

## The Nexus between Economic Growth, Poverty Reduction and Income Inequality in the Miraculous Economies

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### Abstract

*This article attempts to examine the relationship between economic growth and poverty reduction through an analysis of the effects of remarkable growth performance of three East Asian countries viz China, Korea and Taiwan on poverty reduction. Through an extensive review of literature, it was found that the level of poverty as well as income inequality in China has remained high for most of the time despite exceptional growth rates over the past few decades. Whereas, both South Korea and Taiwan have witnessed significant reduction in the level of poverty as well as income inequality. The findings suggest that a robust relationship between growth and poverty reduction does not prevail across all the 'miraculous economies'. Furthermore, the findings also shed light on the nexus between economic growth, poverty reduction and income inequality. From the Chinese case, it is evident that economic growth has not translated into poverty reduction. Skewed economic growth patterns seem to have deteriorated income inequality among different regions in China. On the contrary, economic growth seems to be closely associated with both poverty reduction and income inequality both in the Republic of Korea and Taiwan*

**Key Words:** East Asian Miracle, Economic Growth, Development, Poverty Reduction, Income Inequality, China, Taiwan, Korea

### Introduction

Over the past half century most of the East and South East Asian countries achieved substantial and relatively sustained economic growth rates (Davis 2000: 63). The so-called higher economic growth rates or economic development is often referred to as the 'East Asian Miracle' (henceforth referred to as 'EAM') (World Bank 1993). This economic transformation resulted in poverty reduction and improved living standards in these countries (Quibria 2002: 1). There are two major strands of literature on the potential role the observed economic transformation has played in reducing the level of poverty and improving the distribution of income in the East and South East Asian countries. The World Bank (1993; 1997) and ADB (2000) maintain that the rapid and sustained economic growth in these countries has at large translated into poverty reduction and improved quality of lives. On the contrary, Deininger and Squire (1996) and Rao (1998) have fostered antithetical claims. Their findings evince that the impacts of the economic transformation on poverty reduction are not uniform across all the miraculous economies. Furthermore,

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the relationship between economic growth and income inequality across these economies also remains tenuous at best.

Both development and economic growth (concepts often also used interchangeably) are distinct from each other in a number of respects. Thus, notwithstanding closely associated, both development and economic growth should, therefore, not be used synonymously. Growth is often conceived as a means to development rather than as an outcome of development. This review article is thus an attempt to find out appropriate answers to some of the key questions such as what has happened to inequality and poverty in selected East Asian countries since the inception of the EAM? To put this in other words, whether the outcomes of the higher economic growth rates achieved by the East Asian countries have translated into poverty reduction and equitable and fair distribution of income or is it all the other way round?

This article is organized into three major sections. The first section lays out definitions of some of the basic terms such as 'development', 'economic growth' and particularly 'the East Asian Miracle'. The second section sheds light on the nexus between economic growth, poverty reduction and income in selected East Asian Countries through an extensive literature review. The selection of the three cases viz China, South Korea and Taiwan is based on a single criterion that is high real GDP growth per capita since 1971 till 2000. The final section is dedicated to discussion and conclusion.

## **Section-I**

As mentioned earlier, the major focus in Section-I is to deliver a brief overview of some of the major concepts. These concepts include 'economic growth', 'development' and 'the East Asian Miracle'. A brief overview of these concepts at this stage is deemed important because of their intrinsic relevance to the major theme of the paper. It is, however, worth pointing out here that the way the aforementioned terms have been defined/explained hereafter should be conceived as their minimalist definitions/explanations rather than a comprehensive overview of these concepts.

## **Economic Growth**

Economic growth refers to the expansion in a country's economy. It is measured as a percentage change either in the Gross domestic product (GDP) or the gross national product (GNP) during a single year (Soubbotina 2004: 133). According to Soubbotina (2004: 7), economic growth is a means and not an end of development. In essence economic growth possesses enormous potential to contribute towards poverty reduction and solving other social problems. The empirical evidence, however, suggests that economic growth in many cases was unfortunately not followed by appropriate human development. Rather the growth in such cases was followed by extreme inequalities, huge unemployment rates, loss of cultural identities and the over-exploitation of resources. Accordingly, it is evident that many countries despite achieving the same levels of economic development differed from each other in terms of achieving the same level of quality of life.

