ASIA’S JOURNEY TO PROSPERITY
Policy, Market, and Technology over 50 Years

Chapter 11: Poverty Reduction and Income Distribution
Outline

01 Poverty, inequality, and measurements

02 Asia’s approach to poverty and inequality
  • Why poverty and inequality matter
  • Inequality and development: Kuznets’ inverted-U hypothesis
  • Evolution of thinking on poverty, inequality, and growth

03 Asia’s success in reducing poverty

04 Growth with equity in the 1960s-1980s

05 Rising income inequality in the 1990s

06 Looking ahead

07 Questions and further readings
1. Poverty, inequality, and measurements

- Income poverty and measurements
  - **Absolute poverty definition:** when household income is below a certain level, making it impossible for family members to meet basic needs of life including food, shelter, safe drinking water, education, and healthcare.
  - Commonly used in developing countries.
  - **Measuring absolute poverty rate:** percentage of population living at or below $1.9 (in 2011 purchasing power parity (PPP terms)) per day per person international poverty line; $3.2 (in 2011 PPP) per day per person international poverty line; or national poverty lines.
  - **Relative poverty definition:** when a person cannot meet a minimum level of living standard, compared to others in the same time and place.
  - Commonly used in wealthy countries.
  - **Measuring relative poverty rate:** relative poverty is measured as the percentage of the population with income less than some fixed proportion of the median income.
Income inequality definition: disparity in income distribution among individuals, households, regions, different social groups, or countries.

- **01** Gini coefficient
- **02** income share of the top 1%, 5%, 10%, or 20% households (or individuals)
- **03** income share of the bottom 1%, 5%, 10%, or 20% households (or individuals)
- **04** ratio of the income share of a certain percentage of households at the top to that at the bottom
- **05** Theil Indices
- **06** coefficient of variation
- **07** log variance
Inequality and development: Kuznets’ inverted-U hypothesis

Kuznets’ inverted-U hypothesis:
A country’s income inequality is likely to rise in the initial stage of development, stabilize when its income reaches a certain level, and fall when the country becomes more developed.

Some of the reasons underlying the inverted-U hypothesis:

- **Development does not occur at all places at the same time.** It usually starts at locations with better infrastructure (such as cities) and proximity to markets (coastal areas), leading to rising inequality at the initial stage; as development spreads to other parts within a country, inequality could come down.

- **Urbanization.** Urban cities usually have higher inequality than rural areas. Transfer of rural surplus labor to urban cities, associated with development, could cause inequality to rise initially and fall after urbanization reaches a certain level.

- **Income redistribution.** As a country becomes more developed, a rising middle class will demand for more income redistribution through taxes and transfers.

Empirical evidence:
Simon Kuznets based his hypothesis on data from developed countries in the late 1800s and early 1900s. Empirical evidence from more recent data are mixed.
2. Asia’s approach to poverty and inequality (cont.)

- Evolution of thinking on poverty and inequality

**After World War II: Pursuing state-led industrialization to eliminate poverty**
- The Soviet-type socialist model in the People’s Republic of China, Viet Nam, Mongolia, Central Asia
- The mixed economy model in South Asia, Southeast Asia, and parts of East Asia

**Late 1970s: Shift to greater market-orientation**

**1980s: Sen’s capability approach**

**1990s: Global efforts in poverty reduction**

**1990s**
- Adoption of Millennium Development Goals (MDGs) in 2000
- Promotion of inclusive growth since the 2000s

**2000s**

**2015:**
- Adoption of Sustainable Development Goals (SDGs)

**1940s-1950s**

**1960s**
- Recognition of the importance of public sector interventions in health and education, promoted by United Nations (UN) agencies and World Bank
3. Asia’s success in reducing poverty

- Two waves of dramatic poverty reduction – poverty reduction is strongly correlated with economic growth

Economic Growth and Poverty Reduction, 1960s–1980s
(based on national poverty lines)

(based on $1.9 international poverty line)


