC, Mali and other countries can be linked to inequality and poverty. South Africa has also faced frequent violent strikes since the early 2000s and these have been linked to poverty and inequality. There is no doubt that these forms of political stability generate investor pessimism thereby negatively influencing investment, productivity, economic growth and industrialization.

Empirical evidence on the impact of inequality on growth is rather mixed. Some studies find a negative relationship between inequality and growth in democratic economies, but not in non-democratic ones, while other establish a negative relationship between inequality and growth for both democracies and non-democracies. There has been little attempt to examine the impact of inequality on growth and structural transformation in Africa. Ncube, *et al*. (2013) provide empirical evidence that high inequality has a negative effect on growth for the Middle East and North African countries.

This paper contributes to bridging this gap by looking at the relationships between (i) inequality and growth in GDP per capita and (ii) inequality and growth in manufacturing value added. The analysis computes the correlation of the Gini Coefficients with (i) yearly growth rates in GDP per capita and (ii) manufacturing value added for the period 1966 – 2008 for a panel of selected African countries. These countries include Botswana, Central Africa Republic, Congo, Cote d'Ivoire, Eritrea, Ethiopia, Malawi, Nigeria, Rwanda, South Africa, Zambia, and Zimbabwe.[3] The results are presented in Figures 2(a) to 2(d) the figures on the left hand side show the correlation between inequality and growth in per capita GDP while the figures on the right hand side show the relationship between inequality and growth in manufacturing value added. They show that in all the periods, except for the period 2000-2008, there is negative association between inequality and the growth in per capita GDP. There is also a negative association between inequality and growth in manufacturing value added for all the periods. Therefore the results from correlation analysis seem to support the theoretical predictions that inequality has a negative effect on growth and industrial development.

However, it is important to emphasize that correlation does not necessarily imply causality. More robust tests, which cannot be done due to the absence of adequate data on inequality, are required if one is to get more conclusive evidence.[4] Furthermore, the panel evidence masks variation across individual countries. For example if we consider the countries individually for the period 2000-2008, Botswana (*0.054*), Eritrea (*0.077*), Ethiopia (*0.049*), and Lesotho (*0.0319*) show positive association between inequality and growth in per capita GDP, and South Africa (-*0.309*) shows a negative association between these two variables. Similarly, the correlation between inequality and growth in manufacturing value added is negative for the entire panel, while individually correlation is negative for Botswana (-*0.040*), Eritrea (-*0.610*), and South Africa (-*0.450*) and correlation is positive for Ethiopia (*0.158*) and Lesotho (*0.298*).

Figure 2: Correlation of Inequality with Growth in GDP per Capita and Growth in Manufacturing Value Added

Figure 2(a): 1966 – 1975: Panel consists of Cote d'Ivoire, Malawi, Nigeria, Rwanda, South Africa, Zambia and Zimbabwe

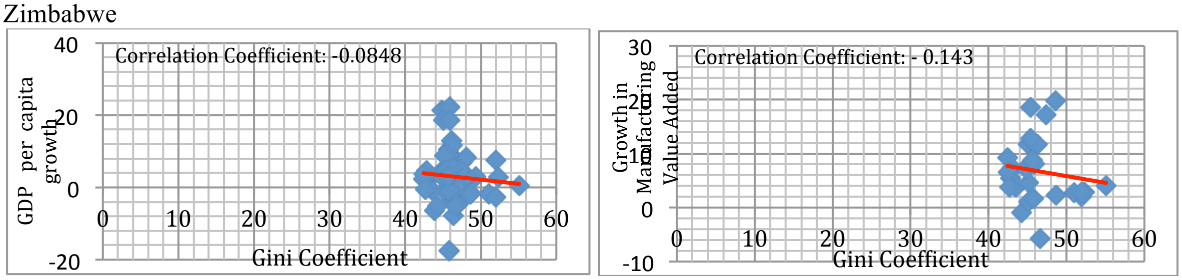


Figure 2(b): 1979 – 1990: Panel Consists of Botswana, Congo, Central Africa Republic, Malawi, Senegal, South Africa and Zimbabwe

[3]Our analysis focuses on a few countries with data. Furthermore, these few countries with data have missing observations in some periods. For this reason, our analysis relies on dividing the sample into different sub-periods, and each sub-periods has different groups of countries depending on data available (see Figure 2(a) to 2(d).