## **Development**

The term 'Development' defies definition. Its meaning has continuously evolved over time. Consequently, the number of definitions/meanings of development that have so far come

to the fore is legion. In the beginning, development was mainly conceived as an outcome of higher economic growth rates of 7-8 percent per Annum. It is worth mentioning here that a number of countries during the last half of the twentieth century achieved substantial levels of economic growth. Besides higher economic growth rates, these countries were still characterized by problems of inequality, poverty and unemployment. This led development practitioners around the world to rethink and redefine the term 'development'. As such concepts such as poverty, inequality and unemployment were incorporated into the very definition of development (Todaro and Smith 2009). Development is largely seen as 'a process that aims at improving the living conditions of the people all around the world'. (WCED 1987: 43).

### **The East Asian Miracle**

The '*East Asian miracle*' refers to the remarkable growth rates attained by the eight East Asian economies over last four decades or so (World Bank 1993). Quibria (2002:1-2) asserts that the EAM was accompanied by a dramatic improvement in living standards and hence poverty reduction in these countries. Within Asia, there is thus a sharp contrast between East Asian countries and countries within South Asia not only in terms of the levels of absolute/income poverty but the quality of life as well. International Organizations such as the World Bank and ADB have undertaken several studies on the EAM. The purpose of such studies is to draw on important lessons on how these miraculous economies achieved rapid growth and reduced levels of poverty and to apply the same model across countries in the third world for accomplishment of the same set of goals.

The lessons learned or the drivers of growth identified by different studies differ from each other. According to these studies, the drivers of growth in case of EAM are categorized into both '*dos*' and '*don'ts*'. Among the '*dos*', the World Bank (1993: 367) has found six policy arenas that have had a pivotal role in leading to the EAM. These include macroeconomic stability, focus on early education, agricultural development, robust financial system and increased openness. Davis (2000:63) has identified seven core characteristics which differentiate the East Asian economies from the economies of other developing countries. These include, rapid economic growth and reduced inequality, rapid output and productivity growth in agriculture, relatively higher rate of manufactured exports, earlier and steeper declines in fertility, higher growth rates of investment, supported by higher rates of savings, higher growth rates in human capital and higher rates of total factor productivity growth. According to Leipziger and Thomas (1997), there are three major drivers of the EAM that is macroeconomic stability, outward orientation and investment in people.

### **Section-II**

In this section, the author intends to make an attempt to address a key question that forms the major theme of this paper. The question to be explored is regarding the trends in both inequality and poverty over the past few decades. Different authors who have tried to dig deeper into the EAM have different findings on levels of both inequality and poverty within the miraculous economies. Some see the EAM as a major driver of poverty reduction and improved living standards within the East Asian economies whereas there are others who assert that poverty and inequality still exhibit as a major challenge within East Asian countries and that the EAM has had little or no impact on the problems of poverty and

inequality. In order to find out what has happened to both inequality and poverty in East Asia, I intend to discuss only three cases comprehensively with respect to past and recent trends in both inequality and poverty; hence, the author considers it beyond the length of this paper to bring forth all the relevant case studies here. The case studies to be discussed in section-II include only China, Korea and Taiwan. Their selection is based on a single criterion that is their relatively high and sustained real GDP growth per capita since 1971 till 2000. From table-1, it is evident that the selected countries in East Asia have an overall high real GDP growth per capita over the last three decades.

**Table1.** Real GDP Growth Per Capita: China, Korea and Taiwan.

Country	1971-1980	1981-1990	1991-2000	Average
China	4.2	7.8	9.0	7
Korea	5.9	7.4	5.2	6.1
Taiwan	7.6	6.5	5.5	6.5

*Source: Modified from IMF World Economic Outlook database(2002 and 2003)*

## **The People Republic of China**

### **Poverty**

What has happened to poverty in China after during the past few decades of high growth performance has been and still exhibit to be a question of interest to most of the past and the contemporary political economists. According to Ghosh (2010: 9), China is often being referred to in discussions on how rapid growth and industrialization relate to poverty reduction. It is, however, worth pointing out that this relationship has not been consistent in the Chinese case that is the China is characterized by substantial decreases in the incidence of poverty at the beginning of the market reforms of the 1978 and relatively small decreases in the incidence of poverty afterwards. The literature on poverty in China may broadly be divided into two categories that is on the one hand there are authors whose findings suggest that the rapid and sustained growth in China over the past few decades has significantly reduced the level of poverty in China. On the other hand, another strand of literature suggests that the reduction in the level and incidence of poverty in China has often been exaggerated. This strand of literature has criticized the kind of estimates on the basis of which reduction in the incidence of poverty have been measured.

