Comparison between China and India-the poverty alleviation issue

TEREZA MAZANOVA

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# Abstract

Tereza Mazanova (2015) Comparison between China and India-the poverty alleviation issue, CAS, Aalborg University, Denmark. Language: English. The purpose of the thesis is to bring more profound data about the ratio of poverty in China and India, examining the reasons why mainly China thanks to its economic revival has been more successful with bridging the gap between extreme poverty and wealthy class and providing more equality than India. The first introduction section of the thesis is outlining the problem by cursorily portraying situation in both countries. The methodology section brings deeper understanding about the data being used and the whole process of the thesis evolution. Methodology is followed by the international theories section where the author presents main theory which will be examined in the following analysis part.

The analysis takes into consideration two case studies and it is limited to the recent period of the economic blossom of both counties. On the basis of comparison between poverty reduction in China and India, the thesis try to contrast two massively developing most populous countries in the world. Through a thesis, China is depicted as a higher developed state, with less people living under severe poverty, whereas India is portrayed as a country with certain degree of development, awaiting full encompassment into the equal society sphere. Analysis section enhances the reasons why progress, yet as striking as Chinese one, didn’t lift as many people from poverty as in China. The thesis is pointing these questions towards several aspects such as the role of the government, gender issues, minority questions, unequal redistribution of the wealth and lastly the unforgettable influence of the economic growth and its impact on the human development and poverty reduction.

The final section, conclusion, disproves/confirms theoretical part and thesis is completed with discussion where author mention different points of view for devising a similar topic. Discussion mentions examples from the other countries that might serve as an example for future growth within India and China.

# Introduction

Today´s Western World is hugely accepted as the ruler of the world, creator of the common laws, and the main propagator of democracy. We tend to see the west and mainly United States of America as the hegemon, the infallible “superpower”with the most important economy in the world. Despite all this, two Asian states manage to penetrate our rigid preconceptions that „only the west is the best and the rest need to learn from the west“.[[1]](#footnote-1) The hardly believable growth of their economies showed to the world that now could be the time to change our patterns of thinking and learn something from the civilizations that once used to be major powers and strive to become them again, as the old societies always based and enhanced their culture on those before them-Greece learnt from Egypt, Rome from Greece, etc. The possible shift of the power from west to the east is mainly coming from two most populated countries of the world, one representing an authoritarian regime and the other democracy. The future potential hegemons—Peoples Republic of China and the Republic of India. China and India are similarly adopting western models of capital liberalization while striking for overall progress within each country. Not in vain to say that pupil always outmatches the teacher.[[2]](#footnote-2)

In the 1990s the United Nations set a very ambitious goal. The aspiration was to reduce a ratio of the population living under absolute poverty by half by 2015. Regarding numbers, the goal was not only attained, it was fulfilled five years prior to a predetermined date. This couldn’t be attained without two of the world’s largest countries India and China. In 1990 the percentage of people living under extreme poverty[[3]](#footnote-3) reached 51 percent of India´s population. By 2015 this proportion shrunken to 22 percent. Figures for China are even more surprising. The middle kingdom moved from 1981 where more than a half of the population wasn’t able to meet sufficient daily food portions to 2004 where only four percent of population were unable to do so. Thanks to its openness towards foreign investments and moving towards capital markets, China obtained certain levels of economic growth which enabled the country to create a middle class, improve health care systems, literacy rates, and deal with children mortality. China also ranked 91st place in the world’s charter of human development and it is now considered as a highly humanly developed country. Moreover, China is still moving forward and it is likely to gain a higher and higher position within the international order. India, on the other hand, is still struggling with a higher number of impoverished people. Whereas economic growth served well to lift many people from the total poverty, the unceasing population growth caused constant increase of the people who were born to be deprived. By ranking 131st place in the human development index, India falls into the medium developed countries classification. In spite of huge economic growth where production of material possessions and services are booming, economic (human) development encompassing elements, such as quality of life, are sometimes forgotten, yet they are the most important features of the real development degree of the country.

 Despite the similarities in the rapid economic growth of both countries, China´s effort to lift people living under severe poverty, proved to be more successful than India´s. There are significant differences between those two countries. China, as a totalitarian country is able to pursue its governmental regulations with an instant effect, whereas this can be an impediment for India, whose democracy can lead to higher bureaucracy. China with its recent created middle class is moving more and more towards westernification, whereas India still struggles with the impediments connected with the caste system deepening income inequalities, etc.

 Even though China is now seeming to be holding a lucky card and having great expectations for the future, there are still many obstacles to overcome. An American journalist James Palmer portrayed in his article: The air here might be deadly, the water undrinkable, the Internet patchy and the culture strangled… yet, as it was mentioned previously, many of the world’s specialist are stucked with an overwhelming Chinese economic growth taking into consideration only misleading facts such as: “*that China is beating America at something, whether it’s clean energy, high-speed rail, education or even the military”.[[4]](#footnote-4)* India might be depicted without pink glasses on, yet it is probably still worse off than China.

Both of the countries have come a long way, shifting their policies into more open, equal, human rights ensuring societies. However, there is possibly a long way for India to become a fully developed country. Therefore, the aim of the paper is to examine the path which leads to a higher growth in China and confront it with the Indian one, while comparing what kind of factors are beneficial for overall growth both of economy and society and which ones might hinder the advancement process.

Both economies of India and China[[5]](#footnote-5) are yet to be even more important players within the international world order, therefore examining their growth could be highly beneficial for the future.

# Methodology

## Structure of the thesis

Firstly, the methodology of the thesis will be described. The thesis is focused mainly on the use of the secondary sources. The purpose of the study it to deeper analyze Sino-Indian question and compare the impact of the economic growth on society and its ability to tackle down severe poverty in both countries while using hermeneutics and combination of quantitative and qualitative methods to bring more profound data about the topic. The paper will be using comparative approach with two case studies. Secondly, an international theory that is used in analysis will be introduced: modernization. The concept of modernization theory is enhanced with the terms from economic politology- the growth elasticity of poverty reduction and the Gini coefficient. Thirdly, theory and will be applied and compared through the comparison of the crucial aspects of both countries examined in the analysis section. Lastly, conclusion and discussion will furnish a response for the problem statement.

## Hermeneutics

The main method used through the analysis section is hermeneutics. Hermeneutics is a method anchored in the social science, the theory of the interpretation that enables understanding of texts, utterances and so forth. There are two major courses regarding the evolution of the modern hermeneutics. Both of them are rooted in Germany and started with the fumbling germination.[[6]](#footnote-6)The front blossomed in the systematic hermeneutics of Friedrich Daniel Ernst Schleiermacher in the early nineteenth century and the progress of the latter effloresce in the philosophical hermeneutics of Martin Heidegger and Hans-Georg Gadamer in the twentieth century.[[7]](#footnote-7) According to Schleiermacher (1768-1834), interpreting the text is a complicated process in which interpreter should primarily consider and interpret parts of the text with regard to the coherence of the whole text and then proceeding back to the interpretation of the whole text that should be appropriately matched with the section parts. The principle of this pattern de facto becomes a never ending circle. Furthermore, Schleiermacher implies that one should be familiar with author’s conceptual-linguistic individuality to ensure the interpretation of the text has the valid meaning and avoid consecutive double checking with multiple authors.[[8]](#footnote-8) Hans-Georg Gadamer (1900-2002) rejected a thought that the interpretation of the text should be a mere recapitulation of it. On the contrary, Gadamer pointed out that the authors own mindset serves as an enrichment for the text and helps to escape from the historical relativeness of the knowledge. Furthermore, he states that a prior understanding of the subject is a key to get the proper insight.

Regarding the limitation of the thesis, relevant data such as books, academic and newspaper´s articles and radio and television broadcasting that are focusing on the problem serve as tools to delimit the scope of the paper. For the purposes of this paper, mainly western authors have been chosen, to ensure that the ability of interpreting the text will reach the utmost level of author´s understanding. The data collected to support quantitative findings are mainly collected from The World Bank surveys, the National statistics surveys, Human development reports, etc. Within the framework of the analysis section the interpretation and implication of the theories will integrate the author´s own point of view.

## Research design

The study has adopted a comparative approach between the two cases of China and India. Paper is dealing with a recent economic growth that occurred from late seventies in China and nineties in India up to the most relevant data. The research is reflecting the impact of overwhelming economic growth of both countries and compares the different aspects that this phenomena has on the various aspects such as democratization of the society, human rights and gender equality. The reason for choosing a comparative approach while contrasting Sino-Indian case is their similarity regarding the skyrocketing economic growth, yet, on the other hand their distinctiveness in the human rights, the form of government question and the overall number of the poorest lift out of the poverty. To elaborate on this problem, comparative approach is used for it is generally perceived as a good way to obtain deeper knowledge from comparing one aspect to another. The issues are afterwards seen from different perspectives.

### Comparative approach

According to Penning’s, comparative approach is the research strategy with a purpose to compare various phenomena through period of time, space and so forth.[[9]](#footnote-9) The comparative approach adopted within this paper is encompassing two case studies over certain period of time. The purpose of the comparative approach is to support social science via verifying theories. As for nowadays the comparative approaches are more and more popular within the international level. The thesis adopted comparative study bordering international relations and economics.

### Qualitative/Quantitative

The method chosen to asses this paper is on the borders of quantitate and qualitative approach. The thesis is defining its structure on the base of data collected from both of the methods. The thesis adopted non experimental approach, all of the date are mainly due to page constraints coming from the second or the third sources. The qualitative method is used for introduction of the state economic evolution, it is describing its main characteristics and the mean that as used for attaining of development degree. For qualitative method is described “*as a method which (in general) generate words, rather than numbers, as data for analysis[[10]](#footnote-10)”,* there was a need to use quantitative approach for better compare data that are based on statistics. The methodology of the qualitative characteristics is structured by particular means which support the purpose of the project. Regarding this thesis the qualitative research has been proceeding as follows: the collection of data, the data analysis and interpretation of data which included the interviews.

### Inductive and deductive approach

Qualitative methodology contain various approaches for different data collection. The data available and their relevance decide what kind of approach is going to be used. Throughout our project I decided to use inductive and deductive approach.

## Interview

The interview can be described as an asymmetrical relationship between interviewer and a respondent in which interviewer creates a theoretical field for obtaining practical knowledge from the interviewee. To get better insights into the topic of paper, two interviews were taken. The interviews were structured, with open-ended questions. The interview was conducted via email. The response required should elaborate on the analytical part and provide deeper comprehension of the subject. Interviews were designed to follow the opinions of each country’s representative, to seek the closest way of local people perception. Interviewee were are local people from India and China.

##  Case study

For the best results given and due to the limitation of the paper, the two examples has been chosen. Both of them represent hugely developing countries with different forms of governances. China stands as a totalitarian country with the state party having the ultimate decisive role, whereas India as a democracy represents the other political spectrum. In addition, it might seems that the both countries are quite similar and in that sense it would be interesting to compare one phenomena that occurred in both of them. However, in fact both countries differ significantly and for that reason it would be interesting to compare them and get the various viewpoints.

# Theoretical background

The following section is devoted to the overall explanation of the theories and approaches used within the paper. In the sphere of social science, theories serve for better understanding of a reality and provide a tool for resolving a specific problem. Theories as a part of international relations analyze the moves of states as well as the changing magnitudes and borders of power structure and state institutions.[[11]](#footnote-11) This section is divided into two categories, the first present modernization theory, the theory of social science, and the second follows the terms belonging to the economic theory. We might argue that the theories of international politics are only valid in the Western sphere, however their applicability is valid in the Asian continent as well. This is so possibly because of globalization where majority of cultures are at least to some point westernized or influenced by western concepts such as liberal democracy.

## Modernization theory

Modernization theory can be classified amongst the post war theories. One of the general beliefs of the modernization theory is that western model of liberal capitalism is the key for the progress of developing countries. The whole process of modernization started in the 18th century when industrialization, increased level of literacy, education, wealth and social mobilization took part between western civilizations.[[12]](#footnote-12) The thought evolved in accordance with urbanization and industrialization, though the time has been applied mainly on the western countries. The recent economic growth of the authoritarian regimes called for revision of the modernization concept.