[4]These tests include various issues such as other determinants of growth and industrial development, endogeneity and possible non-linearity in the relationship between inequality and these two variables.

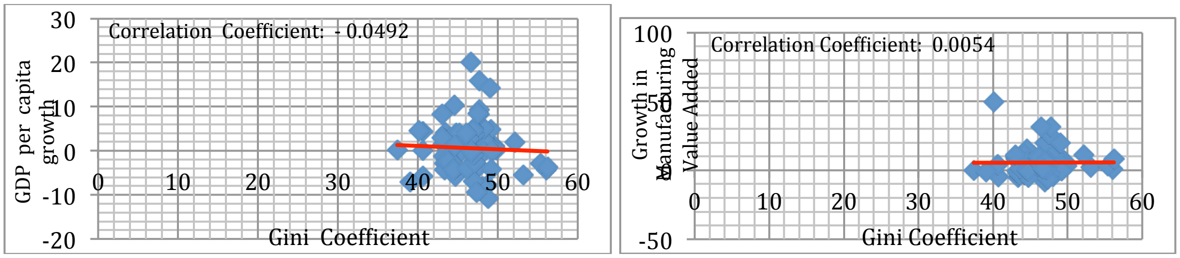


Figure 2(c): 1991 – 1999: Panel Consists of Eritrea, Malawi, South Africa and Zimbabwe

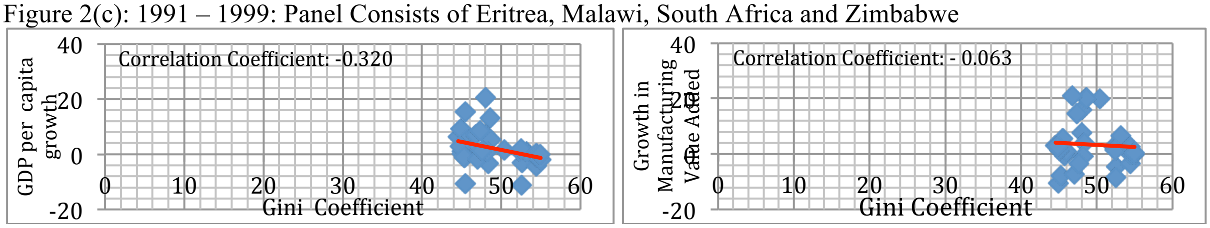
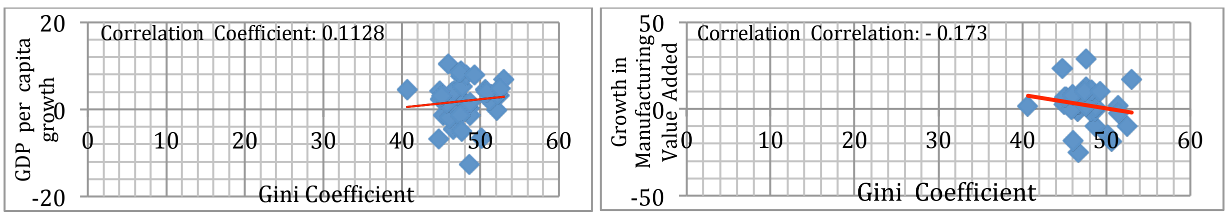


Figure 2(d): 2000 – 2008: Panels consists of Botswana, Eritrea, Ethiopia, Lesotho, South Africa



V. Impact of Structural Transformation on Inequality

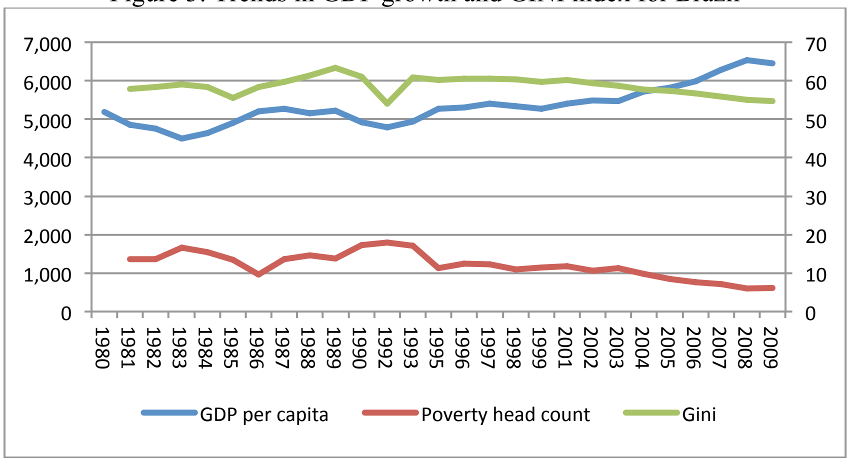
According to the seminal work of Kuznets (1955), the relationship between inequality and transformation is U-shaped, with inequality increasing in the early stages of development as capital holders become relatively more wealthy due to new opportunities to invest, and subsequently decreasing as the benefits of transformation trickle down to the population allowing an average level of income to be achieved through notably better wages. This section explores the extent and conditions under which this relationship holds empirically based on the experiences of selected countries.