The rapid and sustained economic growth in China has a significant impact on the average incomes of the population. To many the 1978 market reforms positively correlated to poverty reduction. For instance, Chen and Wang (2001) argues that within two decades since the promulgation of the market reforms, the average income per capita quadrupled whereas 270 million people escaped the vicious cycle of poverty. According to Tian He et al. (2003), there has been an increase in the per capita annual incomes of both urban as well as rural households. Whereas the per capital annual income of urban households increased from 343 Yuan in 1978 to 6860 Yuan in 2001 (20 times increase), the per capital annual income of rural households increased from 134 Yuan in 1978 to 2366 Yuan in 2001 (18 times increase). Consequently, the incidence of poverty in rural areas of China fell from 260 million in 1978 to 34 million in 2001. Nolan (1988) also states that there had been a

rapid decline in absolute poverty in China during the early years of its rural reforms that is late 1970s and early 1980s.

Substantial reduction in the rural poverty occurred during two periods that is 1979-1984 and 1995-1997 (Riskin 2004, Wu, 2004). It is argued that growth during these two periods largely hinged on the agriculture, sector of the economy upon which majority of the rural poor were dependent. The Chinese government promulgated land reforms resulting in an equitable distribution of land among the rural landless. The reforms were followed by a crop diversification and increase in prices of the produce. In addition to this, the government also facilitated the provision of farm inputs on subsidized prices. Consequently, the incomes of the rural people increased which in turn had significant impact on poverty reduction. The decline in poverty in rural China during middle of the 1990s (1995-1997) is often attributed to the inter-sectoral terms of trade. There was a sharp increase in the prices of agricultural produce during 1990s. Price escalation in agricultural commodities almost doubled during the middle of the 1990s, thus, resulting in an increase in the real per capita income in rural areas. There was a considerable decline in the rural-urban income gap. During the rest of the periods growth has mostly focused on the industrialization of the coastal cities where the existence of rural population was nominal (Ghosh 2010).

Official poverty reduction estimates have often come under greater empirical scrutiny. Figure-1 which is based on official Chinese estimates is an illustration of the trend in the incidence of rural poverty in China since 1978 to 2006. The figure demonstrates a sharp decline in the incidence of rural poverty in China. Ghosh (2010), however, argues that these estimates may have underestimated the incidence of poverty for a number of reasons. For instance, contrary to other developing countries this estimation is based on income rather than expenditure data. Using expenditure rather than income based data as an estimate, the incidence of poverty would probably be higher than what is shown in the figure-1 (Ghosh 2010: 9). Cheng and Wang (2001), for example, using expenditure data as an estimate of poverty found that the percentage of rural poor was pretty high (25 percent) in 1999 than the proportion (5 percent) of rural poor based on an official income based estimate. In a similar vein, Hussain (2003) using expenditure data as an estimate of the incidence of poverty also found that during 1998 there had been a two and a half times increase in the level of urban poverty (from 14.7 million to 37.1 million). This increase was relatively higher than the estimate of level of urban poverty based on income based data during the same year. Adding to the shortfalls of use of the income based estimates of poverty in China, Riskin (2004) has pointed out that the income based poverty line is derived on the basis of a basket of foods items with food grains dominating (88 percent) the basket and their relative prices being kept constant in contrast to other food constituents of the bundle. Park and Wang (2001), thus, found that keeping the food prices constant led to a poverty line that was at least 13 percent lower in 2000 as compared to the poverty line in the mid-1980s.



