

China and India: Income inequality and poverty north and south of the Himalayas

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Received 8 September 2005; received in revised form 1 August 2006; accepted 14 August 2006

Abstract

China and India are the most populous countries of the World and also the two largest contributors to World poverty as assessed by the World Bank. This paper, focusing on the rural circumstances is the first study using microdata to compare income inequality and poverty in the two countries. We find that at the mid-1990s income inequality in rural China and rural India were relatively similar.

Our results show that differences in mean income across regions are much larger in China than in India and accounts for a much larger proportion of income inequality in rural China. The proportion of the population falling under a poverty line set to US\$ 1 per person and day in western China is similar to the corresponding proportion in several Indian regions but much higher than in the prosperous eastern part of China. Economic status in India is more influenced by education of household head than in China where fewer are illiterate. Common to both countries is that minority status as well as land status affect income and poverty.

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JEL classification : D31; I32; O15; P52

Keywords: China; India; Income; Inequality; Poverty

1. Introduction

China and India are the most populous countries in the World. They are also the largest contributors to World poverty as assessed by the World Bank (see, for example, [World Bank, 2000](#)).

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However, although they are on the same continent, China and India differ in their historical experience and their institutional arrangements and this leads to substantial differences in how households and their members fare in the two countries. The overall purpose of this paper is to compare income inequality and poverty among rural residents in China and India in the mid-1990s.

We ask whether, and how, income inequality and poverty differ between the rural areas in the two countries. Since average income in China was higher than in India in the middle of the 1990s, we expect to be able to confirm that poverty, defined as living in a household whose income was less than the income associated with a ‘poverty line’, was more extensive in rural India than in rural China.

The main purpose of the paper is to compare how the region of residence in a country, as well as household characteristics – such as the educational level of the household head, access to land and minority–majority status – affected the income and poverty status of persons in the two countries. China’s transformation towards a market economy has had a very clear spatial character with the eastern part leading prosperity in China and the western part lagging behind; this has led to substantial regional disparities. In contrast, restrictions on geographical mobility have been less stringent in India and, in the mid-1990s its labour market was more developed than of China.

While we expect rural India to be more egalitarian than China in terms of regional disparities, we might expect China to be more egalitarian than India when the populations of the two countries are disaggregated according to household characteristics. First, the income premium to education has been lower in rural China than in rural India. This is for several reasons: China’s education policy during the egalitarian *époque* resulted in a relatively small number of workers without any education while, in India, the number of workers without any education has been considerably larger; the demand for highly educated labour in China is very much confined to its urban areas.

Second, the ethnic minority–majority dimension can be expected to play a larger role in India than in China. Ethnic minorities in China make up about 9% of its population. Although persons from minority groups are economically disadvantaged in both countries, in China this is very much related to them being over-represented in the western part of the country which has benefited less from economic growth than the eastern part.

If one defines the minority group in India as consisting of persons who are ‘marginalised’ relative to others, then Muslims and the ‘untouchable castes’ (Scheduled Castes and Scheduled Tribes) fall into this group and nearly 30% of India’s population fall into the minority category (Borooh, 2005).

Third, for historical reasons many rural households in India are landless while a few are wealthy landowners. In contrast, almost all households in rural China have user rights to lands and, as a social category, landowners disappeared half a century ago. However, while, compared to India, land is equally distributed in China, access to land, and particularly to irrigated land, varies from province to province, county to county, and even from household to household.

Many cross-country comparisons of income distribution and poverty using microdata have been reported in the literature. However, such studies typically refer to industrialised countries. There are many studies comparing China and India from various aspects. However, to our knowledge before this study no one has compared income distribution and poverty in China and India using microdata.

The paper is organised as follows: the next section (Section 2) provides an institutional background to the analysis reported in the subsequent sections. The datasets used for the analysis are described in Section 3. Results on income inequality are reported and discussed in Section 4 while Section 5 presents results on poverty. Section 6 summarises the findings and concludes the paper.

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