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A Comparative Study of Inequality in Kenya and South Korea, 1960s - 2014

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DECLARATION

I, SEO SEOL HWA, hereby declare that this research project is my original work and has not been presented for a degree in any other University.

Signed………………………………………… Date………………………………………….

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This project has been submitted for examination with my approval as University Supervisor;

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DEDICATION

This research project is dedicated to God, who has been gracious to me all the time. Without God, I couldn't have come to Kenya and completed my master's course. He has been faithful to the end and I learned that 'With God, all things are possible (Matthew 19:26).'

I also dedicate my research project to my father, Seo Hyo An, my mother, Baek Ji Hye, and my brother, Seo Ha Ryong. Their endless love and support have always encouraged me to overcome new challenges including this study.

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ABSTRACT

Inequality is the state in which resources and power are distributed unevenly and, therefore, people are divided into two groups: one with wealth and power and the other without. Even though inequality exists in every society, it must be resolved due to its negative impact on poverty reduction, economic growth, and socio-economic stability. Kenya and South Korea were in a similar economic situation in the early 1960s with substantially low GDP per capita and high poverty incidence. However, Kenya is one of highly unequal African countries while South Korea belongs to the 'East Asian Tigers', countries which successfully achieved sustained high economic growth with low and declining levels of inequality. This research examines changes in income and non-income inequality in Kenya and South Korea for the last 50 years using various indicators. The study tries to find out reasons why inequality levels have changed differently between the two countries and seeks lessons for resolving inequality and promoting inclusive growth. The findings of the research suggest that it is critical to provide decent job opportunities, expand educational opportunities, increase access to national health services, and invest in health sector for reducing income and non-income inequality and promoting growth with equity.

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ABBREVIATIONS

AfDB	African Development Bank
ADB	Asian Development Bank
DESA	United Nations Department of Economic and Social Affairs
GDP	Gross Domestic Product
HDI	Human Development Index
HIRA	Health Insurance Review and Assessment Service of South Korea
HPAEs	High-Performing East Asian Economies
IFIs	International Financial Institutions
ILO	International Labour Organization
IMF	International Monetary Fund
KDI	Korea Development Institute
KIPPRA	Kenya Institute of Public Policy Research and Analysis
KiHASA	Korea Institute for Health and Social Affairs
KNBS	Kenya National Bureau of Statistics
KOSIS	Korean Statistical Information Service
KOSTAT	Statistics Korea
MDGs	Millennium Development Goals
NHIF	National Hospital Insurance Fund of Kenya
NHIS	National Health Insurance Scheme of South Korea
NITA	National Industrial Training Authority of Kenya
NPS	National Pension Scheme of South Korea

OECD	Organization for Economic Cooperation and Development
SAPs	Structural Adjustment Programs
SID	Society for International Development
SMEs	Small and Medium-sized Enterprises
UN	United Nations
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNU-WIDER	United Nations University World Institute for Development Economics Research

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

'All men are created equal, but suffer from inequality everywhere.'[1] Philosopher Jean-Jacques Rousseau argued that, in the state of nature, a natural man lived in isolation and enjoyed consequent freedom to satisfy his individual needs and desires.[2] However, men began to lose their natural freedom and equal state as private property established and a civil society developed. With endless desires, men had to compete for scarce resources. Economic inequality, created by competitions, transformed into political inequality and it deprived men of fundamental natural rights such as the right to eat, the right to live freely, the right to decide, et cetera.

Inequality is the state in which resources and power are distributed unevenly and, therefore, people are divided into two groups: one with wealth and power and the other without. According to UNDP, inequality has two dimensions: inequality of outcomes and inequality of opportunities.[3] Inequality of outcomes is relevant to human well-being, such as the level of income or educational attainment. Inequality of opportunities refers to unequal access to employment or education. With prevalent inequality, thus, the disadvantaged group cannot enjoy benefits of growing wealth of society and can hardly find opportunities to get out of poverty.

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1 Rousseau J. J., *The discourse on the origin of human inequalities* (Joo and Ko, Trans.), (Seoul: Bookworld, 2006) p.141.
2 Ibid, pp.50-94.
3 UNDP, *Humanity divided: Confronting Inequality in Developing Countries*, (New York: UNDP, 2013) p.5.

However, there is no society which is completely equal. There have always been the rich and the poor in human history. Even in the wealthiest countries, inequality exists.[4] In addition, the Soviet Union's effort to build a completely equal society failed as it collapsed. This demonstrated that equal distribution of wealth can cause inefficiency and poor economic performance threatening the well-being of the whole society.

If it is a man's fate to live suffering in an unequal society, should inequality be accepted or justified as natural phenomenon? Philosophers and the international society don't seem to have answered in the affirmative. First of all, Rousseau condemned inequality due to the fact that it disobeys nature. He argued that it is highly unnatural that the majority of people are starving while minority live in luxury.[5] Secondly, Karl Marx argued that inequality increases tensions between 'the bourgeoisie (who owns the means of production and wealth)' and 'the proletariat (those who work for wages)' and leads to the class struggle.[6] Lastly, the universal declaration of human rights acknowledged that all human beings are born free and equal in dignity and rights.[7] Accordingly, inequality cannot be justifiable.

Rather, inequality must be resolved due to its negative impact on poverty reduction, economic growth, and socio-economic stability. With high inequality levels and less opportunities, the poor cannot pull themselves out of poverty and it becomes harder to promote sustained economic development. Besides, extreme inequality can also cause sociopolitical instability by weakening solidarity of the society according to Mr. Angel Gurria, the secretary-general of Organization for Economic Cooperation and Development (OECD).[8] He explained that inequality is a critical social and economic challenge because 'it inhibits

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[4] Ibid, p.64. The Gini index of high-income countries has been over 40 since the 1990s.
[5] Rousseau J. J., *The discourse on the origin of human inequalities* (Joo and Ko, Trans.), (Seoul: Bookworld, 2006)
[6] Goldstein J. S. & Pevehouse J. C., *International Relations* (10e), (The United States: Pearson, 2011) p.104.
[7] UN, *The Universal Declaration of Human Rights*, http://www.un.org/en/documents/udhr/
[8] Gurria A., *Tackling Inequality*, http://oecdobserver.org/news/fullstory.php/aid/3717/Tackling_inequality.html

growth, weakens the structures that hold our societies together, and threatens our ability to move forward.'[9] Therefore, it is necessary to adopt adequate strategies to reduce unequal distribution of wealth and promote development of the entire society.

1.1 Background to the Study

According to the World Bank, Africa has a substantial degree of inequality in incomes, education, health status, and access to essential public services.[10] In 2010, 6 out of 10 most unequal countries worldwide were from Sub-Saharan Africa.[11] Even though the world has started to shed new light on Africa's fast growth and the improvement of African lives over the past decade, there is a growing concern on the negative aspect that some people are excluded from the process of the recent economic development.[12] In this regard, it is urgent for African countries to give attention to their domestic inequalities and formulate appropriate policies targeting the issue.

Kenya is also a highly unequal African country with almost half of its population suffering from inequality as well as poverty; the population below poverty line is more than 43%[13] and the Gini coefficient between 2003-2012 is 47.7%[14] (zero means complete equality and 100 means complete inequality). This gap should be reduced because economic growth, with only half population participating and benefiting, would not result in productive and sustained

[9] Ibid.
[10] World Bank, *Can Africa Claim the 21st Century?,* (Washington, D.C.: World Bank, 2002) pp.83-102.
[11] AfDB, 'Briefing Note 5: Income Inequality in Africa', *Briefing Notes for AfDB's Long-Term Strategy*, (2012) p.2.
[12] Heinrich Böll Stiftung, *Africa Rising: Who benefits from the continent's economic growth,* (Berlin: Heinrich Böll Stiftung, 2014) and World Bank, 'Africa Continues to Grow Strongly but Poverty and Inequality Remains Persistently High' *The World Bank Press Release*, (Washington), 7 October 2013.
[13] CIA, *The World Fact Book - Kenya*, https://www.cia.gov/library/publications/the-world-factbook/geos/ke.html, 20 June 2014.
[14] UNDP, *Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience*, (New York: UNDP, 2014) p.170.

development. Thus, Kenya should adopt appropriate policies to actively tackle its high inequality levels.

By contrast, South Korea is one of the 'East Asian Tigers' which successfully achieved sustained high and rapid economic growth with low and declining levels of inequality. South Korea maintained about 6-7% of high GDP growth rates between 1960-1985 and the ratio of the income shares of the richest 20% and the poorest 20% of the population was less than 10% during the same period.[15] Considering the fact that it was one of the poorest countries in the world in 1950s and the early 1960s, what Korea achieved during the last 50 years is outstanding.

1.2 Statement of the Research Problem

Most research done on inequality focused on finding a relationship between income or non-income inequality and economic development. Scholars such as Nel (2003), Castello & Domenech (2002), Fosu (2014), and Deiwiks et al (2012) proved that inequality negatively affects a country's socio-economic development. However, there is not enough explanation about how to resolve inequality.

There is also a lot of literature which deals with the level of inequality in Africa. The World Bank, United Nations Development Programme (UNDP), and African Development Bank (AfDB) describe in their reports that most African countries have high levels of income and non-income inequality. Kenya is included among the highly unequal African countries and, hence, the country's inequality has been discussed actively. Especially, Society for

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[15] World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (Summary), (Washington, D.C.: World Bank, 1993) pp.3-4.

International Development (SID) well explained the causes of inequality and the domestic and regional levels of inequality.

However, examining only one country or region may not fully show a broad picture about the problem as well as offer ideal solutions. By comparing two countries with different levels of inequality, it will be easier to capture cross-national differences and find out lessons one can learn from the other to solve the issue properly.

Kenya and South Korea were in a similar economic situation in the early 1960s. Both countries were categorized as poorest countries with low GDP per capita and high poverty rates.[16] However, Kenya remains among low income countries with high inequality while South Korea is considered as a high income country with relatively low levels of inequality. This suggests that Korea's success story of promoting equal growth may have a great implication on the current and future economic development of Kenya.

Nevertheless, there has been no attempt to analyze differences between the two countries in terms of tackling inequality. In that regard, this research aims to fill the knowledge gap by conducting a comparative study of inequality between Kenya and South Korea, trying to answer the following questions: How could South Korea succeed in promoting equal economic growth while Kenya is still struggling? What Kenya should do to tackle inequality?

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[16] The both countries' GDP per capita was $105 in 1965. The both had poverty ratio of 40% in the 1960s. World Bank, *Data*, http://data.worldbank.org, Ndulu B. J., et al, *The Political Economy of Economic Growth in Africa, 1960-2000*, Vol. 2, (Cambridge: Cambridge University Press, 2008) p.360, Kim K. S., 'The Korean Miracle (1962-1980) Revisited: Myths and Realities in Strategy and Development', *The Helen Kellogg Institute for International Studies, Working Paper 166* (1991) p.3.

1.3 Objectives of the Research

This research has three objectives:

- To examine changes in income and non-income inequality in Kenya and South Korea.
- To find out reasons why inequality levels have changed differently between the two countries.
- To seek lessons for resolving inequality and promoting equal economic development.

1.4 Literature Review

In the discipline of social science, inequality means unequal distribution of wealth, power, opportunities, and benefits.[17] And it has been dealt with under the specific categories such as economic inequality, social inequality, political inequality, and gender inequality. Among those categories, economic inequality seems to be the most serious issue because 'distribution of wealth is directly related to a matter of economic survival and human well-being.'[18] Economic inequality can be discussed under income and non-income inequality, as it shows how wealth is distributed, the outcome of unequal distribution of wealth, and how the opportunities to income are given to people.

In this study, literature has been reviewed focusing on economic inequality. Literature on the measurement of inequality, both income and non-income, and its impacts on economic development is included. Literature on inequality in Kenya and inequality in South Korea has also been reviewed.

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[17] UNDP, *Humanity divided: Confronting Inequality in Developing Countries*, (New York: UNDP, 2013) pp.15-40.
[18] Ibid, pp.41-62.

1.4.1 The Measurement of Inequality

How can we assess the level of inequality in our society? What measurement can be used? Interestingly, various organizations and scholars used different kinds of indicators to measure income and non-income inequality levels.

Various Measurements of Income Inequality

Income share has been a major concern in terms of measuring income inequality because it shows which income group captures the largest share of income in a country. AfDB examined income shares among the richest and the poorest in Africa and found out that the rich (accounting for about 5% of Africa's population) held 18.8% of total income in Africa while the poor (accounting for about 61% of population) held only 36.5% of total income.[19]

The World Bank used household consumption among the richest and the poorest in Africa to measure income inequality. It defines Africa as a highly unequal region because the poorest 20% of Africans account for 5.2% of total household consumption that is only about 4% of GDP.[20]

Hope measured the degree of income poverty in Africa using three indicators of the UNDP income poverty index; the percentage of poor, the aggregate poverty gap, and the distribution of income among the poor. Thus, he looked at the average population below national poverty line and Gini coefficient of Sub-Saharan Africa.[21]

A research institute, SID, describes the degree of income inequality in East Africa through the measure of income gap and comparison of life styles. The institute compared the average

[19] AfDB, 'Briefing Note 5: Income Inequality in Africa', *Briefing Notes for AfDB's Long-Term Strategy*, (2012).
[20] World Bank, *Can Africa Claim the 21st Century?,* (Washington: World Bank, 2002) pp.92-93.
[21] Hope K. R., Sr., 'The poverty dilemma in Africa: toward policies for including the poor', *Progress in Development Studies*, Vol. 4, No. 2, (2004).

income and typical life styles between the richest 10% and the poorest 40% of East Africans. Usually, the richest earns 10 times more income than the poorest 40% and enjoys greater services in good environments.[22]

The most commonly used measurement of income inequality is Gini coefficient or Gini index because it clearly shows income distribution of a country. Ayub found out that 16 out of 22 African countries, with available data from the 2000s, had a Gini coefficient greater than 40%.[23] Since 100 or 1 of Gini coefficient means complete inequality and 0 means complete equality, it seems that the 16 African countries have considerable degree of income inequality.

Various Measurements of Non-income Inequality

Hope used the Human Development Index (HDI) to analyze human poverty in several African countries. The HDI is 'a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living'.[24] In other words, it measures whether people in a country have chances to be educated, get health care services and use public services in general. If a country has low HDI value, it means the chances are not well distributed in that country.

Similarly, the World Bank investigated primary and secondary school enrollments, child mortality, life expectancy, and malnutrition prevalence.[25] Ayub also measured access to education, health, water and sanitation as main indicators of non-income inequality.[26] Poor school enrollments, high child mortality rate, low life expectancy, poor nutritive conditions,

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[22] Society for International Development, *The State of East Africa 2013: One People, One Destiny? The Future of Inequality in East Africa*, (Nairobi: SID, 2013) p.10.
[23] Ayub M., 'Poverty and Inequality', *Global Journal of Emerging Market Economies*, Vol. 5, No. 3, (2013) pp.332-333.
[24] UNDP, http://hdr.undp.org
[25] Hope K. R., Sr., 'The poverty dilemma in Africa: toward policies for including the poor', *Progress in Development Studies*, Vol. 4, No. 2, (2004) and World Bank, *Can Africa Claim the 21st Century?,* (Washington: World Bank, 2002).
[26] Ayub M., 'Poverty and Inequality', *Global Journal of Emerging Market Economies*, Vol. 5, No. 3, (2013).

and a lack of access to basic services indicate there is a high level of non-income inequality.

Castello & Domenech measured human capital inequality combining Gini coefficient and the distribution of education by quintiles. According to them, Yemen had considerable income and non-income inequality in 1975 because it had a Gini coefficient close to 100 and about 99% of its population was without schooling.[27] By contrast, if a country has Gini coefficient close to zero and more evenly shared access to education, this country has high equality.

1.4.2 The Impact of Inequality on Economic Development

Various scholars have attempted to define the impact of inequality on economic development as there have been arguments about the relationship between inequality and economic growth, poverty reduction, and sociopolitical development.

Inequality and Economic Growth

The early development thinkers have concluded that inequality is a natural outcome of the increased growth.[28] Rather, there is a trade-off between growth and equality and inequality reduction is not a necessary condition for economic growth. Kuznets argued that inequality gradually reduces as an economy develops.[29] He examined whether income inequality increased or decreased in the course of a country's economic growth by investigating the distribution of income among families in the United States, England, and Germany from the 1920s to 1950s. According to his findings, as their economies grew, the share of the lowest

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[27] Castello A. & Domenech R., 'Human Capital Inequality and Economic Growth: Some New Evidence', *The Economic Journal*, Vol. 112, No. 478, (2002) p.190.
[28] UNDP, *Humanity divided: Confronting Inequality in Developing Countries*, (New York: UNDP, 2013) pp.42-44.
[29] Quoted Kuznets S.,(1955) from Society for International Development, *Kenya's Vision 2030: An audit from an income and gender inequalities perspective*, (Nairobi: SID, 2010) p.3.

quintile rose while the share of the top quintile declined.[30] Vengroff also argues that inequality can increase in the early stages of development but will start decreasing as a country reaches higher stages of development.[31]

However, this view has been challenged by other scholars as new evidence suggests a negative effect of inequality on economic growth. To examine the effect, Nel used a sample of household expenditure data of Sub-Saharan African states. His findings showed that higher levels of income inequality did negatively affect medium-term economic growth prospects and the hypothesis of a trade-off between growth and inequality could not be proved.[32]

Castello & Domenech also found evidence of a negative relationship between human capital inequality and economic growth. They indicated that education inequality is associated with lower investment rates and lower income growth, and this makes the negative effect of human capital inequality on economic growth strong.[33]

Inequality and Poverty Reduction

The relationship between inequality and poverty reduction has also been discussed in other papers. The World Bank report, 'Can Africa claim the 21st century?', argues that with a large degree of income inequality and a lack of access to essential social services, the number of poor people in Africa would not be reduced significantly.[34] In particular, exclusion of the poor from the process of economic development as well as their poor capabilities could lead them into the deeper level of poverty by depriving them of a chance to raise incomes and

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[30] Kuznets S., 'Economic Growth and Income Inequality', *The American Economic Review*, Vol. 45, No. 1, (1955) p.4-5.
[31] Vengroff R., 'Dependency, Development, and Inequality in Black Africa', *African Studies*, Vol. 20, No. 2, (1977) p.24.
[32] Nel P., 'Income Inequality, Economic Growth, and Political Instability in Sub Saharan Africa', *The Journal of Modern African Studies*, Vol. 41, No. 4, (2003) p.624.
[33] Castello A. & Domenech R., 'Human Capital Inequality and Economic Growth: Some New Evidence', *The Economic Journal*, Vol. 112, No. 478, (2002) pp.195-199.
[34] World Bank, *Can Africa Claim the 21st Century?,* (Washington, D.C.: World Bank, 2002) pp.83-102.

improve their living standards.

Fosu analyzed the relationship between inequality and poverty reduction particularly in 23 Sub-Saharan African states. He found out that declining inequality and income growth tended to decrease poverty and lower initial inequality raised the rate at which growth reduces poverty.[35]

Inequality and Sociopolitical Development

Some researches emphasize the adverse effects of increased inequality on sociopolitical development. A study conducted by SID explains inequality negatively affects not only economic growth and poverty alleviation but also social stability, democracy, gains from increased trade, and equality in opportunity.[36] Highly unequal distributions of wealth and income usually correlate with highly unequal power relations, which hinder democracy and provoke violence among groups. Moreover, with a large degree of inequality, gains from or any opportunities to participate in economic growth cannot be distributed to the entire society retarding further development of a country.

Similarly, UNDP introduces other possible outcomes of inequality which affect a society negatively. It stresses that persistent inequality between different segments of a population can result in cultural biases, discriminatory practices, and social exclusion.[37] High inequality can also distort political decision-making by undermining democratic and broader participation of people.

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[35] Fosu A. K., 'Growth, Inequality, and Poverty in Sub-Saharan Africa: Recent Progress in a Global Context', *Center for the Study of African Economies, Working Paper 17*, (2014) pp.13-14.
[36] Society for International Development, *Kenya's Vision 2030: An audit from an income and gender inequalities perspective*, (Nairobi: SID, 2010) pp.3-4.
[37] UNDP, *Humanity divided: Confronting Inequality in Developing Countries*, (New York: UNDP, 2013) pp.52-53.

Inequality and Conflict

There is another negative role of inequality revealed by Deiwiks, et al. It is called regional inequality, either economic or political, that increases the risk of secessionist conflict in federal states. In highly unequal federations, according to their finding, both relatively developed and underdeveloped regions are more likely to experience secessionist conflict than regions close to the country average.[38] Even though this finding does not directly demonstrate the negative impact of inequality on economic development, we have already observed that conflicts actually impede socio-economic and political development in many countries around the world.

1.4.7 Inequality in Kenya

There are some researches which examined inequality in Kenya using various indicators, and it seems that Kenya is one of highly unequal countries in the world.

Income Inequality

According to SID, Kenya has a higher level of income inequality even compared to other unequal countries; during the 1960s-1980s, income Gini coefficient of Kenya (48-71) was higher than that of South Africa (48-62), Brazil (35-70), Uganda (27-44), and Tanzania (34-60).[39]

There is also a large income gap between the rich and the poor in Kenya. According to Gakuru & Mathenge, between the year of 2005 and 2006, the richest urban households held 39% of average expenditure by urban households while the poorest urban households held

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38 Deiwiks C., et al, 'Inequality and Conflict in Federations', *Journal of Peace Research*, Vol. 49, No. 2, (2012) pp.294-298.

39 Society for International Development, *Kenya's Vision 2030: An audit from an income and gender inequalities perspective*, (Nairobi: SID, 2010) pp.4-5.

only 2%.[40] In the rural area, the richest rural decile spent 29% of average expenditure by rural households while the poorest rural decile spent only 2%.[41]

Non-income Inequality

Non-income inequality in Kenya also seems obvious as it is deeply related to income inequality. One fact is that, even though the gross primary school enrollment rate in the country is reaching almost 100%, the rate drops to about 70% among the poorest.[42] Onsomu explaines that poor households are mostly not able to afford direct or indirect costs for the access to schooling and, therefore, many children from poor backgrounds may not go to school but opt to engage in child labor to supplement family income.[43]

What is worse, inequality in education exists even among students attending schools. SID reports that children in Kenyan private schools receive more hours of instruction than children in Kenyan public schools which is about two more months of teaching in an academic year.[44]

Income inequality also causes inequality in health and basic services. Mugo argues that the poor in Kenya have less access to health care since access to medical services is determined by the ability of households to pay for such services as well as the physical availability of the services.[45] According to the World Bank, access to water and sanitation is not available for

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[40] Gakuru R. & Mathenge N., 'Poverty, Growth, and Income Distribution in Kenya: A SAM Perspective', *AGRODEP, Working Paper 1*, (2012) p.7.
[41] Ibid.
[42] World Bank, Kenya Poverty and Inequality Assessment Volume 1: Synthesis Report (unpublished), 2008, p.xii.
[43] Onsomu E., 'Addressing Inequalities in Basic Education Schooling in Kenya', *KIPPRA Policy Monitor*, Vol. 6, No. 2, (2014) p.6.
[44] Society for International Development, *The State of East Africa 2013: One People, One Destiny? The Future of Inequality in East Africa*, (Nairobi: SID, 2013) p.9.
[45] Mugo P., 'Addressing Emerging Challenges Facing County Governments in fulfilling Health Care Mandate', *KIPPRA Policy Monitor*, Vol. 6, No. 2, (2014) p.10.

about half of Kenyans and significantly lower among the poor.[46]

1.4.4 Inequality in South Korea

Unlike the Kenyan case, many scholars label South Korea as a comparatively equal country because it successfully promoted economic development with low inequality levels as was the case with other East Asian countries.

