Journal of Asian Economics 23 (2012) 73–85

Contents lists available at SciVerse ScienceDirect

Journal of Asian Economics

Economic growth and child poverty reduction in Bangladesh and China☆

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ARTICLE INFO

Article history:
Received 28 April 2009
Received in revised form 26 September 2011
Accepted 16 October 2011
Available online 20 October 2011

JEL classification:
I.32
J.13
J.15

Keywords:
Child poverty
Economic growth
Bangladesh
China

ABSTRACT

This paper analyzes child poverty in Bangladesh and China during periods of rapid economic growth. It compares the extent as well as profile of child poverty in both countries. Comparisons on the extent of child poverty over time and across countries are made using a decomposition framework attributing child poverty differences to differences in three components: mean child income, demographic circumstances and the distribution of child income. Child poverty is found to be more extensive in Bangladesh than in China, and is very much a problem for rural children in both countries. The results show that economic growth can reduce child poverty but does not always do so. For understanding changes over time and across countries in the extent of child poverty, it can be necessary to also consider changes/differences in the distribution of child income as well as in the demographic composition.

1. Introduction

This paper describes child poverty in Bangladesh and China and investigates reasons for changes over time as well as differences across the two countries. Following an often used, though not uncontroversial alternative, we define a child as poor if he/she lives in a household with a disposable income of less than one dollar/day in Purchasing Power Parities. Our sample surveys are large. For Bangladesh we study the period 1995/1996–2000, for China the period 1988–1995 as well as the period 1995–2002. Child poverty is compared across time and across the two countries. This is done using a decomposition framework by which poverty differences are attributed to differences in three components: mean child income, demographic composition and the distribution of child income.

There is consensus among observers of the desirability of combating child poverty; it has become a subject of great interest among policymakers and researchers alike. Yet concerns about child poverty have been more forcefully expressed in richer countries and in the Commonwealth of Independent States than in low- and middle-income countries.[1] We are not

☆ An earlier version of the paper was presented at the International Conference on Experiences and Challenges in Measuring National Income and Wealth in Transition Economies, September 19–21, 2007, Beijing, China, jointly organised by the International Association for Research on Income and Wealth (IARIW) and the National Bureau of Statistics (NBS), China.

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[1] The United Nations Children's Fund (UNICEF) monitors child poverty in rich countries, Southeastern Europe and the Commonwealth of Independent States (Corak, 2006; UNICEF, 2007). Contributions to the academic literature on child poverty include Bradbury et al. (2001), Vleminckx and Smeeding (2001), Gordon et al. (2003) and Corak et al. (2008).

1049-0078/$ – see front matter
doi:10.1016/j.asieco.2011.10.001

aware of any previous effort to compare the extent and evolution of child poverty across Asia or across low- and middle-income countries, the first motivation for this study.

A second motivation is that the question of how economic growth affects poverty is open to debate. This paper adds to the literature on growth and poverty reduction by providing two case examples. Studying two growing Asian countries yields more knowledge than by merely investigating one. Bangladesh during the second part of the 1990s is one of the cases, and the other is the People's Republic of China from the late 1980s to the beginning of the new millennium. China's amazing growth record of the last 30 years, stimulated by a policy of opening up, is well known. However, though starting from a lower level, Bangladesh has recently experienced rapid economic growth as well. In addition to comparing the two countries as entities, we compare Bangladesh with the southwestern region of China. The reason for this is that China is characterised by large regional differences in levels of income. The southwestern region of China, with a considerably lower than average income level, is in this respect as well as in location more similar to Bangladesh than other parts of China. Comparing Bangladesh with southwest China thus provides another investigation of how economic growth affects child poverty.

The supposition that economic growth is a prerequisite for poverty reduction in a longer time perspective is not without controversy.[2] Disagreements stem from economic growth being the outcome of many different processes. Growth is not necessarily distributionally neutral; it can be concentrated to those worse off, or to those better off. If economic growth is concentrated to those worse off, income inequality as well as poverty decreases while if growth is concentrated to those better off, inequality increases and poverty may or may not decrease.