According to Rostow, development takes part in five different stages. The first stage, the least developed stage also known as a traditional society, encompass subsistence agriculture and it is determined by the usage of the very basic technologies. At this point, economy is mainly based on self-production and agriculture. (Dynasties of china). One of the prerequisites for attaining the second stage of development, the post-traditional society, is the exogenous influence from the advanced countries. These states are by literal or figurative invasions introducing new means of living to the old societies and thanks to this shocking change, modern manufacturing system start slowly, but surely appear. The cultural clash and its subsequent consequences create space for the third stage. The take off stage is marking the place for constant growth by yielding and reinvesting the profit from newly emerging industries. The take off stage is followed by the mature stage. At this point, the economy is able to move forward from the original industries that initiated the take off stage towards the usage of more advanced modern technologies.[[13]](#footnote-13) As the mature stage reaches its highest point, the final stage, the age of mass consumption, takes part. Increased income per capita and enhanced social security provided by the state allow citizens to desire advanced technologies, instead of demanding for basic needs.

## The sign of modernization

According to Lipset, there is a significant correspondence between development of the country and its legitimacy of the government.[[14]](#footnote-14) The latter describes legitimacy of the state thanks to a stable regime that is devoting more resources to continue the utmost efficient way of governance rather than preserving its own rule. Legitimate states should possess high degree of the ability of citizens to make independent decisions. The political power should be detached from any other social authorities and people of the state should be aware of the degree of the state legitimacy.[[15]](#footnote-15) Lipset builds on this argument and maintains that the sufficient level of the state’s validity is generally achieved through sustainability of economic growth.[[16]](#footnote-16) The factors which leverage increase economic growth are usually classified as industrialization, urbanization, wealth, and education. The level of industrialization, being measured by the percentage of those employed in agriculture and their production, shows that democratic countries were producing significantly higher number than less democratic. The higher level of urbanization occurs in highly developed countries as well and city inhabitation is usually connected with the modernization of the country. Education universally creates a field for gaining better occupation, to be less prone to extremist tendencies, and lessen the occasion for keeping population in ignorance.

The next premise of the modernization theory is the high occurrence of emerging democratic regimes which are in a great deal evolving together with the economic progress. As the country forwards, people tend to despise its pre-totalitarian character due to their better education and unwillingness to blindly follow inexperienced dilettantes. In general, the indicators of well-being such as high income, possession of mobile phone telephone, and so forth are usually connected with structural change in the society which features are certain level of development. However it seems to be that the countries with the lowest capita per income tend to be more autocratic and rich countries are democratic. There are examples for who this causality is not valid.

In conclusion, Lipset states that even deviant cases such as Hitler’s Germany (high level of education, yet totalitarian regime) are not disproving the main assumptions of the modernization theory. He further argues that an exception can is some cases confirm the imperative that the “exception confirms the rule.” Therefore for the purposes of this paper the correlation between level of country’s democratization and modernization theory will be partly omitted, due to the time and page limitations constraints.

## Criticism

The most important criticism came from the Marxist orientated supporters of the dependency theory. According to them, the modernization theory is overly ethnocentric, absolutely anchored in the western characteristics of the developed world. The left spectrum further argued that modernization theory serves for neo-colonialism purposes generated by the US hegemony.[[17]](#footnote-17) Therefore creating inequalities between countries and harmfully effecting cultural diversity and the environment. What is more, its main assumptions are not meeting the empiric reality, for the reason that developing countries are not finding its way to democracy through liberal concepts of economic progress. The linearity and the universality of the theory were also repeatedly a target aimed by critiques. Particularly linearity gave reason for dispensability of the modernization theory. If every country is at some point at the stage of the traditional or the modern society, there is no reason for a specific discipline of development studies, for developing countries can be studied together with the developed ones.[[18]](#footnote-18)

## The Asian model of modernization

With consideration of an East Asian development model, modernization theory requires revision of the one and solely western prototype. Berger argues that the ‘second case’ of capitalist modernity and namely the rise of the industrial Asia has not been connected with individualism, it is rather build on so called ‘popular Confucianism’. Lipset is as well aware of non-democratic regime in some highly industrialized countries, and consequently states that not the democracy itself, but the conditions favoring it, i.e. universal literacy are creating conditions for economic growth.[[19]](#footnote-19) For those reasons, Modernization as a theory should take into account different cultural systems. Moreover, according to Huntington, westernification in its early stage promotes modernization and in the later stage serves conversely for de-westernification and the resurrection of the ancient values of a society. Viewed through the societal aspects, modernization improves economic, military, and political power of the society. On the other hand, modernization creates alienation and deviation within the new society and further causing crises of the identity. Therefore people are more likely incline to the religion or to the old patterns of life the life.[[20]](#footnote-20)

The anachronistic thought that the field for modernization is only connected with innovations and completely omit traditions, is no longer valid. The importance of traditions and strong emphasis on family, collectivity and obedience played significant role in the development of for example Japan.

The brightest example of this pattern is modern China, whose exceptional economic boom was battled on the field of the totalitarian regime. We can only wonder if it is only a matter of time when the new theory takes a place and replaces the shortcomings and invalidity of the current modernization theory. The rise of industrialization in China is nowadays seen as the theory of modernization that took slightly different path and has been severely influenced by Confucianism. ‘Confucian model of modernization’ is on the one hand profiting from the western ideas and on the other hand keeping old Confucian values. Globalization and the spread of the western ideas made only natural that ancient culture as China is encompassing its thoughts and incorporate them with their old beliefs. Naturally, there is a call for revision the old version of the modernization theory. The anachronistic thought that the field for modernization is only connected with innovations and completely omit tradition, is no longer valid. The importance of traditions and strong emphasis on family, collectivity and obedience played significant role in the development of for example Japan.

Furthermore on China, Guo argues that the most important feature benefiting modernization might be the prevailing collectivistic belief that is never endingly supporting the process of intensive labored secondary and the tertiary sector growth. [[21]](#footnote-21) Despite the main argument of the modernization theory that growth of the capitalism will inconvertibly lead to the change of the regime towards democracy, China still remains a totalitarian one party government. The question whether the economic growth will have a positive effect on the development of democracy within China authorities perceived quite ambiguously. Academia stated that there is a time relevant for the democracy to rise, however that time haven’t quite yet occurred in China.

India’s society was at the era of independence unprepared for the concept of democracy, by extension for modernization. The state of education, the caste system and the level of economy weren’t attaining the prerequisites that the successful transformation to the democracy required. Therefore, the conditions in which India was positioned were highly unsupportive towards any structural change. Consequently the question arise. How India was able to transfer its less developed country into democracy and began process of modernization? The answer lies within the modernization theory itself. As it was stated by Lipset, for moving into one stage of development into another, country needs the exogenous influence to shake its existing norms and confronts with other culture in order to learn new patterns. As for India, this exogenous force was the British Empire. The Indians adopted system of self-governance and by the exposure of the western liberalism India underwent successful transition. India’s society as well as Chinese indigenized imported concepts and they were later on beneficial for the democracy and modernization process.

## Growth elasticity of poverty reduction

Growth elasticity of poverty reduction (GEP) express the ratio between people living under poverty and a mean of per capita income. Mathematically, GEP can be formulated as bellow:

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Where PR stands for measurement of poverty and y for per capita income, increasing the proportion of the economic growth decreases the number of impoverished population. Estimated on the average sample of less developed countries and valid for impoverished people living under 1 USD per day,[[22]](#footnote-22) Ravallion and Chen calculated GEP as number 3.[[23]](#footnote-23) This pattern implies that a 1 percent in per capita income is associated with a 3 percent decrease in the poverty rate. Thus the elasticity is positive. However, according to Bourgignon, the correlation of the GEP generated by this pattern and the economic growth does not lead to the conclusion that one can merely rely on the economic growth as the highest factor of poverty reduction. He argues that when the GEP exhibits low number, economic reforms must be combined with some sort of redistribution.[[24]](#footnote-24)

##  GINI Coefficient

As per the World Bank the “Gini index measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. Thus a Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.”[[25]](#footnote-25)

Namely for poorer countries, the Gini coefficient fluctuates from lower to higher numbers, due to a high inequality of the income distribution. On the contrast, rich countries have Gini coefficients much closer to the number zero; they are therefore more equal with income distribution questions. The advantages of the Gini index, when comparing to the other tools serving for inequalities measures, are its measurements of inequality by means of the ration analysis. Dissimilar to the imprecise data collected via per capita income or gross domestic product, Gini coefficient offers comparison of inequality that can be used amongst rural and urban areas or even between different countries.

The relationship between GDP and Gini index suggests that in spite of the GDP level augmentation, there is not such a thing as a direct proportion regarding reduction of inequalities. Quite on the contrary, the Gini coefficient could be still very high, and what is more, in some cases the level of the inequality could be even on the rise. This phenomenon is perceptible due to lack of the focus on the changes within the whole society.

One of the disadvantages of the Gini coefficient that must be taken into an account is its inaccuracy when trying to target large countries. Those countries are usually economically and regionally extensively different, therefore the average Gini for the whole country would be considerably higher than each of its regions. The beneficiaries within countries might have been receiving different kind of subsidiaries, i.e. food stamps, which are not encompassed into the income, thus can’t be included into the Gini coefficient. When the phenomena of the well-off households that are able to use resources more efficiently occurs, lower income household with less capability to use the means will cause the underestimation of the poverty amount in the framework of the Lorenz curve.

For the purposes of this paper, poverty and inequality index are used together with the modernization theory, for they can accurately target cases of fast growing economies and their significant contribution to the world’s poverty alleviation. They accompany international theory where the worlds can’t express the same meaning as numbers.

## Poverty

Poverty is by the World Bank defined as multidimensional social phenomenon.[[26]](#footnote-26) Multidimensionality means that there is a coincidence in terms of deprivations in education, health and living standards. Poverty is traditionally perceived as a lack of resources ensuring basic human needs. According to the United Nations development program (UNDP) impoverished population are alongside with women and minorities classified as the most vulnerable group of the society.[[27]](#footnote-27) The scope of the poverty is defined as follows: If the shortage of resources threatens and endangers human life, than poverty can be described as an absolute. Another classification of poverty is when a person, group or households are living with a lesser standard than the calculated average of the society, then we can address poverty with an attribute –relative. Poverty, either absolute or relative is undoubtedly leading towards social ostracism and can provoke so called ‘emergency status ‘. Social emergencies disallow a person pursuit the basic feeling of safety. Elementary human rights can be endangered, people might be unable to look after their families, and the youth can search reassurance in drugs or seek other risky behavior. The dimensions of the poverty lines are usually quite similar in between different countries. Yet, according to Sen and Himanschu there is an inevitable need for social inclusion within the given state.[[28]](#footnote-28) The poverty lines should be adequately portraying the current situation of impoverished population. Therefore too frugal or too generous poverty lines are commonly unacceptable by the wide society. The need to compare poverty between countries called for standardization of a number under which extreme poverty would be able to associate. The poverty line can be divided into two categories. One is representing a national poverty line and is calculated in national currency. The other one represents an international extreme poverty line and it is measured in American dollars. Ciphers have been revised over the time and The World Bank in 2005 finally set the international margins for absolute poverty on 1, 25 purchase parity power in USD per day.[[29]](#footnote-29)

Revisions of poverty lines seems to be a difficult political task. China as well as India had their poverty lines still for 30-40 years (and they have been very low) and started revising them only recently (2011 in China and 2014 in India). [[30]](#footnote-30)In India, poverty line calculation changed from being based on Suresh Tendulkar recommendations whereas poverty line was fixed to 27 rupees in rural areas and 33 rupees in urban areas to 32rupees a day in rural areas and 47 in urban ones.[[31]](#footnote-31) During a national meeting on poverty alleviation China announced a poverty line established for 2, 300 yuan per year which accounts for 6.3 yuan per day.[[32]](#footnote-32) Similarly as poverty lines, the food-energy requirements are not varied to the high extent for different countries. However, the food package covering daily nutritional intake varies through countries enormously.[[33]](#footnote-33)