Growth with Equality

South Korea achieved relatively equitable economic growth for the last five decades. Through high GDP growth rate, rapid per capita income growth, and low income inequality, most of Korean people could enjoy benefits of economic development. Lee & Lee explain that Korea's per capita GDP increased about 20 times from \$104 in 1962 to \$20,540 in 2010 and per capita GDP in purchasing power parity increased about 13times from \$2,376 in 1980 to \$30,253 in 2011.[47] Kim also stresses that real wage rate increased by more than 370% between 1967-1978.[48]

Above all, Korea's income inequality was maintained below 10% for 24 years since 1965[49] and it is still low compared to many other countries. Chi & Kwon argue that Korea is more egalitarian than Colombia, Brazil, Mexico, Singapore, Philippines, China, Thailand, Malaysia, Indonesia, Italy, the UK and the US, when measured by the disposable 80:20 ratio and the disposable Gini coefficient.[50] In consequence, the average living standards of Koreans

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46 World Bank, Kenya Poverty and Inequality Assessment Volume 1: Synthesis Report (unpublished), 2008, p.xii.
47 Lee Y. Y. & Lee H. H., Inclusive Growth, Financial Exclusion and Microfinance in the Republic of Korea (unpublished), 2013, p.3.
48 Kim K. S., 'The Korean Miracle (1962-1980) Revisited: Myths and Realities in Strategy and Development', *The Helen Kellogg Institute for International Studies, Working Paper 166* (1991) p.42.
49 World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (Summary), (Washington, D.C.: World Bank, 1993) p.4.
50 Chi E. J. & Kwon H. Y., 'Unequal New Democracies in East Asia: Rising Inequality and Government

greatly improved and, according to Koo, 70% of Korean population identified themselves as belonging to the middle class by the early 1990s.[51]

Human Development

As Korea's economy grew, there was a large improvement in human capabilities. The Korean government's active investment as well as fast economic growth promoted human capital development, which can be appreciated as reduction of non-income inequality. Kjerfve, et al explain that the Korean government adopted national human resource development strategies to sufficiently supply science and technology personnel in order to promote industrialization, productive society, and sustainable economic development.[52]

As a result, human capabilities in Korea has improved significantly, especially in terms of education. Lee & Lee found out that the net primary school enrollment rate in South Korea already reached over 96% in 1971 and the net secondary school enrollment rate also increased greatly from 65% in 1979 to 96% in 2010.[53]

There was also a noticeable improvement in health condition. Lee & Lee highlight the fact that under 5 mortality rate of South Korea decreased from 100.3 in 1962 to 4.9 in 2010, which is less than the OECD average of 8.1, and life expectancy at birth increased from 53 years in 1963 to 80.8 years in 2010.[54]

Responses in South Korea and Taiwan', *Asian Survey*, Vol. 52, No. 5, (2012) pp.906-907.

[51] Koo H., *Inequality in South Korea,* http://www.eastasiaforum.org/2014/07/01/inequality-in-south-korea/, 1 July 2014.

[52] Kjerfve T. N., et al, 'National Human Resource Development in Brazil: Lessons From Korea', *Human Resource Development Review*, Vol. 13, No. 4, (2014) pp.486.

[53] Lee Y. Y. & Lee H. H., Inclusive Growth, Financial Exclusion and Microfinance in the Republic of Korea (unpublished), 2013, p.23.

[54] Ibid, p.22.

1.5 Justification

The issue of inequality is becoming more and more critical as inequality levels are increasing globally. Highly related to poverty issue, inequality in under-developed and developing countries in Africa, Latin America and Asia have been discussed frequently. Recently, however, scholars and international organizations began to give more attentions to developed countries as socio-economic polarization deepened. Thus, the demand for finding out solutions as well as factors of inequality are growing bigger and bigger.

In that regard, this study is expected to enhance knowledge on Kenya's and South Korea's inequality. Kenya, one of leading economies in Africa, has high inequality levels (about 46% of Gini coefficient). On the other hand, South Korea achieved the 'East Asian Miracle' that led sustained high economic growth with comparatively low levels of inequality (less than 10% of Gini coefficient). By analyzing the differences and strategies used between the two countries, it will be able to promote a better understanding on what are the major causes of inequality and how to tackle the issue.

Furthermore, this research suggests further comparative case study on inequality between more equal countries and unequal countries, especially between East Asia and Africa. As East Asia successfully achieved remarkable economic development with equity, many African states showed a strong interest in East Asia's success story. From literature review, nevertheless, it has been observed that there is a lack of attempt to compare changes of inequality between two regions. Hence, this study can be a good example of comparative study on inequality between those regions.

This study can also influence government policies in Kenya and South Korea for the following reasons. First, this research will be useful for Kenya to evaluate the effectiveness of its current development policy. Kenya launched a new development policy called 'Vision 2030' in 2008 and has been trying to push it forward. According to the Kenyan government, 'Vision 2030' has three main goals; promoting sustained economic growth, equitable social development, and accountable democracy.[55] Since the government aims for achieving more equal and inclusive development by 2030, it is important to examine whether Kenya is on the right track and what kinds of efforts will be required. Therefore, comparing changes of inequality in Kenya with that in South Korea can be helpful for the evaluation.

Second, it will encourage South Korea to review how it promote sustained growth with equity as it did in the past, concerning that economic polarization is becoming a serious social problem in the country. Currently, Korean economy is facing a huge challenge due to increasing youth unemployment and income inequality. The ratio of middle class has dwindled by over 6% since the global financial crisis and consumption is sluggish nowadays.[56] Thus, Korea should find a solution for the current challenges and this study might be a good stepping stone.

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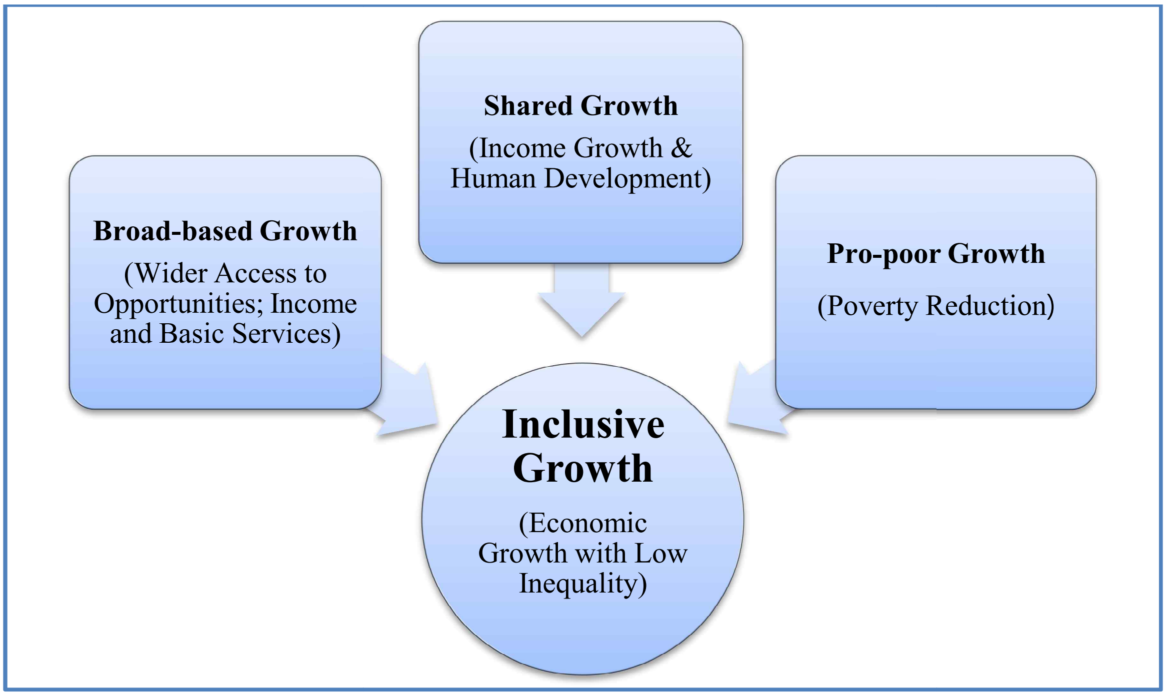
[55] The Government of the Republic of Kenya, *Kenya Vision 2030*, (Nairobi: The Government of Kenya, 2007) p.1.

[56] Yoon J. Y., 'Middle class dwindling' *The Korea Times*, (Seoul), 23 Oct 2014 and Yoon J. Y., 'Boosting consumption key for economic turnaround' *The Korea Times*, (Seoul), 2 Apr 2015.

1.6 Theoretical Framework

This research is based on inclusive growth approach, which is one of economic development theories. Inclusive growth refers to growth with equity and broader share of well-being. Thus, this approach pursues both boosting economic growth and addressing inequality.

Figure 1.1. The theoretical model of inclusive growth



Source: The researcher

The major tenets of the theory are broad-based growth, pro-poor growth, and shared growth. Firstly, broad-based growth means that a growth which provides a wider access to sustainable socio-economic opportunities for a broader number of people, regions or countries.[57] Inclusive growth is not about redistribution of wealth only for the poor but about granting equal nondiscriminatory access to growth to all, focusing on productive employment to generate new jobs and income for every individuals.

[57] AfDB, 'Briefing Note 6: Inclusive Growth Agenda, *Briefing Notes for AfDB's Long-Term Strategy*, (2012) p.2.

Secondly, shared growth implies equal chances of benefit-sharing. According to the theory, everyone should be able to enjoy fruits of growth for inclusive development. If the wealth created is seized by only a small number of people, it becomes difficult to promote sustainable economic development. In this regard, inclusive growth approach insists that everyone should share the benefits from growth through general income growth and human development.

Lastly, pro-poor growth indicates that everyone should benefit while the poor accrue greater benefits.[58] In many cases, the poorest share the least benefits because poverty blocks them from any possible income or non-income opportunities. If they remain in a state of poverty while others gain profits, inequality levels become greater and economic development would be hindered in the end. Therefore, poverty reduction is a crucial way of protecting the most disadvantaged groups for the promotion of inclusive growth.

Based on the three tenets, inclusive growth entails wider access to opportunities to income and basic services, income growth and human development, and poverty reduction. As the main concept of inclusive growth is about promoting economic growth with reducing inequality, this approach will be a useful guide in assessing and comparing inclusiveness of economic development of Kenya and South Korea over the last 50 years. Therefore, the analysis and conclusion of this study will be assisted by this theory.

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[58] Ranieri R. & Ramos R. A., 'Inclusive Growth: Building up a concept', *International Policy Center for Inclusive Growth, Working Paper 104*, (2013) p.8.

1.7 Hypotheses

1. South Korea achieved more inclusive growth than Kenya did through the reduction in income and non-income inequality.
2. With greater increase in job opportunities, income inequality in South Korea reduced faster and more significantly than in Kenya.
3. South Korea's heavy investment in human capital helped its non-income inequality reduced greater than that of Kenya.

1.8 Methodology

The research design of this study is comparative case study between Kenya and South Korea. For data collection and data analysis, quantitative method was used.

Data Collection: This research heavily relies on secondary data. Mainly, statistical data was collected from reports and websites such as Kenya National Bureau of Statistics (KNBS), Statistics Korea (KOSTAT), African Development Bank (AfDB), Asian Development Bank (ADB), United Nations Development Programme (UNDP), World Bank, International Monetary Fund (IMF), et cetera. Any relevant books, journals, and scholarly papers was also included as secondary sources.

Data Analysis: The quantitative data collected were analyzed through descriptive and explanatory analysis, making careful observations of changes in inequality levels in Kenya and South Korea. In particular, by comparing data between the two countries, the analysis sought answers about how and why differences have been made. For better observation and comparison, statistical tools like graphs, charts and tables were used.

1.9 Scope and Limitations of the Research

Inequality includes not only income and non-income inequality but also gender inequality. However, gender inequality is such a huge issue that it should be dealt with separately. Therefore, the scope of this research is limited to income and non-income inequality.

Besides, gathering primary data on inequality levels of two different countries for the last 50 years is practically impossible. That's why this study heavily relies on secondary data.

1.10 Chapter Outline

This research consists of five chapters.

Chapter One: This chapter is the introduction, which has the background to the study, statement of the research problem, objectives of the research, literature review, justification, theoretical framework, hypotheses, methodology, and scope and limitations of the research.

Chapter Two: This chapter provides an overview of inequality in Africa and East Asia. It examines economic growth, poverty reduction, changes of income and non-income inequality of the two regions for the last 50 years. In particular, this chapter tries to describe differences, features and causes of inequality in each regions.

Chapter Three: This chapter examines the trends and features of income inequality in Kenya and South Korea by looking at Gini coefficient and income gap. And, using indicators on employment, it tries to find out how job opportunities have been provided and how they influenced the changes in income inequality in each countries.

Chapter Four: This chapter examines non-income inequality in Kenya and South Korea, looking over Human Development Index and other indicators on health and education. In addition, it examines how the two countries have invested in human capital so far, with explanations on the importance of human development for resolving inequality.

Chapter Five: The final chapter provides the conclusion and recommendations of the research.

CHAPTER TWO

AN OVERVIEW OF INEQUALITY IN AFRICA AND EAST ASIA

2.0 Introduction

East Asia is a region that is said to have achieved 'growth with equity'.[59] Before what has come to be regarded as the 'East Asian Miracle', it was believed that income inequality increases as economy grows. However, East Asia, especially the high-performing East Asian economies (HPAEs), experienced low and declined income inequality level during the rapid economic growth demonstrating that there is another growth model available.

In contrast, Africa has had a substantial degree of income and non-income inequality.[60] Even though a number of African economies are on the rise, people have not benefited equally due to the high level of inequality. Especially, the poorest population still has considerably low living standards. Thus, there is an urgent need for tackling inequality in the region.

In this chapter, economic growth, poverty reduction, income and non-income inequality in Africa and East Asia are carefully examined. By looking at how the two regions differently reached the current status, the chapter tries to find a clue to the solution of inequality.

The data has been collected from reliable sources such as scholarly papers and international organizations (ADB, AfDB, IMF, OECD, UNDP, World Bank) and the findings are presented in tabular and graphical forms.

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[59] World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (Summary), (Washington, D.C.: World Bank, 1993).
[60] World Bank, *Can Africa Claim the 21st Century?,* (Washington, D.C.: World Bank, 2002).

2.1 Inequality in Africa

Usually, available data divide Africa into North Africa and Sub-Saharan Africa.[61] As the main focus of this research is Sub-Saharan Africa, where Kenya belongs to, more attention will be given to the latter.

2.1.1 Economic Growth and Poverty Reduction

Africa's economic growth has been distinctly weak compared to other regions. Table 2.1 shows that both of real GDP growth rate and real GDP per capita growth rate of Sub-Saharan Africa within 1961-2000 are the lowest, even lower than those of South Asia, where poverty still prevails.

Table 2.2. Regional growth comparisons, 1961-2000

	End-to-end annual growth rates (from 1961 to 2000)		
	Samples	Real GDP	Real GDP per capita
Sub-Saharan Africa	35	3.2	0.56
Other Developing	43	4.28	2.12
Latin America & Caribbean	22	3.52	1.44
South Asia	5	4.34	2.1
East Asia & Pacific	9	5.48	3.41
Middle East, North Africa & Turkey *(1966-2000)	7	5.09	2.61
Industrial countries	22	3.45	2.74
Total	100	3.72	1.71

Source: Ndulu & O'Connell[62]

The poor performance is attributed to the fact that Sub-Saharan Africa suffered from a serious economic downturn between the 1980s-1990s (see Figure 2.1). Before this period, the

[61] World Bank, *Data*, http://data.worldbank.org

[62] Ndulu B. J. & O'Connell S. A., 'Policy plus: African growth performance, 1960-2000' in Ndulu B. J., et al, *The Political Economy of Economic Growth in Africa*, 1960-2000, Vol. 1, (New York: Cambridge University Press, 2008) p.4.

average GDP growth rate was 4.5% and 4% in the 1960s and the 1970s.[63] However, the rate fell to less than 2% in the next two decades with the region experiencing negative growth in 1983 (-1.15%), 1991 (-0.09%) and 1992 (-1.49%).[64]

The reason for Sub-Saharan Africa's poor economic performance can be attributed to several external and internal factors. First, oil shocks in the 1970s made many African economies suffer from skyrocketing inflation. For example, in Ghana, inflation rate rose from 3% in 1970 to 116% in 1977 while in DR Congo it rose from 8% in 1970 to 101% in 1979.[65] Increased interest rates in the early 1980s also burdened Africa with heavy debt due to a large amount of investment capital and foreign aid that the region borrowed in the earlier decades. Its external debt rose from $36 billion by the end of the 1970s to $176 billion in 1998.[66]

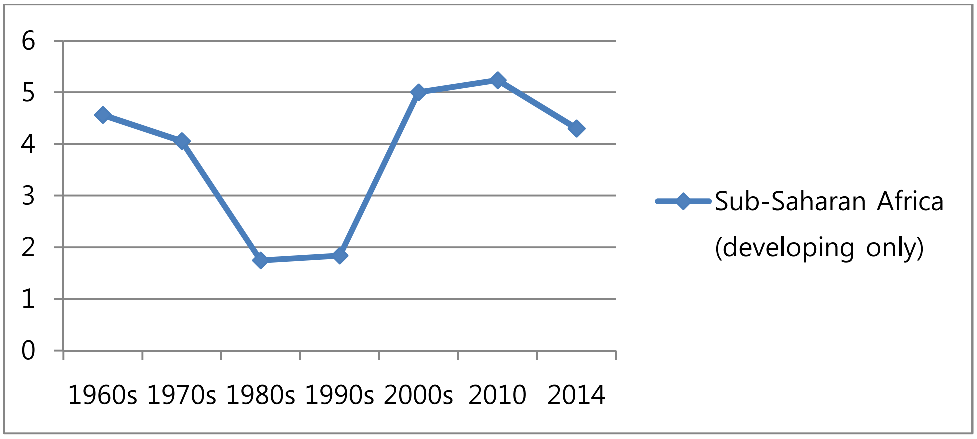
Secondly, there was the era of marginalization of African economies from mid-1980s to 1990s. According to Thomson, the continent had less political strategic importance to the major world powers after the Cold war ended.[67] Therefore, unconditional political and material support from the West reduced significantly; the US economic investment in Africa was less than one third of that in Brazil in this period.[68] Not only declining GDP growth and per capita GDP rates but also decreasing share of world output from 17% to 8% between 1970-1990[69] increased the continent's marginalization significantly.

Lastly, there were many internal factors that impeded Africa's economic growth: a lack of social capital, a lack of financial depth, a lack of investment, high aid dependency, and

[63] World Bank, *Data*, http://data.worldbank.org
[64] Ibid.
[65] Dambisa Moyo, *Dead Aid,* (New York: Farrar, Straus and Giroux, 2009) p.16.
[66] Ibid, p.17 and Harbeson J. W. & Rothchild D., *Africa in World Politics: Reforming Political Order(4th)*, (Colorado: Westview, 2009) p.50.
[67] Thomson A., *An Introduction to African Politics*, (London and New York: Routledge, 2006).
[68] Ibid.
[69] Harbeson J. W. & Rothchild D., *Africa in World Politics: Reforming Political Order(4th)*, (Colorado: Westview, 2009) p.40.

political instability such as dictatorship, corruption, and conflict. According to Collier & Gunning, the lack of openness to trade, high policy volatility, and poor public services also affected negatively on the region's economic performance.[70] Besides, poor infrastructure development hindered growth and poverty reduction as well as discouraged new investment.[71]

Figure 2.1. GDP growth (annual %) in Sub-Saharan Africa, 1960-2014



Source: World Development Indicators, 2015

After the economic hardships, the region's growth rate gradually increased reaching 5% in the 2000s (see Figure 2.1). The recent economic performance is also positive with more than 4% average growth rates. Moreover, IMF expected that the growth rate will rise continually at about 4.5-5.5% between 2015-2016.[72] With this new trend, it seems that African economies have positive prospects.

Despite of the recent progress, Sub-Saharan Africa still has the world's highest rate of extreme poverty. In 1981, there were more people living with income less than $1.25 a day in Asia than in Sub-Saharan Africa (see Figure 2.2). However, the poverty headcount ratio in

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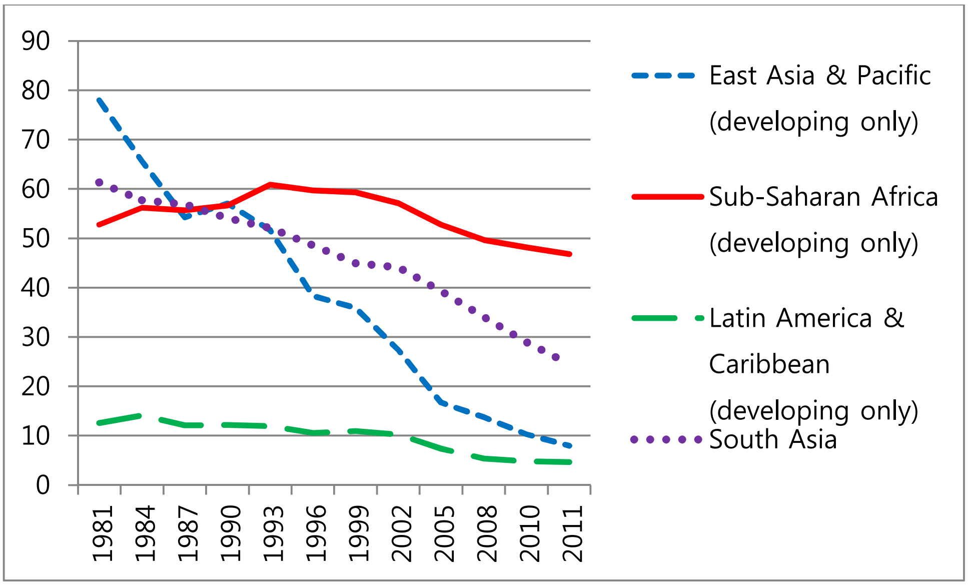
[70] Collier P. & Gunning J. W., 'Explaining African Economic Performance', *Journal of Economic Literature*, Vol. 37, No. 1, (1999) p.74.
[71] Jerome A., 'Infrastructure, Economic Growth and Poverty Reduction in Africa', *Journal of Infrastructure Development*, Vol. 3, No. 2, (2011) p.146.
[72] IMF, *Regional Economic Outlook: Sub-Saharan Africa, Navigating Headwinds*, (Washington, D.C: IMF, 2015) p.1.