The experience of Western Europe and America during the industrial revolution is generally consistent with the Kuznets curve. The beginning of the industrial revolution in the 1800s was characterized by the accumulation and concentration of physical capital among capitalists, which widened wealth/income inequality in England. Industrialization subsequently triggered massive rural-urban migration as populations sought employment in industries that were concentrated in urban areas and away from agriculture. The share of employment in agriculture fell from approximately 35 percent in 1800 to less than 3 percent in recent times in England; from 70 percent to less than 2 percent in America, and from 67 percent in 1900 to less than 10 percent in Spain (Aizeman *et.al*., 2012). The resulting sectoral shift created a demand for skilled workers necessitating education reforms to meet the demands of the labor market. The resulting increases in productivity, income and asset accumulation of assets contributed to a gradual decline in inequality (Clark, 2002). In the US, wealth inequality rose during the colonial period and continued until the late 1800s but declined thereafter (Lindert and Williamson, 1976).

In the more recent case of Taiwan and South Korea however, rapid economic growth was not accompanied by increasing inequality in the early stages of development. Land reforms and improvements in agricultural extension services during economic take off contributed to increased agricultural productivity which in turn helped to reduce poverty even as industrialization took hold. Thus, these emerging economies successfully combined industrialization and economic growth with decreased inequality (Kniivila, 2008).

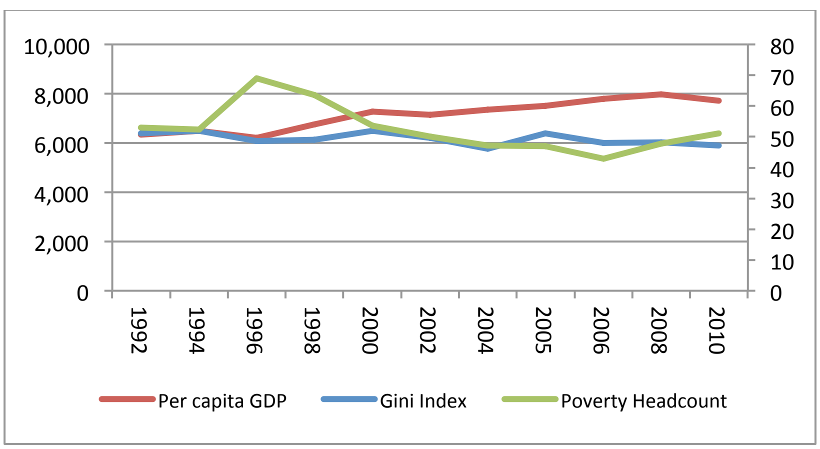
Import substituting industrialization in Latin America contributed significantly to reducing inequality in the region which traditionally operated economic dualism, a system associated with high inequality (UNRISD, 2010). Brazil and Mexico for instance experienced rapid economic growth which was able to increase employment opportunities for the expanding labor force. However, the region suffered an industrial and debt crisis in the 1980s which resulted in the collapse of the import substituting industries, a shrinking of the unionized working class and negative growth. A combination of all these drove inequality up across Latin America. Inequalities in Mexico and Brazil have declined since the mid-1990s due in part to the introduction of social protections programmes, particularly conditional cash transfers (CCTs) (Figure 3 and 4). Indeed CCTs were responsible for about 21 percent of the fall in both the Brazilian and the Mexican Gini index between the mid-1990s and mid-2000s (Soares et al., 2007).