**Figure 1**

*Source: CASS and UNDP (2005, 2008) in Ghosh (2010)*

According to Hu and Chang (2004), since 1978 there has been a deceleration in pace of poverty reduction and the emergence of new forms of poverty. The factors responsible include increased inequality and failure of the economy to generate substantial employment opportunities. According to Sengupta and Ghosh (2005) one of the major reasons of the decrease in the pace of poverty reduction is the slow growth in agricultural sector which has led to stagnant rural employment after the mid 1990s. Unemployment is also considered as one of the major reasons for the increase in urban poverty after the mid 1980s with the rural-urban migration further exacerbating the situation.

Whereas, Yao (2002) argues that the incidence of poverty has rather increased between 1985 and 1996 in eight out of 29 provinces. According to the World Bank (2001: 236), in 1995, the number of people in China living on less than US\$ 2 per day was 716 million (58 percent of the population) where number of those living on less than a dollar a day during the same year (that is 1995) was 280 million. Majority of the poor either being the rural dwellers or the rural migrants. According to China SSB (2002: 343), the average per capita income of China's 800 million rural residence during 2001 was only \$290 (RMB \$2366) or 80 cents per day. Of the total rural population, approximately 580 million in the countryside (72.5 percent of rural households) had less than US \$360 per year. This shows that the number of poor people in rural areas remains huge and there is a growing tendency in i

## **Inequality**

The poverty reduction potential of economic growth is dependent upon the type of distribution of income. The more equitable the distribution of income is, the more pro-poor will be the outcomes of economic growth and vice versa. According to Kanbur and Zhang

(2001), over the past half century, there has been a threefold increase in inequality in China. These increases in inequality occurred at three different points in time that is during the Great Famine, at the end of the Cultural Revolution and most recently in contemporary era of globalization. Inequality during the decade subsequent to independence in 1948 fell sharply because of land reforms. By the end of the 1950s, inequality in China reached the highest level of all times. One of the major reasons for this increase was the Great Famine of the 1960. After the Great Famine, it fell again and continued to decline until the Cultural Revolution of the 1966. However, after the Cultural Revolution, inequality again increased and continued to do so until 1976. After 1976, there had been a continues decline in the level of inequality and this trend continued until 1984. With trade liberalization and foreign direct investment, inequality in China again rose steadily but more sharply until 1999. Table-1 shows that there has been a steady increase in inequality at the national level as well as between the rural and urban areas since 1978 to 2002.

**Table 2.** Gini Coefficient for Consumption Distribution in China

	1978	1988	1997	2002
National	0.30	0.38	0.34	0.45
Rural	0.21	0.30	0.34	0.38
Urban	0.16	0.23	0.29	0.34

*Source: UNDP China Human Development Report, 2005*

It is evident from table-2 that there has been an inclining trend in the Gini coefficient at the national level. The same trend could also be observed for both rural and urban regions. It is also clear that the Gini coefficient is relatively higher in rural areas as compared to urban areas throughout aforementioned periods. It has been observed that the rural urban gap accounted for almost 42 percent of the aggregate income inequality in China in 2002 (Ghosh 2010). Some of the studies {such as Kanbur and Zhang (2003) and Khan and Riskin (2004)} have argue that the contribution of the rural-urban gap in the aggregate income inequality could possibly be far more than 42 percent. These studies assume that in estimating the contribution of rural-urban gap in the total income inequality, the relevant studies may have ignored a number of subsidies such as free medical care, subsidized schooling, pension and other benefits that are often enjoyed by the urban population rather than the rural population in China. They assert that these subsidies if taken into account, the ratio of the urban to rural income may exceed four times.

Table-2 also shows that urban Gini has more sharply increased during the latest periods (that is during 1997 and 2002). It indicates that the process of differentiation is more rapid in urban China. It is believed that the urban inequality is likely to be relatively higher during the recent years because of two reasons. First, the previous survey data did not include rural urban migrants without a work permit (who constituted a significant proportion of the urban poor) and secondly, such household surveys also underestimated the consumption of the richest households (Ghosh 2010). Riskin (2004) argues that rural-urban migrants if included in the survey data could possibly increase the estimates for urban inequality and poverty.