Asia fell sharply below 30% for the last 30 years while the ratio in Africa declined slightly, remaining at nearly 50%. At $2 a day level, the poverty headcount ratio in Africa reaches to nearly 70%.[73]

Figure 2.2. Poverty headcount at $1.25 a day (% of population)



Source: World Development Indicators, 2015

Further, despite the decline of the poverty ratio in Sub-Saharan Africa since 2000, the population living with less than $1.25 increased by 180 million from about 205 million in 1981 to 386 million in 2008[74] and currently it is estimated to be about 440 million.[75] With high population growth in Africa (2.7%)[76], the population in poverty is expected to grow continuously unless there is an extensive poverty alleviation.

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[73] World Bank, *Data*, http://data.worldbank.org

[74] Ayub M., 'Poverty and Inequality', *Global Journal of Emerging Market Economies*, Vol. 5, No. 3, (2013) p.330.

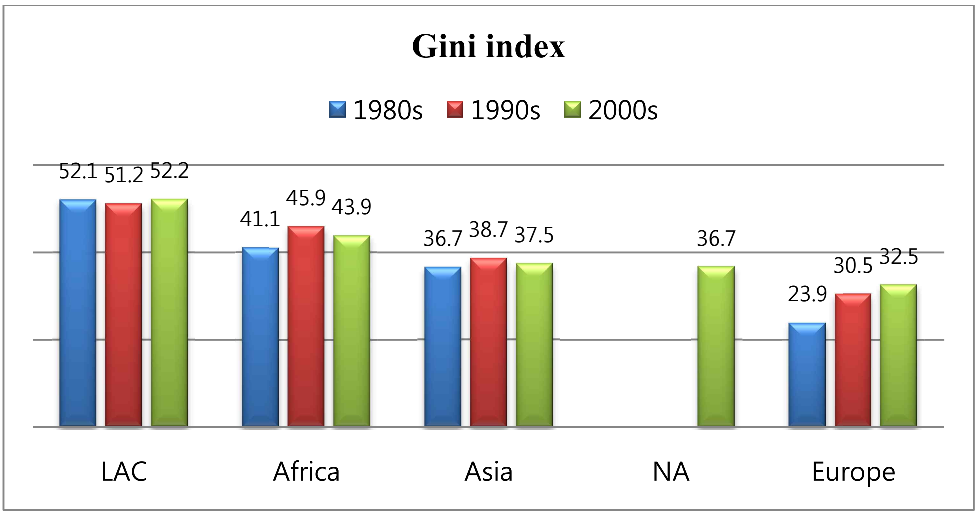
[75] According to World Bank data, population in Sub-Saharan Africa was about 936 million in 2013 and poverty headcount ratio at $1.25 was about 47% in 2011.Using these two data, calculated the estimated number living under $1.25 poverty level.

[76] Annual population growth rate in 2014; Sub-Saharan Africa (2.7%), East Asia and Pacific (0.7%), Europe and Central Asia (0.7%), Latin America and Caribbean (1.1%), Middle East and North Africa (1.7%), South Asia(1.3%), World Bank, *Data*, http://data.worldbank.org

2.1.2 Income Inequality

The rising number of poor in the midst of economic growth means that the fruits of growth are not distributed widely and evenly throughout the continent. Indeed, Africa has a high level of income inequality. The Gini index by region between the 1980s-2000s shows that Africa has been the world's second most unequal region after Latin America & Caribbean (see Figure 2.3). In 2013, there were 5 countries in the world which had Gini coefficient more than 60, and 4 of them are from Sub-Saharan Africa; Comoros (64.3), Namibia (63.9), Seychelles (65.8), and South Africa (63.1).[77]

Figure 2.3. Regional inequalities, 1980s-2000s



Source: AfDB[78], LAC=Latin America & Caribbean, NA=North America

Among African regions, Southern Africa has the highest income inequality (see Figure 2.4). The Gini coefficient for Southern Africa between 1980s-2013 ranked the highest all the time. That's because this region has Namibia, South Africa, Lesotho and Swaziland which have extremely high levels of income inequality. In 2013, the Gini coefficients for these countries were 63.9, 63.1, 52.5 and 51.5[79] respectively.

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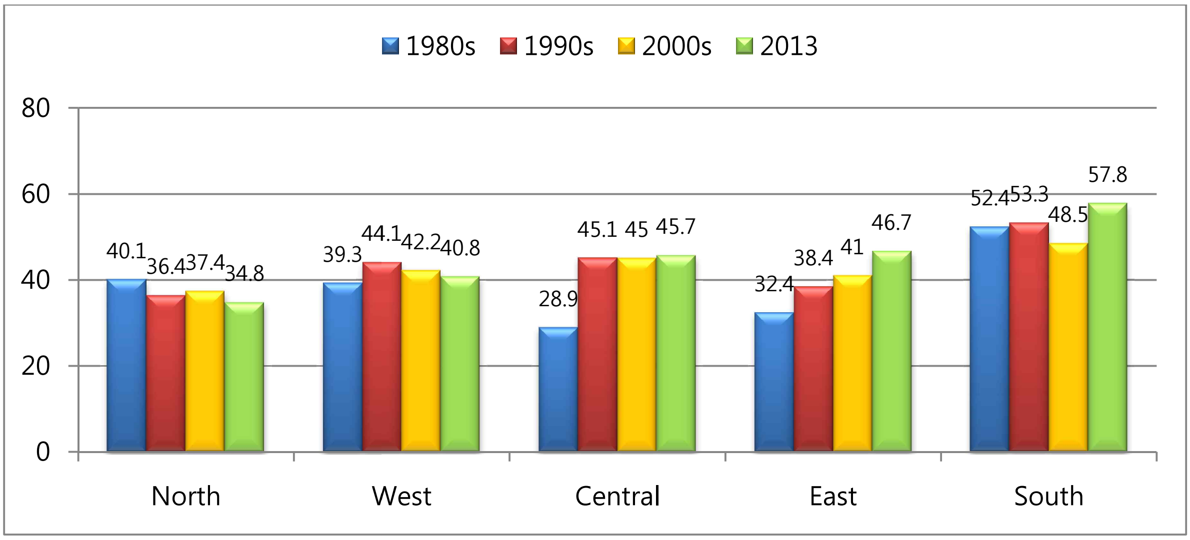
77 UNDP, *Human Development Reports-Data*, http://hdr.undp.org/en/data

78 AfDB, 'Briefing Note 5: Income Inequality in Africa', *Briefing Notes for AfDB's Long-Term Strategy*, (2012) p.3.

79 UNDP, *Human Development Reports-Data*, http://hdr.undp.org/en/data

Figure 2.4. Gini coefficients for African regions, 1980s-2013



Source: AfDB and UNDP[80]

Meanwhile, the income inequality level in East Africa kept increasing over time. From available data, among the top 5 unequal countries in the region, Seychelles showed continuous increase in Gini coefficients while Zambia and Kenya showed sharp increase in the coefficients after reaching the lowest levels in the early 1990s.[81] Between the 1990s-2013, Central Africa maintained similar levels of Gini coefficient while West Africa's levels gradually reduced. Lastly, North Africa's coefficients always ranked the lowest during this period.

African countries also have significant disparities in income shares. According to AfDB, the richest capture the largest share of income in all African countries. The poor, accounting for 60.8% of Africa's population, hold only 36.5% of total income in Africa while the rich, accounting for 4.8% of the population, hold 18.8% of total income.[82]

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[80] Ibid, p.4. and UNDP, *Human Development Reports-Data*, http://hdr.undp.org/en/data

[81] Seychelles: 42.7(1999)→65.8(2013), Zambia: 52.6(1993)→42.1(2004)→57.5(2013), Kenya: 57.5(1992)→42.1(1994)→47.7(2013), World Bank, *Data*, http://data.worldbank.org

[82] The poor are people who live on less than $2 a day and the rich are who live on more than $20 a day, AfDB, 'Briefing Note 5: Income Inequality in Africa', *Briefing Notes for AfDB's Long-Term Strategy*, (2012) p.3.

Looking at the comparison of income shares of top and bottom quintiles in each countries (Table 2.2), income disparities become much clearer. During the 2000s, in 14 out of 45 African countries, the richest 20% held incomes more than 10 times that of the poorest 20%. In Comoros, Namibia, and South Africa, the gap was more than 20 times. For example, in 2004, the richest 20% in Comoros earned 68% of total income while the poorest 20% earned only about 2.5% and, in 2011, the richest 20% in South Africa held about 70% of total income which is about 28 times larger than that of the poorest 20%.[83]

Table 2.2. Comparison of income shares of top and bottom quintiles, 2000s

Top 20%/Bottom 20%	**Countries**
Above 20	Comoros, Namibia, South Africa
Between 10-20	Cape Verde, Central African Republic, Congo(Republic of), Gambia Kenya, Lesotho, Nigeria, Rwanda, Seychelles, Swaziland, Zambia
Between 5-10	Angola, Benin, Burkina Faso, Cameroon, Chad, DR Congo, Cote d'Ivoire Djibouti, Gabon, Ghana, Guinea, Guinea-Bissau, Liberia, Madagascar Malawi, Mali, Mauritania, Morocco, Mozambique, Niger, Sao Tome Sierra Leone, Sudan, Tanzania, Togo, Tunisia, Uganda
Below 5	Burundi, Egypt, Ethiopia

Source: Ayub[84] and World Development Indicators, 2015

There is another interesting feature regarding income inequality in Africa. In Southern Africa, there is a substantial degree of income inequality between urban and rural areas. The rural poverty headcount ratios at national poverty line (% of rural population) in South Africa, Swaziland, and Zimbabwe between 2009-2011 were 77%, 73% and 84% respectively while urban poverty ratios (% of urban population) were 39%, 31%, and 46% each.[85] It means that there are many more people living in poverty in rural area than in urban area in those

[83] In Namibia, where the top 20% held 66% and the bottom 20% held 3.3% of total income, the gap was about 20 in 2009, World Bank, *Data*, http://data.worldbank.org

[84] Ayub M., 'Poverty and Inequality', *Global Journal of Emerging Market Economies*, Vol. 5, No. 3, (2013) p.333.

[85] World Bank, *Data*, http://data.worldbank.org

countries. This is based on the fact that the rural poor have been excluded from the benefits of economic development. Due to urban development bias and the lack of access to market and credit, many rural residents hardly find opportunities to generate incomes.[86]

In urban areas, the income gap between the rich and the poor exists. It is caused mostly by different jobs they hold. The urban rich usually have jobs in the formal sector which provide higher and regular salaries while the urban poor usually have the informal sector jobs which pay much less and non-regularly. Therefore, as the World Bank argues[87], job creation and economic diversification are important tasks for tackling income inequality in Africa.

2.1.3 Non-Income Inequality

Table 2.3. Non-income inequalities by region, 2013

	Human Development Index (HDI)	**Coefficient of human inequality**	**Inequality in life expectancy**	**Inequality in education**
Regions	Value	Value	%	%
Arab States	0.682	24.2	17.4	38.0
East Asia and the Pacific	0.703	19.5	11.7	19.7
Europe and Central Asia	0.738	13.2	14.2	8.6
Latin America and the Caribbean	0.740	23.9	13.2	22.2
South Asia	0.588	28.0	24.4	41.6
Sub-Saharan Africa	0.502	33.5	36.6	35.7
World	0.702	22.8	17.3	27.0

Source: UNDP[88]

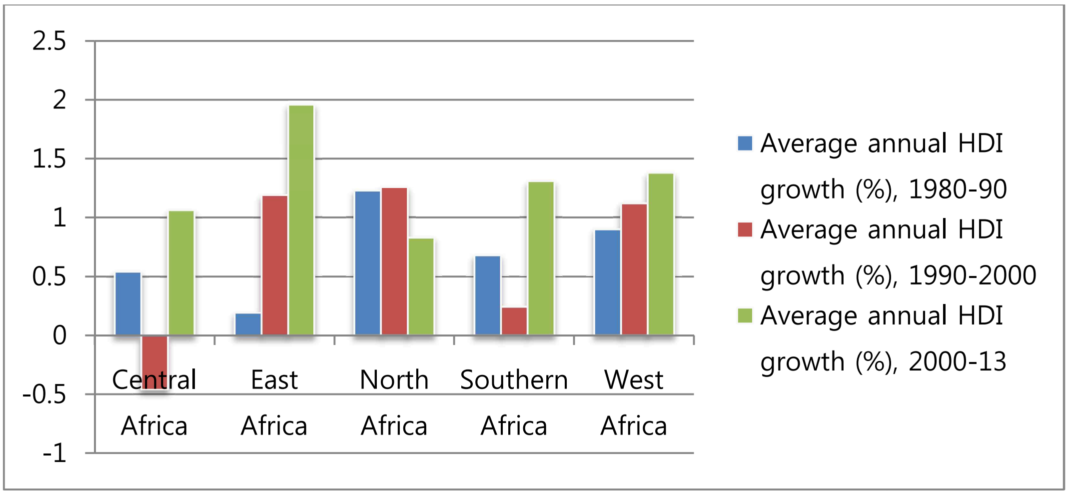
Africa has the lowest Human Development Index (HDI). In 2013, the HDI value in Sub-Saharan Africa was 0.502 which was lower than South Asia's HDI value (0.588) and much lower than the World's HDI value (0.702). In 2013, 35 out of 52 African countries (including

86 Hope K. R., Sr., 'The poverty dilemma in Africa: toward policies for including the poor', *Progress in Development Studies*, Vol. 4, No. 2, (2004) pp.130-131.
87 World Bank, *Can Africa Claim the 21st Century?,* (Washington: World Bank, 2002) p.93.
88 UNDP, *Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience*, (New York: UNDP, 2014).

North) belonged to the group of low human development countries.[89] Since Human Development Index is the most commonly used indicator to examine a standard of living in a country, the continent's low HDI value implies that African people's living standard is inferior to that of people from any other regions.

As seen in Table 2.3, Africa's human inequality and inequality in life expectancy are the highest in the world. Human inequality is measured by a composite statistic of health, education, and income. Therefore, the highest human inequality in the region indicates that it has a substantial degree of inequalities in health, education, and income. The region's high inequality in life expectancy also shows that there is more unequal distribution of expected length of life.

Figure 2.5. Changes in human development by Africa's regions, 1980-2013



Source: AfDB & OECD & UNDP[90]

Compared to other regions, Africa's human development (or the reduction of non-income inequality) lags behind. However, Africa has been making significant progress since 2000. From 2000 to 2013, the region's average annual HDI growth was about 1.4%, the second-

[89] UNDP, *Human Development Reports-Data*, http://hdr.undp.org/en/data
[90] AfDB & OECD & UNDP, *African Economic Outlook 2015: Regional Development and Spatial Inclusion*, (Paris: OECD publishing, 2015) p.91.

highest rate among the World's regions, and it was about 1.5% last year.[91] Considering that the growth rate was 0.4%-0.5% between 1980-2000[92], the recent human development in Africa is much faster and more positive than before.

Within Africa, East Africa achieved the largest annual HDI growth (1.9%) between 2000-2013 (see Figure 2.5). In East Africa, Burundi, Ethiopia, Rwanda and Tanzania made a big progress.[93] The HDI growth in Central Africa and Southern Africa have recovered having more than 1% of growth rates. Between 1990-2000, Central Africa experienced a negative HDI growth and Southern Africa had the lowest HDI growth in the continent. West Africa's HDI growth has been gradually increased while North Africa's HDI growth has fallen more than 0.4% recently.

Table 2.4. Trends of human development in Sub-Saharan Africa, 1970-2012

Indicators	1970	1980	1990	2000	2010	2012
Primary School Enrollment (% of relevant age group)	52	76	72	82	99	100
Secondary School Enrollment (% of relevant age group)	13	19	23	26	40	41
Education Completion rate (primary)	-	55 (1981)	53	54	68	70
Life Expectancy at Birth (years)	44	48	49.9	50	55	57 (2013)
Infant Mortality rate (per 1,000 live births)	143	120	107	95	67	61 (2013)
Access to Sanitation (% of population)	-	-	24	26	29	30

Source: World Development Indicators, 2015

As a result of the recent progress, access to education and health has been improved significantly in Sub-Saharan Africa (see Table 2.4). In 2012, the region achieved 100% of primary school enrollment rate, showing the region is able to meet MDG2: to achieve universal primary education. Secondary school enrollment and primary education completion

91 Ibid and AfDB & OECD & UNDP, *African Economic Outlook 2014: Global Value Chains and Africa's Industrialization*, (Paris: OECD publishing, 2014) p.90.
92 UNDP, *Human Development Reports-Data*, http://hdr.undp.org/en/data
93 Burundi: 2.29%, Ethiopia: 3.35%, Rwanda: 3.35%, Tanzania: 2.04%, Ibid.

rates have also gradually increased over the last 40 years. Increased life expectancy at birth and decreased infant mortality rates imply that health status in the region has improved during this period. Access to sanitation facilities also shows a gradual improvement in access to basic services in Africa.

Nevertheless, there are some challenges. Firstly, human development in Africa is still not as good as any other regions in the world. Sub-Saharan Africa's literacy rates, school enrollment rates (pre-primary, primary, secondary, and tertiary), and life expectancy are all recorded the lowest levels among the world's regions.[94] In the same vein, mortality rates are the highest in the world.[95]

Secondly, households in rural areas or from poor backgrounds tend to have much less access to education and health than those from urban or rich backgrounds. For instance, the poorest 40% of East Africans have a 40-80% higher chance of dying before the age of 5 and education with poor facilities and fewer learning time while the richest 10% of East Africans have access to best education and medical services.[96] Besides, there is more access to improved water source in urban areas than in rural areas. In 2012, about 53% of rural population in Sub-Saharan Africa had access to water while 85% of urban population had water source.[97]

Access to education, health and basic social services are essential to improve human capabilities, which in turn increase a chance of higher income. In this regard, Africa needs to put a lot of effort to promote human development and reduce non-income inequality.

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[94] Literacy rates: Adult(59), Youth(69), Enrollment rates: Pre-primary(24), Primary(100), Secondary(43), Tertiary(8), Life expectancy: female(52), male(49), UNDP, *Human Development Reports-Data*, http://hdr.undp.org/en/data

[95] Infant: SSA(64), South Asia(45), Arab States(28) Under-five: SSA(97), South Asia(57), Arab States(37), Ibid.

[96] Society for International Development, *The State of East Africa 2013: One People, One Destiny? The Future of Inequality in East Africa*, (Nairobi: SID, 2013) p.28.

[97] World Bank, *Data*, http://data.worldbank.org

2.2 Inequality in East Asia

The 'East Asian Miracle' was led by the high-performing East Asian economies (HPAEs). According to the World Bank's definition, the HPAEs include the following eight economies: Japan, Hong Kong, South Korea, Singapore, Taiwan, Indonesia, Malaysia, and Thailand.[98] Since Japan's economy was already performing well before the "East Asian Miracle" and the reliable data on Taiwan's economic performance are not fully available, this research mainly discusses about inequality in the rest six economies.[99]

2.2.1 Economic Growth and Poverty Reduction

Table 2.5. Economic growth of the six HPAEs, 1960-2014

	GDP growth rates(%)			GDP per capita (%)		
Countries	1960-1979	1980-1999	2000-2014	1960-1979	1980-1999	2000-2014
Hong Kong	7.7	5.5	4.1	5.3	4	3.4
Indonesia	5.9	5.6	5.3	3.3	3.7	3.9
South Korea	9.4	7.7	4.4	7.1	6.5	3.8
Malaysia	7.2	6.6	5.1	4.4	3.8	3.2
Singapore	9.2	7.5	5.7	7.1	4.8	3.4
Thailand	7.8	6.3	3.9	4.9	4.8	3.3
World	4.7	2.9	2.7	2.8	1.2	1.5

Source: World Development Indicators, 2015

While Africa showed poor economic performance, East Asia surprised the world with an unprecedentedly fast economic growth and development over the last five decades. The region's real GDP growth rate and GDP per capita growth rate between 1960-2000 were 5.48% and 3.41% respectively, which are higher than those of any other regions (see Table 2.1 on page 24). The rates are much higher than those of industrial countries (3.45% and 2.74%) and of other developing countries (4.28% and 2.12%).

98 World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (Summary), (Washington, D.C.: World Bank, 1993) p.1.
99 If possible, Taiwan will also be included.

Among 23 economies of the region, the HPAEs played a leading role in achieving the 'East Asian Miracle'. With available data, Table 2.5 shows that the 6 HPAEs have been rapidly growing with GDP growth and GDP per capita growth rates much above the World's average since 1960. Between 1966-1973, in particular, South Korea and Singapore achieved brilliant economic growth of more than 10%; the highest growth rate of each country was about 15% (in 1973) and 14% (in 1970) respectively.[100] During 1980-1999, when Africa underwent a deep recession with only about 1.8% growth rate, the HPAEs experienced robust economic growth with average 6.5% of GDP growth rate.

This rapid and sustained growth was possible due to several successful policies implemented in the region. First of all, the HPAEs achieved stable macroeconomic environment, which is essential for private investment. They maintained average annual inflation rates at about 7.5% for 30 years since 1961 while all low and middle income economies had average 61.8% of annual inflation rates.[101] In this period, inflation rate of Sub-Saharan Africa was 20%[102], which is almost 3 times higher than that of the HPAEs.

Secondly, after that, they encouraged savings and investment for the accumulation of physical resources. Since physical resources are highly important to promote rapid growth, they ensured positive interest rates and investment friendly environment. For instance, during 1970-1986, South Korea, Malaysia, and Thailand maintained their real interest rates between -10 to 10% while Ghana's real interest rates were highly volatile, between -50 to 10%.[103] To promote investment, they implemented tax policies favoring investment and kept the relative prices of capital goods low.