3. Asia’s success in reducing poverty (cont.)

- Asia is the largest contributor to global poverty reduction

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing Asia</td>
<td>1,604.8 (68.1)</td>
<td>1,503.8 (53.6)</td>
<td>1,107.2 (33.1)</td>
<td>620.3 (17.0)</td>
<td>263.9 (6.9)</td>
</tr>
<tr>
<td>Central Asia</td>
<td>6.3 (11.4)</td>
<td>8.1 (12.3)</td>
<td>22.3 (31.1)</td>
<td>10.1 (12.8)</td>
<td>5.3 (6.2)</td>
</tr>
<tr>
<td>East Asia</td>
<td>876.5 (84.7)</td>
<td>752.2 (63.7)</td>
<td>405.7 (30.5)</td>
<td>149.9 (10.8)</td>
<td>10.1 (0.7)</td>
</tr>
<tr>
<td>People's Republic of China</td>
<td>875.3 (88.1)</td>
<td>751.8 (66.2)</td>
<td>405.4 (31.7)</td>
<td>149.6 (11.2)</td>
<td>10.0 (0.7)</td>
</tr>
<tr>
<td>South Asia&lt;sup&gt;b&lt;/sup&gt;</td>
<td>506.4 (55.7)</td>
<td>530.0 (47.3)</td>
<td>546.4 (38.6)</td>
<td>393.8 (24.6)</td>
<td>212.4 (12.4)</td>
</tr>
<tr>
<td>India</td>
<td>409.4 (57.4)</td>
<td>412.4 (47.4)</td>
<td>445.4 (40.9)</td>
<td>342.9 (27.9)</td>
<td>175.7 (13.4)</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>213.4 (60.1)</td>
<td>210.4 (48.8)</td>
<td>128.8 (24.7)</td>
<td>63.2 (11.0)</td>
<td>33.1 (5.4)</td>
</tr>
<tr>
<td>The Pacific&lt;sup&gt;c&lt;/sup&gt;</td>
<td>2.2 (49.9)</td>
<td>3.0 (51.1)</td>
<td>4.0 (45.7)</td>
<td>3.3 (32.3)</td>
<td>2.9 (25.7)</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>49.5 (13.5)</td>
<td>65.5 (14.8)</td>
<td>63.1 (11.8)</td>
<td>36.7 (6.2)</td>
<td>24.3 (3.9)</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>18.3 (10.5)</td>
<td>14.2 (6.2)</td>
<td>9.8 (3.4)</td>
<td>6.9 (2.0)</td>
<td>15.7 (4.2)</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>193.9 (48.8)</td>
<td>280.2 (54.7)</td>
<td>390.9 (55.3)</td>
<td>408.5 (46.5)</td>
<td>416.4 (41.4)</td>
</tr>
<tr>
<td>Developing World&lt;sup&gt;d&lt;/sup&gt;</td>
<td>1,897.8 (51.7)</td>
<td>1,892.9 (43.2)</td>
<td>1,595.9 (30.2)</td>
<td>1,084.9 (18.4)</td>
<td>727.1 (11.6)</td>
</tr>
</tbody>
</table>

<sup>a</sup> Subregional estimates are derived using World Bank’s PovcalNet common reference year data, which are based on either actual surveys or extrapolation/interpolation methods.

<sup>b</sup> Data for 1981 and 1990 for Maldives are not available.

<sup>c</sup> Data for 1981 for the Federated States of Micronesia, Samoa, Timor-Leste, and Tuvalu are not available.

<sup>d</sup> Developing World refers to “world less other high income.”

In the 1960s-1980s, many East and Southeast Asian economies grew rapidly while inequality remained stable or declined—a pattern known as “growth with equity.”

What explains “growth with equity” in East Asia?

