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Economic Growth and Income Inequality in the Asia-Pacific Region: A Comparative Study of China, Japan, South Korea, and the United States*

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Abstract

This paper builds an inequality-growth-redistribution nexus, and applies the Engle-Granger two-step ECM approach to estimate the long-run and short-run relationships between inequality and growth for four economies: China, Japan, South Korea, and the United States. Our estimation results support the S-shaped curve hypothesis relating GDP per capita to inequality with different starting points for the four economies. For the reverse relationship, we find a positive causal relationship for China, Japan, and the United States, indicating that increased income inequality spurred economic growth. In addition, we find mixed results on the effect of trade openness on inequality and growth. Trade openness reduced inequality in the United States and Japan, worsened it in China and had no significant effect in South Korea. In the inequality-GDP per capita relationship, exports provided an impetus to economic growth for Japan. As for redistribution, although fiscal redistributive measures reduced inequality in Japan, they played no major role in the other three countries. With regard to the inequality-GDP per capita relationship, all countries except for China show a negative effect of fiscal redistribution on GDP per capita.

Keywords: Economic Growth, Income Inequality, Trade Openness, Fiscal Redistribution

JEL Classification: D30, F10, O10, O40

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