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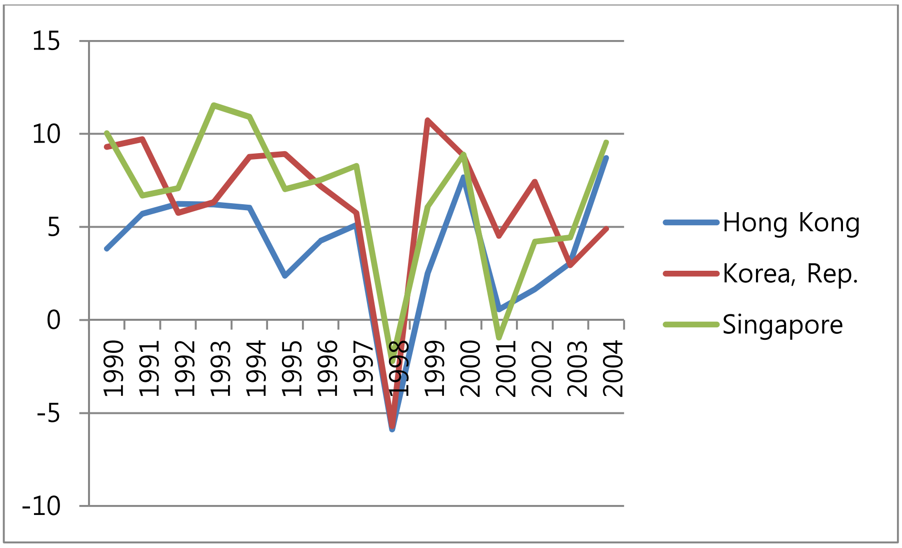
[100] World Bank, *Data*, http://data.worldbank.org
[101] World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (Summary), (Washington, D.C.: World Bank, 1993) p.12.
[102] Ibid.
[103] Ibid, p.14.

Thirdly, there were successful export-push policy and technology transfers. The HPAEs established a pro-export regime using a variety of instruments such as export credit, duty-free imports for exporters and their suppliers, export targets, and tax incentives. As a result, their exports of goods and services (% of GDP) surged about 5 times for the last five decades.[104] In addition, their active promotion of technology transfers and protection of domestic firms and markets resulted in producing world-class products.[105]

Lastly, there was a rapid accumulation of high-quality human capital. The governments of the HPAEs invested not only in primary and secondary education but also in scientific and technological education to supply skilled manpower. This policy could promote human resource development and the increase in household income of the region.

Figure 2.6. Three Asian Tigers' negative growth during the 1997-1998 Asian financial crisis



Source: World Development Indicators, 2015

Unfortunately, between 1997-1998, East Asia faced a financial crisis which stopped the region's high-speed sustained growth. During the crisis, the HPAEs' GDP growth rates

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104 Hong Kong: 2.7 times, Indonesia: 1.6 times, Singapore: 1.15 times, South Korea: 16 times, Thailand: 5 times, World Bank, *Data*, http://data.worldbank.org

105 Kolluru S. & Rao B., 'East Asian Experience on Growth and Equity: Lessons and Implications', *Global Business Review*, Vol.12, No. 2, (2011) p.239.

dropped sharply; Hong Kong (-5.9%), Indonesia (-13%), South Korea (-5.7%), Malaysia (-7.4%), Singapore (-2.2%), and Thailand (-10.5%).[106] Ito explains that a banking crisis in Thailand preceded the currency crisis and the rest of the region got affected due to their financial vulnerability.[107]

Fortunately, however, there was a V-shape recovery after the crisis and the economies performed strongly again in the 2000s (see Figure 2.6). Last year, East Asia and the Pacific were the fastest-growing developing regions in the world with GDP growth rate at 6.9% (East Asia only was 6.7%).[108] Besides, IMF expected that East Asia's growth will remain stable at 6.3% in 2015.[109]

Table 2.6. Poverty incidence and changes in the four HPAEs, 1970-2002

	Poverty incidence					**Changes**			
	1970	1976	1980	1998	2002	1970-1980	1980-1998	1998-2002	1970-2002
South Korea	23.4	14.8	9.8	4.5	3.6	-13.6	-5.3	-0.9	-19.8
Malaysia	52.4	42.4	29	7.5	5.1	-23.4	-21.5	-2.4	-47.3
Indonesia	57.1	50.1	39.8	23.4	18.2	-17.3	-16.4	-5.2	-38.9
Thailand	39	30	23	12.9	13.1	-16	-10.1	0.2	-25.9

Source: Jomo[110](poverty incidence) and the researcher's calculations(changes)

A significant poverty reduction in the region is another important feature of the 'East Asian Miracle'. As Table 2.6 shows, the poverty incidence in East Asia declined sharply between 1970-2002. The region's rapid economic growth promoted employment expansion, which in

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106 World Bank, *Data*, http://data.worldbank.org
107 Ito T., 'Growth, Crisis, and the Future of Economic Recovery in East Asia' in Stiglitz J. E. & Yusuf S., *Rethinking the East Asian Miracle*, (Washington, D.C.: World Bank and Oxford University Press, 2001) pp.78-81.
108 World Bank, *Global Economic Prospects: East Asia and the Pacific*, http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015a/pdfs/RegionalOverview_EAP_GEP_Jan2015_Eng.pdf, January 2015.
109 IMF, *Regional Economic Outlook: Asia and Pacific, Stabilizing and Outperforming Other Regions*, (Washington, D.C: IMF, 2015) p.3.
110 Jomo K. S., 'Growth with Equity in East Asia?', *UN Department of Economic & Social Affairs(DESA), Working Paper 33*, (2006) p.4.

turn resulted in a significant increase in average per capita incomes. The reduction in absolute poverty with robust growth improved the living standards of the region and characterized the 'East Asian Miracle' as an inclusive growth.

2.2.2 Income Inequality

Table 2.7. Household income distribution Gini coefficients for the five HPAEs, 1970-2002

Economy	1970	1976	1980	1985	1999	2000	2002
Indonesia	0.35	0.34	0.34	0.33	0.31	0.3	-
Malaysia	0.506	0.529	0.493	0.474	0.4432	-	0.4607
South Korea	0.332	0.391	0.389	0.357	0.3204	0.32	-
Taiwan	0.294	0.28	0.277	0.29	0.325	-	0.345
Thailand	-	0.451	0.473	0.5	0.444	0.43	0.428

Source: Jomo[111]

There is another reason why the economic development in East Asia is called a miracle; 'growth with equity'. The income inequality in the region declined during the high growth period. For instance, the Gini coefficient for Taiwan declined from 0.5 in 1961 to 0.35 in the late 1960s and to below 0.3 during the 1970s and 1980s.[112] The coefficient for Indonesia between 1970-2000 also declined gradually (see Table 2.7). Other HPAEs' Gini coefficients were kept at low levels, with no radical change or sharp increases, while their economies grew rapidly.

How could the HPAEs promote the relatively equitable distribution of income? The main cause of 'growth with equity' in the region was employment expansion. The rapid and sustained economic growth and the growth of manufacturing sector, a result of export-push policy, created a lot of job opportunities. Between 1970-1990, the average annual growth of

[111] Jomo K. S., 'Growth with Equity in East Asia?', *UN Department of Economic & Social Affairs(DESA), Working Paper 33*, (2006) p.4.
[112] Wang F., 'The End of 'Growth with Equity'? Economic Growth and Income Inequality in East Asia', *East-West Center, Asia Pacific Issues No. 101*, (2011) p.2.

wage employment in the HPAEs was significantly high; Malaysia (8.2%), South Korea (6.6%), and Thailand (6.6%).[113] The wage employment expansion increased household incomes and reduced poverty. The large number of factory-based employees had more equitable wages, thus, the income inequality could be decreased or kept at low levels.

Besides, the governments adopted several policies that contributed to 'growth with equity'. Firstly, South Korea and Taiwan conducted land reforms in the late 1940s to reduce poverty and inequality.[114] Secondly, the both governments promoted rural industrialization and modernized farming in order to increase domestic food supply and incomes of rural households. Thirdly, the heavy investment in infrastructure and human resources could provide people with more access to income opportunities, such as access to market, asset, and decent jobs.

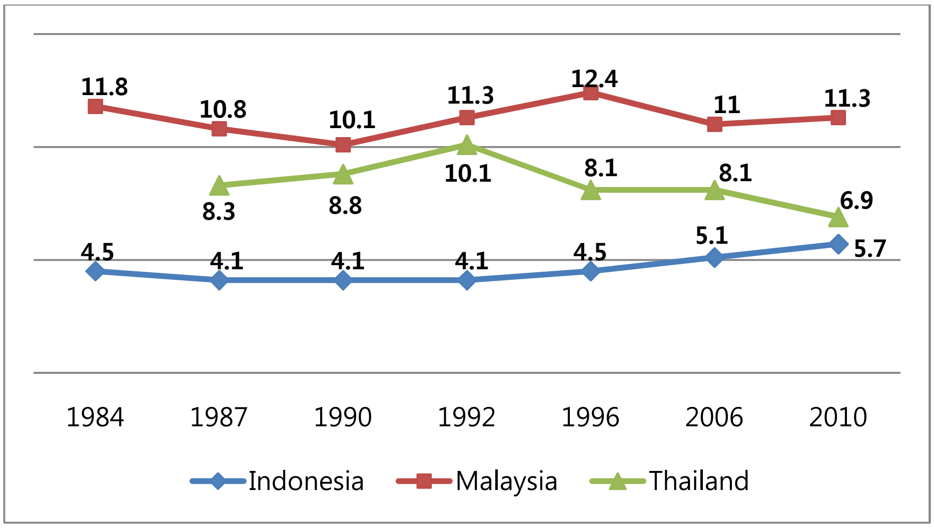
Meanwhile, in contrast to the significant urban-rural inequalities in Africa, the HPAEs have much lower income disparity between urban and rural areas. Between 2011-2014, the urban poverty headcount ratios at national poverty line (% of rural population) in Indonesia, Malaysia, and Thailand were 8.3%, 1%, and 9% each while the rural poverty ratios (% of urban population) were 14.2%, 3.4%, and 16.7% respectively.[115] Wang explained that young people who migrated from the countryside to cities for jobs with higher wages often sent a portion of their earnings to home and it helped reduce income inequalities.[116]

However, the recent trend seems quite different from the previous one. Since the late 1980s, income inequality has risen in East Asia. Figure 2.7 shows the increase in the ratios of the

[113] Ibid, p.9.
[114] Malaysia also adopted land development schemes in the late 1950d, distributed new agricultural areas, and promoted rural development.
[115] World Bank, *Data*, http://data.worldbank.org
[116] Wang F., 'The End of 'Growth with Equity'? Economic Growth and Income Inequality in East Asia', *East-West Center, Asia Pacific Issues No. 101*, (2011) p.4.

income shares of the richest 20% to the poorest 20% of the population in the three HPAEs. Malaysia's quintile ratio declined gradually from 11.8 in 1984 to 10.8 in 1987, and to 10.1 in 1990. Since then, the ratio rebounded and kept increasing until 1996. Between 1987-1992, Thailand also had rising income inequalities. According to ADB, in addition, the annualized growth rate of the quintile ratio of Indonesia rose 2.2% from 4.1 in the 1990s to 6.6 in the 2000s.[117]

Figure 2.7. Quintile ratios (Top 20%/Bottom 20%) in the three HPAEs, 1984-2010



Source: World Development Indicators, 2015

What are the causes of this radical change? First, globalization changed commodity chains. Previously, firms usually used domestic labor forces. As regional trade integration increased, however, many firms began to outsource their supplies of parts and components or relocate the whole operation abroad, which increased overseas employment but decreased domestic employment.

Second, technological progress and post-industrialization changed labor demands. As more and more high-technologies are introduced, skilled labor with higher educational attainment is more favored and gets higher income than unskilled labor does. Besides, post-

[117] ADB, *Asian Development Outlook 2012: Confronting Rising Inequality in Asia*, (Manila: ADB, 2012) p.47.

industrialization made large-scale manufacturing industries replaced by the expansion of service sector. Unlike manufacturing sector, service sector provides more unequal wages. There is a small number of extremely well-paid regular employees while there are far more numerous lowly paid employees such as temporary and irregular workers.

Third, economic liberalization conducted after the financial crisis reduced the governments' role in correcting market failure and promoting more equitable income distribution. In this regard, ADB suggested that the governments of the region should adopt more efficient policies or regulations for equitable redistribution such as employment friendly growth strategy, supporting the development of SMEs, increasing spending on education and health (especially for the poor), social protection schemes, adequate physical infrastructure, taxation on inheritance, and direct cash transfers to vulnerable and under-privileged groups.[118]

2.2.3 Non-Income Inequality

Table 2.8. Non-income inequalities in the six HPAEs and other regions, 2013

	Human Development Index (HDI)	**Coefficient of human inequality**	**Inequality in life expectancy**	**Inequality in education**
Regions	Value	Value	%	%
Singapore	0.901	-	2.8	-
Hong Kong	0.891	-	2.8	-
South Korea	0.891	16.8	3.9	28.1
Malaysia	0.773	-	4.9	-
Thailand	0.722	20.0	9.8	16.1
Indonesia	0.684	19.1	16.4	23.2
East Asia and the Pacific	0.703	19.5	11.7	19.7
Sub-Saharan Africa	0.502	33.5	36.6	35.7
World	0.702	22.8	17.3	27.0

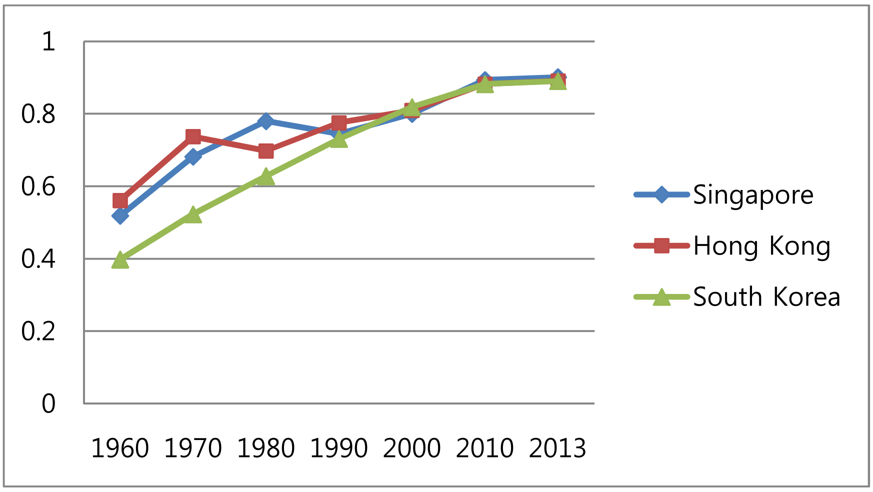
Source: UNDP[119]

[118] Ibid, p.74-88.
[119] UNDP, *Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience*, (New York: UNDP,

The 'East Asian Miracle' is also about human development. As Table 2.8 shows, the six HPAEs have much higher Human Development Index (HDI) value than that of Sub-Saharan Africa and the world. It means that the living standards in the six countries are even higher than those in Sub-Saharan Africa and the world's average level. In particular, Singapore, Hong Kong, and South Korea belong to the very high HDI group in which people enjoy very high standard of living.

In addition, the six economies have much lower human inequality, inequality in life expectancy, and inequality in education compared to other regions. The inequality in life expectancy in Singapore and Hong Kong is 6 times less than the world's average and 13 times less than that in Sub-Saharan Africa. Inequality in education is also considerably lower in the HPAEs and East Asia and the Pacific region than in Sub-Saharan Africa. Accordingly, coefficients of human inequality for the HPAEs and East Asia could be lower not only than those for Sub-Saharan Africa but also the world average.

Figure 2.8. Trend of Human Development Index in the Three Asian Tigers, 1960-2013



Source: Tilak and UNDP[120]

2014).

[120] Data for 1960-1970 are sourced from Tilak J. B. G., *Building Human Capital in East Asia: What Others Can Learn*, (New Delhi: National Institute of Educational and Administration, 2002) and for 1980-2013 are from UNDP, *Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience*, (New York: UNDP, 2014).

The high HDI and low human inequality (or non-income inequality) of the six economies were not there from the initial stage. Rather, they have been promoted over the last 50 years. Figure 2.8 shows that the three Asian Tigers were in the low human development group in 1960, with HDI value of 0.519 (Singapore), 0.561 (Hong Kong), and 0.398 (South Korea).[121] However, their HDI values have increased remarkably for four decades, achieving very high human development since 2000. In particular, the rapid growth of the HDI in South Korea over the last 50 years is quite impressive, which means a significant improvement in South Korean people's quality of life escalated above the ashes of war and poverty.

Table 2.9. Trends of human development in East Asia and the Pacific, 1970-2012

Indicators	1970	1980	1990	2000	2010	2012
Primary School Enrollment (% of relevant age group)	102	111	120	105	119	118
Secondary School Enrollment (% of relevant age group)	27	41	39	57	79	83
Education Completion rate (primary)	-	98(1988)	99	90	105	-
Life Expectancy at Birth (years)	61	65	68	71	73	74(2013)
Infant Mortality rate (per 1,000 live births)	83	57	45	33	19	16(2013)
Access to Sanitation (% of population)	-	-	30	49	66	67

Source: World Development Indicators, 2015

Other indicators related to education and health also demonstrate that the successful reduction of non-income inequality in East Asia (see Table 2.9). First of all, access to education is highly generalized and widely distributed in the region. The both primary school enrollment rate and primary education completion rate are very high; the enrollment rate already reached above 100% in 1970, and the completion rate remained above 90% between 1980-2000 until it reached 105% in 2010. The secondary school enrollment rate also rose significantly from 27% in 1970 to 57% in 2000, to 79% in 2010, and to 83% in 2012.

[121] UNDP, *Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience*, (New York: UNDP, 2014).

Besides, more and more people in the region could enjoy healthier lives and better health access over time. Between 1970-2012, there were steady increase in life expectancy and access to sanitation facilities, and also decrease in infant mortality rate; life expectancy at birth rose from 61 years in 1970 to 74 years in 2013, access to sanitation increased from 30% in 1990 to 67% in 2012, and infant mortality rate declined from 83 in 1970 to 16 in 2013.

The achievement of human development in East Asia is due to the governments' heavy investment in human capital with various policies. First, in order to supply skilled and technical labor, the HPAEs actively developed human resources. The growth in allocation of resources to education (percent of GNP) in Asian Tigers increased such as 2 % to 2.8% in Hong Kong, 1.8% to 3.7% in South Korea, and 2.4% to 5.6% in Taiwan between 1965-1995.[122] This could help to promote greater accessibility to education and generate professional human resources.

Second, national health insurance program and national health service in the region could provide their people with better access to health care at lower cost. According to Yu, the national health insurance in South Korea and Taiwan cover almost 100% of their population.[123] And, through the national health service programs in Hong Kong, Singapore, and Malaysia, hospital beds are largely provided by the public sector.

Therefore, regarding the overview on the East Asia's 'growth with equity', one important lesson can be drawn; ensuring equality of opportunities such as jobs, education, and health is essential for reducing non-income inequality.

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[122] Tilak J. B. G., *Building Human Capital in East Asia: What Others Can Learn*, (New Delhi: National Institute of Educational and Administration, 2002) p.58.

[123] 96% in South Korea(the remaining 4% is covered by medical aid) and 98% in Taiwan, Yu S., 'Studying the Health Care Systems in Seven East Asian Countries by the Cluster Analysis', *Development and Society*, Vol. 43, No.1, (2014) pp.87.

CHAPTER THREE

INCOME INEQUALITY IN KENYA AND SOUTH KOREA AND JOB OPPORTUNITIES

3.0 Introduction

In the previous chapter, we looked at an overview of inequality in Africa and East Asia. And there was an important lesson learnt that providing equal opportunities of jobs, incomes, education, and health is essential for promoting inclusive growth as well as reducing inequality.

This chapter looks at the case of Kenya and South Korea in detail to seek more practical solutions for tackling income inequality. First, the chapter begins by examining the trend and features of income inequality in Kenya and South Korea. The indicators used here are Gini index, quintile ratio and income shares by deciles.

The second half of the chapter discusses how job opportunities have been provided and how they have affected the changes in income inequality in Kenya and South Korea. It is based on the assumption that job opportunities are a critical factor that may cause the differences between the two countries in terms of income inequality.

The data has been collected from reliable sources such as scholarly papers, research institutions (KIPPRA, UNU-WIDER), government offices (KNBS, KOSIS, KOSTAT), and international organizations (ILO, UNDP, World Bank). To help readers easily grasp the findings, they are analyzed and presented in tabular and graphical forms.

3.1 The Trend and Features of Income Inequality in Kenya and South Korea

3.1.1 Gini Index

The 1960s-1980s

The income inequality in Kenya, measured by Gini coefficient, in the 1960s was high above 60% (see Table 3.1). The coefficient rose up to 70% in the early 1970s and gradually decreased in the late 1970s and the early 1980s. However, the levels were just relatively lower than previous years' but still substantially high. In 1988, it reached the highest level of 71% showing that the income inequality in Kenya was worsened with time.

Compared to Kenya, the coefficients for South Korea during the same period, between the 1960s-1980s, were much lower. In 1964, the level was almost half of the Kenya's at 33%, and even decreased to below 30% in 1969, which is less than half of the coefficient for Kenya in the same year. Similar to Kenya's, the coefficient for South Korea rose to about 40% in the 1970s. In the 1980s, it gradually decreased from 35.7% in 1982 to 33.6% in 1988, different from Kenya's increasing income inequality trend.