- Land reform improved asset distribution
- Green revolution improved agricultural productivity
- Vibrant labor-intensive manufacturing created many jobs
- Expanding trade
- The development of small and medium enterprises
- Investment in basic education and health

5. Rising income inequality since the 1990s

- The broad trend of income inequality

Changes in Gini Coefficients, Selected Economies, 1990s–2010s

<table>
<thead>
<tr>
<th>Country</th>
<th>Period</th>
<th>Gini in end-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRC</td>
<td>1990-2017</td>
<td>46.7 (I)</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>1990-2016</td>
<td>39.8 (C)</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1990-2017</td>
<td>38.1 (C)</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1991-2016</td>
<td>32.4 (C)</td>
</tr>
<tr>
<td>India</td>
<td>1993-2012</td>
<td>35.7 (C)</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>1992-2012</td>
<td>36.4 (C)</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1990-2015</td>
<td>33.5 (C)</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>1992-2016</td>
<td>35.3 (C)</td>
</tr>
<tr>
<td>Mongolia</td>
<td>1995-2016</td>
<td>32.3 (C)</td>
</tr>
<tr>
<td>Nepal</td>
<td>1995-2010</td>
<td>32.8 (C)</td>
</tr>
<tr>
<td>Philippines</td>
<td>1991-2015</td>
<td>40.1 (C)</td>
</tr>
<tr>
<td>Thailand</td>
<td>1990-2017</td>
<td>45.3 (I)</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1992-2015</td>
<td>41.0 (I)</td>
</tr>
</tbody>
</table>

Lao PDR = Lao People’s Democratic Republic, PRC = People’s Republic of China.

Notes: Green bars refer to changes in Gini coefficients between the two indicated periods. Numbers in the column on the right refer to levels of Gini coefficients for the final year. Symbols in parentheses indicate whether a Gini coefficient is income-based (I) or consumption expenditure-based (C).

5. Rising income inequality since the 1990s (cont.)

• Why has income inequality risen?

Technological progress, globalization and market-oriented reforms created many new opportunities, but these have not been shared equally across the population.

01

02

Typically, new opportunities have favored capital owners over labor, skilled workers over unskilled or less skilled, coastal over interior regions, and urban cities over rural areas, leading to:

✓ Rising skill premiums
✓ Increasing capital income share and declining labor income share
✓ Growing regional disparity and widening urban-rural income gaps

These have been exacerbated by unequal access to opportunity due to weaknesses in governance and social exclusion.

03

04

Rising income inequality leads to growing wealth inequality, which in turn leads to rising income inequality.
Rising skill premium: education inequality accounts for 25–45% of total inequality

Note: Estimates are based on per capita expenditure in nominal terms, except for the People's Republic of China which is based on income.
5. Rising income inequality since the 1990s (cont.)

- Falling labor income share and rising capital income share

![Bar chart showing labor income share in manufacturing](chart.png)

**Labor Income Share in Manufacturing (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>Early 1990s</th>
<th>Mid-1990s</th>
<th>Early 2000s</th>
<th>Mid-2000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>30</td>
<td>35</td>
<td>38</td>
<td>41</td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>50</td>
<td>55</td>
<td>58</td>
<td>62</td>
</tr>
<tr>
<td>India</td>
<td>40</td>
<td>45</td>
<td>48</td>
<td>52</td>
</tr>
<tr>
<td>Indonesia</td>
<td>20</td>
<td>25</td>
<td>28</td>
<td>32</td>
</tr>
<tr>
<td>Japan</td>
<td>60</td>
<td>65</td>
<td>68</td>
<td>72</td>
</tr>
<tr>
<td>Malaysia</td>
<td>35</td>
<td>40</td>
<td>45</td>
<td>50</td>
</tr>
<tr>
<td>PRC</td>
<td>45</td>
<td>50</td>
<td>55</td>
<td>60</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>25</td>
<td>30</td>
<td>35</td>
<td>40</td>
</tr>
<tr>
<td>Singapore</td>
<td>55</td>
<td>60</td>
<td>65</td>
<td>70</td>
</tr>
<tr>
<td>Taipei, China</td>
<td>40</td>
<td>45</td>
<td>50</td>
<td>55</td>
</tr>
</tbody>
</table>

PRC = People’s Republic of China
5. Rising income inequality since the 1990s (cont.)

Spatial inequality—urban-rural and inter-province combined—accounts for a large share of total inequality.