In China, poverty rate is dispersed through the western regions on the higher scale than in the eastern ones. Poverty rate goes below 1 percent namely in Shanghai, Beijing, Tianjin and Zhejiang, whereas is outmatching borders of 10 percent line in Hei longjiang, Shanxi, Inner Mongolia, Shanxi, Gansu, Yunnan, Tibet, Guizhou, Qinghai and Ningxia. The poverty rate rate is going naturally higher when the country is stricken by natural disasters or international economic crises.[[34]](#footnote-34)

The density of impoverished population in China is still quite high nowadays. Yet, regarding the territory of the whole Asia, the poverty alleviation programs has been the most successful just in China. Furthermore, the accomplishments of poverty decrease hugely contributed to the world’s poverty reduction goals. Following statistics, for the first time in the history the phenomenon of poverty has marked the upward trend. According to the World Bank report, population living below poverty fell from 542 million to 375 million between 1980 and 1980 which de facto help to raise the world’s decrease of poverty by 166.9%. Since 1990 China’s population has marked another drop of impoverished population and it is estimated that the causal effect of poverty alleviation will be henceforward lifting population suffering from deficiency in China.[[35]](#footnote-35)

## Rural poverty

Areas where poverty alleviation exhibited the highest downward tendencies are rural parts of China. Chinas national poverty line showed that rural poverty population has felt from 250 million in 1978 to 28.2 million in 2002, decreasing by 88.7%. The international poverty line which was by that time set to 1 dollar per capita of day consumption is connected with the fact that according to the World Bank estimates impoverished population in rural China has fallen from 280 million in 1990 to 124 million in 1997. Correspondingly, The ration of poverty declined by 55.7%.[[36]](#footnote-36)

## Poverty dynamics, trends and reasons in India

The continuous population growth of India slowing the poverty reduction process. The number of absolute poor was from the period from 1950 to 1994 intensified about 112 million people. Even though the occurrence of poverty is lessening; from 54.9 per cent in 1973-74 to 36 per cent in 1993-94, the number of impoverished people hasn’t changed much; from 321 million between 1973 and 1974 to 320 million in 1993-94.[[37]](#footnote-37) Nowadays as the national poverty line has been revised, the number of poverty population increased to 363 million in 2011-12 related to the previous number of 270 million. The recalculations were made under the direction of former RBI governor C Rangarajan whose panel suggested that impoverished people constituted 29,5 percent of India’s population, which by that time made every third person in India poor.[[38]](#footnote-38) When comparing the official estimate of people living under poverty - 269 million and the Rangarajan calculations -363 million, it is clear that the change of the people perceived as living below poverty line increased due to the change of the poverty line.

The poverty is proportionally higher in rural areas and the number of impoverished decreased merely from 261 million in 1973-1974 to 244 million between 1993 and 1994. Hence, the aggregate number of people lifted out from the poverty hasn’t changed much.[[39]](#footnote-39) This makes India the country of the largest concentration of poor people in the world. Under the revised Rangarajan's estimations, rural poverty population went from 53 million to 102.5 million between 2011 and 2012.

When addressing poverty in India, it is fundamental to look at the most crucial factors determining the country’s current condition. The inadequate job remuneration subsequently leading towards low ratio of purchase power and the unavailability of the low skilled career opportunities combined with the high rate of unemployment is deepening the status quo. Furthermore, prizes increase especially in food grains which is for the majority of India the main source of daily food bundle. Statistically, 50% of Indians lack appropriate accommodation; 70% of people are left without access to a decent facilities; 35% of families suffer from the nonexistence of the close water source; 85% of villages don’t have a secondary school and more than 40% of those villages are without access to the educational facilities.

When comparing the China’s and India’s per capita GDP (using cost of living per day less than 1 dollar) it can be seen that the proportion is 1.6:1 and India has the ratio of impoverished people is 25.7 percent higher than China. Using the poverty line of 2 dollars per day, India has 32, 5 percent higher poverty population.[[40]](#footnote-40) According to the table below, China as well as India had made a significant progress of poverty reduction, although the total number of people living under severe poverty still remains high.

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Figure 1: Population in Poverty India vs China 1981-2004

To better address poverty, the UNDP created an index that encompasses the multidimensional character of poverty. The Multidimensional Poverty Index (MPI) is considering the intersecting dimension of the poverty at the same period of time. The magnitudes of MPI are –health, education and the living standard.[[41]](#footnote-41)

|  |  |  |  |
| --- | --- | --- | --- |
| **Sr. No**  | **Indicators**  | **India 2014** | **China 2014** |
|  | National Poverty Line (currency)  | 816 Rupees | 2,300 Yuan |
| 2  | Intensity of Deprivation (%) | 51.1 | 43.4 |
| 3  | Multi-dimensional Poverty Index | .024 | .026 |
| 4  | Multi-dimensional Poverty ranking | 135 | 91 |

Table 1 Multidimensional poverty index (UNDP, 2014)

Anti-poverty programs adopted by Chinese government pioneered in early 1980s. China started to focus on the rural areas and the subsidized aid for farmers remarkably helped the poverty alleviation. The proportion of the aid towards rural areas was growing mainly during eighties, when reached 0, 41 percent of the overall GDP. Agricultural policies were successfully implemented and the price index of agricultural products was in1996 5, 5 times bigger than it was in 1978.[[42]](#footnote-42) Up to date, it seems to that anti-poverty trends focus more on generating growth than assessing revenue disproportions.

According to The Economist, China’s data concerning PPP are misleading. In spite of being based on the international comparison of prices by the World Bank, they are being conducted under the China's National Bureau of Statistics. This assumption was examined by Shaohua Chen and Martin Ravallion who maintainthat the price level the NBS reported was 37% higher than the rural prices China's villagers’ face.[[43]](#footnote-43)

## Shared and non-shared attributes

China and India are frequently classified in to the same category. Both vast, enormously populated countries with a major regional disproportions, evincing recent economic growth. Yet, this description is rather superficial, touching only upon the most visible facts and completely omitting the dissimilarities of either country. Although China and India are on the economic scale doing surprisingly well, theirs vast deficiencies in certain areas and the prevalent poverty issues are considerably alarming at the same time. By comparing similarities and differences of both countries; their history, society, political regime, etc., it can be addressed what kind of factors led to the present state of the both countries. China is a sovereign state covering 9, 6 million square kilometers of East Asia. The population to 2014 is 1, 364 billion people, making China the world’s most populated country.[[44]](#footnote-44) Political regime is based on governance of a single party (Chinese Communist party) with its base located in the country’s capital city Beijing. The other of the oldest civilization, India is located in the south Asia and covering area. By reaching 1,267 billion people in 2014 India is after China the second largest country in terms of population.[[45]](#footnote-45) The India is India is a federal constitutional republic with pluralistic political system and the capital located in New Delhi.

### Types of society

#### China

 As all other cultures Chinese is dynamic in its growth and varies through every single region. Yet, all of the sub-culture divisions tend to be bonded with the Confucian tradition. Furthermore, even Chinese political culture was traditionally connected with collective values which are more or less valid until these days. Generally, those standards have always esteemed the role of the state over the role of an individualism.[[46]](#footnote-46) According to Talcott Parsons, one of the modernization theoretician, individualism stimulated modernity and modernization was vice versa accelerating export of modernization to the other parts of the world.[[47]](#footnote-47) For that reason, Chinese rigid collectivist thoughts were once seen as the source of the backwardness of the country. These principles, sometimes referred as an old thoughts or beliefs, derive of course mainly from Confucians and Taoist traditions. In between most important values can be categorized strong bondages between family members, filial piety, emphasizing values of the group and de-emphasizing individualism, principle of harmony, social organization, strenuous work, frugality and the moral principles. Amongst scholars and through the time, belief that the Confucian legacy is hindering Sinic economic progress prevailed. The phenomenon of modernization was deeply connected with the western self-centrism and Confucian values were for their backwardness regarded as incompatible with the East Asian economic progress. This belief habituated amongst Chinese society until the shift between importance of group-oriented and individual-orientated values caused that the former were becoming more competitive then the latter in the present economic situation.[[48]](#footnote-48) According to Guo, Confucian legacy exhibits high persistency thanks to its adaptability to the western thoughts. By imitating and domesticating western values and associating them with pre-industrial Confucian legacy, Chinese were able to restore the national sense of pride and face.[[49]](#footnote-49) Along with the state opening policies that enabled establishment of an afresh middle class, pro-democratic institutions started to play more and more important part within society. The alteration from the “role of the men” to a “role of law” enabled citizens to pursue their demands, increased the significance of lawyers and lastly, for the first time in the history, citizens were granted the right to sue government officials. [[50]](#footnote-50)Decentralization of the government enabled emergence of non-governmental organizations such as non-governmental organizations (NGOs). Although Chinese society made a huge step forward, the lack of the democracy is still questioning the legitimacy of its government. Suggested by Schell and Delury, only the further intensification of the rule of law and transparency of the government will shield the growth of the truly modern society.[[51]](#footnote-51)

#### India society

It is noteworthy to say that Indian society evolved along with its historical and religious variety. Then as a byproduct of Buddhism, Sikhism, Muslim conquest, anti-colonial and post reform period, society that is vastly heterogeneous emerged. The uneasy coexistence of diverse religions and Indic and non-Indic origins together with the caste system puts India into place of one of the most unique contemporary societies.[[52]](#footnote-52) From the era of independence, Indian society encompassed into its political and wealth benefits also the marginalized class (often called as untouchables). According to Oomman, there are four recent trends in Indian society. First, the society experienced the phenomenon known as cumulative to dispersive dominance. As it is mentioned above, the bigger part of the Indian society was able to benefit from partial disperse of wealth and take part in the political issues.[[53]](#footnote-53) That phenomenon might have been misleading, for certain people would have thought that shift of the dominance will follow up with the change of the social status as well. In fact, India is suffering from the so called status incongruence—the climb on the wealth hierarchy is not going hand in hand with the social promotion. Therefore another trend, inter-class co-existence, such as dining outside the class or inter-marriage are still (mainly in the rural areas) very rare. The second tendency gave rise to the emergency of the individualism. Even though traditional collectivism wasn’t replaced on the huge scale, no longer was a true that the individual didn’t exists in Indian society. The third phenomenon was defined with the marginalized class, who started to strive for equality and the claim of collective identity. Movement from the plural society to pluralism is the final transformation. The coexistence that was solely on the base of the economic cooperation was to be changed into equal society with no ostracism towards certain classes, beliefs or gender roles.[[54]](#footnote-54)

China is a country with 55 ethnic minorities recognized by the central government, numbering over 100 Million people, compared to the approximately 90% Han Chinese majority. While institutionalized discrimination is not seen in China, there are disparities between ethnic groups that may be due to discrimination. This is most notably seen with the Tibetan people. Tibetans are some of the poorest people in all of China, with the Chinese government discouraging the use of the Tibetan language in business and government. They experience difficulty when looking for work due to lack of education opportunities, as well as earn lower incomes relative to the Han Chinese.[[55]](#footnote-55) 34.4% of Tibetans are still below the poverty rate, higher than the national poverty rate.[[56]](#footnote-56) However this is not only seen with just the Tibet people, yet with other minorities as well. As can be seen in the figure below, ethnic minorities in China experience lower literacy rates then the majority Han Chinese.



Table 2 Literacy rates of Chinese minorities [[57]](#footnote-57)

While 3 minorities experience similar or lesser rates of illiteracy as do the Han Chinese, the Hui, Miao, and other minorities have illiteracy rates significantly higher than do the Han, potentially contributing to poverty within these minorities.