## Korea

### Poverty

According to the World Bank (2004a), there has been a considerable decline in the level of

absolute poverty because of the rapid economic growth in Korea. As against the earlier decades of economic development, Korea has seen substantial declines in the number of absolute poor particularly during the late 1990s when the share of population living on less than 1\$ a day (PPP) was only 2 percent. According to the World Bank (2004b) export oriented industrialization has played a pivotal role in poverty reduction in Korea by creating labour demand, increasing employment opportunities, raising incomes. The findings of the World Bank (2004b) closely resembles those of Adelman (1997: 514) who argues that whereas the import substitution industrialization resulted in a 10 percent increase in employment opportunities, a transformation from the ISI to the export oriented industrialization further increased the prospects for employment. The labour intensive industries and the growing service sector continued to absorb large proportion of labour force which in turn resulted in an increase in income of the working population and reduced poverty particularly in urban areas. Table-3 illustrates the changes in major economic indicators in Korea since 1965 to 1993.

**Table 3.** Major economic indicators in Korea

	1961	1966	1972	1981	1987	1993
GNP Per Capita (Dollars)	90	125	306	1741	3218	7513
Growth Rate	1.6	6.8	16.1	21.3	10.7	15.2
Unemployment Rate	17	15	10	10	5	4
	(7)	(6)	(4)	(4)	(3)	(3)

*Source: Adelman (1997: 535)*

According to Henderson et al. (2002), in addition to industrialization, the land reforms undertaken during the late 1940s also contributed significantly in poverty reduction. The land reforms resulted in the distribution of arable land among the landless. This in turn improved the overall agricultural growth and productivity of the country. According to the World Bank (2004b), land reforms were followed by an increase in the prices of agricultural produce, the green revolution of the 1970s and massive government interventions in rural development. Together these factors increased the incomes of the rural poor and hence reduced rural poverty. According to Henderson et al. (2002) poverty declined more sharply during 1960s and 1980s. This decline, however, slowed during the 1990s.

From table-4 it is evident that there has been an overall decrease in absolute poverty in Korea since 1965 to 1991. This decrease can also be found in case of both urban and rural households. In case of urban households, poverty decline from 54.9 percent in 1965 to only 8.7 percent in 1991. Similarly, in case of rural households, poverty declined from 35.8 percent in 1965 to only 2.8 percent in 1991. Even though, these findings are based on data produced by government, the reduction in level of poverty according to Kwon (1998) is remarkable. According to Kwon (1998), the tremendous decline in the percentage of absolute poor since 1965 to 1991 is mainly due to the indirect effects of high economic growth rates.

**Table 4.** Incidence of Absolute Poverty (Percentage)

	1965	1970	1976	1980	1991
Urban households	54.9	16.2	18.1	10.4	8.7

	1965	1970	1976	1980	1991
Rural households	35.8	27.9	11.7	9.0	2.8
All households	40.9	23.4	14.8	9.8	7.6

*Source: Kwon (1998: 34)*

### Income Inequality

Whereas China may exhibit a typical case of Kuznets-type growth where inequality increases in the early period of growth, the situation is different in Korea. During the late 50s, until the end of the Korean War, Korea used to be one of the poorest country in the world. During the last four decades, it has made substantial progress towards economic development and as such has transformed into one of the most advanced industrial economies of the world. Between 1980 and 1990, the annual growth rate of Korea was about 8.9 percent in real terms. Even though, there have been ups and downs in growth rate. The average growth rate over the last 20 years has been impressive (7.3 percent) (Medhi and Zin 2007: 7).

The era of early economic development is characterized by increased income equality. The equitable income distribution during this era is often conceived as an attribute of the land reform programme undertaken by the Korean government and the foreign (from the United States) economic assistance. It, however, seems that income distribution has deteriorated after two decades of growth. It is believed that this increase in income inequality was mainly due to a demand for trained labour during 1970s. The huge differences in the wages and salaries of both trained and untrained labour force worsened the income distribution and hence income inequality (Medhi and Zin 2007: 8). According to Choi (2003), income inequality in Korea has remained constant during most of the 1980s and decreased during late 1980s and 1990s. Whereas during the mid 1990s, it remained at lower level. The economic crisis of the 1997, however, has brought up sudden and sustained increases in the income inequality in Korea resulting in an increase in the Gini coefficient of the country. Even though the crisis of the 1997 have worsened income inequality, it is, however, argued that this increase is relatively very small when compared to the income inequality levels the country experienced in the past such as during the early 1980s and the early 1960s. Instead of an inclining trend in income distribution due to the 1997 crisis, income distribution in Korea still remains to be more equitable than many other countries in the region. It is, however, important to point out that the decrease in income inequality in Korea has not been as impressive as has been a reduction in the level of poverty over the past few decades.