Table 3.1. Gini coefficients for Kenya and South Korea, 1960s-1980s

Country	1964	1969	1971	1974	1977	1982	1984	1988
Kenya	63	60.4	70	69	59	57.3	60.4	71*
South Korea	33	29.8	36	40.2 (1972)	39.1 (1976)	35.7	35.4	33.6

Source: The World Income Inequality Database V3.0b[124] (* is sourced from SID[125])

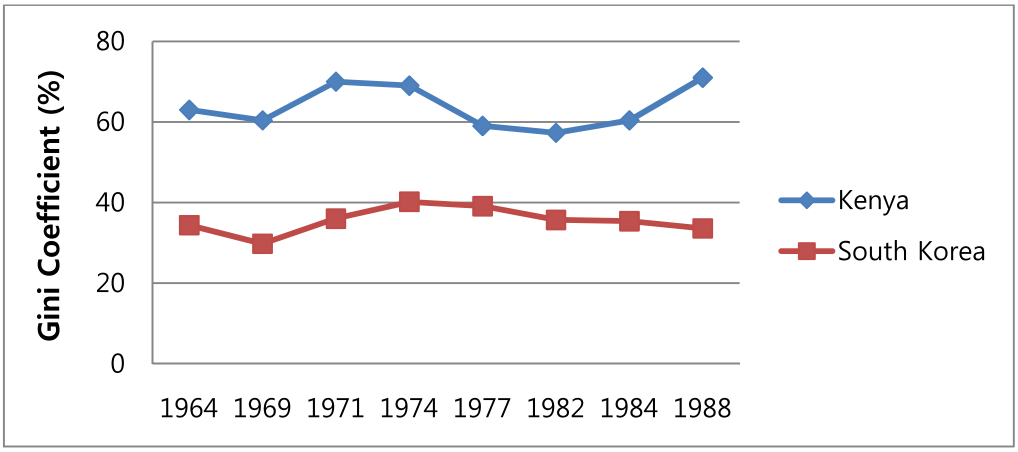
[124] UNU-WIDER (United Nations University World Institute for Development Economics Research), *The UNU-WIDER World Income Inequality Database (WIID)*, http://www.wider.unu.edu/research/WIID3-0B/en_GB/wiid/, September 2014.

[125] Society for International Development, *Kenya's Vision 2030: An audit from an income and gender inequalities perspective*, (Nairobi: SID, 2010) p.4.

When looking at the Figure 3.1, the overall trend of income inequality in Kenya and South Korea between the 1960s-1970s looks similar; the reduction in the late 1960s and the increase in the 1970s. This trend can be seen as a natural outcome of economic growth, as Kuznets argued, income inequality rises first until reaching peak and fall after as economies develop.[126]

However, there was still a big difference in their overall income inequality levels. The average coefficient between 1964-1988 for Kenya is about 1.8 times higher than that for South Korea. As Figure 3.1 shows, the gap was maintained as one and a half times larger for three decades.

Figure 3.1. Ttrends of Gini coefficients for Kenya and South Korea, 1960s-1980s



Source[127]: The World Income Inequality Database V3.0b and SID

In fact, in the early 1960s, Kenya and South Korea were in a similar economic situation. After colonization by Britain and Japan respectively, both of them lagged behind the world economy with poor economic performance. In 1964, Kenya's GDP per capita was $109 and

126 Kuznets S., 'Economic Growth and Income Inequality', *The American Economic Review*, Vol. 45, No. 1, (1955).
127 UNU-WIDER (United Nations University World Institute for Development Economics Research), *The UNU-WIDER World Income Inequality Database (WIID)*, http://www.wider.unu.edu/research/WIID3-0B/en_GB/wiid/, September 2014 and Society for International Development, *Kenya's Vision 2030: An audit from an income and gender inequalities perspective*, (Nairobi: SID, 2010) p.4.

Korea's GDP per capita was $120 and, in 1965, the both were $105.[128] Further, about 40% of the both countries' population suffered from absolute poverty during the 1960s.[129] As a result, Kenya and South Korea were categorized as low income and poor countries in this period.

In spite of these facts, South Korea's initial Gini coefficient was still much lower than Kenya's. There must be other factors that led to the difference between the two countries but, many scholars have attributed to the '1949 land reform' in South Korea as a critical factor.[130] According to Kim, through the reform, the land seized by the Japanese colonial government was fairly evenly distributed to the farmers and absentee land owners and large-scale land holders were virtually eliminated.[131] As a result, the Korean government could successfully redistribute the initial wealth and promote relatively equal society in the much earlier stage of economic development. In particular, the evenly distributed land lowered income inequality among South Korean farmers. The Gini index for agriculture between 1965-1976 was only 28% while other sectors such as manufacturing and small industries had 41% and 32% ratios respectively.[132]

Kenya also conducted land redistribution programs in the beginning including the 'million acre scheme', which resettled the thousands of landless people mainly in the former White Highlands who then engaged in agricultural production. Nevertheless, poor implementation, lack of commitment, corruption, and the absence of complementary investments such as in water supply[133] made the wealth redistribution effect small.

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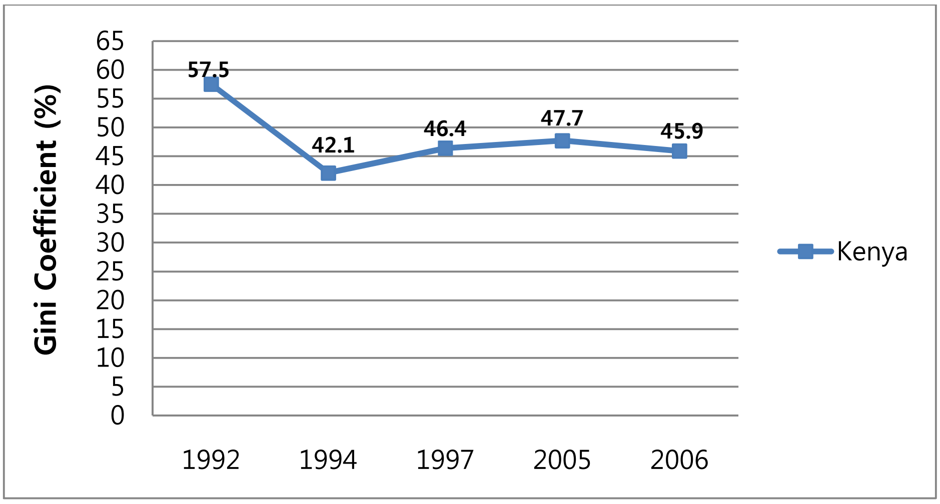
[128] World Bank, *GDP per capita(current US$)*,http://data.worldbank.org/indicator/NY.GDP.PCAP.CD/countries
[129] Ndulu B. J., et al, *The Political Economy of Economic Growth in Africa, 1960-2000*, Vol. 2, (Cambridge: Cambridge University Press, 2008) p.360 and Kim K. S., 'The Korean Miracle (1962-1980) Revisited: Myths and Realities in Strategy and Development', *The Helen Kellogg Institute for International Studies, Working Paper 166* (1991) p.3.
[130] Jomo(2006), Kim (1991), Lee & Lee (2013).
[131] Kim K. S., 'The Korean Miracle (1962-1980) Revisited: Myths and Realities in Strategy and Development', *The Helen Kellogg Institute for International Studies, Working Paper 166* (1991) p.10.
[132] Ibid.
[133] KIPPRA (The Kenya Institute of Public Policy Research and Analysis), *Growth, Poverty, and Income*

Since 1990

Kenya went through economic downturns and debt crisis between the mid-1980s and the 1990s like other Sub-Saharan African countries. The GDP growth rate of Kenya fell from 8.01% in the 1970s to 4.07% in the 1980s, and to 1.67% in the 1990s.[134] And the total stock of external debt increased sharply from $1.3 billion in 1975 to about $7 billion in the early 1990s.[135] Besides, the income inequality level kept rising since the mid-1980s till the early 1990s (see Figure 3.1 and 3.2).

Figure 3.2. Trends of Gini coefficients for Kenya, Since 1992



Source[136]**:** World Development Indicators, 2015 and The World Income Inequality Database V3.0b

For that reason, in the 1990s, Kenya conducted economic reform and liberalization, popularly known as SAPs (Structural Adjustment Programs), under the guide of International Financial Institutions (IFIs). As Kenyan economy slowly recovered after the reforms, its income inequality was also reduced gradually over the next two decades. As Figure 3.2 shows, Gini coefficients for Kenya since 1994 were between 42~48%. Compared to the previous

Inequality in Kenya: Suggested Policy Options, (Nairobi: KIPPRA, 2009) p.38.

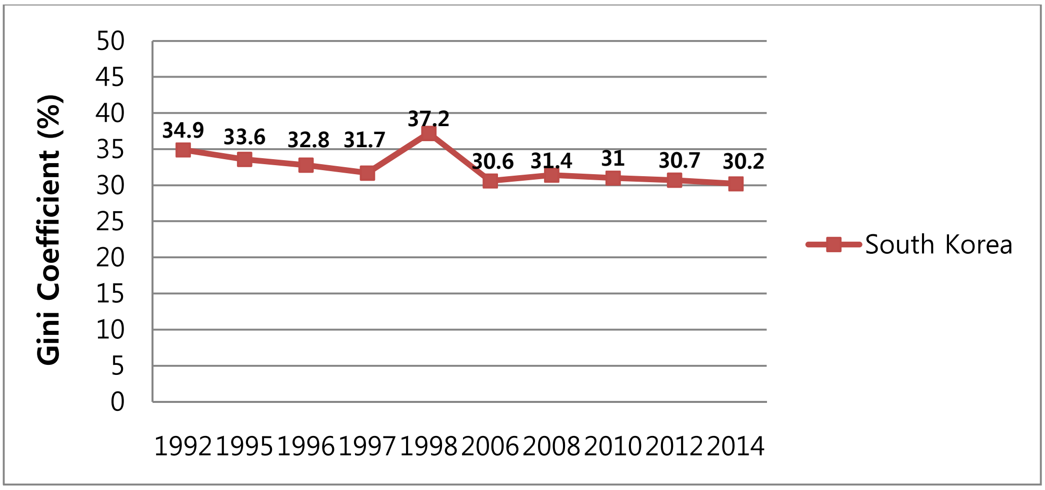
[134] Ndung'u N., et al, *Unlocking the Future Potential for Kenya: The Vision 2030*, (Oxford: Oxford University Press, 2010) p.2.

[135] World Bank, *Data*, http://data.worldbank.org

[136] Data for between 1992-2005 are sourced from World Bank, *Data*, http://data.worldbank.org
Data for 2006(*) is sourced from UNU-WIDER (United Nations University World Institute for Development Economics Research), *The UNU-WIDER World Income Inequality Database (WIID)*, http://www.wider.unu.edu/research/WIID3-0B/en_GB/wiid/, September 2014.

decades, when the ratios were between 60~70%, it seems that the distribution of income in Kenya has improved for the last two decades.

Figure 3.3. Trends of Gini coefficients for South Korea, Since 1992



Source[137]**:** The World Income Inequality Database V3.0b and KOSIS (Korean Statistical Information Service)

Table 3.2. Gini coefficients for Kenya and South Korea, 1992-2006

	1992	1994	1997	2005	2006
Kenya	57.5	42.1	46.4	47.7	45.9
South Korea	34.9	33.6 (1995)	31.7	-	30.6

Source: Same as Figure 3.2 and Figure 3.3.

Meanwhile, with robust economic growth, the income inequality in South Korea kept reducing till the mid-1990s. The coefficients for South Korea decreased from 34.9% in 1992 to 31.7% in 1997 (see Figure 3.3). Interestingly, this period corresponds to the time when wages of laborers began to rise after the labor movement in the late 1980s, implying that overall income growth helped the reduction of income inequality.

However, the downward trend of income inequality in South Korea changed suddenly in the late 1990s. The 1997 Asian financial crisis deteriorated Korean economy with a

[137] Data for between 1992-1998 are sourced from UNU-WIDER (United Nations University World Institute for Development Economics Research), *The UNU-WIDER World Income Inequality Database (WIID)*, http://www.wider.unu.edu/research/WIID3-0B/en_GB/wiid/, September 2014.
Data for between 2006-2014 are sourced from KOSIS (Korean Statistical Information Service), http://kosis.kr/

significant decrease in GDP growth rate from 5.8% in 1997 to -5.7% in 1998.[138] In addition, a series of structural reforms guided by IMF in this period led to a sharp increase of business bankruptcies and increase in unemployment rate from 2.6% in 1997 to 7% in 1998.[139] This caused the Gini coefficient for South Korea rose sharply to 37.2% in 1998.

Fortunately, the recent trends show that South Korea's income inequality has returned to the previous low level, around 30%. Though, with rapid industrial changes, globalization, neoliberal restructuring, asymmetric changes in wage discrepancies, skill-biased development, and increased trade competition with China[140], South Korea is still suffering from economic polarization and struggling to find a way to achieve further reduction of income inequality.

3.1.2 Income Gap

Table 3.3. Quintile ratios (Top 20%/Bottom 20%) in Kenya and South Korea, 1969-2005

Country	1969	1977	1992	1994	1997	2005
Kenya	17.1	24.5	18.2*	8.6*	9.7*	11*
South Korea	4.5	7.9 (1976)	7.3	7 (1995)	5.9	5.4* (2006)

Source [141] : The World Income Inequality Database V3.0b, World Development Indicators, 2015(*Kenya, 1992-2005), KOSIS(*Korea, 2006)

It is also seen that there have been differences on the aspect of income gap between Kenya and South Korea. The quintile ratios of the two countries during 1969-2005 (see Table 3.3) demonstrate that there is a larger income gap in Kenya than in South Korea. In 1969, the richest 20% held incomes about 17 times more than that of the poorest 20% in Kenya. In South Korea, the income gap between the richest 20% and the poorest 20% was only 4.5,

[138] World Bank, *Data*, http://data.worldbank.org
[139] Kim J., 'The Dynamics of Income Inequality in Korea', *2011 KDI Journal of Economic Policy Conference: Globalization, Human Capital and Inequality*, (2011) p.178. and World Bank, *Data*, http://data.worldbank.org
[140] Kim J., 'The Dynamics of Income Inequality in Korea', *2011 KDI Journal of Economic Policy Conference: Globalization, Human Capital and Inequality*, (2011) p.6.
[141] UNU-WIDER (United Nations University World Institute for Development Economics Research), *The UNU-WIDER World Income Inequality Database (WIID)*, http://www.wider.unu.edu/research/WIID3-0B/en_GB/wiid/, September 2014, World Bank, *Data*, http://data.worldbank.org, KOSIS (Korean Statistical Information Service), http://kosis.kr/

which is about 4 times less than the gap in Kenya. In the 1970s, the income gap increased to 24.5 and 7.9 respectively in each countries, a similar pattern that is observed with Gini index. However, Kenya still had about 3 times larger income gap than South Korea.

In the 1990s, the income gap in Kenya decreased sharply from 18.2 in 1992 to 8.6 in 1994. The reason may be either due to the income of the bottom quintile increasing greatly or the income of the top quintile reducing largely. In the case of Kenya, the reason is the latter one whereby the richest earned about 62% of total income in 1992 and 48% in 1994 while the income of the poorest increased only about 2.2% from 3.4% to 5.6% in the same period. However, in 1997 and 2005, the gap was widened again to 9.7 and 11.

The quintile ratio (disposable income) of South Korea also showed the declining trend between the mid-1990s and the 2000s. Even though the quintile ratio sharply rose to 8.7 in 1998 owing to the Asian financial crisis, it decreased to 5.4 in 2006 and maintained the similar levels for the last 10 years; the ratio was 5.6 in 2010 and 5.4 in 2014.[142] The reason is the increased income of the bottom quintile (from 5.7% in 1995 to 6.7% in 2010) and the reduced income of the top quintile (39.7% in 1995 to 37.8% in 2010).[143]

Table 3.4 shows the percentage of total household income received by various deciles ranked by income levels in Kenya and South Korea in the late 1990s. The table also clearly presents that income is more unequally distributed in Kenya than in South Korea. The bottom 10% of the Kenyan households controlled only 0.76% of total income while the top 10% controlled almost 43% of total income. On the other hand, the bottom 10% of Korean households held about 1.5% of total income and the top 10% held about 25.5% of total

[142] KOSIS (Korean Statistical Information Service), http://kosis.kr/
[143] Kim J., 'The Dynamics of Income Inequality in Korea', *2011 KDI Journal of Economic Policy Conference: Globalization, Human Capital and Inequality*, (2011) p.26.

income showing that there was much less income gap between them in South Korea compared to Kenya.

Table 3.4. Household income shares by deciles in Kenya and South Korea

Country (Year)	Kenya (1999)	South Korea (1998)
Decile	**Share (%)**	
1	0.76	1.45
2	1.75	3.38
3	2.72	4.89
4	3.83	6.41
5	5.05	8.23
6	6.58	9.66
7	8.52	11.27
8	11.61	13.15
9	16.46	16.09
10	42.72	25.48

Source[144]: KIPPRA(Kenya), The World Income Inequality Database V3.0b(Korea)

Meanwhile, research on perceived income inequality in Kenya has revealed some interesting results. According to the Kenya Institute of Public Policy Research and Analysis (KIPPRA)'s 2013 nationwide household survey, 65.4% of respondents "strongly agreed" on the question 'the income gap between the high and low incomes was too large' with another 27.6% "agreed".[145] In South Korea, by the early 1990s, about 70% of Koreans identified themselves as belonging to the middle class but the recent survey shows that about 73% of Seoul residents answered themselves as belonging to the lower middle class or lower class.[146]

144 KIPPRA (The Kenya Institute of Public Policy Research and Analysis), *Growth, Poverty, and Income Inequality in Kenya: Suggested Policy Options*, (Nairobi: KIPPRA, 2009) p.17., UNU-WIDER (United Nations University World Institute for Development Economics Research), *The UNU-WIDER World Income Inequality Database (WIID)*, http://www.wider.unu.edu/research/WIID3-0B/en_GB/wiid/, September 2014.
145 KIPPRA, *The Status of Social Cohesion in Kenya, 2013*, (Nairobi: The National Cohesion and Integration Commission, 2014) p.15.
146 Koo H., *Inequality in South Korea,* http://www.eastasiaforum.org/2014/07/01/inequality-in-south-korea/, 1 July 2014.

3.1.3 Income Disparity within Regions

It is evident that Kenya has a substantial degree of income disparity within regions, especially between urban and rural areas. According to the 2012/2013 Kenya National Housing Survey (KNHS) report (Table 3.5), the median monthly income, expenditure and savings in urban areas are higher than those in rural areas; income (2.6 times), expenditure (1.94 times) and savings (2 times). Besides, the ratio of rural to urban earning was only 11% in 1972 and 23~25% between 1995-2007.[147]

Table 3.5. Median monthly income, expenditure and savings in Kenya

	Household Income (Ksh)	Household Expenditure (Ksh)	Household Savings (Ksh)
National	7,000	6,000	2,000
Rural	5,000	5,000	1,500
Urban	13,000	9,700	3,000

Source: 2012/2013 Kenya National Housing Survey[148]

The main factor which caused the urban-rural income disparity in Kenya is that the opportunity to access formal sector jobs is not equally provided. According to SID, 1 in 4 urban Kenyans had a formal sector job in 1972 while 1 in 25 rural Kenyans had a formal sector job in 1974.[149] By 2007, 1 in under 8 urban Kenyans and 1 in 34 rural Kenyans had access to formal sector jobs.[150]

The income disparity in Kenya is also observed between different counties. The welfare gains are concentrated in the Central and Eastern provinces while the Western province has the lowest income; Nairobi, Kiambu and Mombasa counties hold the highest median monthly income (Ksh 16,000, Ksh 11,500 and Ksh 11,000 respectively) while Busia and West Pokot

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147 Society for International Development, *Kenya's Vision 2030: An audit from an income and gender inequalities perspective*, (Nairobi: SID, 2010) p.6.
148 Republic of Kenya-Ministry of Land, Housing and Urban Development, *2012/2013 Kenya National Housing Survey*, (Nairobi: KNBS, 2015).
149 Ibid.
150 Ibid.

counties hold a mean income of Ksh 3,000 and Ksh 2,000 respectively.[151]

By contrast, there is no clear sign of income disparity within regions in South Korea. In 1988, the rural income was about 8.1 million Won while urban income was about 7.8 million Won. Therefore, the ratio of rural to urban earning was 104.8%. In 1990, the ratio slightly decreased to 97.4% with the rural income of about 1.10 million Won and the urban income of about 1.13 million Won.[152]

The reasons for this are the land reform in the late 1940s and the rural development scheme 'Saemaul Movement (or New Village Movement)', which took off in 1970 in South Korea. The land reform reduced the initial income inequality and 'Saemaul Movement' promoted balanced growth between urban and rural areas with several rural development programs. The programs included community empowerment, performance-based support from the government, the construction of infrastructure in rural areas, and supported rural income by procuring grain at higher prices.[153] What is significant about the movement is that it aimed to increase agricultural productivity as well as to promote rural household income.

In addition, there were other efforts made by the Korean government to promote balanced regional growth. Firstly, there has been a growing concern about regional disparities and polarization as Seoul metropolitan area and some industrialized regions attracted the most share of the national investment.[154] For that reason, the government tried to promote balanced regional growth through curbing the concentration of population and economic activities in the capital region.

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151 Republic of Kenya-Ministry of Land, Housing and Urban Development, *2012/2013 Kenya National Housing Survey*, (Nairobi: KNBS, 2015) p.31.

152 KOSTAT (Statistics Korea), http://kostat.go.kr/

153 Lim W., 'From Rapid, Shared Growth to Slow Unshared Growth?' in *Think Tank 20: Growth, Convergence and Income Distribution: The Road from the Brisbane G-20 Summit* (Washington, D.C.: Brookings, 2014) p.135.

154 Lee Y. Y. & Lee H. H., Inclusive Growth, Financial Exclusion and Microfinance in the Republic of Korea (unpublished), 2013, p.20.

Secondly, the South Korean government also tried to provide equal opportunities in terms of income, jobs and education in all regions. Measures which were taken are 'the designation of greenbelts to prevent Seoul's urban expansion, the imposition of taxes, restriction on the number of universities and students in the capital region, relocation of government institutions to the province, and the transfer of power from the central government to local governments.'[155]

Regrettably, however, it seems that the urban-rural income disparity in South Korea is being slowly widened. According to Oh, et al, the ratio of rural to urban earning has decreased from 90.2% in 1996 to 78.% in 2006, and to 59.1% in 2011 due to the aging of rural population, low price of agricultural products and a lack of budget support from the government.[156]

155 Lee Y. Y. & Lee H. H., Inclusive Growth, Financial Exclusion and Microfinance in the Republic of Korea (unpublished), 2013, p.20.
156 Oh N. W., et al, *An Analysis of Long-term Rural Income in Korea*, (Seoul: Korea Rural Economic Institute, 2013) p.7.

3.2 Job Opportunities and Income Inequality in Kenya and South Korea

We have observed that, over the past five decades, income inequality in Kenya has been much higher than in South Korea in all aspects. In case of Kenya, economic downturns, lack of redistribution efforts, and lack of access to the formal sector jobs are main factors that caused high level of income inequality and income disparity within regions. In South Korea, robust economic growth, income growth, and redistribution policies such as land reform and rural development played a major role in reducing income inequality.

Then, what can be the most effective method of reducing income inequality? This study assumes that enhancing job opportunities is the answer. Why job opportunities are important to reduce income inequality? First, earned income is a major component in total income. Rather than subsidizing the poorest, providing them job opportunities would be the most fundamental solution for tackling income inequality. Further, in terms of promoting inclusive growth, job creation is highly important as it leads to economic growth and poverty reduction.