Figure 3: Trends in GDP growth and GINI index for Brazil



Source: World Bank, 2014

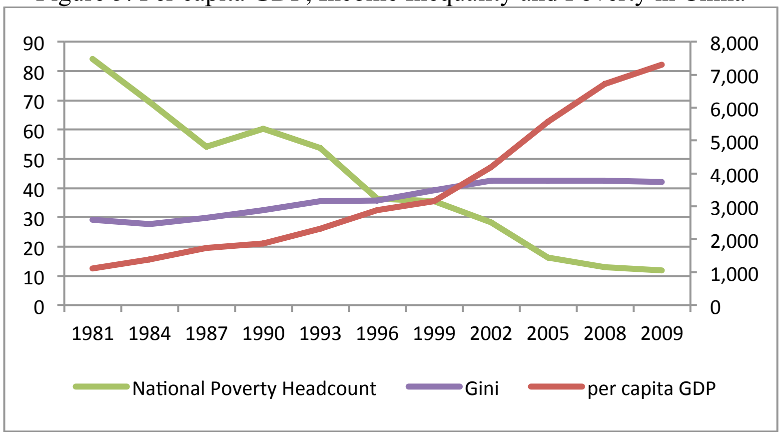
Figure 4: Trends in GDP growth and GINI index for Mexico



Source: World Bank, 2014

China provides an example of a country that has undergone transformation but remained largely unequal despite declining poverty and rising incomes (Figure 5). Rapid industrialization and economic reforms in the late 1970s facilitated economic growth. Indeed China had the highest growth rates in the 1980s (9.9 percent) and 1990s (10.3 percent). This saw the share of industry in GDP increase from 35 percent in 1965 to 46 percent in 2004 (World Bank, 2004a). Inevitably, as the country concentrated more on industrial development, the share of agriculture in GDP declined. However, agriculture remained an important sector for China's economic development, growing at an average of 6.2 per cent annually in the 1980s, employing close to half (44 percent) of the labor force in 2002, and contributing to poverty reduction at the national level. This is largely attributed to agricultural reforms including reduction of mandatory delivery of produce to the state by farmers, enabling farmers have market oriented output mix and land reforms (Ahya and Xie, 2004). With agricultural reforms also came some equitable distribution of income throughout China. However, other key features of China's reforms like trade and financial liberalization served to increase inequality (Kniiliva, 2008). The opening up of trade enabled inflow of FDI and rapid technological transformation which facilitated not only the extensive production of goods for export, but also a fast pace of product sophistication in China. FDI inflows however are concentrated in Eastern and Southern provinces of China, thus increasing regional inequalities (Wan et.al, 2004). Additionally, income inequalities in rural areas are on the rise as well given that industry workers are wealthier and overrepresented in urban areas.

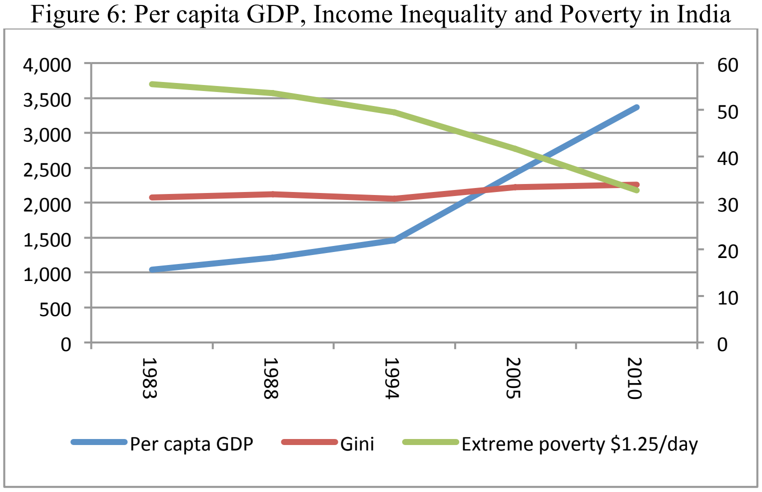
Figure 5: Per capita GDP, Income Inequality and Poverty in China



Source: *World Bank, 2014*

Similar to China, economic growth in India accelerated after major economic reforms in the 1990s that favored the services industry. India was able to adapt rapidly to new technologies which enabled it to emerge as an efficient provider of software services globally. Technological changes were implemented extensively, including in rural areas, a strategy that was a major driver of poverty reducing economic growth (Datt and Ravaillon, 2009). However, because of the skill intensive nature of the services sector, opportunities favored those with skills or access to education services. This trend, coupled with the small share of employment of the sector has increased income inequality in India despite rising growth. The Gini coefficient increased from 30.82 in 1994 to 33.9 in 2010 even as extreme poverty declined (Figure 6).