While India abolished the institutionalized system of discrimination known as the caste system in 1950, there are still lasting effects that contribute to modern day problems, such as poverty. The lowest of the Caste system, the scheduled tribes and castes, while having the ability of social mobility, still find it hard to rise up from poverty. Cultural prejudice continues to be a problem to this group of people, to the point were economic marginalization is reinforced.[[58]](#footnote-58) In 2005 while India’s poverty rate was 27.5% of the population, the average poverty rate of the scheduled tribes and castes was approximately 40%. This combined with a slower poverty reduction level as compared to the national average provides relevance to this statistic. [[59]](#footnote-59)

### History

Both countries are characterized by vastness of their area and the increase of the material resources. For that reason, they are becoming politically closer to the term “Asian superpowers”. Both India and China are dealing with territorial disputes, China is locally affected by disorders in Tibet, whereas India is facing many societal issues. As well as local issues, the international disputes are potentially curbing their attractiveness for other countries to cooperate on the economic level with. The disputes between each other are potentially curbing the comparative advantage.

China on the contrary to Europe, has been developed over long period of time. The five thousand years old culture was once the most advanced world’s civilization. The old China had a perfect bureaucratic system of officials that has been chosen on the basis of merits and the Chinese inventions were amazing to the whole world. The Europe has been once inspired by China, for example Chinese autocracy gave rise to the modern absolutism regimes of 17th century Europe. Regarding the level of advancement in old China, one has to pose himself two questions: ‘How is it possible that country once so refine and innovative bogged down into the gradual conquest by imperialistic powers in the 19th century? What was the major source of its backwardness when it used to be such a great country?’ To answer these questions one has to consider huge scale of the historical, philosophical and religious occurrences; to deeper understand how the combination of all these factors lead to the understanding of any current event in China.[[60]](#footnote-60) India is the first major civilization of South Asia. India gave birth to the Buddhism which is together with Hinduism one of the most common religion practiced in the country. The first contact of European civilization and India is dated back to the 16th century. From 19th century, India was colonized by Great Britain. The main contributor to the Indian independence (1947) was Mohandas Gandhi, with his philosophy of the non-violent resistance. The era of independence was followed by inner country disorder which resulted into the split of India to the India and Pakistan. From that period onward India is despite its societal issues striving to become a power recognized on the global scale.

#### Geography

The geography of a country effects poverty in numerous ways, as can be seen when looking at both China and India. Comparing there geography can help when investigating why the two countries are at different stages of development. Furthermore exploring geography helps one understand the poverty experienced in the respective country.

China is a country with mountains and plateaus making up 60% of its landmass area. From the west to east it can be divided into three sections, the 4,000-meter-high Qinghai-Tibet Plateau in the west, Highlands of 1000-2000 meters high in the middle, and hilly regions and plains below 1000 meters in the east. The country can also be divided into north and east, Northern China experiencing cold winters and normal summers versus Southern China having temperate winters and tropical summers. China’s richest provinces are the three mega-cities Beijing, Tianjin, and Shanghai, while its three poorest regions are Guizhou and Yunnan Province in Southwestern China and Gansu in the North East. Below is a figure detailing Chinas GDP per capita by province



Figure 2: GDP per capita of Chinese provinces. The lighter the color is the lesser the GDP[[61]](#footnote-61)

As can be seen in the figure, the poorest regions are located in the southwest of the country. These southwestern provinces are very mountainous preventing significant crop cultivation, with the total proportion of arable land being 10%. While the northwestern regions have a lesser percentage of arable land, only 8%, they have mineral resources that the southwest lacks, resulting in a higher GDP per capita.[[62]](#footnote-62)

The coastal provinces experience the highest GDP per capita behind the major cities. Provinces with access to the sea experience a high concentration of manufacturing industries for foreign exports. This has resulted in a high growth rate for these provinces since the opening up of China, between 1978 and 1998 they experienced an average annual growth rate of 10.7%. This resulted in these provinces becoming some of the country’s wealthiest.[[63]](#footnote-63)

India is similar to China in that its geography affects the economics of the country. While there is no correlation between latitude and poverty in India, there is a positive correlation between west to east and increasing poverty levels. There is also a correlation between temperature and poverty levels, with the regions experiencing hotter summer having higher poverty levels, as well regions experiencing lower winter temperature having higher poverty levels.[[64]](#footnote-64) When looking at a map of India’s GDP per capita these correlations can be better seen: 

Figure 3: GDP per capita of India by Indian States. The lighter colors representing lesser GDP per capita

As can be seen in the map, from west to east, India’s states have lesser GDP’s per capita. The highest GDP per capita in India are in Goa and Delhi, with Maharashtra (location of Mumbai) having a relatively higher GDP as well. While there is a correlation between the West having lower GDP per capita levels, it is uncertain as to why this occurs. Interestingly most landlocked states despite Northern India, have low GDP per capita. This could be for reasons such as lack of export manufacturing centers and increased transportation costs resulting in lesser development. However, in terms of India, little research has been done regarding how geography affect poverty, therefore no concrete conclusions can be made.

### China economic reforms

Despite the vastness of both economies China’s is still stronger due to the indicators such as greater tax revenues, nearly threefold GDP per capita, and more than double a Gross National Income per capita (See Table 1). To further elaborate on that, it shall be stated that the Chinese annual growth rate of GDP persistently exhibits more than a 7 percent rise whereas the average annual growth rate of GDP in India was exhibiting only 3.6 percent increase during 1970 – 2008.

|  |  |  |
| --- | --- | --- |
|  | China | India |
| GDP per capita  | 7,593.9 | 1,630.8 |
| Annual Growth Rate of GDP per capita (2014)  | 6.8 % | 6.1% |
| Gross National Income per capita (PPP Dollars, 2014) | 13,130 | 5,760 |
| Population (in billion, 2014) | 1.364 | 1.267 |
| Urban Population (% to total, 2014)  | 54% | 32% |
| Annual Growth Rate of Population (2014)  | 0.5 | 1.2 |
| Tax Revenue (% of GDP,2011)  | 10.4 | 9.0 |
| Gross Fixed Capital Formation (% of GDP,2013)  | 46 | 30 |
| Foreign Direct Investment Net Inflow (% of GDP,2013)  | 3.7 | 1.5 |

Table 3 Economic Indicators for China and India (The World Bank, n.d.)

As it was mentioned above, China as well as India, are nowadays largely economically blossoming. However, the path leading to a successful pro-market economy was for each country diametrically different. Chinese economic reforms included no pre-package, reforms were reflecting the complications as they occurred and were adjusted that they could best fit the existing conditions. Deng Xiaoping compared sequence of transformations with famous Chinese proverb: “To cross a river by groping the stones.”[[65]](#footnote-65) In 1978, when transformation of a centrally planned economy to an emerging market economy started China faced a giant task, restoring the economy that was left in a wretched condition after ill-leaded Cultural Revolution and the Great Leap Forward. Basically, China was on a same level as a traditional society stage, moving towards mass consumption in a mere 3 decades.

One of the first beneficiaries of the reform were farmers who, instead of passing on the harvest to the collective farming institutions, were able to retain surplus. This in fact, created pre-conditions for take-off stage where entrepreneurship emerged. Agriculture reform together with de-collectivization were major sources of unindustrialized growth that went from 2.7% on average during 1970-78 to 7.1% during 1979-84. [[66]](#footnote-66)This meant a remarkable falling of poverty in rural areas. The proportion of absolute poverty fell from 64% in 1981 to 29% in 1987.[[67]](#footnote-67) Furthermore, decentralization of the central government allowed local and lower level governments to become so called “residual claimants” and therefore manage their own economic affairs such as approving larger investment projects, locally manage state owned enterprises (SOEs), have more power over industrial policies, and create their own budget on the basis of resources given by the central government.[[68]](#footnote-68) On the other hand, SOEs, heavily troubled with responsibilities of providing welfare provisions struggled to do so, thus for that reason government launched a new plan for enterprise restructuration, moving healthcare obligations and housing from enterprises to social insurance agencies and individuals.[[69]](#footnote-69) The next step was development of the non-state sector creating and providing significant amounts of job opportunities. The establishment of non-state owned enterprises, mainly township and village enterprises (TVEs), significantly helped to increase total value of industrial output. Total factor productivity in industry grew at an annual average of 3.1% in 1978-93 and at double that rate in 1993-04. [[70]](#footnote-70)The Chinese emerging economy profited from the non-state owned businesses in two ways. Firstly, the created surplus served as a future investment resource base. Secondly, non-state enterprises began using resources more efficiently due to their subjugation to market based pricing mechanisms and budget constraints, unlike SOE’s.[[71]](#footnote-71) Deng Xiaoping reforms were later on strengthen by Zhu Rongji’s open policy of China’s economic system. With the continuous openness towards other countries, Chinese population started to strive for democratization. This call for freedom escalated in 1989, with Tiananmen Square. This incident was negatively perceived through western powers. They posed several sanctions which consequently hurt the Chinese economy, yet decreased the level of inflation at the same time.[[72]](#footnote-72) In 1994, by decision of the Third Plenum of the CCP Fourteenth Party Congress, the Chinese economy was intended to be fully transformed from planned into the market orientated. And the incorporation into the World Trade Organization (WTO) in 2001 supported the liberalization of the country. Ever since incorporation into WTO, China became the world’s favorite investment spot. By that point, China moved into the drive to maturity stage, constructing market-supporting institutions, such as formal monetary federalism, a centralized fiscal system, and a public safety system to support the needs of workers. Since that period the Chinese government is functioning under the rule of *“get rich now-all the other priorities can be taken care of later”.[[73]](#footnote-73)*

### India

In 1991 due to economic crisis and under unbearably high rate of inflation, India’s gigantic economic transition began.[[74]](#footnote-74) India’s pro-marked orientated reforms can be divided into two groups:

* Macro-economic management reforms
* Structural sector specific economic reforms[[75]](#footnote-75)

The first was supposed to curb major fiscal deficits by primarily cutting food subsidies and fertilizers, followed by funding cuts. Together with a need to address state deficit, tax reforms were about to be addressed as well. These transformations included setting up lower tariffs and direct taxes for individuals and corporations, providing tax incentives for infrastructure and export-oriented sectors and so forth. The latter progresses focused on targeting specific areas such as Trade Policy/External Sector; Industrial Policy; Infrastructural Sector Policies; Divestment/Privatization Policies; the Financial Sector; and in Policies for Attracting Foreign Direct Investment.[[76]](#footnote-76) India opened to the international market competition, removed exchange rate controls. Encouraged private investment and participation in industry. Liberalized access to foreign capital by curbing ostracism towards foreign investment. Reforms helped to enhance the role of the state where private sector was unable to do so, namely poverty in alleviation programs and social services (primarily improving health and education and secondarily by building human capital). The state was supervising private sector in important areas such as water supply, telecommunications and stock market operations. With the continuous openness towards other countries India was slowly becoming important player in the framework of the global economy.

