

Katharina Menz

The East Asian (Un)equal Growth Miracle

Analysing Income Inequality in China and Korea

Topic and Research Question

The topic of this thesis is analysing income inequality in The People's Republic of China and the Republic of Korea. This analysis consists of two major parts, first, analysing and comparing income inequality measures across China and Korea, and second, investigating and contrasting government actions to reducing income inequality. The observed timeframe for analysing income inequality starts at the beginning of the new millennium and reaches to the present. Thus, this thesis' research question is the following:

How does income inequality differ across China and Korea since 2000 and what policy actions do the respective governments adopt to tackle income inequality?

Literature review

This thesis reviews a broad range of theoretical as well as comparative empirical literature on income inequality, its definitions, dimensions and measures. The main results of the literature review are an assessment as well as an axiomatic and practical evaluation of income inequality measures based on their origin, function, benefits and limitations.

Moreover, major publications on government actions reducing income inequality, namely social spending, tax structure and labour market policy are reviewed.

Further, income inequality in China has been studied widely, not only by Chinese scholars but also abroad. In contrast, relatively few publications exist on income inequality in Korea indicating research gaps.

Finally, a comparative analysis on income inequality and related government actions across China and Korea has not been found to been conducted yet.

Methodology and Approach

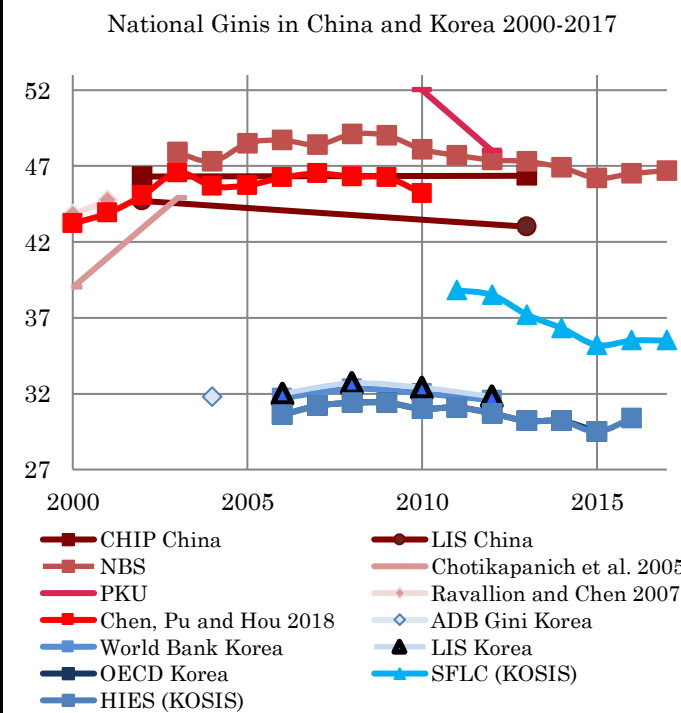
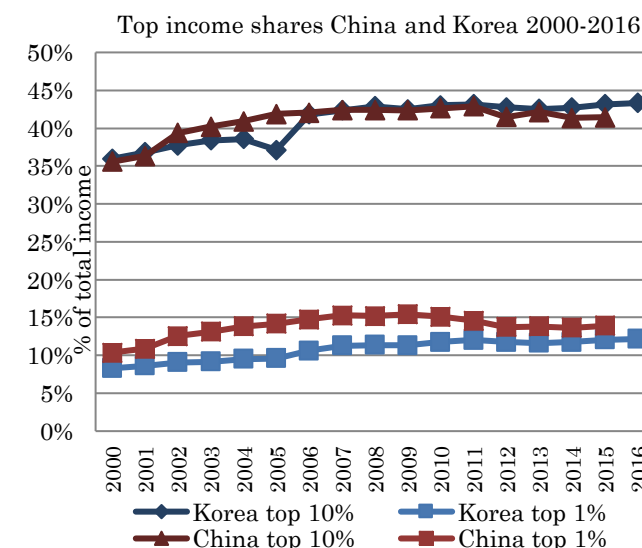
This thesis uses a comparative approach and developed the following theoretical framework based on the findings of the literature review.

