



Income convergence or persistent inequalities among countries?

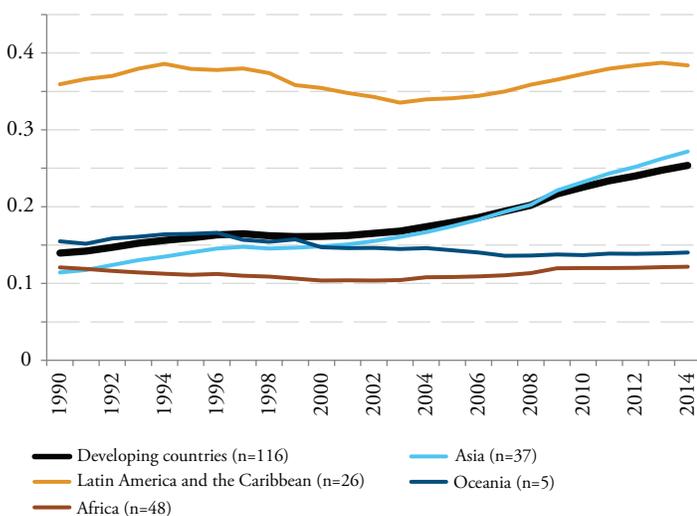
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Income inequality has become an issue of major concern for citizens and Governments around the world. The recent literature on the subject has documented a clear trend for income inequality to increase within most countries. One exception to this trend is in Latin America where income inequality actually decreased in most countries between 2000 and 2010. Two factors contributed to this result: an improvement in the level of education of workers entering the labour force and the adoption of large transfer income programmes for poverty reduction (Lustig, 2015). Despite the improvement seen in Latin America, the issue of income inequality remains at the centre of the political debate in the region.

In contrast to the trend seen in within-country inequality, income inequality between countries has been on a general trend towards convergence between developed and developing countries since 1990 (Bourguignon, 2015; Milanovic, 2010;

Figure 1: Ratio of GDP per capita (PPP in constant 2011 international dollars) in developing countries and regions to that of developed countries, 1990-2014



Source: UN-DESA own calculations, based on World Bank's World Development Indicators online database.

Summary

Income convergence between developed and developing countries in recent years is mainly the result of rapid economic growth in Asia. The distance between average per capita income in other developing regions and that in developed countries has not changed significantly; between-country inequality continues to be a cause of concern.

Stiglitz, 2013). Once adjusted by purchasing power parity (PPP), average per capita income of developing countries has increased steadily in relation to the average per capita income of developed countries. In particular, the tendency to narrow the income gap between developed and developing countries accelerated since the early years of the 2000s.

In light of this evidence, Bourguignon places the major challenge in the growth of inequality within countries.

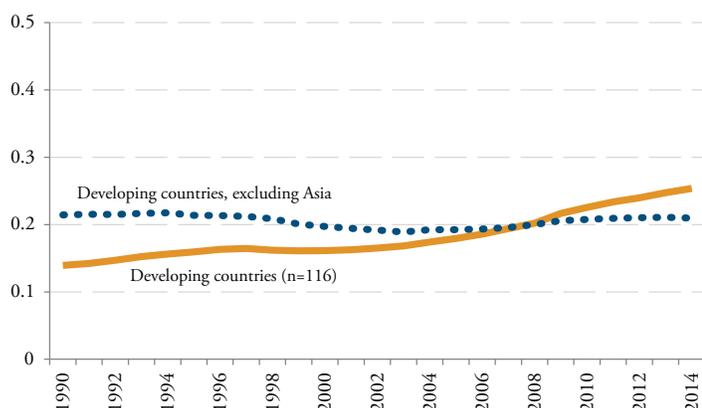
Income convergence or divergence?

Unfortunately, there is a more complex reality behind aggregate income gaps between developed and developing countries. According to Milanovic (2010), the “catch up” growth of China and India has been a strong force for income convergence between developing and developed countries. Data on GDP per capita¹ for 116 developing countries and 30 developed countries indicate that rapid growth of income per capita in Asian countries has been the main source of global income convergence (see figure 1).² The gap in income between the Asian region and developed countries declined from 14 per cent of the average income of developed countries in 1990 to 25 per cent in 2014.

¹ Normalized at PPP 2011 dollars.

² Income per capita in the developed world includes countries in Eastern Europe. If Eastern European countries are excluded, income differentials with developing countries is larger.

Figure 2: Ratio of GDP per capita (PPP in constant 2011 international dollars) in developing countries to that of developed countries, 1990-2014



Source: UN/DESA calculations, based on the World Bank's World Development Indicators online database

This is a remarkable achievement but one that still leaves the average citizen in Asia with one fourth of the average citizen's income in developed countries.

The trend towards convergence, initially led by China and India during the 1980s and 1990s, has become a generalized pattern for the rest of Asia³ in the last ten years—a remarkable achievement to the extent that these countries roughly represent 50 per cent of the world population. Nonetheless, global income convergence has been largely limited to this particular region, with some additional convergence seen in Latin America and the Caribbean in the last decade. Nonetheless, the income gap between poor and rich countries remains large, even in fast-growing Asian countries.

Income of other developing regions is stagnating or lagging behind

Excluding Asia, income differentials between developed and developing countries remain large and have not changed significantly. Average per capita income in Africa in 1990 was equivalent to 12 per cent of per capita income in developed countries; by 2014 that ratio was unchanged. Income per capita in Oceania experienced a slight regression, from 15 per cent of the income in developed countries in 1990 to 14 per cent in 2014.

³ Armenia, Azerbaijan, Bahrain, Bangladesh, Bhutan, Brunei Darussalam, China, Cyprus, Georgia, Hong Kong SAR, India, Iraq, Islamic Republic of Iran, Indonesia, Israel, Jordan, Kazakhstan, Kyrgyz Republic, Lao PDR, Lebanon, Macao SAR, Malaysia, Mongolia, Nepal, Pakistan, Philippines, Republic of Korea, Saudi Arabia, Singapore, Sri Lanka, Tajikistan, Thailand, Turkey, Turkmenistan, United Arab Emirates, Uzbekistan and Viet Nam.

Being the developing region with the highest living standards, the income per capita of countries in Latin America and the Caribbean⁴ averaged approximately 36 per cent relative to developed countries in the period 1990-2014, but with a marked cyclical behaviour that ranged from a low of 34 per cent in 2003 and a high of 39 per cent ten years later.

Conclusion

Clearly, rapid and sustained growth in Asia has led to fast poverty reduction, major improvement in living standards in the region, and a global process of income convergence. As emphasized in the literature, the major source of global income inequality is increasing income inequality within countries. Most developing countries, however, have not succeeded in closing the income gap with respect to developed countries.

Moreover, even in a context of average convergence across countries, the gap between developed and developing countries in terms of living conditions remains large. In the region with the highest income per capita, Latin America and the Caribbean, per capita income is less than 40 per cent of that of developed countries. In fast growing Asia, average income is less than one third of that of developed countries' income. And the income of the average person in Africa is only slightly over 10 per cent of the average person in a developed country.

References

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⁴ Chile, Costa Rica, Dominican Republic, El Salvador, Panama, Peru and Uruguay; Dominica, Grenada and Saint Vincent and the Grenadines; Bolivia, Brazil, Colombia, Ecuador, Guatemala, Guyana, Mexico, Nicaragua, Paraguay, Saint Kitts and Nevis and Saint Lucia; Honduras; Antigua and Barbuda, Bahamas, Barbados, and Venezuela (Bolivarian Republic of).