## The common and different features of economic reforms

On the contrary to China, whose reforms were implemented in late seventies, India began its path towards market-orientated economy later in the 1990s. Hence, the integration into the global economy is more difficult for India than China. Nevertheless, some argue that India is progressing really rapidly and nowadays it is debated whether there is a future possibility for India to overrun the Chinese economy. As Chinese reforms could be described as totally new to its economy in some way, Indian’s can be labeled as incremental. The latter of the countries also seem to be more connected with corporate sector, even though most of country’s economy doesn’t lie within.[[77]](#footnote-77) Comparing the pattern of the growth and distributional change, China and India exhibit many similarities, for example already mentioned skyrocketing growth going hand in hand with rising inequality,[[78]](#footnote-78) which seems to be for both countries on the constant rise. Another important difference is between manufacturing centered growth in China and sector orientated growth in India. The variance between China and India, both experiencing a remarkable transformation of their economy under diametrically opposed types of government, is primarily significant while comparing the implementation and administration of the new laws. Ravallion argues that whereas those two countries are generally examined by development analysts, a more comprehensive picture addressing their assets is seen when we take into account distinctive divergence of their political system.[[79]](#footnote-79) When comparing national regimes, it is crucial to understand that China is a totalitarian political system based on a sole communist country, and India as a federal parliamentary democratic republic having differences when passing a law. When implementing regulations, China as a one state party has the utmost decisive role, whereas India can be constrained by its bureaucracy. Besides, the communist party of China still profits from Confucian authoritarian legacy of the people utterly subordinated to the emperor. The subordination of people to the party can be inspired with metaphor from the Analects of Confucius: “a ruler is like a wind, and the people are like grass. When the wind blows, the grass always bends.”[[80]](#footnote-80) Premier Wen Jiabao in 2010 announced that one of the aspects of successfully implementation of Chinese authoritarianism is that it permitted leaders to: “make decision efficiently, organize effectively, and concentrate resources to accomplish large undertakings.[[81]](#footnote-81)

From the beginning of the reform period time, China focused on the development of industrial growth with heavy focus on the incessant inflow of a cheap workforce. This sector was pushed hard by the Chinese government who were willing to lower trade barriers if it meant the rise of the foreign investment influx. On the contrary, India chose a different path and didn’t pursue low-wage manufacturing, instead chose to pursue rapid service sector progress.[[82]](#footnote-82) As it can be seen from the table below, the rise of agriculture in percent was averaging around 2, 5 percent for India between 1978 and 2004. Neither did China significantly improve this sector; for the average growth was fluctuating around 4, 5 percent in the same period of time. The expansion of the industrial sector was as it was mentioned before much higher in China. The average increase was around 10 percent. India was exhibiting a relatively similar increase between 1978 and 1993(around 5 percent of the average growth), and only from the last stage of the reform era growth did the secondary sector expand to 6, 7 percent. The growth of the tertiary sector was mainly booming in the first two decades of reforms era in China (averaging reaching above 10 percent of the sector growth). In India, larger expansion of the services sector started in 1994 when economic reforms were implemented with higher success. The enlargement of the services sector rose significantly between 1978-1993 from 5, 9 percent compared to 9, and 8 percent between 1993 and 2004.



Table 4: Sources of Growth by Major sector 1978-2004

# Analysis

The framework of the analysis section poverty is defined mainly via Gini coefficient and the growth elasticity of poverty reduction. The analysis section would be organized as follows. Firstly, the level of urbanization of India and China is presented to support a dispersion of inequality through the countries. The section aims to understand how China and India have urbanized both similarly and differently. Secondly, inequality of both countries are reviewed. The main stress is brought upon the rural and urban relations. Thirdly, the beneficial/hindering factor of poverty reduction caused by economic growth is examined.

## Urbanization

### China urbanization

China’s rural population has decreased by 88.7% from 250 million in 1978 to 28.2 million in 2002, an average decrease of 9.24 million people per year.[[83]](#footnote-83) This occurrence can be attributed to couple factors. Many agricultural workers have moved from the agriculture sector to work in non-agricultural industries, now being employed in township and village enterprises[[84]](#footnote-84) More importantly is the trend of urbanization seen in China since the reforms of the late 70’s and 80’s. In China’s case this urbanization has been made up a variety of people moving towards cities, from students to those looking to develop new business. Between 1982 -2000 approximately 200 million people moved from rural areas to urban areas, making up 45% of the new urban population. About half of these migrants comprise of rural laborers, some changing from agricultural to non-agricultural jobs, while most were those with non-specific job specializations looking for work.[[85]](#footnote-85)

In terms of poverty, most of China’s poor continue to live in rural areas far away from urban centers. While the middle and eastern regions of China experienced poverty alleviation, the poverty rate did not decrease and was the highest in the least developed western regions such as Tibet and Xinjian. Whereas in 1986 the western regions contributed to about 1/3 of Chinas poor population, by the year 2000 these regions contributed to almost 65% of the counties total poverty population, even increasing by 590,000 people. Interestingly, the eastern region, situated closest to urban centers saw the largest decrease in poverty during this time.[[86]](#footnote-86) In such eastern provinces poverty has even been almost done away with entirely.[[87]](#footnote-87) The proximity which how far people are to cities may correlate in China with how well poverty can be alleviated.

There is a variety of reasons for such lackluster poverty alleviation in rural areas. One such reason is the decrease in amount of opportunities for employment in such rural areas. Between 1990 -2001 the urban employment growth rate increased 40.5%, in the rural areas it only increased 2.9%. [[88]](#footnote-88)Decreases in prices of agricultural products have also prevented the ability for rural inhabitants, many of which depend on the selling of such agricultural products for their livelihood.

### India urbanization

In 1950 India was more urbanized than China with 17% of its inhabitants living in cities vs. 13%. However by the year 2011 India was less urbanized and had a lower total urban population than China, approximately 30% compared to 50%. Between 1991-2001 India’s urbanization was due to an almost 60% increase in population born in urban areas, 20% due to rural migration, and 13% due to reclassification of rural areas as urban areas.[[89]](#footnote-89)

Urbanization, or lack of such, has had different effects on India when compared to China. Most urbanization in India is focused around the largest class 1[[90]](#footnote-90) cities such as Bombay or Calcutta. The ratio of urban to rural per capita consumption, based on National Sample Survey data, has been increasing continuously from 1.55 in 1987-88 to 1.63 in 1993–94 to 1.75 in 1999–2000 to 1.9 in 2004–05 in India. This phenomenon is also visible in China, however the main difference lies in the distribution of the urbanization. The rural population is moving to cities in the period of the high economic growth in China. On the contrary, the city dwellers are becoming more unwelcoming towards villagers during economic blossoming in India, therefore the Indian urbanization is on the decline at the same time.[[91]](#footnote-91) However, saturation of employment in such cities has caused a variety of problems including urban poverty, housing shortages, and unemployment, which in turn prevents rural migrants from immigrating to these locations. The immigration that does occur, especially by the illiterate and unskilled, in turn makes such problems more pronounced.[[92]](#footnote-92) Such immigration and problems associated with it result in the creation and growth of urban slums at an even faster rate than the growth of cities. India’s urbanization rate is approximately 3% per year while its slum growth rate is about 6% per year.[[93]](#footnote-93) This has resulted in India’s urban population having poverty levels of almost 24% compared to the rural poverty level of 28.3%.[[94]](#footnote-94)

Despite urbanization resulting in the creation of urban poor, it has had relevance in alleviating poverty in rural areas. From 1982 and 1999 urbanization was responsible for between 13% and 25% of rural poverty reduction. This was due to the urban-rural economic linkages, not re location of populations, i.e. increases in demand for rural goods such as food and increases in opportunities in rural areas, versus a the poor simply moving away.[[95]](#footnote-95)

## Addressing inequality

“Human rights are violated not only by terrorism, repression or assassination, but also by unfair economic structures that create huge inequalities.”

 **-Pope Francis I**

When addressing inequality the Gini coefficient would be used to indicate levels of inconsistencies. Even though the relationship between economic growth and the level of inequality exists, the former is for certain countries diminishing to the later, yet in other cases inequality rises with economic progress.[[96]](#footnote-96) Therefore, despite of by-producing obvious poverty alleviation, growth remains in certain countries the source of uneven distribution.

## China

Massive growth of GDP instigated primarily by high investment rates is depicted in Chinese economy growth for the last three decades. Capital formation accounted up to 44 percent of GDP, making China highly recognizable in terms of international standards.[[97]](#footnote-97)The correlation between the high aggregate income and poverty reduction is highly dependable on income dispersal. Regarding the status quo, the table number 5 clearly portrays that the inequality in China was deteriorating. From the period between 1993 and 2008 the Gini coefficient of per capita income rose by 24 percent.[[98]](#footnote-98) Nowadays national Gini reaches 0, 47, which is internationally perceived as an alarming number.

**Gini coefficients for consumption distribution in China[[99]](#footnote-99)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **1978** | **1988** | **1997** | **2002** |
| **National** | 0.30 | 0.38 | 0.34 | 0.45 |
| **Rural** | 0.21 | 0.30 | 0.34 | 0.38 |
| **Urban** | 0.16 | 0.23 | 0.29 | 0.34 |

Table 5: Gini coefficient for consuption distribution n China

Rural areas are in China situated mainly in the center and western regions and in comparison with the coastal zones less are less affected by the influx of FDIs. Consequently, they are suffering from lower income rates and less differentiated employment opportunities. From the table portrayed bellow is quite obvious that the income rate is increasing over the time mainly in the urban areas, whereas in rural parts income increase curve is little bit more than stagnant.



Figure 4: Income in China, urban vs rural

Previously, the general view emphasized that the imbalances were generated mainly from inter-provinces differences. The marginalized intra-provinces misbalances were addressed lately in 2000. To address inter-provincial inequality is rather difficult, for there are multiple techniques of calculating it. According to the findings of Rui and Zheng, the results of inequality trends vary when using diverse income indicators. Low inter-provincial inequality occurs when consumption based income indicators are used; significantly higher inequality occurs when GDP per worker is used; the highest discrepancy happens when the household income-based indicator is used. Generally, inequality between provinces increases when surveys are based less on average population indicators and more on indicators un-weighted by population.[[100]](#footnote-100)

The scope of the regional inequality can be nowadays divided between two camps: the east-central-west division and the rural-urban division. [[101]](#footnote-101) Whereas coastal and eastern regions are enjoying higher wages and blossoming in services, western and central regions are still agriculturally centered. However, control over the land and uniformity of these regions caused higher equality in income distribution. The urban areas are usually greatly imbalanced for two reasons. Firstly, rural-urban migrants form the poorest of the poor are located in these regions. With the present number rotating around 150 -200 million, migrant workers create an important part of urban economy but they are rarely included into in the calculations of urban income distribution or poverty. As for the second reason, the underestimation of the consumption coming from the most affluent families creates another inequality issue. A combination of omitting the upper class and the migrant workers is curbing the possible higher level of urban disproportions. The post reform period indicates that the rural as well as urban Gini coefficients have been lower than the national one. (See table number 5). As a result of this occurrence, the rural-urban differences are the major source of the economic inequality. [[102]](#footnote-102)According to Jayati Ghosh professor at the Jawaharlal Nehru University rural-urban gap accounted for 42 percent of the aggregate income inequality in China in 2002.[[103]](#footnote-103) The phenomenon of rural-urban inequality has been analyzed several times and the ambiguity of the inequality dimension unfolds in two ways. Firstly, non-consideration of several subsidies such as free medical care, subsidized schooling, insurance, living allowances and pensions provided exclusively for urban occupants could increase the ratio of urban to rural incomes by four times.[[104]](#footnote-104) Secondly, the lower living cost in the rural areas generated later ceased rise of the rural and urban inequalities. Over the period of time, ratio of urban to rural per capita income in China increased from 2.2 in 1990 to 3.33 in 2007.[[105]](#footnote-105) Thus statistically, the rural-urban gap is still widening. Furthermore, the recent findings are supporting the thought that Intra-provincial inequality is the major source of the inter-provincial inequality. This is so because of the subdivision of each province to rural and urban parts. In line with the official statistics, household per capita income were lesser by twofold in rural areas in 1980s and later decreased by threefold in 2007.[[106]](#footnote-106) The sole exception of even distribution is the year of 1997 when the leverage of agricultural prizes caused a lessening of income gap between countryside and city and as a byproduct of this initiated remarkable poverty alleviation in rural areas.