Figure 6: Per capita GDP, Income Inequality and Poverty in India

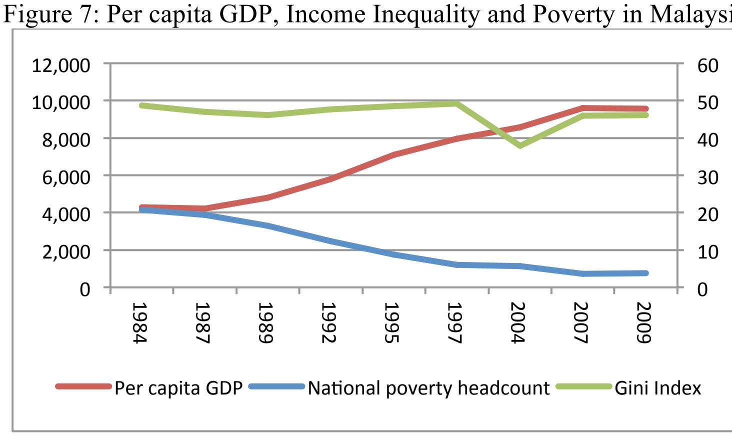


Source: World Bank, 2014

The liberalization and privatization of the Malaysian economy in the mid-1980s, has been associated with rising inequality in the country. In the early 1990s, the economy was opened up to foreign workers in a bid to keep wages low and improve export competitiveness (Aizemann at.al, 2012). However, this resulted in the depression of wages, which only served to worsen income inequality in Malaysia. For instance, in 1987, Malaysia had a Gini index of

47.04 and but by 1997, it had reached 49.15 (World Bank, 2013). The late 1990s saw a decline in inequality owing to the preferential treatment of the indigenous Malaysian people aimed at addressing ethnic inequalities. In addition to the implementation of affirmative action policies the Asian crisis (1997-199) financial crisis adversely impacted the top quintiles of the population, (i.e. foreign workers suffered massive unemployment). On the other hand, the lower quintiles of the population (mostly Malaysian locals) were barely affected by the crisis. Inequality however began an upward trend again in the early 2000s when Malaysia adopted capital intensive production techniques which increased the demand for highly skilled labor, further driving a wedge between the wages of skilled and unskilled workers. Remarkably income poverty continued to decline despite rising inequalities (Figure 7).

Figure 7: Per capita GDP, Income Inequality and Poverty in Malaysia



Source: World Bank, 2014

Central and Eastern Europe had a relatively different experience. Despite industrialization after the Second World War inequality remained low in the region. This was possible because of the egalitarian policies of the Communist regime. However, when the regime buckled under economic pressures (e.g., very high real interest rates and depressed commodity prices), a new regime took over with reforms that significantly increased inequality. Price liberalization and de-industrialization drove the previously depressed prices of commodity products towards world price levels while collapsing real wages in the manufacturing and agricultural sectors. Meanwhile, energy emerged as the leading sector of the economy, demanding very highly skilled and well remunerated labor to run mine operations, which served to widen inequality. In fact, two of the western Siberia oil and gas regions became the major drivers of income inequality in Russia (UNRISD, 2010). In contrast, among the Nordic countries of Europe, centralized pay bargaining, unionization and collective management of resources largely contributed to equality especially between the 1980s and 1990s when many other parts of the world were experiencing rising inequality.

Some policy perspectives for African Policy makers

In conclusion, countries experiences reveal that the relationship between structural transformation and inequality is the result of complex interactions between a broad set of factors, including changes in technology, economic reforms and incentives, capital accumulation, social changes and political changes that interact with the initial conditions of a country (Aizemann et. al, 2012). Equally important is for countries to understand the type of transformation and economic growth they pursue and apply measures that promote inclusiveness and narrow inequalities.

Generally speaking improvements in agricultural productivity, rural transformation, enhancements in access to basic social services, particularly health and education, and effective social protection programmes are critical for reducing inequalities of opportunity. The experiences of Brazil and Mexico also suggest that social protection programmes can be effective in addressing inequalities particularly when they are linked to behavioral change. Aligning educational curricula to labor market needs and well-targeted education programs provide youth, women and other marginalized groups with skills that are relevant for the economy, thus enhancing their chances of employment and income generating opportunities.