Accordingly, the second half of this chapter examines how job opportunities have been given and how they have caused the differences of income inequality between Kenya and South Korea, to test the above hypothesis.

3.2.1 The Overall Trends of Employment in Kenya and South Korea

Table 3.6 shows the trends of employment in the modern sector in Kenya for the last four decades. The modern sector refers to large-scale firms or enterprises.[157] According to the data available for the late 1960s, the total recorded modern sector employees increased about 28,000 persons from 600,600 persons in 1967 and 627,700 persons in 1969.[158] In the 1970s,

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[157] KNBS, *Economic Survey 1970*, (Nairobi: KNBS, 1970) p.128.
[158] Ibid.

the number of employees grew by about 150,000 persons between 1972-1974 and about 130,000 persons between 1974-1978.

Table 3.6. Total recorded employment in the modern sector in Kenya, 1972-2014 ('000s)

	1972	**1974**	**1978**	**1980**	**1983**	**1987**	**1989**	**1990**	**1992**	**1995**	**1997**	**2010**	**2012**	**2014**
Modern Establishments -Urban and Rural Areas-														
Wage Employees	719.8	826.3	911.6	1,024.3	1,093.3	1,285.4	1,372.8	1,407.7	1,462.1	1,557.0	1,647.4	2,016.2	2,155.8	2,370.2
Self-employed and unpaid family workers	50	55.9	59.6	62.1	63.2	38.1	44.3	48.2	53.8	61.1	64.1	69.8	76.9	103
Informal Sector	33.9	76.2	113.9	157.3	182.9	312.1	390	443.1	1,237.5	2,240.5	2,986.9	9,371.1	10,548.4	11,843.5
Total	803.7	958.4	1,085.9	1,243.7	1,339.4	1,635.6	1,807.1	1,899.0	2,753.4	3,858.6	4,698.4	11,457.1	12,781.1	14,316.7

Source: KNBS[159]

Between the mid-1980s and the 1990s, even though Kenya went through economic downturns, the total number of employees kept increasing (see Table 3.6). At first, there was slow growth in employment. The average annual increase in total number of employees was only about 83,000 persons during 1987-1990.

However, after 1990, the total employment increased faster than the previous decade. The total number of employees rose by about 1 million people in every two or three years. It is largely attributed to the fast growth of the informal sector employment, which has increased by about 0.7~1 million in every two or three years. The number of wage employees also increased little by little, about 30,000~100,000 people, in this period. Between 2010-2014,

159 KNBS, *Economic Survey, 1975*, (Nairobi: KNBS, 1975), KNBS , *Economic Survey 1982,* (Nairobi: KNBS, 1982), KNBS, *Economic Survey 1984,* (Nairobi: KNBS, 1984), KNBS, *Economic Survey 1991,* (Nairobi: KNBS, 1991), KNBS, *Economic Survey 1998,* (Nairobi: KNBS, 1998), KNBS, *Economic Survey 2015,* (Nairobi: KNBS, 2015).

about 3 million new jobs were generated in Kenya with the rapid increase in the informal sector employment and the gradual increase in wage employment along with self-employment.

Table 3.7 shows the trends of employment in South Korea over the past five decades. The overall labor force participation rate gradually rose from 56.9% in 1965 to 59.4% in 1977, and to 62.5% in 1997. In the 2000s and 2014, the rate remained around 61~62%; 61% in 2000, 61.5% in 2003, 61.8% in 2006, 60.8% in 2009, 61.3% in 2012, and 62.4% in 2014.

The total number of employees also increased steadily from about 8 million people in 1965 to 13 million in 1977, to 15.5 million in 1986, and to 21 million in 1997. Looking at this trend with employment rate (% of employed among economically active persons), the rate also kept rising from 92.6% in 1965, to 96.2% in 1977, and to 97.3% in 1997.

Table 3.7. Trends of employment in South Korea, 1965-2014 ('000s)

	1965	**1968**	**1971**	**1974**	**1977**	**1980**	**1983**	**1986**	**1989**	**1990**	**1994**	**1997**	**1998**	**2000**	**2003**	**2006**	**2009**	**2012**	**2014**
Population (+15)	15,367	16,456	18,118	20,187	22,407	24,463	26,212	28,225	30,265	30,887	33,046	34,851	35,347	36,186	37,340	38,762	40,092	41,582	42,513
Economically Active	8,754	9,541	10,407	11,900	13,316	14,431	15,118	16,116	18,023	18,539	20,353	21,782	21,428	22,134	22,957	23,978	24,394	25,501	26,536
Employed	8,112	9,061	9,946	11,421	12,812	13,683	14,505	15,505	17,560	18,085	19,848	21,214	19,938	21,156	22,139	23,151	23,506	24,681	25,599
(Changes in the number of employees)	-	949	885	1,475	1,391	871	822	1,000	2,055	525	1,763	1,366	-1,276	1,218	983	1,012	355	1,175	918
Jobless	642	480	461	479	504	748	613	611	463	454	504	568	1,490	979	818	827	889	820	937

Source: KOSTAT[160]

[160] KOSTAT (Statistics Korea), http://kostat.go.kr/

However, in 1998, about 1.3 million employees lost their jobs in the country due to the 1997 Asian financial crisis. In that year, the employment rate fell from 97.3% to 93%. Fortunately, since 2000, the rate has recovered; 95.5% in 2000, 96.5% in 2006, and 96.4% in 2014 as the number of employees increased again.

3.2.2 Job Opportunities and Income Inequality

As observed, there has been continuous growth in employment in both Kenya and South Korea over the last five decades. In other words, more and more job opportunities have been provided in the both countries. There is, however, a question that arises on why income inequality in Kenya has always been higher than in South Korea.

First of all, there are still not enough job opportunities in Kenya. In 2013, the country's unemployment rate was estimated to be 40% overall and 70% among youths[161] at a time when there were almost 2 million job seekers and another one million new entrants into the labor force while just 743,000 new jobs were created.[162]

In case of South Korea, by contrast, the unemployment rate is far lower than that of Kenya. In the 1990s, except 1998 when the rate was 7%, South Korea's average unemployment rate was just around 2.5%.[163] In the recent years, the rate is about 3.4~3.5%.[164] The youth unemployment rate is relatively higher than the average unemployment rate at around 8~9%. Nonetheless, it is still much lower than Kenya's youth unemployment rate.

In 2014, the total population in Kenya was about 45 million while the total population of

[161] Uhuru Kenyatta's speech at a Labour Day celebration in Nairob on 1 May 2013.
[162] Kaane H. L., 'Policies, Mechanisms and Schemes for Integration of Youth into the Workforce and Job Creation', *Kenya Country Report*, (The 2014 Ministerial Conference on Youth Employment, Abidjan, Côte d'Ivoire, 21-23 July, 2014), p.21.
[163] KOSIS (Korean Statistical Information Service), http://kosis.kr/
[164] Ibid.

South Korea was about 50 million.[165] In the same year, the total number of employees in the two countries were about 14 million and 25.5 million respectively (see Table 3.6 and 3.7). It shows that South Korea had about 10.5 million more employees than Kenya despite the gap between the total population of the two countries was only about 5 million.

Further, there are lack of decent job opportunities in Kenya. Kenya has a dual economy; one is formal economy and the other is informal economy. The formal sector refers to large-scale activities, registered enterprises, and wage-paying jobs. This sector is fully integrated into the market and global economy.[166] On the other hand, the informal sector covers semi-organized and unregulated small-scale activities that are largely undertaken by the self-employed or those who employ a few workers.[167]

In most cases, those who are engaged in the formal sector earn much higher returns than those engaged in the informal sector. This is because, usually, the informal sector uses simple technology that doesn't require skilled-labors and pays lower. Besides, the common characteristics of this sector are 'lack of protection in the event of non-payment of wages, lay-offs without notice or compensations, and the absence of social benefits such as pensions, sick pay and health insurance'.[168]

In fact, there was a large average wage gap between the formal sector and informal sector in 2014. For instance, the employees engaged in financial and insurance activities in the formal private sector earned about Ksh 83,600 per month.[169] The employees in transportation and storage and those who are in professional, scientific and technical activities earned about

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[165] World Bank, *Data*, http://data.worldbank.org
[166] Society for International Development, *Kenya's Vision 2030: An audit from an income and gender inequalities perspective*, (Nairobi: SID, 2010) pp.5-6
[167] KNBS, *Economic Survey 1998*, (Nairobi: KNBS, 1998) p.65.
[168] ILO, *Informal Economy*, http://www.ilo.org/global/topics/employment-promotion/informal-economy/lang--en/index.htm
[169] KNBS, *Economic Survey 2015,* (Nairobi: KNBS, 2015).

Ksh 58,600 and Ksh 47,900 per month, respectively.[170] While, the general workers in the informal sector earned about Ksh 5,218 per month.[171] These workers are consist of cleaners, house servants, children's ayah(nurse), watchmen, et cetera, who are usually self-employed workers.

Table 3.8. % of wage employees and informal sector employment among modern sector employment in Kenya, 1972-2014

	1972	**1980**	**1987**	**1990**	**1992**	**1997**	**2014**
Wage Employees	89.5	82	78	74	53	35	16
Informal Sector	4.2	12.6	19	23	50	63.5	82.7

Source: The researcher's calculations using data sourced from KNBS[172]

The problem is that the recent trends in Kenya show a large number of jobs being created in the informal sector as compared to the formal sector. In 1972, the share of informal sector employees was only about 4% while wage employees took up almost 90% of the modern sector employment (see Table 3.8). However, in the late 1990s, the share of informal sector employees exceeded that of wage employees and, in 2014, more than four out of five working Kenyans were employed in the informal sector.

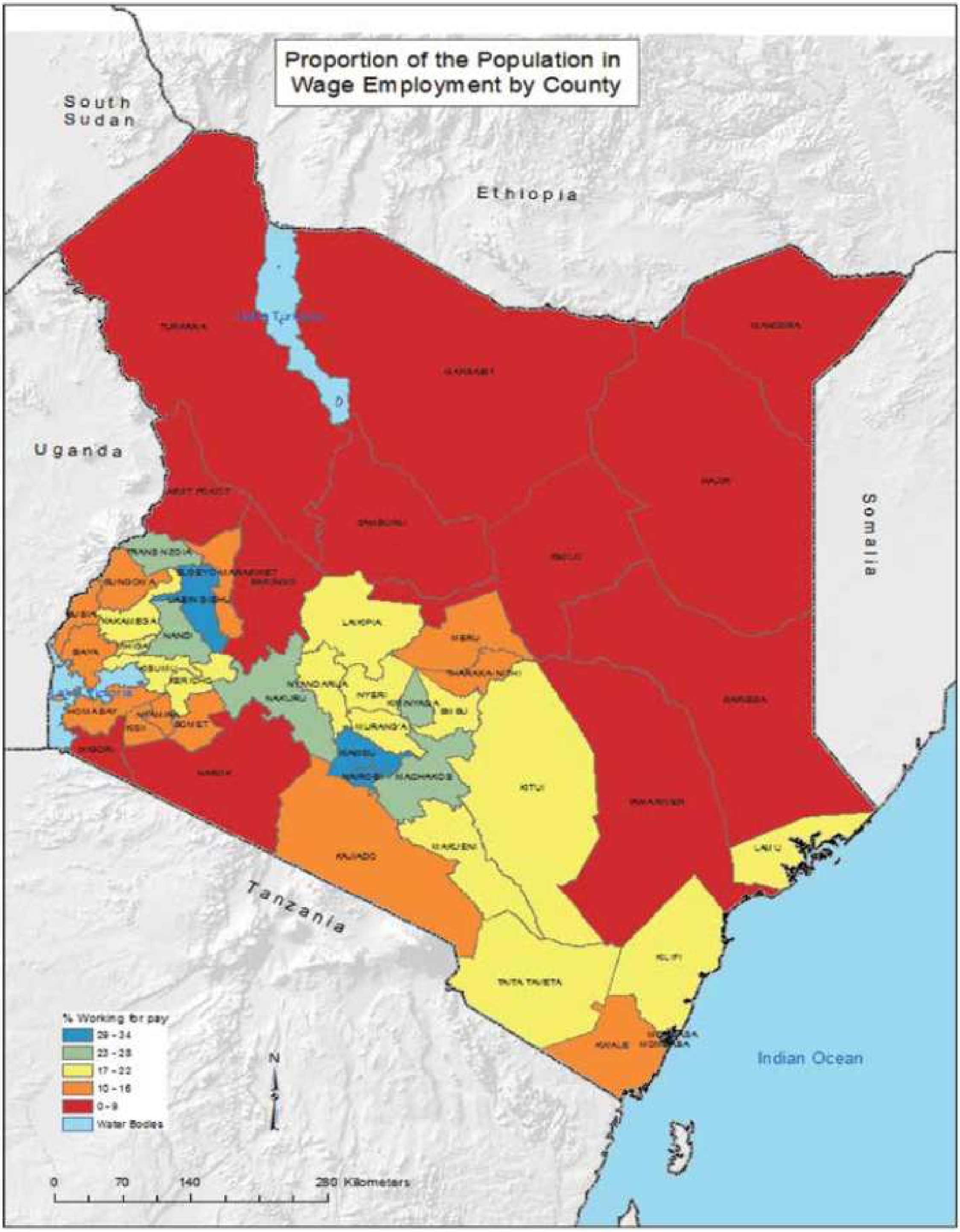
It is true that the informal sector also contributes to income generation. Including this sector, the total increase in employment must have reduced Kenya's income inequality level from 63% in 1964 to 50% in 2006.

However, as it is observed above, the wage gap between the formal and informal sector and the rapidly increased share of informal sector employees have increased and will increase the income inequality in Kenya. Since the mid 1990s, when the number of informal sector employees began to exceed that of the formal sector, the Gini coefficient for Kenya increased

[170] Ibid.
[171] Ibid.
[172] KNBS, *Economic Survey, 1975*, (Nairobi: KNBS, 1975), KNBS*, Economic Survey 1982,* (Nairobi: KNBS, 1982), KNBS, *Economic Survey 1991,* (Nairobi: KNBS, 1991), KNBS, *Economic Survey 1998,* (Nairobi: KNBS, 1998), KNBS, *Economic Survey 2015,* (Nairobi: KNBS, 2015).

from about 42% in 1994 to about 48% in 2005 (see Figure 3.2 on page 50).

Figure 3.4. The proportion of the population in wage employment by county in Kenya



Source: KNBS & SID[173]

[173] KNBS & SID, *Exploring Kenya's Inequality: Pooling Apart or Pulling Together?*, (Nairobi: KNBS & SID, 2013) p.28.

The income disparity between different counties in Kenya can also be attributed to the lack of wage-paying job opportunities. As seen in Figure 3.4, the Central province in Kenya holds the highest proportion of wage employment while the North holds the lowest proportion of population in wage employment. Interestingly, the unequal distribution of wage employment between different counties corresponds to the unequal distribution of income among them. Nairobi and Kiambu counties hold the highest median income while West Pokot holds the lowest income.[174]

Therefore, it seems that creating decent job opportunities such as formal sector jobs and providing equal access to them nationwide is highly necessary in Kenya to promote further reduction in income inequality.

On the contrary, in South Korea, there have been more opportunities for wage-paying jobs provided since 1965. The share of wage and salary workers increased more than two times from 30.7% in 1965 to 71.2% in 2010 with the rapid economic growth.[175] On the other hand, the share of non-salary workers decreased substantially from 69.3% to 28.8% in the same period.[176]

Table 3.9. % of non-regular workers in South Korea, 2001-2015

	2001	**2003**	**2005**	**2007**	**2009**	**2011**	**2013**	**2015**
Non-regular workers (%)	26.8	32.6	36.6	35.9	34.9	34.2	32.6	32

Source: KOSIS[177]

However, it seems that providing decent job opportunities is also becoming more and more necessary in South Korea due to the recent trends in labor market. Table 3.9 shows the

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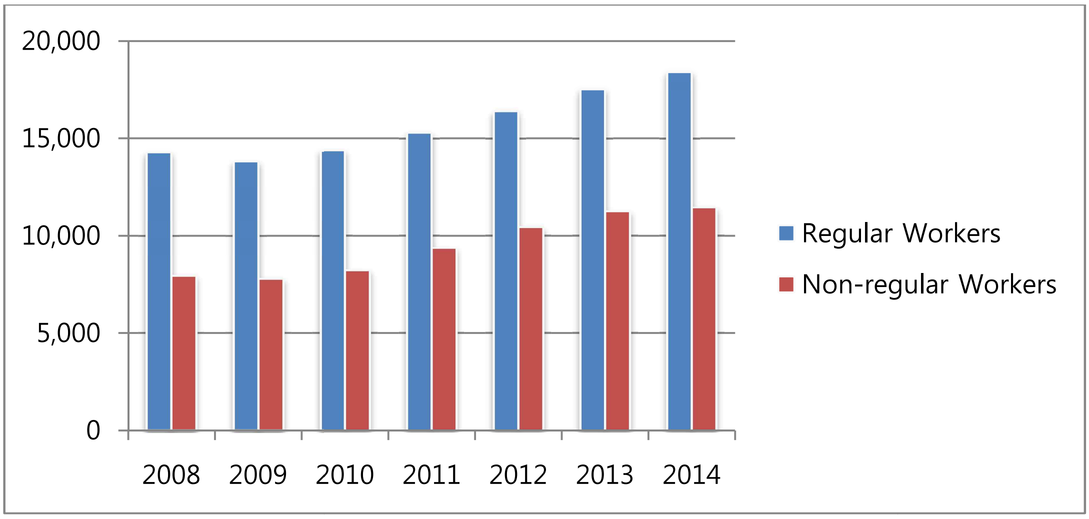
[174] Republic of Kenya-Ministry of Land, Housing and Urban Development, *2012/2013 Kenya National Housing Survey*, (Nairobi: KNBS, 2015) p.31.
[175] Lee Y. Y. & Lee H. H., Inclusive Growth, Financial Exclusion and Microfinance in the Republic of Korea (unpublished), 2013, p.13.
[176] Ibid.
[177] KOSIS (Korean Statistical Information Service), http://kosis.kr/

gradual increase in the share of non-regular workers in South Korea between 2001-2015. In 2001, the proportion of non-regular workers took up about 27% of total employees. And the proportion rapidly increased to 36.6% in 2005 and remained around 35% between 2007-2009. As firms dismissed non-regular workers to reduce employment in the wake of the global economic crisis[178], the proportion gradually decreased to 32% in 2015 from about 35% in 2009. Nonetheless, the latest proportion of non-regular worker is still relatively higher than that in 2001.

Figure 3.5. Total amount of wages per hour in South Korea, 2008-2014



Source: KOSIS[179]

The problem with these trends is that non-regular jobs pay lower than regular jobs just as Kenya's informal sector does. Figure 3.4 shows that there is a substantial wage gap between regular and non-regular workers. Between 2008-2014, the hourly wages of non-regular workers were about 6,200 Won lower than that of regular workers. And according to KOSIS, the total wage gap between regular and non-regular workers increased rapidly from 13% in 2008 to 62% in 2014.[180]

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[178] Ibid, p.14.
[179] Ibid.
[180] 2008: 13%, 2009: 16%, 2010: 13%, 2011: 9%, 2012: 36%, 2013: 64%, 2014: 62%, KOSIS (Korean Statistical Information Service), http://kosis.kr/

Interestingly, it is observed that there has been unequal income distribution in South Korea in this period. The quintile ratio of Korea, measured with market income, rose from 6.6 in 2008 to 7.7 in 2010, and further to 8.1 in 2014.[181] It can be attributed to the increasing wage gap between regular and non-regular jobs and the rising number of non-regular workers.

In consideration of the above findings, thus, providing decent job opportunities seems to be fundamental to promoting more equitable income distribution in both Kenya and South Korea.

[181] Ibid.

CHAPTER FOUR

NON-INCOME INEQUALITY IN KENYA AND SOUTH KOREA AND INVESTMENT IN HUMAN CAPITAL

4.0 Introduction

In the previous chapter, it was observed that Kenya has a higher level of income inequality than South Korea. This finding raises a question on whether Kenya also has more substantial degree of non-income inequality than South Korea, as it is in the case of Africa and East Asia.

Therefore, the first half of this chapter examines the level of non-income inequality in Kenya and South Korea using Human Development Index (HDI), education index and health index, as non-income inequality refers to unequal access to education, health and other social services.

The second half of the chapter examines how Kenya and Korea have invested in human capital. It is guided by the assumption that heavy investment in human capital reduces non-income inequality significantly by enhancing ability and knowledge of individuals.

The data has been collected from scholarly papers, research institutions (KDI, KIPPRA, SID), government offices (HIRA, KiHARA, KNBS, KOSTAT, NHIF), and international organizations (OECD, UN, UNDP, World Bank). And, the findings are analyzed and presented in tabular and graphical forms.

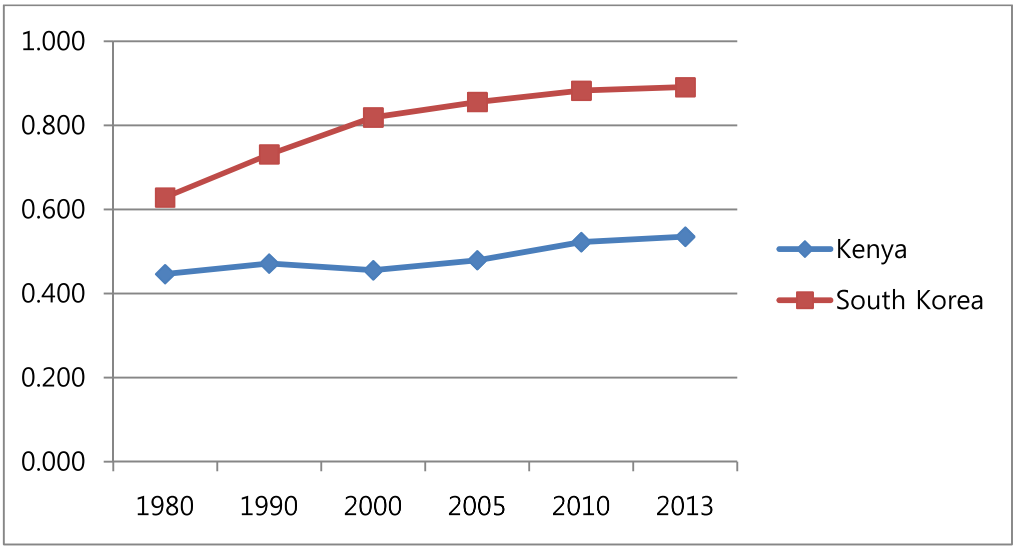
4.1 Non-Income Inequality in Kenya and South Korea

4.1.1 Human Development Index (HDI)

Trends of HDI

Human Development Index (HDI) 'represents a broader definition of well-being and provides a composite measure of three basic dimensions of human development: health, education and income.'[182] Therefore, HDI shows whether people live good quality of lives with better access to health, education, and income.