Talbe-5 shows that Gini coefficient in Korea has an inclining trend since 1965 (0.344) till 1976 (0.391). Later on this inclining trend is reversed and Gini coefficient is the lowest in 1993 (0.310) for entire period starting from 1964 to 1993. The table also a show that percentage share of the decile in the total income has also increased over time.

**Table 5.** Trends in Gini index

	1965	1970	1976	1982	1988	1990	1993
Gini	0.344	0.332	0.391	0.357	0.337	0.323	0.310
Decile Ratio	0.463	0.472	0.372	0.437	0.466	0.507	0.520

*Source: National Statistical Office (1966, 1986 and 1990)*

## **Taiwan**

### **Poverty**

Economic growth in Taiwan during the past half century has been tremendous with an annual average growth rate of 8.4 percent and reaching almost 10 percent in the 1960s and 1970s (Liage and Mei 2005). During the postwar period, poverty was a common phenomenon in Taiwan. During the late 1950, Taiwan experienced a more equitable income distribution and poverty reduction because of government policy of encouraging export promotion (Huang and Tsai 2006). Huang and Tsai (2006) also point out that the problem of poverty has been entirely ignored by a number of researchers in their studies to the extent that one could hardly find the term 'poverty' in economic literature on Taiwan. This is because before 1960s poverty was conceived as an individual rather than a social or government problem and was thus given a secondary importance. The priority areas for the Taiwan's government before 1960s included 'security', 'survival' and 'legitimacy'. To further add to the dilemma, there was no proper official definition of poverty.

### **Inequality**

Taiwan's post war period is characterized by an equitable distribution of income. During its initial stages of transformation, Taiwan was exhibiting a relatively more equitable distribution of income than a number of other developing countries. The decreased income inequality and poverty reduction during the post war period is often conceived as an attribute of the post war land reforms measures. The middle of the 1960s saw a further decline in income inequality because of a relatively more equitable wage income accruing from high employment opportunities in the manufacturing sector. There was a demand for all kinds of labour that is for both highly skilled as well as low skilled labour. It is stated that the demand for low skilled labour was expanding at a relatively high pace. The average wage of low skilled workers rose faster than that of high skilled labours resulting in a decrease in income level of majority of the people (Kanbur 2000).

During 1980s, income inequality in Taiwan slightly rose because of the development of high skilled intensive sector. This led to a differentiation in the wage of both skilled and unskilled workers and consequently resulted in income disparities among the population. Another important factor that is said to have equally contributed towards the income inequality during 1990s is the escalating prices of property (Kanbur 2000). It is, however, believed that income inequality in Taiwan has been and still remain to be relatively lower than other neighboring countries such as Korea, China etc. Some studies (Chen and Chen 2002) have found that income inequality in Taiwan has sharply increased during the 2000s. This is said to be the worst deterioration of income inequality during the past half century. Gini coefficient reached 0.35 record high in the year 2001 whereas the ratio of the top to bottom quintiles increased sharply from 3.49 in 2001 to 6.39 in 2001.

### **Discussion**

Few things are worth explaining at this point. First, the literature reviewed for analyzing the trends in poverty and inequality in the selected cases (China, Korea and Taiwan) over the past few decades characterized by high economic growth performance is neither an exhaustive one nor has the author tempted to be biased in selecting the literature used for

making an analysis. It is, therefore, most probable that the findings of this paper (review) may contradict with the findings of other studies that have a similar focus. The second and most important point to be addressed here is that the findings of this paper may not be generalized. Since the number of cases discussed here is only three which constitute less than half of the total number of countries within the East and South East Asia.