But most importantly, reducing poverty should not be confused with reducing inequalities. Country experiences suggest that reducing poverty is not always synonymous with narrowing inequalities. China has been instrumental in achieving the global MDG target of halving poverty, however this outcome has been accompanied by rising income and spatial inequalities.

As countries transform, they need to put measures in place to adequately manage the transition and specifically counter the resulting spatial inequalities that are likely to occur. Decentralization policies and initiatives aimed at empowering sub-national jurisdictions to deliver basic social services to their communities may be useful in addressing spatial inequalities if these entities are provided the necessary human and financial resources (Nel and Binns, 2003). Furthermore, the development of relevant skills and Affirmative Action programmes can be an important instrument for tackling some forms of horizontal inequalities, through improving opportunities for disadvantaged groups as was the case in Malaysia.

REFERENCES

1. African Development Bank (AfDB), (2012). Income Inequality in Africa, *Briefing Note* 5.
2. Aghion, P. and Bolton, P. (1992).Distribution and growth in models of imperfect capital markets. *European Economic Review*, **36**, 3, 603-611.
3. Ahya, C. and Xie, A. (2004).*New tigers of Asia. India and China: a special economic analysis*, Morgan Stanley, 59.
4. Aizeman, J., Lee, M. and Park, D. (2012). The Relationship between Structural Change and Inequality: A Conceptual Overview with Special Reference to Developing Asia, ADBI Working Paper396, Asian Development Bank Institute, Tokyo.
5. Alesina, A. and Rodrik, D. (1994).Distributive politics and economic growth. *Quarterly Journal of Economics*, CIX (2), 465-490.
6. Alesina, A. and Perotti R. (1996). Income distribution, political instability, and investment. *European Economic Review*, 40(6), 1203-1228.
7. Ahya, C. and Xie, A. (2004).*New tigers of Asia. India and China: a special economic analysis*, Morgan Stanley, 59.
8. Beladi, H., Chao, C. and Hollas, D. (2013).How growing inequalities affects developing economies. *Journal of Economics and Business*, **68**, 43-51.
9. Banerjee, A. and Newman, A. (1993).Occupational choice and the process of development. *Journal of Political Economy*,**101**(2), 274-298.
10. Calhoun, C. (2013). Occupy Wall Street in perspective. *The British Journal of Sociology*, 64, 1, 26-38.
11. Carter, M. and Barrett, (2006). The economics of poverty traps and persistent poverty: an asset based approach. *Journal of Development Studies*, 42, 2, 178–99.
12. Clark, G., (2002). Farmland rental values and agrarian history: England and Wales, 1500 – 1912*, European Review of Economic History*, 6, 281-308.
13. Credit Suisse (2013).*Global Wealth Report 2013,* Zurich.
14. Dubrow, C. (2007). Defining Political Inequality within a Cross-National Perspective. International Journal of Sociology, **37**, 4, 3–9.
15. Datt, G. and M., Ravaillon, (2009). How has India's Economic Growth Become Less Pro-poor in the Wake of Economic Reforms? World Bank Policy Research Working Paper No. 5103, Washington, DC.
16. Ehrhart, C. (2009). The effects of inequality on growth: a survey of the theoretical and empirical literature. ECINEQ WP 107.
17. FAO, IFAD and ILO (2010). Gender dimensions of agricultural and rural employment: Differentiated pathways out of poverty. Rome.
18. Fields G. S. (1985). Industrialization and Employment in Hong Kong Korea, Singapore and Taiwan. Cornell University ILR School. DigitalCommons@ILR.
19. ILO (2012). Global employment trends for women: December 2012. International Labor Organization.
20. ILO (2013). Global Employment Trends for Youth 2013. International Labor Organization.
21. Kanbur, R. and Venables, A. J. (2005).S*patial Inequality and Development* by, Oxford Press University.