Figure 4.1. Trends of Human Development Index in Kenya and South Korea, 1980-2013



Source: UNDP[183]

Figure 4.1 shows the trends of HDI in Kenya and South Korea between 1980-2013. It is evident that South Korea's HDI value was always higher than that of Kenya during this period. According to the above definition of HDI, it can be interpreted that South Korean people have had more incomes, and better access to health and education than Kenyans for the last four decades. Besides, the gap between Kenya's HDI and South Korea's gradually

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[182] Republic of Kenya & UNDP Kenya, *Kenya National Human Development Report 2013*, (Nairobi: UNDP Kenya, 2013) p.11.
[183] UNDP, *Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience*, (New York: UNDP, 2014).

grew from 0.182 in 1980 to 0.356 in 2013,[184] which implies that the living standards in South Korea have improved faster than in Kenya.

Surely, there has been some progress made in Kenya. Between 1980-2013, the country's HDI value increased by about 0.09 from 0.446 to 0.535 with average annual HDI growth rate of 0.49%. However, compared to South Korea, Kenya made relatively slower progress. South Korea's HDI value increased by about 0.26 from 0.628 to 0.891 with average annual HDI growth rate of 1.10% in the same period, which is almost two or three times higher than Kenya's.

Currently, South Korea is in the very high human development category ranked at 15th among 187 countries, while Kenya belongs to the low human development category ranked at 147th.[185]

Inequality Adjusted HDI (IHDI) and Other Indicators

Table 4.1. Non-income inequalities in Kenya and South Korea, 2013

	Human Development Index (HDI)	**Inequality-adjusted HDI (IHDI)**	**Coefficient of human inequality**	**Inequality in life expectancy**	**Inequality in education**
Country	Value	Value	Value	%	%
Kenya	0.535	0.360	32.7	31.5	30.7
South Korea	0.891	0.736	16.8	3.9	28.1
World	0.702	0.541	22.8	17.3	27.0

Source: UNDP[186]

When HDI represents the overall improvements in access to health, education, and income, Inequality Adjusted HDI (IHDI) shows 'how those achievements are distributed among its

[184] In 1980, Kenya's HDI was 0.446 and Korea's HDI was 0.628. In 2013, Kenya's HDI was 0.535 and Korea's HDI was 0.891.
[185] UNDP, *Human Development Report 2014 - Kenya*, http://hdr.undp.org/en/country-reports and UNDP, *Human Development Report 2014 - Korea(Republic of)*, http://hdr.undp.org/en/country-reports
[186] UNDP, *Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience*, (New York: UNDP, 2014).

citizens by discounting each dimension's average value according to its level of inequality'.[187] Therefore, if IHDI of a country is lower than its HDI, it means that there is an unequal distribution of three dimensions of human development. When there is no inequality, IHDI equals HDI.

In that regard, it seems that there are inequalities in the distribution of income, education, and health in both Kenya and South Korea. In 2013, the both countries' IHDI values were lower than HDI values (see Table 4.1), which caused about 33% loss of human development achievements in Kenya and 17% loss in South Korea.[188]

However, South Korea's IHDI value is still about 0.38 higher than Kenya's. And, the gap between HDI and IHDI is smaller in South Korea (0.155) compared to Kenya (0.175), showing that the degree of inequality is relatively larger in Kenya.

Other indicators on Table 4.1 show that Kenya has a higher level of non-income inequality than South Korea. The coefficient of human inequality for Kenya (32.7) is about twice larger than that for South Korea (16.8). And, the inequality in life expectancy of Kenya (31.5) is about 8 times larger than that of South Korea (3.9), showing that there is much more unequal distribution of expected length of life in Kenya.

4.1.2 Education Index

The increase in HDI and decrease in non-income inequality (or human inequality) can be achieved through deliberate development of human capabilities. In particular, education is of vital importance to reducing both income and non-income inequality due to the fact that

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187 Republic of Kenya & UNDP Kenya, *Kenya National Human Development Report 2013*, (Nairobi: UNDP Kenya, 2013) p.11.
188 UNDP, *Human Development Report 2014 - Kenya*, http://hdr.undp.org/en/country-reports and UNDP, *Human Development Report 2014 - Korea(Republic of)*, http://hdr.undp.org/en/country-reports

people with poor educational attainment tend to get lower income and, in turn, the poorest income group gets fewer chances to get higher education.

In that regard, it seems that South Korea has been successful in developing human capabilities by substantially raising the general educational level of its people. Firstly, the gross pre-primary school enrollment rate in the country increased significantly from 2.5% in 1971 to 56% in 1990, and to 93% in 2014 (see Table 4.2). Similarly, the gross tertiary school enrollment rate also rose substantially from 7.2% in 1971 to 36% in 1990, and to 97% in 2014. In 2010, the tertiary enrollment rate reached 101%. The gross secondary enrollment rate has also greatly increased from 40% to 99% between 1971-2014.

In 1971, South Korea's gross primary school enrollment rate was already more than 100%. It is due to the fact that the country introduced universal primary education before the 1960s in accordance with the people's strong demand for education. Some scholars such as Burt, Park, and Lee explain that Korean culture considers education as one of the key factors for upward social mobility and, thus, people strongly demanded for expansion of access to education.[189]

Table 4.2. Gross school enrollment in South Korea, 1971-2014

Indicators	1971	1980	1990	2000	2010	2014
Pre-primary School Enrollment (%)	2.5	6.7	56	-	-	93
Primary School Enrollment (%)	106	105	104	102	103	100
Secondary School Enrollment (%)	40	77	92	99	97	99
Tertiary School Enrollment (%)	7.2	13	36	79	101	97

Source: World Development Indicators, 2015

[189] Burt M. & Park N. 'Education Inequality in the Republic of Korea: Measurement and Causes', CERC Studies in Comparative Education, Vol. 24, (2009) p.268 and Lee J., 'Economic Growth and Human Development in the Republic of Korea, 1945-1992', *Human Development Occasional Paper 24*, (1997) p.9.

The educational attainment in Kenya has also been improved over the last four decades. The gross pre-primary enrollment rate in the country continuously increased from 26% in 1983 to 60% in 2012 and the gross secondary enrollment rate also increased substantially from 17% in 1971 to 67% in 2012 (see Table 4.3).

In case of primary education, the enrollment rate already reached the high rate of 120% in 1980, increasing from 63% in 1970. However, the rate gradually decreased to 100% in 1990 and to 96% in 2000. This decline can be attributed to the economic downturn Kenya went through in the 1990s, when the government reduced its expenditure on public services to conduct structural reforms.[190] However, after Kenya introduced the Free Primary Education(FPE) program in 2003, the rate rebounded to above 100% and increased steadily between 2009-2012.

Meanwhile, it is noticeable that the gross tertiary enrollment rate in Kenya is extremely lower compared to the ratio of others. The rate was below 1% between 1970-1980 and 4% in 2009. As skilled labor is an important human resource in modern economy, the low enrollment rate at tertiary level implies that there is a lack of highly educated human resources in the country.

Table 4.3. Gross school enrollment in Kenya, 1970-2012

Indicators	**1970**	**1980**	**1990**	**2000**	**2009**	**2012**
Pre-primary School Enrollment (%)	-	26(1983)	33.5	43	51	60
Primary School Enrollment (%)	63	120	100	96	112	114
Secondary School Enrollment (%)	17	30	-	39	60	67
Tertiary School Enrollment (%)	0.9	0.9	-	2.7	4	-

Source: World Development Indicators, 2015

[190] The total government expenditure on education in Kenya decreased from 6.6% in 1988 to 6.0% between 1989-1990 and decreased further to 5.2% in 2000, World Bank, *Data*, http://data.worldbank.org

Comparing educational attainment between the two countries, Kenya is still relatively behind South Korea in terms of developing human capabilities. In 2013, both the primary school net enrollment rate and completion rate in Kenya were relatively lower than in South Korea (see Table 4.4). In particular, the secondary school net enrollment rate in Kenya was 40% lower than the rate in South Korea in the same year. With substantially low tertiary school enrollment rate, it implies that the number of students in Kenya drops sharply as they move to the higher educational level.

Whereas, the data on educational attainment in South Korea proves that the access to education has been widely expanded and available for almost of all Koreans. As a result, the country's illiteracy rate has dropped sharply from 78% in 1945 to 9% in 1990 and further to 5% in 2008.[191] The average years of schooling of adults also increased significantly from 4.2 years in 1960 to 11.8 years in 2013.[192]

Table 4.4. Comparison of educational attainment between Kenya and South Korea, 2013

Indicators	**Kenya**	**Korea**
Primary School Enrollment (net %)	83.5	99.1
Secondary School Enrollment (net %)	55.9	95.9
Education Completion rate (primary)	90.6	110.5

Source: World Development Indicators, 2015

In terms of education inequality within regions, it is observed that there is noticeably unequal access to education in Kenya. Firstly, there is education inequality between rural and urban areas. In rural areas, about one-third of population has no education while the population with no schooling is only about 16% in urban areas.[193] In case of secondary

[191] Korea Development Institute (KDI), http://www.kdi.re.kr/
[192] Lee J., 'Economic Growth and Human Development in the Republic of Korea, 1945-1992', *Human Development Occasional Paper 24*, (1997) p.6 and UDNP, *Human Development Report 2014 - Korea(Republic of)*, http://hdr.undp.org/en/country-reports
[193] KNBS & SID, *Exploring Kenya's Inequality: Pooling Apart or Pulling Together?*, (Nairobi: KNBS & SID, 2013) p.25.

education, urban residents have more than twice chances of access to secondary education than rural residents. In 2013, about 16% of rural population had secondary education while 38% of urban population did so.[194]

Secondly, there is also education inequality between different counties. According to KNBS and SID, people living in Nairobi county have about 15.4 times more access to secondary education or above than those living in Turkana county and 2.2 times more access to that than an average Kenyan.[195] On the other hand, the residents in Turkana have 7 times less access to any secondary education than an average Kenyan in the country.[196]

Education inequality also exists in South Korea among provinces. Burt and Park measured education Gini coefficient for different provinces in the country. According to their findings, Seoul metropolitan area and Kyungki province have the lowest level of education Gini coefficient at 0.17-0.19, while Cheonlla province has the coefficient more than 0.32.[197] However, the overall distribution of education in South Korea has been fairly egalitarian such that the education coefficient gap among the rest of provinces is only about 0.03.[198]

4.1.3 Health Index

The promotion of health is also critical in developing human capabilities and reducing inequality in a country. The UN emphasizes that poor health status can negatively affect the level of productivity and a person's capacity to learn at school.[199] With poorer performance

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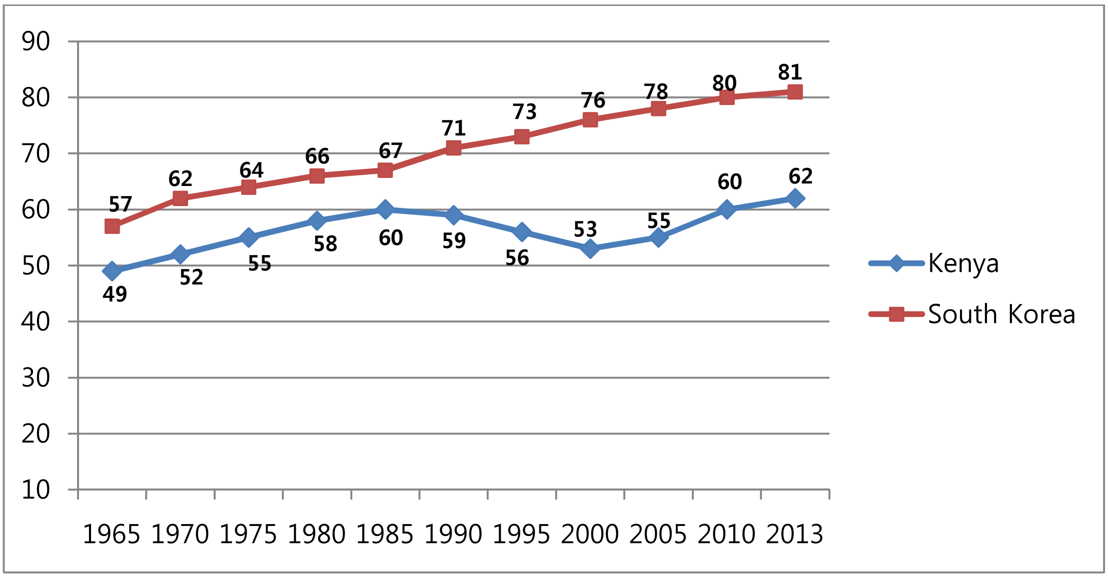
[194] Ibid.
[195] KNBS & SID, *Exploring Kenya's Inequality: Pooling Apart or Pulling Together?*, (Nairobi: KNBS & SID, 2013), p.27.
[196] Ibid.
[197] Burt M. & Park N. 'Education Inequality in the Republic of Korea: Measurement and Causes', CERC Studies in Comparative Education, Vol. 24, (2009) p.273.
[198] Ibid.
[199] UN, *The Employment Imperative: Report on the World Social Situation 2007*, (New York: UN, 2007) pp.98-99

in the workplace and poorer educational attainment, an individual has fewer chances to get higher income and, in turn, gets less access to education and other social services. In that regard, it is necessary to examine how national health status in Kenya and South Korea has improved and whether there is any health inequality among their people.

First of all, it is observed that life expectancy at birth has improved in both Kenya and South Korea over the last 50 years (see Figure 4.2). In particular, life expectancy in South Korea has shown a significant increase by 24 years from 57 years in 1965 to 81 years in 2013. It implies that there has been a considerable improvement in national health status in the country.

Figure 4.2. Trends of life expectancy at birth in Kenya and South Korea (years), 1965-2013



Source: World Development Indicators, 2015

In Kenya, the life expectancy increased by 13 years from 49 years in 1965 to 62 years in 2013. In 1985, it already reached almost to the highest level (60 years) but there was a decline of it between 1990-2000, from 59 years to 53 years. It is the same period when Kenya's HDI value dropped to 0.455 in 2000 from 0.471 in 1990. It can be attributed to poor economic performance of Kenya and worsened poverty incidence in the country by which the proportion of people living in poverty increased from 48.8% to more than 56% between 1990-2002.[200] Fortunately, life expectancy in the country rebounded and recorded the highest level, 62 years in 2013.

The changes in mortality rate also shows how national health status has improved in a country. In that regard, Table 4.5 shows that Kenya has successfully promoted national health for the last 50 years. The both infant and under 5 years mortality rate in Kenya have decreased by about 65 and 117 per thousand births respectively between 1965-2015. Though, there was some backward progress between 1990-2000 with increased mortality rates from 65.8 to 66.5 and 102.3 to 107.9 respectively. However, after that period, the rates in Kenya continuously decreased to the lowest level, 35.5 (infant) and 49.4 (under 5) per thousand births.

Table 4.5. Mortality rate in Kenya (per 1,000 live births), 1965-2015

Indicators	1965	1970	1980	1990	2000	2010	2015
Infant	101.2	91.3	69.4	65.8	66.5	42.4	35.5
Under 5	166.6	148.3	108.7	102.3	107.9	62.1	49.4

Source: World Development Indicators, 2015

Table 4.6. Mortality rate in South Korea (per 1,000 live births), 1965-2015

Indicators	1965	1970	1980	1990	2000	2010	2015
Infant	61.6	41.4	12.3	6.1	5.2	3.5	2.9
Under 5	83.8	52.8	14.3	7.1	6.1	4.1	3.4

Source: World Development Indicators, 2015

Compared to Kenya, South Korea made more significant improvement in people's health status. Infant mortality rate declined from 61.6 to 2.9 per thousand births and under 5 years mortality rate decreased from 83.8 to 3.4 per thousand births over the last five decades. Infant

[200] Ndung'u N., et al, *Unlocking the Future Potential for Kenya: The Vision 2030*, (Oxford: Oxford University Press, 2010) p.4.

mortality ratio in Kenya is about 10 times higher than in South Korea and under 5 years mortality ratio is about 14.5 times larger in Kenya than in South Korea.

The differences between Kenya and South Korea can be explained by the health service that people in each country get when they are born. According to 2015 world development indicators, the percentage of births attended by skilled health staff is much higher in South Korea (100%) compared to Kenya (43.8%).[201] In other words, there is about 2.3 times more access to health service at birth in South Korea than in Kenya.

Besides, the proportion of malnutrition prevalence (height for age) among under 5 children in Kenya is much higher than that in South Korea. Available data indicates that the proportion of malnutrition prevalence is 35.2% in Kenya while it is about 14 times less, 2.5%, in South Korea.[202] It is another evidence that the health status is improved more in South Korea than in Kenya.

Meanwhile, it seems that Kenya has significant health inequality within regions. The World Bank revealed that the risk of infant death in Naynza and North Eastern provinces were about six times greater than in Central province.[203] The reason is that there are the highly unequal distribution of health institutions among provinces. According to UNDP Kenya, Rift Valley and Central province have 2,166 and 1,438 health institutions respectively, which consist of 25.9% and 17.1% of total health institutions in Kenya. On the other hand, Naynza and North Eastern province have 965 (11.5%) and 291 (3.5%) health institutions respectively.[204]

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[201] World Bank, *Data*, http://data.worldbank.org
[202] Ibid.
[203] World Bank, Kenya Poverty and Inequality Assessment Volume 1: Synthesis Report (unpublished), 2008.
[204] Republic of Kenya & UNDP Kenya, *Kenya National Human Development Report 2013*, (Nairobi: UNDP Kenya, 2013).

The unequal distribution of health institution by regions also exists in South Korea. Seoul has 15,992 health institutions while Gwangju and Ulsan have 1,878 and 1,227 health institutions respectively.[205] However, as it is with IHDI and education inequality, it seems that health inequality in the country is also comparatively less significant than in Kenya. Measuring the number of health institution per 10,000 people, the gap between regions in South Korea seems not as big as that in Kenya. Seoul has about 15.8 health institutions per 10,000 people while Gwangju and Ulsan have 12.8 and 10.6 health institutions per 10,000 people respectively.[206]

4.2 Investment in Human Capital and Non-Income Inequality

Up to now, it has been found out that non-income inequality level in Kenya is comparatively higher than that in South Korea. And available data showed that this is due to the fact that human capabilities have been more significantly developed in South Korea than in Kenya over the last 50 years with higher HDI value, educational attainment, and health status.

The development of human capabilities can be promoted through investment in human capital. According to Bergheim, human capital can be defined as the sum of the abilities and knowledge of individuals which can be accumulated through education and experience.[207] In addition, human capital is closely related to higher income, improved health and longer life expectancy.[208] In this regard, it can be said that investment in human capital is about developing human capabilities and, thus, it is the key to reducing non-income inequality.

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[205] Health Insurance Review and Assessment Service(HIRA) of Korea, www.hira.or.kr/
[206] Ibid.
[207] Bergheim S., *Human Capital is the Key to Growth: Success Stories and Policies for 2020*, (Frankfurt: Deutsche Bank Research, 2005) p.3.
[208] Ibid, p.6.

Therefore, the second half of this chapter examines how Kenya and South Korea have invested in education and health. It is based on the assumption that South Korea may have achieved a successful development of human capabilities and reduction in non-income inequality by heavily investing in human capital.

The investment in human capital can be examined by looking at government's resource allocation to the social sector particularly to education and health. Hence, this section tries to examine government expenditure on education and health in Kenya and South Korea using as much data as available.

4.2.1 The Investment in Education in Kenya and South Korea

Table 4.7 presents the government expenditure on education as a proportion of GDP in Kenya and South Korea during 1971-2012. In both countries, the government expenditure on education has increased gradually; from 3.9% in 1971 to 5.5% in 2010 in Kenya and from 3.6% in 1971 to 4.6% in 2012 in South Korea. It demonstrates that the both governments have actively invested in human capital by allocating more and more resources to education.

Table 4.7. Government expenditure on education in Kenya and South Korea (% of GDP), 1971-2012

	1971	**1981**	**1991**	**2001**	**2010**	**2012**
Kenya	3.9	5.9	6.6	5.2	5.5	-
South Korea	3.6	2.8	3.5	3.9	-	4.6

Source: World Development Indicators 2015

However, it seems that the Kenyan government has allocated larger amount of resources to education than the South Korean government contrary to the assumption of this study. The government's education spending as a proportion of GDP in Kenya has been consistently larger than that in South Korea for the last four decades, as shown in Table 4.7.

Table 4.8. Government expenditure per student in Kenya (% of GDP per capita), 2000s

	2000	2001	2003	2004	2006
Primary	21.4	20.9	23.2	24.2	22.4
Secondary	14.4	15.8	20.3	22.3	21.2
Tertiary	208	225.2	-	274.4	-

Source: World Development Indicators, 2015

Table 4.9. Government expenditure per student in South Korea (% of GDP per capita), 1998-2000s

	1998	2001	2004	2006	2009
Primary	16.3	14.9	17.1	16.2	21.5
Secondary	13.7	19.2	22.2	20.9	22
Tertiary	6.4	-	7.9	9	12.2

Source: World Development Indicators, 2015

Besides, it is observed that the government expenditure per student in the 2000s is slightly larger in Kenya compared to that in South Korea (see Table 4.8 and 4.9). At primary level, in South Korea, the government's education spending per capita GDP was 14.9% in 2001, 17.1% in 2004, and 16.2% in 2006. While, the Kenyan government's education spending per capita GDP was 20.9% in 2001, 24.2% in 2004, and 22.4% in 2006.

At secondary level, in 2001, the government's education spending was larger in South Korea than Kenya with the ratio of 19.2% and 15.8% respectively. However, it is seen that, in 2004 and 2006, the proportion of government expenditure per student in Kenya (22.3% and 21.2%) was higher than in South Korea (22.2% and 20.9%).

At tertiary level, the Kenyan government's spending on education per student as a proportion of GDP per capita is extremely huge compared to the Korean government's expenditure on it. For instance, in 2004, the ratio for Kenya was 274.4% while the ratio for South Korea was only about 8%.