## India

Huge discrepancies between income in rural and urban areas exist as well in India. According to the National Statistic Survey study from 2006 rural per capita consumption is more minor than the urban one by twofold and GDP differences tend to be even less consistent.[[107]](#footnote-107)

Although it might have been expected that post reform economic situation will be beneficial for curbing inequalities, the rather opposite case occurred. Rural inequalities are difficult to measure for India’s higher class is seldom classified into the income group consumption satisfactorily. The main struggle is the absence of comparability between the NSS statistics quinquennial large-pattern consumption surveys for 1999–2000 and the previous ones.[[108]](#footnote-108) As Sen argues, this lack of coordination between those reports can cause that the number of people affected by rural poverty is more minor than it should be. Inequality measures are negatively affected by the insufficiency of appropriate statistics as well.[[109]](#footnote-109) Rural inequality has been reviewed through the time by various analyses such as Deaton and Dreze (2002), Sundaram and Tendulkar (2003a, 2003b) and Sen and Himanshu (2005). Their results have shown that when comparable accustomed data are being encompassed, the rural inequality was de facto on the rise in 1993–94 and 1999–2000.[[110]](#footnote-110) To further elaborate on this topic, it is noteworthy to observe the findings of Sen and Himanshu from 2005. From their results it can be examined that “Based on indices of real mean per capita expenditure (MPCE) on a uniform reference period (URP) basis by fractile groups, the consumption level of the top 20 % of the population has gone up remarkably during the 1990s, the bottom 80 per cent of the rural population had suffered during this period.” [[111]](#footnote-111) Following the National Sample Survey data shows that the ratio of urban to rural per capita consumption has been increasing continuously from 1.55 in 1987-88 to 1.63 in 1993–94 to 1.75 in 1999–2000 to 1.9 in 2004–05.[[112]](#footnote-112) The augmentation of the Gini coefficient for per capita incomes in the middle of diverse regions caused further escalation of income inequality difference. A bulk of the Indian states registered an increase of Gini; the rural Gini went from 25.8 percent to 26.3 percent whereas the urban Gini moved from 31.9 to 34.8 percent mainly over period in 1993–94 and 1999–2000. However, even these data are being viewed as underestimated for their focus on consumption expenditures, rather than income and lack of encompassing the extremities of distribution.[[113]](#footnote-113)

Whether the economic growth is the source of not, China as well as India share the phenomenon of rising inequalities in their regions. China is suffering mainly horizontally - inequalities are dispersed through different regions, whereas in India vertical inequalities (plus social stratifications) are more visible.

For measuring inequalities, the similar phenomenon occurs in both countries. The poorest of the poor and the richest of the rich are usually absent or underestimated in various surveys and that makes the data collection inaccurate. Therefore it can be stated that in the case of China and India, economic growth is actually deepening the inequalities. The rural population is hugely disadvantaged. Both rural parts of India and China has been marginalized by their government by insufficient income redistribution policies.

There has been certain effort while addressing inequalities, for example in China the reforms of the tax system or the higher level of public subsidiaries especially target the poorest areas in west and central China. The growing ratio of Gini is by many skeptics perceived as a sign of inevitable growing disparities. By some academia is predicted that the Gini will be increasing even more in the future. To oppose this prediction, a journalist from China daily, Zhang Monan states that the concept of “new normal” will “lead to a balanced development of industries across the eastern, central and western regions, and large-scale farming and land reform will expedite the modernization of agriculture and thus enable rural and urban areas to develop in unison.”[[114]](#footnote-114) India is betting on the different card, which main triumphs should be in hands of winners of elections. Needless to say that this process can be very slow and potentially les homogenous.

## Growth elasticity of poverty reduction: Is economic growth beneficial or is it just widening the gaps between poor and rich?

The ongoing debate whether massive economic growth serves as a tool for poverty reduction unfolds into two directions. Whereas the two camps are not completely opposing each other distinctiveness between them still exist. The defenders of the concept that the world’s poorest are generally benefiting from rapid growth state that strong correlation between economic growth and poverty reduction exist. The reason for this statement is according to Dani Rodrik, professor of International Economy, mutual interdependency between policies aimed to poverty reduction curbing the amount of the poorest and the vice versa effect that have poverty reduction to the overall growth.[[115]](#footnote-115) Former American president Bill Clinton stated that: “*We have to reaffirm unambiguously that open markets are the best engine we know of to lift living standards and build shared prosperity”*. [[116]](#footnote-116)

 On the contrary, certain observers argue that economic growth serves mainly for upper class and it is deeply disadvantaging the poorest by creating enormous income inequalities. This idea is confirmed by Dollar and Kraay who based on the comparison of the logarithms found that the rise of the average income and impoverished population income rise is uneven.[[117]](#footnote-117) They further argue that there is no provable correlation between the liberalization of the economy, macroeconomic stability and so forth to be beneficial for the poorest. They perceived that a certain exception lies within the ability of government to stabilize high inflation. Former opinion on the link between growth and poverty were severely affected by Kuznets hypothesis.[[118]](#footnote-118)

There are many obstacles to overcome when measuring economic growth. Peering back into the seventies, several developmental economist pointed out that a sole linkage between economic developments caused by economic progress is insufficient. There was a need to focus on the evolution of specific economic indexes. Previously, these indexes such as Atkinson index of inequality or Sen Index of poverty were concentrating solely on one aspect of development. The lack of index that would be complex enough and encompass broader aspects of development wasn’t fulfilled until Human development index (HDI) was established. HDI is relatively complex yet, easy to understand index, serving for comparing level of countries development. In human development report (HDR) from 2015 India ranked 135th place, and is classified among the 'medium development' countries, whereas China moved from the same category as India to the 91st place on the HDR rate and fall into the High human Development countries nowadays. However, when we take into account democracy issue, it can be seen that countries will be equalized over again. If it is done so and democracy is measured as a part of human development, the difference between HDI of China and India wouldn’t be so outstanding. To further elaborate on this phenomenon, table n. 6 presents modified version of HDI. HDI is in this case augmented with the degree of democracy. By encompassing level of democracy into HDI for India’s and China’ case, HDI of the both countries become equal.

|  |  |  |
| --- | --- | --- |
| Country | Democracy index EIU | Human Development Index |
| Rank | Value of index | Conversion scale | Rank | Value of index | Modified Index |
| China | 138 | 2.97 | 0.297 | 81 | 0.768 | 0.650 |
| India | 35 | 7.68 | .0768 | 126 | 0.611 | 0.650 |

Table 6: Human Development index enhanced by Democracy index (SYROVÁTKA)

The significance of improving living standards is doubtless and has very positive effect on the poverty relief. The more successful path in providing services like education and health care exhibited China. As for education, more than 56 percent of population in India suffer from inadequate educational facilities, whereas deprivation in the same resort is fluctuating between 10 to 12percent of population in China. The number of illiterate inhabitants declined considerably from 1949 when about 80 percent of population were illiterate to 3, 58 percent in 2008 in China and the life expectancy is quite high -76, 94 for a female and 72, 68 for a male. In India, life expectancy is increasing as well, yet is still lower than in China. For males is 67.3 years and for females 69.6 years in 2011-2015. Therefore, it is safe to say that there is a positive linkage between economic and social progress. The higher level of Human development index in China could be one of the reasons why facilitating such services on the higher scale is proportionally lifting more people out of poverty in China than in India.

All in all, within the argumentation of this paper will be presented that the growth is benefiting the poverty alleviation however, it is speculative to what extent. The areas benefiting from poverty alleviation generated by economic growth are also the subject of discussion. Furthermore it seems that the statistics might been inaccurate or underestimated, therefore to portray the whole situation might need more studies to be done. Also, countries may collect data differently, making it difficult to compare statistics between themselves.

## Comparison of the growth

When comparing growth of both economies, the one with the overall better results is Chinese one. On average, GDP per capita has been increasing two fold every 8, 6 years in China. World Bank states that for example America awaited 47 years (1839-1886) and more recently South Korea 11 years (1966-1977) to attained the same results. The average GDP growth is higher in China as well, being around to 9, 8 percent over last two and a half decades, whereas for the equivalent era, India’s GDP growth rate has been fluctuating between 5–6 percent per year. [[119]](#footnote-119) Nevertheless, the period between 1997 and 2011 registered higher economic growth and Indian average GDP rate moved upwards to 7 percent.[[120]](#footnote-120) Later on, growth started to decline because government of India was struggling to address country’s monetary and account deficits which resulted in rising macroeconomic discrepancies. The improving economic situation on the western front took investors away from India and as a result of that rupee started depreciating.[[121]](#footnote-121) The situation in India stabilized back in 2014, thanks to post-economic election reforms and the successful handling with the current debt. [[122]](#footnote-122) India’s statistics department recently revised the GDP growth, using so called rebasing method. This action led surprisingly to the revision of the GDP increasing tendencies which rose from 5.1% to 6.9% between 2013 and 2014.[[123]](#footnote-123) When we look at the graph below, it is quite clear that India economy growth is catching up with Chinese one and from the period of 2014 has been even slightly ahead. Chinese economic growth is recently slowing down. Current president of China Xi Jinping reacted to this occurrence with appraisal of the ‘new normal’-the economy that stress structural reforms over fast economic growth. Nevertheless, the growth that was on the peak for example in 2007 will be probably yielding less output than nowadays in China.



Figure 5: Annual growth of GDP China and India

The character of the Chinese economy can be described as heavily labor orientated. Change in the state structures and economic diversification accelerated transfer from the primary sector to the direction of manufacturing activities, which enhanced the share of the labor force twofold and gave China nickname the “factory of the world’.[[124]](#footnote-124) In India, no major increase within manufacturing sector occurred and the pattern of employment hasn’t been changed much over time. Undoubtedly, there has been a positive correlation between labor-intensive expansion and the alleviation of the severe poverty in China. That correlation is not valid in India’s case for its export is primarily expertise and capital intensive.[[125]](#footnote-125) Yet, according to Bardhan, the expansion of the service sector might not result in as much poverty alleviation as it was generally perceived. He claims that even though India is labeled as service-led economy, “not all of the growth can be explained by finance, business services or telecommunication where reform may have made a difference.”[[126]](#footnote-126) He supports his hypothesis with a claim that the traditional or un-organized part of services (that is very hard and insecure to measure) sector was constituting major part of services sector. The output from an un-organized service sector might accounted up to for two thirds of the overall services growth. Therefore, majority of people lifted out of the severe poverty might not have been connected with the economic growth performed since 1990s. He supports his assumptions by the NSS that shows a slight poverty deterioration over that period. Instead of the service sector growth, he suggests that the agricultural expansion from the previous period might have been a significant source of benefit when lifting people out of poverty. As a reason for this he mentions the agricultural output decline between 1993 and 1995 corresponding with the poverty deterioration. [[127]](#footnote-127) Bardhan pursuits a similar idea with China, he states that the utmost poverty alleviation happened between 1981 and 1987 when amount of impoverished people dropped from 64 percent to 29 percent. This phenomenon occurred before the massive economic reforms and before the opening policy was fully incorporated. Ravallion and Chen suggest that: “Much of the extreme poverty was concentrated in rural areas, and, as we have indicated above, its large decline in the first half of the 80’s is perhaps mainly a result of the spurt in agricultural growth following de-collectivization, land reform, and upward readjustment of farm procurement prices -— these are mostly internal factors that had very little to do with global integration.”[[128]](#footnote-128)

The shift from agriculture to services has resulted in decline of India’s share in national income from 60 percent in 1950s to 1950s to 25 per cent in 2001–2003.[[129]](#footnote-129) India’s economy is quite diversified –it varies from antique to modern agriculture; from handicrafts to the industrial production and has a wide range of service sector. Although almost half of the workforce is employed in primary sector, services are in the present the most important basis of the economic progress in India as they are accounting for almost two-thirds of total output. [[130]](#footnote-130)However, the share of the agricultural sector in employment is continuously higher than 60 percent, which indicates to minimal productivity of the labor force.[[131]](#footnote-131)

