



Inequality in Asia: Convergence and Determinants



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Abstract

Inequality in its different dimensions may undermine the growth process itself through a number of channels. In this paper we have investigated three major things. First, what is the present scenario of income inequality of the Asian countries? That is whether inequality in these countries is increasing, decreasing or hovers around some threshold level. Second, what is the relation between growth and inequality in context of Asian regions? Third, what are the determining factors of inequality? And finally, we examine the convergence (or divergence) in terms of inequality. Analogous to the concept of (absolute) convergence in terms of growth, a country is said to be convergent if the country has started with high (low) level of inequality but converges to a lower (higher) level gradually in the course of time. This study shows that rising inequality may have been driven by top 10 percent of people in most of countries in Asia. Barring Pacific, remaining regions of Asia show a symptom of an inverted U relationship between growth and inequality. It shows that trade and initial level per capita income are significant determinants of inequality in Asia. Rising inequality calls for better policy formulation not only for removal of within and across countries income gap but also for strengthening economic capacity in Asia.

Keywords: Inequality, Asia, Convergence, Divergence, Trade, Gini coefficient

JEL classifications: D3, F0

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1. Introduction

Asia has been witnessing a rise in income inequality over the years. A majority of Asia's population now live in countries where inequality has risen over the past few decades.¹ In the past, parts of Asia have witnessed rapid economic growth, primarily driven by trade, but this achievement also has been accompanied by rising inequality, not only at regional level but also at the national level.² Two large economies of Asia - India and China have seen a rise in inequality in recent years. Regions like South Asia and East Asia have witnessed a steep rise in inequality in the last three and half decades (Table 1). Countries are, therefore, concerned over rising inequality in Asia.

Asia's growth is unsustainable with rising inequality.³ Since the impact of growth on poverty is mediated through inequality, falling inequality, therefore, helps facilitate poverty reduction at a faster pace.⁴ Inequality in its different dimensions may undermine the growth process itself through a number of channels. Inequality is also a cause for worry because it may lead to social unrest.

Table 1. Income and inequality trends in Asian regions

| Regions | GDP Per Capita (US\$) | | Gini (%) | |
|-----------------|-----------------------|-----------|-----------|-----------|
| | 1980-1999 | 2000-2015 | 1980-1999 | 2000-2015 |
| Central Asia | 975 | 1,856 | 37 | 33 |
| East Asia | 599 | 5,141 | 33 | 37 |
| South Asia | 449 | 1,288 | 33 | 37 |
| South East Asia | 1,601 | 1,854 | 40 | 39 |
| World | 2,204 | 2,910 | 37 | 36 |

Note: Appendix 1 provides the listed countries falling in Asian regions. The unweighted average of Gini and GDP per capita are presented here.

Source: Calculated by authors based on the WDI, The World Bank

¹ Refer, for example, United Nations ESCAP (2014), Jain-Chandra et al (2016), a.o

² Empirical evidences suggest that in a supply-constrained region like Asia, prosperity through trade has also been accompanied by rise in inequality – within and across countries. Refer, for example, Kanbur et al (2014)

³ Refer, for example, Jain-Chandra et al (2016)

⁴ According to Kanbur et al (2014), had Asian growth been achieved without rising inequality, an additional 240 million people would have been lifted out of poverty over the past two decades.

In this paper we are interested to show three major things. First, what is the present scenario of income inequality of the Asian countries? That is whether inequality in these countries is increasing, decreasing or hovering around some threshold level. Second, what is the relation between growth and inequality in context of Asian regions? Third, what are the determining factors of inequality? And finally, we examine the convergence (or divergence) of countries in terms of inequality. Analogous to the concept of (absolute) convergence in terms of growth, a country is said to be convergent if the country has started with high (low) level of inequality but converges to a lower (higher) level gradually in the course of time.

Rest part of the paper is organised as follows. Section 2 provides a brief overview of the literature about the finding in sync of the objective described above. Section 3 presents a short description of the variables and data we have used in this study. Recent trends of world and Asian inequality and their comparative analysis has been discussed in the Section 4. In Section 5, we have tried to assess the determining factors of the observed inequality in Asia. Finally, conclusions are drawn in Section 6.

2. Literature review

The relation between trade and inequality within countries is not beyond controversy. Most international trade economists have a perspective of a world in which countries exchange goods, factors and ideas. Free trade in goods can equalize factor prices across countries according to the factor-price-equalization theorem. In the traditional literature on neo-classical growth model, capital and labour play the central role as two main factors of production. From the perspective of conventional one sector neo-classical growth theory (a la Solow) international linkages do not matter, but from the trade perspective they are the crucial determinants.

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