Nevertheless, it seems that the expected and mean years of schooling have been consistently longer in South Korea than in Kenya (see Table 4.10). In 1980, the expected years of schooling in Kenya were about 2 years less than that of South Korea. However, in 2013, the gap between the two countries increased to 6 years. The mean years of schooling in Kenya have also been much less than that in South Korea. When they were 2.7 years in 1980 and 6.3 years in 2013 in Kenya, the mean years of schooling in South Korea were 7.3 years in 1980 and 11.8 years in 2013.

Table 4.10. Years of schooling in Kenya and South Korea (Expected and Mean), 1980-2013

	Expected Years of Schooling		**Mean Years of Schooling**	
	Kenya	Korea	Kenya	Korea
1980	9.3	11.6	2.7	7.3
1985	9.2	13.1	3.4	8.2
1990	9.1	13.7	4.2	8.9
1995	8.7	14.7	5.1	10
2000	8.4	16	5.9	10.6
2005	9.7	16.5	5.9	11.4
2010	11	16.9	6.3	11.8
2013	11	17	6.3	11.8

Source: UNDP[209]

Moreover, as it is observed in the previous section, South Korea has a higher school enrollment rate at pre-primary, secondary, and tertiary levels. In 2014, the enrollment rate in the country was 93% at pre-primary level, 99% at secondary level, and 97% at tertiary level while that was 60%, 67%, and 4% in Kenya respectively.[210] At primary level, the both countries have already obtained over 100% enrollment rate in earlier years, showing that neither of them are far left behind.[211]

[209] UNDP, *Human Development Report 2014 - Kenya*, http://hdr.undp.org/en/country-reports and UNDP, *Human Development Report 2014 - Korea(Republic of)*, http://hdr.undp.org/en/country-reports
[210] World Bank, *Data*, http://data.worldbank.org
[211] Ibid.

The above findings demonstrate that the large amount of resources allocated to education does not necessarily promote better educational attainment. In this regard, a question rises on how educational attainment has been improved more rapidly in South Korea compared to that in Kenya with relatively smaller resource allocation on education.

The answer stems from the fact that education policies to expand equal educational opportunities have constantly and systematically been implemented in South Korea from the earlier stages of economic development. Firstly, the Korean government established 'Compulsory Education Accomplish plan' between 1954-1959 with an aim of achieving 96% of school enrollment rate.[212] After that, between 1960-1979, the government promoted the expansion and equalization of secondary education for all. Between 1980-2000, the quota on higher education for local colleges was abandoned in order to promote universal higher education in the country.[213] Since 2001, there has been the reconstruction of higher education, quality improvement in public education and encouragement of lifelong learning in order to promote knowledge-based society.[214]

The promotion of universal education in South Korea led to the rapid increase in the school enrollment rate. In the 1970s, the primary school enrollment rate already reached above 100% (see Table 4.2 on page 72) as a result of the introduction of universal primary education in earlier years. After the expansion of secondary education in the 1970s, the secondary school enrollment rate almost doubled from 40% in 1971 to 77% in 1980. And, as a result of the promotion of higher education between 1980-2000, the tertiary school enrollment rate in the country increased from 13% in 1980 to 36% in 1990, and further to 79% in 2000.

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[212] Republic of Korea - Ministry of The Interior, *Education Reforms and Leadership for Reform in Korea*, http://www.prism.go.kr/
[213] Ibid.
[214] Ibid.

The introduction of universal primary and secondary education in Kenya is much later than that in South Korea. Kenya introduced the Free Primary Education(FPE) program in 2003[215] which is about 50 years later compared to South Korea. The Free Secondary Education(FSE) in Kenya was implemented in 2008[216], about 40 years later than that in South Korea.

However, it seems that the implementation of free primary and secondary education immediately brought positive outcomes in Kenya. The primary school enrollment rate in the country rose from 96% to 112% between 2000-2009, and the secondary enrollment rate increased from 39% to 60% during the same period (see Table 4.3 on page 73). Meanwhile, the considerably low enrollment rate at tertiary level in Kenya can also be explained by the fact that the country has not promoted universal higher education yet.

To conclude, policies to expand educational opportunities have been critical in addition to adequate allocation of resources to education as part of investment in human capital.

4.2.2 The Investment in Health in Kenya and South Korea

The accumulation of human capital can also be promoted by government's investment in health sector as improved health positively affect human capabilities. Therefore, how resources have been allocated to health in Kenya and South Korea is examined in this section. However, it is regretful to note that the data on health expenditure in both countries is available from the mid-1990s. Nonetheless, this study tries to look for important policy implications for the development of human capabilities and reduction of inequality with available data.

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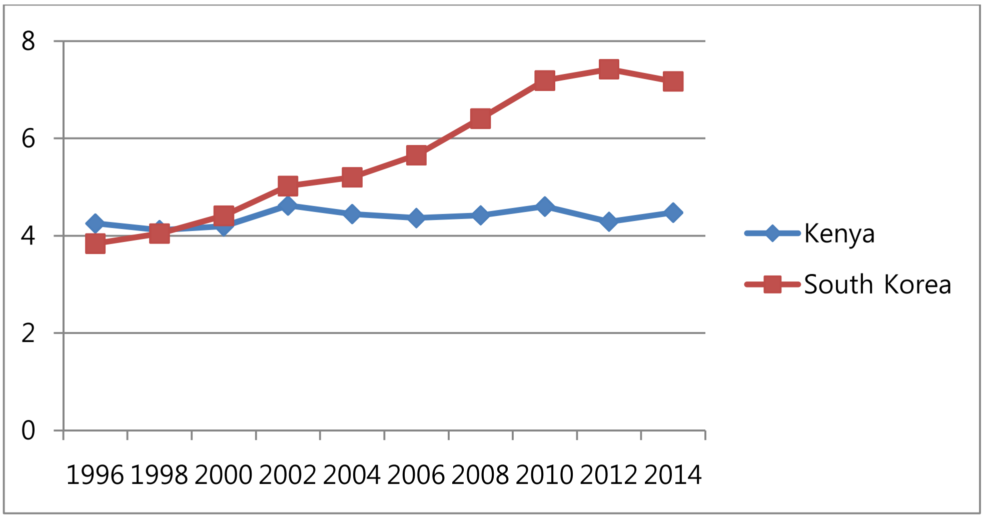
[215] KNBS, *Economic Survey 2007*, (Nairobi: KNBS, 2007).
[216] Republic of Kenya - Ministry of Education, http://www.education.go.ke/

Figure 4.3. Total health expenditure in Kenya and South Korea (% of GDP), 1996-2014



Source: World Development Indicators, 2015

Figure 4.3 shows the trends of total health expenditure in Kenya and South Korea as a proportion of GDP during 1996-2014. In 1996, total health expenditure in Kenya (4.3%) was larger than that in South Korea (3.8%). However, the proportion of total health expenditure in South Korea rapidly rose from about 4% in 1998 to 7.4% in 2012 while the proportion in Kenya has remained around 4.3~4.6% for the last 18 years. As a result, the gap between the two countries' total health expenditure has been increased from 0.2% in 2000 to 2.7% in 2014.

Table 4.11. Health expenditure per capita in Kenya and South Korea (current USD), 1995-2013

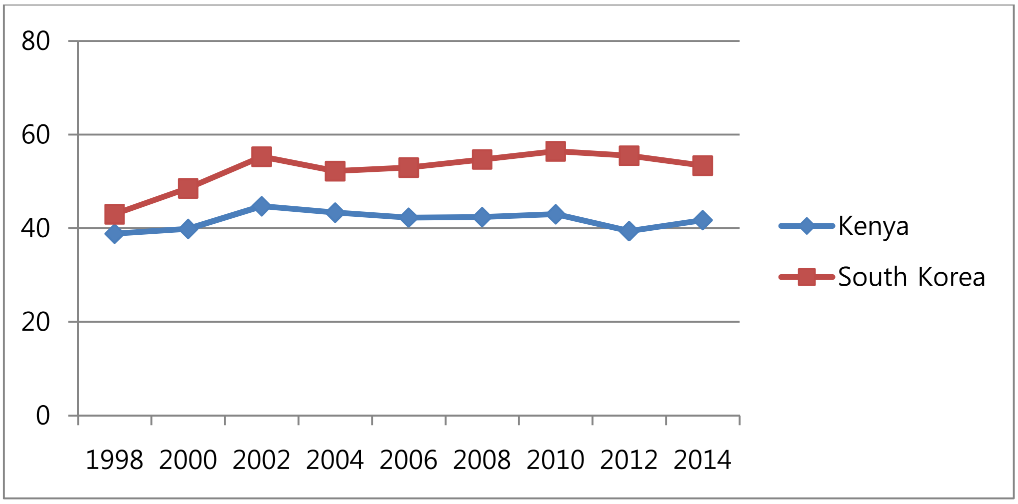
	1995	1998	2001	2004	2007	2010	2013
Kenya	14	21.3	18.7	19.8	31.9	34.5	44.5
South Korea	452.4	320.4	535.3	788.7	1,383.5	1,506.5	1,880

Source: World Development Indicators, 2015

When it comes to the health expenditure per capita, as shown in Table 4.11, it seems that health spending in South Korea has been much larger than that in Kenya between 1995-2013. Besides, the increase in the expenditure has been more rapid in South Korea than in Kenya. The health expenditure per capita increased more than four times from $452.4 in 1995 to $1,880 in 2013 in South Korea. Whereas, the expenditure per capita in Kenya has increased by only about $30 during this period.

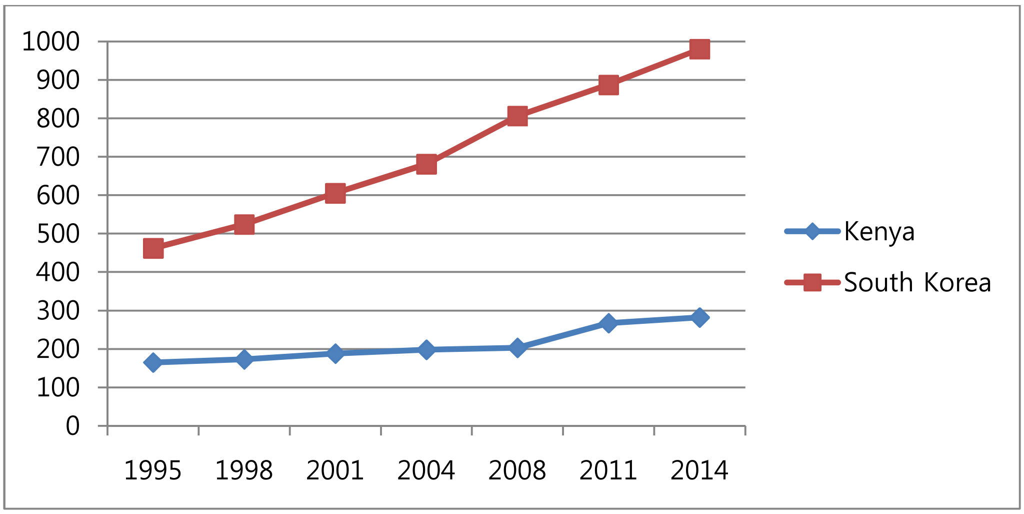
The ratio of public health expenditure as a proportion of total health expenditure has also been higher in South Korea than in Kenya between 1998-2014 (see Figure 4.4). While the average ratio of Kenya is about 42% during this period, the average ratio of South Korea is estimated to about 52%. The gap between the two countries has also increased from about 4.2% in 1998 to 11.6% in 2014.

Figure 4.4. Public health expenditure in Kenya and South Korea (% of total health expenditure), 1998-2014



Source: World Development Indicators, 2015

Figure 4.5. Registered healthcare personnel per 100,000 population in Kenya and South Korea, 1995-2014



Source: KNBS & KOSTAT[217]

[217] KNBS (Kenya National Bureau of Statistics), http://www.knbs.or.ke/ and KOSTAT(Statistics Korea),

Besides, it is observed that the larger number of healthcare personnel has been provided in South Korea, compared to that in Kenya. Figure 4.5 presents that the registered healthcare personnel per 100,000 population in Kenya and South Korea between 1995-2014. The number of health care personnel per 100,000 population in South Korea has increased substantially from 462 in 1995 to 681 in 2004, and further to 980 in 2014. On the other hand, the number of health care personnel in Kenya has increased by only 117 from 165 in 1995 to 282 in 2014. As a result, the gap between the two countries' number of health care personnel per 100,000 population rapidly grew from 297 in 1995 to 698 in 2014.

However, the comparatively smaller investment in health sector in Kenya does not necessarily mean that there has been a lack of commitment of the Kenyan government. In 1966, the government of Kenya established the National Hospital Insurance Fund (NHIF) to provide medical insurance cover to all employees and their declared dependants.[218] 'The fund contributes to the cost of health care of its members by paying a fraction of their in-patient hospital bills when need arises.'[219] Thanks to the government's constant effort, the benefits accrued to members increased significantly from about Ksh 1.3 million in 1974 to about Ksh 9,400 million in 2014.

The South Korean government also introduced the National Health Insurance Scheme (NHIS) in 1977 for workplaces with at least 500 employees and expanded the recipients to all Korean citizens in 1988.[220] In addition to the NHIS, the government launched the National Pension Scheme (NPS) in 1988 to cover workplaces with 10 employees or more, which was

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http://kostat.go.kr/

218 National Hospital Insurance Fund of Kenya(NHIF), http://www.nhif.or.ke/

219 KNBS, *Economic Survey 2015*, (Nairobi: KNBS, 2015) p.58.

220 Korea Institute for Health and Social Affairs (KiHASA), *Economic Growth and Poverty Reduction Strategies in Korea*, https://www.kihasa.re.kr/

also expanded to cover all citizens in 1999.[221]

Even though the national health insurances are available in both Kenya and South Korea, there is still a major difference between the two countries in terms of the proportion of recipients. According to Yu, the national health insurance in South Korea covers almost 100% of its population.[222] By contrast, in Kenya, the NHIF covered only 1.4 million people who were registered members of the fund by 2014 while the recorded number of modern sector employees was 14 million.[223]

In this regard, there is urgent need for Kenya to increase investment in health sector and ensure access to national health insurance in order to promote national health and improve human capabilities.

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[221] Ibid.

[222] The NHIS of South Korea covers 96% of its population and the remaining 4% is covered by medical aid, Yu S., 'Studying the Health Care Systems in Seven East Asian Countries by the Cluster Analysis', *Development and Society*, Vol. 43, No.1, (2014) pp.87.

[223] KNBS, *Economic Survey 2015*, (Nairobi: KNBS, 2015).

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

Inclusive growth refers to growth with equity and broader share of well-being among people. Therefore, to achieve inclusive growth, there must be a reduction in inequality and equal access to socio-economic opportunities as well as economic growth. Inclusive growth is an important development strategy to promote sustainable economic development as inequality negatively affects economic growth, poverty reduction and socio-economic stability.

Kenya and South Korea were in a similar economic situation in the early 1960s with substantially low GDP per capita and high poverty ratios. However, Kenya is one of highly unequal African countries while South Korea belongs to the 'East Asian Tigers', countries which successfully achieved sustained high economic growth with low and declining levels of inequality.

In that regard, this research was undertaken with a view of examining changes in income and non-income inequality in Kenya and South Korea. The research tried to find out reasons why inequality levels have changed differently between the two countries and sought lessons for resolving inequality and promoting equal economic development.

This chapter summarizes the findings of the study and provides the conclusion and recommendations arising from the study.

5.1 Summary

This study examined economic growth, poverty reduction, and income and non-income inequality in Africa and East Asia. Compared to other regions, the economic performance of Africa for the last 50 years has been distinctly poorer with the lowest GDP and GDP per capita growth rates and the world's highest rate of extreme poverty. Moreover, Africa has a substantial degree of income and non-income inequality. On the other hand, East Asia has successfully achieved economic growth with equity, which is known as the 'East Asian Miracle'.

The study has examined changes in income inequality in Kenya and South Korea using three indicators; Gini index, quintile ratio and income share by deciles. Kenya has had a higher level of income inequality compared to South Korea over the last five decades. Besides, Kenya has a considerable income disparity between urban and rural areas and between different counties unlike South Korea where there is no clear sign of income disparity within regions. In order to find out the most effective method of reducing income inequality, the research also examined job opportunities in Kenya and South Korea.

Further, the study examined non-income inequality in Kenya and South Korea using HDI, Inequality Adjusted HDI (IHDI), education index, and health index. The study found that Kenya had more considerable non-income inequality than South Korea in all aspects. Besides, South Korea achieved relatively higher educational attainment and more significant improvement in national health compared to Kenya. Kenya also has a noticeable education and health inequality within regions while access to them has been widely expanded in South Korea over the last 50 years. The study also looked into how Kenya and South Korea have invested in education and health to find out the key to reducing non-income inequality.

5.2 Conclusion

Throughout this research, it was observed that South Korea had been more successful in promoting inclusive growth compared to Kenya through the achievement of lower level of income and non-income inequality for the last 50 years.

There are various contributors to the different performances of the two countries in terms of reducing inequality. Firstly, in South Korea, the robust economic growth, employment expansion and income growth contributed to the consistent reduction in income inequality. The redistribution policies conducted in the country such as the '1949 land reform' and rural development scheme also played a major role in reducing income disparity within regions. The increase in access to education and health significantly reduced non-income inequality in the country. On the other hand, income inequality in Kenya has been considerable due to the lack of redistribution efforts, economic downturns and unequally distributed access to job opportunities. Unequal access to education and health led to the high level of human inequality in the country.

In order to resolve income inequality, it is essential to provide greater access to decent job opportunities. While wage-paying jobs have been largely provided in South Korea since 1965, it was observed that there were lack of job opportunities in Kenya, especially in the formal sector. The wage gap between the formal and informal sector and the rapidly increased share of informal sector employees led to the increase in income inequality in Kenya. Besides, it was found that, in Kenya, counties with the highest proportion of wage employment held the highest median income while counties with the lowest proportion of wage employment held the lowest income.

For reducing non-income inequality, it is important to expand educational opportunities rather than just allocating more resources to education. Even though Kenya has allocated larger amount of resources to education over the past four decades, South Korea has maintained higher school enrollment rate at pre-primary, secondary, and tertiary levels as well as longer years of schooling. It was due to the fact that South Korea systematically promoted universal primary, secondary and higher education from the earlier stages of economic development. On the other hand, the universal primary and secondary education in Kenya was introduced about 40~50 years later than in South Korea. Nonetheless, it was observed that the primary and secondary school enrollment rates in the country rose immediately after the introduction.

It is also critical to invest in health sector and ensure greater access to national health insurance services in developing human capabilities and reducing non-income inequality. South Korea has promoted the investment in health sector more largely than Kenya. The ratio of total health expenditure and public health expenditure in South Korea have been relatively higher than in Kenya. It was also observed that South Korea's health expenditure per capita had been larger and increased more significantly compared to Kenya's. Besides, South Korea's national health insurance covers almost 100% of its population while the national health insurance in Kenya covers only about 10% of the total employees.

In conclusion, it is evident that increasing decent job opportunities, access to education and national health services, investment in health sector should be taken seriously when formulating policies to ensure achievement of inclusive growth and reduction of income and non-income inequality.

5.3 Recommendations

The findings of this study show that Kenya needs appropriate strategies for the promotion of inclusive growth. Therefore, the study makes some policy suggestions:

1. The government and other stakeholders such as the private companies ought to create more formal job opportunities as it is evident that there is a high income gap between the formal and informal sector. The government should spearhead this goal by bringing all stakeholders on board and creating ample investment climate within the country. For instance, the government can give tax incentives or subsidies to investment firms which end up generating new jobs.

2. Since a majority of Kenyans are employed in the informal sector, it is time the government moves into this sector and ensures better income for those operating in this sector. For instance, the government can create better access to the markets by improving state of infrastructure and offering credit for small and medium-sized enterprises. Moreover, the Kenyan government can create direct-sale marketplaces to connect small-scale local farmers with consumers in urban areas. The modernization of conventional markets can be a useful method to attract consumers who prefer cleaner and better organized places to shop. The creation of informal sector workers' cooperatives, on the other hand, can help them to access credit to establish and run stable businesses.

3. In order to provide access to decent job opportunities and increase the average income of the many Kenyans in the informal sector, the Kenyan government should also ensure job trainings for all citizens. Currently, The National Industrial Training Authority (NITA) in Kenya runs five vocational training centers which are located in

Nairobi, Kisumu and Mombasa.[224] However, the study revealed that the northern and western Kenya lack of wage-paying job opportunities and hold the lowest income. Therefore, the government should offer specialized vocational trainings to those who are from rural and marginalized areas.

4. Kenya also needs to resolve non-income inequality by ensuring universal higher education, increasing the investment in health sector, and expanding the recipients of the national health insurance services for all. Though, there are severe resource constraints as illustrated by the frequent budget deficits in the country. For instance, in the 2015/2016 budget, the fiscal deficit of Kenya is $ 5.54 billion.[225] Thus, Kenya ought to make use of existing resources and curbing corruption, public funds embezzlement, capital flight and all other means that waste state revenue.

5. The development partners and donor community also have to play an influential role in development of Kenya and, thus, should come in handy in addressing the problem of inequality. In particular, they should give great attention to rural and marginalized areas where the government's supports are highly insufficient. From the study, it is evident that the northern Kenya has lower chances to better wage-paying jobs, access to education, and health institutions compared to other regions. In this regard, development partners and donor community can provide or increase financial aid to the northern Kenya for building and equipping more vocational training centers, schools, health institutions, and health insurance services.

6. Through its embassy in Nairobi or Korean Civil Society Organizations operating in Kenya, the South Korean government can also play an important role in promoting

[224] National Industrial Training Authority (NITA), http://www.nita.go.ke/
[225] Olingo A., 'Kenya runs out of cash, interest rates shoot up' *The East African*, (Nairobi), 17 Oct 2015.

inclusive growth in Kenya by sharing the know-how to achieve 'growth with equity'. For example, recently, South Korea's rural development scheme 'Saemaul Movement' has been implemented in many African countries including Ethiopia, Rwanda and Uganda. According to the governor of Kyungbuk province, where the movement started first in South Korea, some of villages in Rwanda and Ethiopia succeeded in increasing incomes and developing water resources through 'Saemaul Movement'.[226] Likewise, South Korea can organize an advisory committee or think-tank on the Korean model of inclusive growth to transfer the country's know-how to other developing countries including Kenya.

7. Conducting academic exchanges between scholars from Kenya and South Korea can be useful in building a better understanding about inequality in the two countries and developing appropriate policies.

5.4 Suggestion on Area for Further Study

This research suggests further comparative study on inequality between other East Asian and African countries to get more lessons and policy implications on reducing inequality and promoting inclusive development.

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[226] Kim K. Y., 'A beautiful way with Africa' *Joong Ang Sunday*, (Seoul), 18 Oct 2015.

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