In China, the size of the export has increased enormously since pro-market orientated reforms started in 1978. No longer afterwards the explosion of the export area enabled China to stood as one of the world’s largest exporter. And by overrunning Germany by 2009, China became the world’s number one. The recipe for such a Chinese success was governmental highly subsidized infrastructure combined with significant benefits for urban inhabitants. Both factors induced the fell of labor cost for employers and at the same time diminished travel cost for employees. As soon as Chinese heavily labor-intensive production started to fully work, results were not only beneficial for decrease of unemployment level, but subsequently led towards the poverty alleviation. India on the other hand become globally known as the major exporter of know-how service area, business outsourcing services, and software labor force.[[132]](#footnote-132) In contrast to China, India doesn’t share the advantage of the cheap workforce, nor the benefits of the highly developed infrastructure. Even though labor force is relatively inexpensive in India, it is not so because of the governmental supplies, but rather for its low minimal wages. According to Ghosh, China is successfully managing the financing of labor cost and infrastructure, where India is not, therefore it is obvious that the marginal export growth rate was until recently not supporting the economic development in India.[[133]](#footnote-133)

Chinese exchange rate system changed into the system “basket of currencies” in 2005, after long period of close linkages to the American dollar. From that period, cumulative appreciation of renminbi exceeded 20percent, however exchange rate was still virtually linked to the dollar until the beginning of the financial crisis in 2010. India rupee was initially pegged to the pounded sterling, then moved to the basket of currencies and finally, after the macro-economic stabilization plan, the exchange rate of the rupee was devalued in two stages by 18 per cent in terms of the US dollar in July 1991.[[134]](#footnote-134)

In addition to overall growth, addressing rural areas poverty issues in China shows that the annual progression for rural expenditure is 5.6% and the net capita per income for farmers is growing by 7, 2 percent every 9, 7 years. This phenomenon is of course hugely beneficial in terms of the rural poverty reduction.[[135]](#footnote-135) On the contrary to China, which statistics has presented significant results of poverty reduction caused by economic growth in rural areas, India has been not as quite successful. Even though that is observant that the overall poverty is on the decline, the periods of rapid economic growth are connected with slowdown of the poverty alleviation namely in rural areas of India.[[136]](#footnote-136)

Another reason why China is doing economically so well is the high rate of the investment within the country. The investment rate in India had been moving between 20 to 26 percent (calculated as a part of GDP) whereas in China investment constituted around 35-45 percent share of its GDP. Heavily funded infrastructure and the availability of inexpensive labor force made China a fertile field for export growth. High rates of are not due to investment into Industry, yet have been associated with the service economy. Aggregate incremental capital-output ratios (ICORs) are almost identical for both economies.[[137]](#footnote-137) China is ahead of India thanks to vast amount of infrastructure investment, which accounts for 19 percent of GDP compared to 2 percent in 1990s. In 2009 China was the second largest recipient of FDIs attracting 95 billion USD.[[138]](#footnote-138) Whereas it has been discussed that China is able to support its massive infrastructure projects thanks to vast flow of foreign direct investment (FDI), India had not such an opportunity for the country lack the huge infrastructure net that crucial for development.

 In terms of road density (1001 k.m.) China is ahead of India in the air transport, freight, electrification and so forth. The only exception lies in the density of railroad which is higher in India.[[139]](#footnote-139)

|  |  |  |  |
| --- | --- | --- | --- |
| **Sr. No**  | **Indicators**  | **India**  | **China**  |
| 1  | Road Density Km of Road per sq. k.m. of land area (2004-2007)  | 1001  | 36  |
| 2  | Rail Lines (k.m) (2004 2008)  | 63327  | 60809  |
| 3  | Air Transport, Freight mt. per. K.m (2005 2008)  | 1234  | 11386  |
| 4  | Population without Electricity (2008) % of population  | 34.2  | 0.6  |
| 5  | Daily News Papers per 1000 people (2004)  | 71  | 74  |
| 6  | Radio Coverage (% of population) (2005)  | 99  | 94  |

Table 7: Infrastructure indicators China and India

Chinese and Indian economies are booming with entrepreneurial vibrations which considerably contribute to economic growth in both countries. Total entrepreneurial activity accounts for 60 percent of China’s industrial output and in the cities and townships enables to employ around 75 percent of the labor force. High level of entrepreneurial activity is in chief formed by homogeneity of the market, physical infrastructure and the amount of funding. The first mentioned, homogeneity, is from the macro-economic point of view highly benefiting Chinese markets. Across the whole country consumers are buying similar products, whereas this is incompatible with heterogeneous society in India. Thanks to uniformity of its market, Chinese companies have capacities to build up very fast, furthermore they are able to produce huge scale of franchised businesses. India is disadvantaged by its lack of infrastructure, yet is has a big potential to regarding innovativeness.

## Sustainability and Vulnerability

The prospect of the sustainable economic growth is quite positive in India’s case. The majority of population are lying in the sphere of the productive age (averaging around 26 years). This phenomenon is not similar in China where population reached its peak already and it is going to have an ageing tendency. Furthermore India has relative low dependency ratio which with a combination of outside investment and the capital savings should foster a continuous integration into the global economy. It is necessary for India to address certain issues, for they are crucially connected with sustainable growth. Chinese economic growth is maintainable if Chinese government is willing to follow customer demands over its pre-occupation of export and fixed investment. Keeping economic growth on certain level is subjected to the shift from Chinese rigidness to focus on innovation. The crucial issue that has to be addressed is growing income inequalities and huge developmental gap lying in between rural and urban areas. The Communist Party of China stated on the Third Plenum of its 18th Party Congress that reforms would be implemented by 2020. Such as transformations will be aimed towards broader competitiveness, which means that market not state would play leading role when addressing economic issues. However, the crucial role of the state should be preserved. Furthermore, recent complaint regarding the deteriorating business environment in China made unclear how serious is China about the new transformations implementation.[[140]](#footnote-140) India has to address huge corruption progress together with discrimination of the gender or certain caste.

# Conclusion

Undoubtedly, both China and India made a huge step to become a modern societies with economic power that is not only comparable with western supremacies, but also have a potential to shift the power completely and become the hegemons of Asia. China moved from cultural isolationism exercised before the opium wars towards the new concept of “neo-Confucianism, Asian values, east Asia development model or ‘neo-authoritarity’. Particularly neo-authoritarianism, the term coined by Samuel Huntington in his book Clash of civilization, experienced huge success inside Chinese society. Followers of this philosophy highlight national pride, power ambitions, material expansion and social order. Chinese neo-conservatism has been firstly a certain kind of opposition to the modernization reforms, until the lines between those two were more and more blurred. Finally, conservatives and reformists were sharing priorities of maintaining the level of economic growth and the superiority of the only communist party. Regarding China and India, the new ideological trends are somehow complying with the traditional thoughts, yet they are influenced by western concepts at the same time. The slow shift of thought caused the whole scale of the new concepts that led both countries towards the openness of the economy and the constant strive for economic sustainability. Even the fact that India went through the era of colonization was to some extent beneficial, for the imperial rule of British empire set the important field for the development of democracy and its institutions. Modern history of both states is therefore marked by the shift in the economic order. India and China opened up their boarders to the influx of the international capital and integrated western idea of liberal capitalism. By doing so their economies started to expand and the countries were once again in the history striving to become important powers. The economic supremacy of China over India is indeed connected with the period in which China has been able to exercise economic reforms. Starting in 1970s, China promoted its economy to the highly recognizable scale within the international order and allowed the world to attain its millennium development goals by its decrease of significant amount of its impoverished population. India is still lagging behind China both economically and also on the social sphere. Nevertheless, the lesser results, economic expansion and its positive effect is undoubtable. Whereas one part of the analysis section concluded that growth is significantly helping to curb severe poverty, the other one came to the conclusion that certain correlation between expanded growth and inequalities exist. In China, the economic reforms were highly beneficial particularly in the 1980s, when the country registered the biggest ratio of the poverty alleviation possibly caused by the most even redistribution of land in the rural areas. The positive effect of the economic development is recognizable in India as well. Poverty has been continuously on decline. Whereas poverty is declining in both countries, the total number of people living under severe poverty is still significantly high. On the top of that, the rural areas as not only the most impoverished areas, but also the areas most attacked by income inequalities. The impoverished population is still higher in India. One of the reasons why is that so might be the fact that population is still exploding and it is likely to do so in future. China is by facilitating stated subsidized infrastructure able to better allocate the resources and the huge human capital, whereas India’s human capital potential is being curbed by the lack of the developed infrastructure. Human development improved on the higher scale in China as well. The level of literacy, education and healthcare are ensuring better standards of living in China than in India. The thorny issues are lying within the measurement of poverty. International poverty lines vary from the national ones, therefore to compare them might be quite speculative. Both of the countries are having issues with underestimated numbers of the total poverty population, or statistics are just lacking all the components needed to encompass the whole aspect of poverty. The findings from the interviews confirmed the prior hypothesis that China is handling poverty issues somehow better than India. Despite the high disadvantages for rural workers restrained by the hukou system, rural people were given more employment opportunities in cities. Migrant workers were therefore able to move to city for work instead of spending the whole life farming. On the other hand, the rural poverty issues are still the most important problem in India. The lack of employment in such areas is leaving a majority of people without qualifications workless. In addition, the democracy that has been established in India seems to be not as beneficial when regarding economic growth as autocracy in China. In spite the benefits generated by the economic growth, severe discrepancies are still prevailing in both countries. The ratio of the inequality is getting higher between rural and urban areas in China and the inequality within urban areas is an important issue as well. India In the framework of the inner-city areas, has an inequality index that in many cases is inadequately addressed, therefore its rise might be even underestimated.

## Discussion

As for the first limitation of this thesis I would like to mention the historical connotations. Due to the page and the time constraint, the historical section is not as complex as it could be. Both of the countries have immensely interesting pasts, so it is very unfortunate that some of the crucial events had to be omitted. Secondly, the poverty alleviation is quite controversial topic and there is no consensus regarding its measurements, its occurrence, its dispersal, or neither how to best address the phenomenon. Therefore, data collection is quite a burden, mainly because most of the analysis are still enhancing their previous findings, which makes poverty relief very vivid topic, with certain difficulties of time-precise addressing.

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# Appendix

## Interviews

Questionnaire Shannon Fu-Chinese human rights activist

 How would you generalize the poverty in your country?

A: In China, poverty is partly the result of increased income disparities. The growing income inequality is illustrated by the differences in living standards between the urban, coastal areas and the rural, inland regions. In addition, the imposition of restrictions on rural-urban migration has also limited opportunities for the poorer rural population. As a result, poor villages cannot afford good services and poor households cannot afford the high costs of basic services.

1. Do you feel economic progress helped tackle down poverty issues?

A: Yes, the economic progress has indeed helped resolve some poverty issues. The Chinese economy underwent major structural changes over the past decades. China has gradually transformed from an agricultural nation into an industrial one. The booming economy provides people more opportunities, especially for those who live in the rural areas. They can go to the cities now to find new employment rather than working on the farms for their whole life.

1. Which area of economic growth is the most/the least beneficial in terms of poverty alleviation?

 A: I feel the most beneficial area is that people can move freely across the country to work and even settle down. In the past, it was very difficult for people in rural areas travelling to cities because of some rigid regulations. Economic growth has changed the structure of Chinese society, which encourages the internal migration in China.

 Sorry, I cannot think of the least beneficial area…

1. Who do you think is first to benefit from poverty alleviation? Who is last?

A: In theory, people in rural areas should be first to benefit from poverty alleviation and the rich class last. However, rich people always can find loopholes from any policy by means of their power or social status and seek private profits.

1. Regarding redistribution of wealth, can you see major discrepancies between rural and urban areas?

 A: Family planning policy has not been strictly enforced in rural areas and overpopulation is a common phenomenon, which results in inequality between rural and urban areas in terms of wealth redistribution. Farmers have less money to purchase luxury goods and invest in education than the urban population. And the system of welfare and subsidies in rural areas is also not perfect compared with that in urban areas.

1. Have you personally felt (your family, friends, acquaintances, etc.) benefit from economic progress?

 A: Some of my friends are studying abroad now, while their parents did not have such opportunity when they were at the same age. And more countries are lowering the requirements for Chinese people applying for tourist visas. Besides, many luxury brands are targeting the Chinese market and expecting to get huge benefits from this emerging economy.

1. How would you describe the level of democracy in your country? Has the government decisive role regarding poverty alleviation programs? Does the political system of your country benefit/hinder economic growth?