One reason for rapid economic growth in the developing world during recent years has been the opening up of previously more closed economies to allow for increased international trade and foreign investment. When leading to rapid industrialisation, such processes can benefit domestic capital owners as well as skilled and semi-skilled urban workers. However, this type of growth does not necessarily immediately spill over to rural areas where typically most of the country's poor reside. This is why there can be episodes where positive economic growth in the economy does not go hand in hand with poverty reduction in the population.[3] Episodes of no poverty reduction despite economic growth can also be the result of demographic changes (widely defined). If ever larger/smaller proportions of the population belong to greater/lesser poverty-prone segments, this counteracts/reinforces impulses towards poverty reduction coming from a growing economy.

Given that growth and poverty reduction must not necessarily go hand in hand, it is not surprising that questions of the connection between economic growth and poverty reduction are subject to considerable research efforts. Different countries and periods have been investigated using various research strategies. There are studies analysing single countries and others analysing many countries.[4] However, to our knowledge there is no previous study focusing on how economic growth affects the extent of poverty among children.

In this study, child poverty is defined as living in a household with a disposable income lower than the often used international poverty line of one dollar/day promoted by the World Bank. Turning to our results, it is hardly surprising that for any given point in time, child poverty has been more extensive in Bangladesh than in China. During one of the three spells of rapid economic growth studied, child poverty did not decrease profoundly in China. Here, a more unequal distribution of child income between 1988 and 1995 offset the poverty-reducing impulses of economic growth. However, for the other two spells studied, economic growth was in step with child poverty reduction; this was the evolution in Bangladesh for 1995/1996–2000 as well as for China from 1995 to 2002.

The cross-country comparisons show that the lower child poverty rates in China can mainly be attributed to the country's higher average child income level, while differences in income inequality and demographic composition are of lesser importance. When trying to understand why in the mid-1990s southwest China had lower child poverty rates than Bangladesh, we find that differences in demographic composition are fundamental. In southwest China, children lived in families with fewer children than in Bangladesh. However, a few years later, the gap in child poverty between southwest China and Bangladesh had widened, with differences in mean child income playing a larger role.

Our study thus illustrates that economic growth and differences in income levels affect child poverty differences across time and across countries. However, it also shows that economic growth does not automatically lead to less child poverty. For understanding changes over time and across countries in child poverty, it can also be necessary to consider changes/differences in the distribution of child income as well as in the demographic composition.

[2] That is, when "poverty" is defined as living under a predetermined fixed poverty line ("absolute poverty"). When "poverty" is defined as living under a poverty line representing a poverty line that is updated to the general level of living ("relative poverty"), one cannot assume that economic growth leads to less "poverty".

[3] Winters et al. (2004) survey the literature on trade liberalization and poverty.

[4] One example of the former is Thurlow and Wobst (2006) who apply a general equilibrium and micro-simulation model to examine how the sectoral structure of growth in Zambia affects poverty, and find that not all growth is equally good for the poor. Among macrostudies, Dollar and Kraay (2002) is often quoted. Kraay (2006) applies a decomposition framework to analyse data mainly from the 1990s covering 80 developing countries in which poverty is defined using the World Bank's one dollar/-day poverty line. An analysis of spells of poverty change leads to the conclusion that cross-country differences in growth, especially in the medium and long run, are the dominate factors explaining changes in poverty. Combining this database of poverty spells with information on sector value added and on global trade, Loayza and Raddatz (2010) investigate how the sector composition of growth affects the economy's capacity to reduce poverty. They conclude that growth in sectors intensively using unskilled labour has the largest potential for reducing poverty. Montalvo and Ravallion (2010) analyse how GDP from primary, secondary and tertiary sectors in China has affected poverty using provincial data from the first part of the 1980s to 2001. Their results support the view that the primary sector (mainly agriculture) has been the driving force in poverty reduction. Please note that during the spells studied here, the agriculture sector in China grew more slowly than the industrial sector.