22. Kniivila M. (2008) Industrial development and economic growth: Implications for poverty reduction and income Inequality, Pellervo Economic Research Institute, Helsinki, Finland accessed at http://www.un.org/esa/sustdev/publications/industrial_development/3_1.pdf.
23. Kuznets, S. (1955) Economic growth and income inequality, *American Economic Review*, **45**, 1 – 28.
24. Lindert, H. P., and Williamson, J. G. (1976) Three centuries of American inequality, Research in Economic History, **1**, 69–123.
25. Ncube, M., Anyanwu, J. and Hausken, K. (2013).Inequality, Economic Growth, and Poverty in the Middle East and North Africa.African Development Bank, *Working Paper* No. 195.
26. Nurke, R. (1963). *Les problèmes de la formation du capital dans les pays sous-développés*. Traduction française, Paris: Editions Cujas.
27. Obstfeld, M. (1994).Risk-Taking, Global Diversification, and Growth. *American Economic Review*, **84**, 1310 – 1329.
28. OECD (2013).Workshop on inclusive growth. Opinion notes. OECD conference center. April 2013.
29. Perotti, R. (1996). Growth, income distribution and democracy: what the data say. *Journal of Economic Growth*,**1**, 2, 149-187.
30. Persson, T. and Tabellini, G. (1992).Growth, distribution and politics. *European Economic Review*, **36**, 3, 593-602.
31. Persson, T. and Tabellini, G. (1994). Is inequality harmful for growth? *American Economic Review*, **84**, 3, 600-621.
32. Sen, A. (1991). *Capability and Well-Being'*, in M. Nussbaum and A. Sen (eds), The Quality of Life. Oxford: Clarendon Press.
33. Stiglitz, J. E. (2012). The Price of Inequality: How Today's Divided Society Endangers Our Future (p. 32). Norton. Kindle Edition.
34. Soares S. et. al., (April 2007) Conditional Cash Transfers in Brazil, Chile and Mexico: Impacts Upon Inequality. International Poverty Center, Working Paper Number 35.
35. Stiglitz, J. (2013). The Price of Inequality: How Today's Divided Society Endangers Our Future. W. W. Norton & Company.
36. Tilly, C. (1998). *Durable Inequality*. Berkley, University of California Press.
37. Tilly, C. 2000. "Spaces of Contention." Mobilization: An International Journal. **5**(2): 135-159.
38. UNDESA (2013). *Inequality Matters.* Report on the World Social Situation, 2013.
39. UNDP (2010).Human Development Report 2010.
40. UNECA (2011). Millennium Development Goals 2011 Report
41. UNECA (2013). Industrializing for Growth, Jobs and Economic Transformation. Economic Report on Africa 2013.
42. UNECA (2014a). Millennium Development Goals 2014 Report.
43. UNECA (2014b). Dynamic Industrial Policy. Economic Report on Africa 2014.
44. UN (United Nations) (2014). TST Issues Brief: Promoting Equality, including Social Equity. Open Working Group on Sustainable Development Goals, Session 8, 3-7 February 2014.
45. Unni, J. (2001). Gender and Informality in Labour Market in South Asia. *Economic and Political Weekly*, 36, 26, 2360-2377.
46. UNRISD (2010).*Combating Poverty and Inequality: Structural change, social policy and politics*, UNRISD, Geneva.
47. Van der Eng P. (January 2009) Growth and Inequality: The Case of Indonesia, 1960-1997. Munich Personal RePEc Archive.
48. Virgi, S. Z. (2012). Gender Inequality And Cultural Norms And Values: Root Causes Preventing Girls From Exiting A Life Of Poverty. *Addressing Inequalities* the Heart of the Post-2015 Development Agenda and the Future We Want for All. *Global Thematic Consultation.*
49. Virgi, S. Z. (2012). Gender Inequality And Cultural Norms And Values: Root Causes Preventing Girls From Exiting A Life Of Poverty. *Addressing Inequalities* the Heart of the Post-2015 Development Agenda and the Future We Want for All. *Global Thematic Consultation.*
50. Wan, G., Lu, M. and Chen, Z. (2004), Globalization and regional income inequality: evidence from within China, Discussion Paper No. 2004/10, United Nations University, World Institute for Development Economics Research.
51. World Bank (2004), World Development Indicators 2004.

52. World Bank (2014), PovcalNet: the on-line tool for poverty measurement developed by the Development Research Group of the World Bank' and provide the URL to PovcalNet.
53. Zweimüller, J. (2000). Schumpeterian entrepreneurs meet Engel's law: the impact of inequality on innovation-driven growth. *Journal of Economic Growth*, **5**(2), 185-206.