Share of Spatial Inequality (% of total inequality)

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sri Lanka</td>
<td>2009</td>
<td>13</td>
</tr>
<tr>
<td>Philippines</td>
<td>2009</td>
<td>21</td>
</tr>
<tr>
<td>Pakistan</td>
<td>2008</td>
<td>22</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2009</td>
<td>26</td>
</tr>
<tr>
<td>India (2008)</td>
<td></td>
<td>32</td>
</tr>
<tr>
<td>Viet Nam (2008)</td>
<td></td>
<td>35</td>
</tr>
<tr>
<td>Bhutan (2007)</td>
<td></td>
<td>38</td>
</tr>
<tr>
<td>PRC (2007)</td>
<td></td>
<td>54</td>
</tr>
</tbody>
</table>

PRC = People’s Republic of China.
Note: Spatial inequality covers both between-region and urban-rural inequality. The estimation involves dividing all sample households into groups classified by both region and urban/rural. For example, if a country has 20 provinces, the total groups will be 40 (20 urban and 20 rural). The between-group inequality is the combined spatial inequality.
5. Rising income inequality since the 1990s (cont.)

要点

- Rising wealth inequality

wealth Gini Coefficient, Selected Asian Economies, 2018

PRC = People’s Republic of China.
Note: Only those economies with good or fair data are reported.
### Asia’s Income Inequality in the Global Context, 2015

<table>
<thead>
<tr>
<th>Region</th>
<th>Pre-tax and Pre-transfer Gini (mean)</th>
<th>Post-tax and Post-transfer Gini (mean)</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing Asia</td>
<td>40.0</td>
<td>37.4</td>
<td>(6.3)</td>
</tr>
<tr>
<td>Japan, Australia, and New Zealand</td>
<td>45.7</td>
<td>32.6</td>
<td>(28.6)</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>47.1</td>
<td>43.4</td>
<td>(7.7)</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>45.9</td>
<td>45.0</td>
<td>(1.8)</td>
</tr>
<tr>
<td>European Union</td>
<td>46.8</td>
<td>29.9</td>
<td>(36.0)</td>
</tr>
<tr>
<td>North America</td>
<td>48.6</td>
<td>34.5</td>
<td>(29.1)</td>
</tr>
<tr>
<td>OECD</td>
<td>46.4</td>
<td>31.0</td>
<td>(33.2)</td>
</tr>
</tbody>
</table>

( ) = negative, OECD=Organisation for Economic Co-operation and Development

Note: Mean refers to the simple average of Gini coefficients of the countries in the region.

6. Looking ahead

- Looking ahead, developing Asian economies should continue efforts to eradicate (both income and non-income) poverty, and share the benefits of growth more widely, with the following policy priorities.

  The first is to promote sustained and inclusive growth to create quality jobs. This requires sound macroeconomic management, a continued commitment to open trade and investment, adequate investment in infrastructure and human capital, and promotion of technological adoption and innovation.

  The second is to make greater use of fiscal policy for income redistribution.

    ❖ On the expenditure side, there is large scope in developing Asia to increase spending on education, move toward universal health coverage, and strengthen social protection—including national pension systems, unemployment insurance schemes, and social assistance programs.

    ❖ On the revenue side, policy options include broadening the tax base, making income taxes more progressive, introducing inheritance and property taxes, and strengthening tax administration and collection.

  The third is to reduce the urban–rural income gap and regional disparity. Policy options include continued infrastructure investment to improve regional connectivity, and measures to increase agricultural productivity, and fiscal reforms to increase transfers to poor localities or revenue sharing among the regions.

  Lastly, developing Asian economies should continue governance reforms to ensure the entire population enjoys adequate public services, a level playing field, and equal access to opportunity.
• Questions

01 Why do poverty and inequality matter for development?

02 What were key drivers of large poverty reduction in Asia in the past 50 years?

03 How can the “growth with equity” story in East Asia in the 1960s-1980s be explained?

04 Why has income inequality risen since the 1990s?

05 How can rising income inequality be tackled?

06 What should be the role of redistribution in reducing income inequality? How should income redistribution be carried out?
7. Questions and further readings (cont.)

- Further readings


• Further readings

Thank you!

The soft copy of the book can be downloaded at

https://www.adb.org/publications/asias-journey-to-prosperity