Both the literature review as well as the results of this thesis show that income inequality is not a one-dimensional issue, which can be explained by single indices. Instead, it has to be analysed from a variety of perspectives pointing out different characteristics of the income distribution, reflecting the relevance of this approach.

Question	Variable	Measures	Indicators/Criteria
What is income and who receives it?	Income	Annual disposable income Income-receiving unit	Households Mean annual disposable household income
How is the distribution of income?	Poverty	Poverty indicators	Absolute poverty line/rate/HCR Poverty gap Relative national poverty lines
How is income inequality?	Income inequality	Statistical indicators	90/10 Ratio 80/20 Ratio 90/50 Ratio Top income shares, 10%, 1%, 0.1%, 0.01%
		Distributional measures	Gini index
What is the government's commitment to reducing income inequality?	Policies adopted (based on CRI)	Social spending Tax policy Labour market conditions	Education spending Health spending Social protection spd Progressivity (thresholds, corporate income tax rate, VAT rate, exemptions), harmful practices Labour union rights Minimum wage Women's rights on the labour market

Main Facts

This thesis incorporates and reviews income inequality data from a large number of different sources and thus expanded existing data bases such as the World Income Inequality Data (WIID) base.



Policy actions to reducing inequality are summarised in the following table.

	China	Korea	Evaluation
Spending policy	-High education spending, however, lower than Korea's -Large increase in health spending -Relatively low social protection spending than China -Numerous policies addressing the very bottom of the income spectrum	-High education spending -Much higher health spending than China -Much higher social protection spending than China -Several policies addressing the very top of the income spectrum	→ Apart from education spending, both governments' public spending is below average. Korea's commitment to reducing income inequality is higher
Tax policy	-Progressive personal income tax reform in 2018: relieving bottom income brackets -Equal CIP 25% -Higher VAT than Korea, no inheritance, gift or wealth tax	-Progressive personal income tax reform in 2018: higher taxation of high-income brackets -Equal CIP 25% -Lower VAT -Progressive inheritance and gift tax, no wealth tax	→ Both governments have increased their commitment through a PIT reform in 2018. Korea's commitment to reducing income inequality is slightly higher
Labour market policy	-Lowest possible labour rights in law as well as in practice -Women's rights on the labour market exist, parental leave is stipulated -Different, at regional levels set minimum wages exist, relatively lower than in Korea	-Relatively low labour rights in law as well as in practice -Women's rights on the labour market exist, parental leave is stipulated -High minimum wage and several recent increases	→ Both governments perform low regarding labour rights. However, Korea has repeatedly increased the minimum wage. Korea's commitment to reducing income inequality is higher

Results

This thesis demonstrates that China and Korea not only show differences in their levels of income inequality but also in their structure. While China still faces large disparities at the bottom of the income distribution, Korea has experienced a vast increase in top income shares, as the top 10% of Korean income earners have captured more of the total income than their Chinese counterparts for the past decade. Second, this thesis analyses both Chinese and Korean government policies to reducing income inequality in 2018 and 2019. Both governments have increased their policy actions, particularly in regard to progressive taxation and social spending, however, Korea's commitment to reducing income inequality can be assessed as slightly higher than that of China. Also, evidence for distinctive strategies by the two governments in order to tackle income inequality has been provided. Finally, when considering income inequality in the context of economic growth, distinctive patterns in the Chinese and Korean growth "miracle" have been shown. While the Korean growth "miracle" was characterised by rather equal income growth in the course of economic growth, China's growth "miracle" has evolved quite contrastingly, implying that there is no single kind of East Asian growth "miracle" regarding income inequality. Also, the results suggest that income inequality is shaped by policy-making rather than being a natural process accompanied by economic growth.

References

All references can be found in the full version of the MA thesis available at <http://othes.univie.ac.at>

About the Author

Katharina Menz holds a BSc in Economics from the Vienna University of Economics and Business. During the course of her studies, she spent a semester abroad at the University of Hong Kong as well as the Australian National University and gained work experience in Chile, Austria and the PRC.

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