Of all the three cases, one thing that is shared by all the economies is the rapid and sustained economic growth over the past few decades or so. In terms of a decline in level and incidence of poverty and inequality both Korea and Taiwan seem to be more or less similar that is both have experienced a substantial reduction in the incidence of poverty as well as a more equitable income distribution. China on the contrary seems to be identical. In the Chinese case, the literature on poverty reduction and income inequality is divided into two major categories. Some studies have found a decline in the level and incidence of poverty where as others have found a consistent increase in the incidence of poverty following the promulgation of the market reforms in 1978. Studies that have come up with a reduction in poverty in China, in turn, have got immense criticism from a number of scholars. These scholars have mainly criticized the type of estimate on basis of which poverty has been measured in such studies. They argue that the incidence of poverty in China like other developing countries if estimated on the basis of expenditure rather than income data would accrue entirely different results. The findings based on the income based data are, therefore, conceived, to have been exaggerated.

Income inequality in China has fluctuated since its independence in 1948. In the early years of post-independence, China experienced equality in terms of income distribution. Towards the end of the 1950s, inequality worsened. The beginning of the 1960s saw a decrease in inequality and this trend continued until 1966. After 1976, inequality again increased and this increasing trend continued until 1976. After 1976, there was again a continuing trend in inequality until 1984. After the economic crisis of the 1997, income inequality is said to have worsened in China. The national Gini coefficient for consumption distribution in China has increased sharply since 1978. Similar increases have also been observed in case of rural Gini coefficient whereas the urban Gini coefficient has more than doubled since 1978. In China income inequality is not confined to only rural and urban areas. Disparities exist between different regions and even among different provinces. The inter-regional income inequality in China is often considered as an attribute of China's skewed pattern of development that is some regions (southern) are industrial based and have achieved a relatively high level of development and are consequently offering greater employment and income opportunities.

In the Chinese case, economic growth does not seem to have had a profound impact on poverty and income inequality. This apparently seems to contradict the widely held notion that states that economic growth helps reduce poverty. At the same time, it also seemingly contradict the notion that economic growth and inequality are not mutually related. I personally believe that growth can correlate both positively as well as negatively to income inequality. My opinion is based on a simple argument that is in the Chinese case, as we discussed earlier, not only the rural and urban areas differ from each other with regard to the distribution of income, such disparities are also common among different provinces within China and particularly among different regions. It is evident that growth is taking place at a rapid pace in particular regions (the industrialized southern part) and is benefiting largely the inhabitant of that particular region. Consequently, income levels of people as

well as the general level of development in such regions are relatively higher as compared to other regions (with little or no prospects for growth).

Both Korea and Taiwan are identical in that both have experienced reduction in the incidence of poverty as well as income inequality. Korea has experienced a tremendous decline in poverty since 1965. This decline is considered as an attribute of two factors. First, export oriented industrialization creating labour demand, increasing employment opportunities, raising income and hence reducing the level and incidence of poverty. Secondly, government's investment in agriculture and rural development which led to substantial growth in the agricultural sector and reduced level and incidence of rural poverty. Korea's Gini coefficient has also decreased from 0.344 in 1965 to 0.310 in 1993. In addition to this, the income share of the lowest deciles has increased from 0.463 in 1965 to 0.520 in 1993. Income inequality has somewhat deteriorated after the economic crisis of the 1997. Despite this deterioration, Korea is said to have maintained a relatively lower level of income inequality compared to other neighboring countries. Taiwan seems to have had performed better than Korea with regard to poverty reduction and equitable income distribution. In Taiwan's case, the factors responsible for reductions in the level and severity of poverty as well as income inequality are the same as that of the Republic of South Korea that is land reform measures and increased employment opportunities within the industrial sector. In both the cases, it seems that economic growth has contributed towards reducing poverty. It may be stated that poverty reduction and a more equitable distribution of income required growth to take place in different sectors (industry, agriculture, service etc.) simultaneously rather than just industrial growth.

## **Conclusion**

The findings of suggest that economic growth in these countries has been accompanied by poverty reduction and equitable distribution of income in both the Republic of Korea and Taiwan. Whereas in the Chinese case, economic growth has not translated into poverty reduction and equitable distribution of income. The findings thus offer implications for the nexus between economic growth, poverty reduction and income inequality. The findings of this article also suggest that the pattern of economic growth might play a central role in the distribution of income. Skewed economic growth patterns may deteriorate income inequality as is evident in case of China where economic growth is more or less skewed that is different regions have different levels of growth and hence different levels of poverty and income inequality.

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