A: The political system in China is centralism. But the situation has changed minimally after the return of Hong Kong and Macao, since these two places enjoy a high degree of autonomy.

I think the Chinese government plays a decisive role with respect to poverty alleviation. I can often see news about the government implementing new strategies to try to solve the issue of poverty.

The political system in China perhaps hinders economic growth right now. I am not sure about this. Democracy is a relatively more advanced political system and China will surely enter this chapter in the future. But a lot of experts said that centralism is more suitable for the current situation in China.

1. Do you think that cultural traditions (Confucianism, caste system) favor economic growth?

 A: Chinese cultural traditions such as Confucianism favor economic growth to a certain degree. Many experts see Confucian culture itself as a positive influence on Chinese growth, and its adaptability to East Asian capitalism is thought to be a significant contributor to regional economic development. The experts also mentioned that Confucianism creates the characteristics of hard work, frugality and self-sacrifice in East Asian workplaces and attributed East Asian dynamism largely to the social and cultural capital of Confucianism.

1. How much western influence is there on your countries civil society?

A: I am not sure about this question. At least it influences legal framework for civil society and citizen participation in China. Since the late 1980’s, the changes have occurred in China’s civil society. Nowadays, the Chinese people have been able to play a part in the social and economic development of China through the associations in which they participate. Social, economic, and legal system reforms in today’s China are bound to have an impact on civil society.

1. Which area should be poverty alleviations programs be aimed towards to best support poverty relief?

A: Discrepancy of wealth redistribution between rural and urban areas should be one area. The population in rural areas in China accounts for 47% or so of the total population. Changes in this area will make a difference.

1. Are you concern about the global and country level environmental impact caused due to your countries massive economic growth?

A: It is not just me concerned about this issue. Currently, China is facing many environmental problems due to massive economic growth, including excessive exploitation of natural resources, excessive deforestation, water pollution and land reclamation to name but a few. Although the government has been trying to deal with these problems, such efforts have yielded little result.

## Interview 2

Questionnaire Anubhav Sabharwal – Indian national studying at Aalborg university

1. How would you generalize the poverty in your country?
2. Do you feel economic progress helped tackle down poverty issues?
3. Which area of economic growth is the most/the least beneficial in terms of poverty alleviation?
4. Who do you think is first to benefit from poverty alleviation? Who is last?
5. Regarding redistribution of wealth, can you see major discrepancies between rural and urban areas?
6. Have you personally felt (your family, friends, acquaintances, etc.) benefit from economic progress?
7. How would you describe the level of democracy in your country? Has the government decisive role regarding poverty alleviation programs? Does the political system of your country benefit/hinder economic growth?
8. Do you think that cultural traditions (Confucianism, caste system)favor economic growth?
9. How much western influence is there on your countries civil society?
10. Which area should be poverty alleviations programs be aimed towards to best support poverty relief?
11. Are you concern about the global and country level environmental impact caused due to your countriesmassive economic growth?
12. Poverty is a major problem in the rural areas of India where 70% of the total population is living without proper shelter, sanitation facilities, roads, schools and water for drinking.
13. Economic progress hasn’t made a big impact in tackling poverty issues as it is still a big issue in rural areas of the country.
14. The economic growth is mainly in the IT and finance sector as services sector contributes 50% of the GDP and they only employ the limited amount of well qualified people and therefore doesn´t benefit the large amount of rural population.
15. The population in rural India is the last one to benefit.
16. Yes you can see a major discrepancy between rural and urban areas in terms of wealth distribution in some states of India.
17. Still there is a big percentage of unemployment even for the skilled labor in different sectors.
18. The democracy is well established in the country. Government had tried to implement employment guarantee schemes in rural areas to reduce poverty. A problem in the political system somehow hinders economic growth.
19. For this reason reservation is still being provided to have an equal economic growth of all the castes in the society.
20. In urban areas there is a big western influence on the societies because of the social media.
21. The areas mentioned in answer 1.
22. Yes as many of country’s cities are already present in the list of cities with highest levels of pollution.
1. (Huntington, 2003) [↑](#footnote-ref-1)
2. (Russel, 1992) [↑](#footnote-ref-2)
3. Number set by United nation as 1, 25 dollars per day [↑](#footnote-ref-3)
4. (james, 2015) [↑](#footnote-ref-4)
5. In the whole text China is referring to Peoples republic of China and India to Indian republic [↑](#footnote-ref-5)
6. (Foster) [↑](#footnote-ref-6)
7. (Foster) [↑](#footnote-ref-7)
8. (Foster) [↑](#footnote-ref-8)
9. Pennings, [↑](#footnote-ref-9)
10. (Michael Quinn Patton, 2002) [↑](#footnote-ref-10)
11. Neco neco z projektu o teoriiich [↑](#footnote-ref-11)
12. Huntington, p. 68 [↑](#footnote-ref-12)
13. (Rostow, 1960) [↑](#footnote-ref-13)
14. (Lipset, 1959) [↑](#footnote-ref-14)
15. (Gilley, 2006) [↑](#footnote-ref-15)
16. (Lipset, 1959) [↑](#footnote-ref-16)
17. (Rozman, 2007) [↑](#footnote-ref-17)
18. (Kratochvil, 2009) [↑](#footnote-ref-18)
19. (Lipset, 1959) [↑](#footnote-ref-19)
20. (Huntington, 2003) [↑](#footnote-ref-20)
21. (Guo, 1957) [↑](#footnote-ref-21)
22. The World Bank Standardized poverty line before 2005 [↑](#footnote-ref-22)
23. (Bourguignon) [↑](#footnote-ref-23)
24. (Bourguignon) [↑](#footnote-ref-24)
25. (The World Bank, 2015) [↑](#footnote-ref-25)
26. World bank [↑](#footnote-ref-26)
27. (United Nations Development Program, 2005) [↑](#footnote-ref-27)
28. (Chen & Ravallion, 2010) [↑](#footnote-ref-28)
29. World bank [↑](#footnote-ref-29)
30. (Chen & Ravallion, 2010) [↑](#footnote-ref-30)
31. (Singh, 2014) [↑](#footnote-ref-31)
32. (The Economist, 2011) [↑](#footnote-ref-32)
33. (Chen & Ravallion, 2010) [↑](#footnote-ref-33)
34. (Angang, Linlin, & Zhixiao, 2003) [↑](#footnote-ref-34)
35. (Angang, Linlin, & Zhixiao, 2003) [↑](#footnote-ref-35)
36. (Angang, Linlin, & Zhixiao, 2003) [↑](#footnote-ref-36)
37. (Poverty Alleviation Programme) [↑](#footnote-ref-37)
38. http://www.hindustantimes.com [↑](#footnote-ref-38)
39. (Poverty Alleviation Programme) [↑](#footnote-ref-39)
40. (Angang, Linlin, & Zhixiao, 2003) [↑](#footnote-ref-40)
41. Human development report, 2014 [↑](#footnote-ref-41)
42. (Angang, Linlin, & Zhixiao, 2003) [↑](#footnote-ref-42)
43. (The Economist, 2011) [↑](#footnote-ref-43)
44. (The World Bank, 2015) [↑](#footnote-ref-44)
45. (Worldometers, 2015) [↑](#footnote-ref-45)
46. Book from moodle [↑](#footnote-ref-46)
47. Book from moodel [↑](#footnote-ref-47)
48. (Guo, 1957) [↑](#footnote-ref-48)
49. (Schell & Delury, 2013) [↑](#footnote-ref-49)
50. (Ye, 2003) [↑](#footnote-ref-50)
51. (Schell & Delury, 2013) [↑](#footnote-ref-51)
52. (Oommen, 2001) [↑](#footnote-ref-52)
53. (Oommen, 2001) [↑](#footnote-ref-53)
54. (Oommen, 2001) [↑](#footnote-ref-54)
55. (Tuttle, 2015) [↑](#footnote-ref-55)
56. (Tibetanreview.net, 2014) [↑](#footnote-ref-56)
57. (Hannum, 2011) [↑](#footnote-ref-57)
58. (Chatterjee, 2008) [↑](#footnote-ref-58)
59. (Das, Hall, Kapoor, & Nikiton) [↑](#footnote-ref-59)
60. (Fairbank, 1998) [↑](#footnote-ref-60)
61. (wikipedia, 2014) [↑](#footnote-ref-61)
62. (Demurger, Sachs, Woo, Bao, & Chang, 2002) [↑](#footnote-ref-62)
63. (Demurger, Sachs, Woo, Bao, & Chang, 2002) [↑](#footnote-ref-63)
64. (Das T. K., 2012) [↑](#footnote-ref-64)
65. Deng Xiaoping [↑](#footnote-ref-65)
66. (Bardhan) [↑](#footnote-ref-66)
67. (Bardhan) Using 1UDS per day poverty line from 1993 [↑](#footnote-ref-67)
68. Tung, 2005 [↑](#footnote-ref-68)
69. (Zhang, Fan, & Fang, 202) [↑](#footnote-ref-69)
70. (Bardhan) [↑](#footnote-ref-70)
71. Tung, 2005 [↑](#footnote-ref-71)
72. (Fairbank, 1998) [↑](#footnote-ref-72)
73. (Wong, 2010) [↑](#footnote-ref-73)
74. (Chen & Ravallion, 2010) [↑](#footnote-ref-74)
75. (Wadhva) [↑](#footnote-ref-75)
76. (Wadhva) [↑](#footnote-ref-76)
77. (Bardhan) [↑](#footnote-ref-77)
78. (Chen & Ravallion, 2010) [↑](#footnote-ref-78)
79. (Chen & Ravallion, 2010) [↑](#footnote-ref-79)
80. (Guo, 1957) [↑](#footnote-ref-80)
81. (Schell & Delury, 2013) [↑](#footnote-ref-81)
82. (Bosworth & Collins, 2008) [↑](#footnote-ref-82)
83. (Angang, Linlin, & Zhixiao, 2003) [↑](#footnote-ref-83)
84. (Angang, Linlin, & Zhixiao, 2003) [↑](#footnote-ref-84)
85. (Angang, Linlin, & Zhixiao, 2003) [↑](#footnote-ref-85)
86. (Angang, Linlin, & Zhixiao, 2003) [↑](#footnote-ref-86)
87. (Angang, Linlin, & Zhixiao, 2003) [↑](#footnote-ref-87)
88. (Angang, Linlin, & Zhixiao, 2003) [↑](#footnote-ref-88)
89. (Tripathi, 2013) [↑](#footnote-ref-89)
90. (Tripathi, 2013) [↑](#footnote-ref-90)
91. (Tripathi, 2013) [↑](#footnote-ref-91)
92. (Datta, 2006) [↑](#footnote-ref-92)
93. (Agarwal, Satyavada, Kaushik, & Kumar, 2007)) [↑](#footnote-ref-93)
94. (Rural Poverty Portal, 2015) [↑](#footnote-ref-94)
95. (Cali & Menon, 2013) [↑](#footnote-ref-95)
96. (Organisation for Economic Co-operation and Development Secretariat) [↑](#footnote-ref-96)
97. (Ghosh, 2010) [↑](#footnote-ref-97)
98. (Organisation for Economic Co-operation and Development Secretariat) [↑](#footnote-ref-98)
99. (Ghosh, 2010) [↑](#footnote-ref-99)
100. (Organisation for Economic Co-operation and Development Secretariat) [↑](#footnote-ref-100)
101. (Organisation for Economic Co-operation and Development Secretariat) [↑](#footnote-ref-101)
102. (Ghosh, 2010) [↑](#footnote-ref-102)
103. (Ghosh, 2010) [↑](#footnote-ref-103)
104. (Ghosh, 2010) [↑](#footnote-ref-104)
105. (Ghosh, 2010) [↑](#footnote-ref-105)
106. (Organisation for Economic Co-operation and Development Secretariat) [↑](#footnote-ref-106)
107. (Ghosh, 2010) [↑](#footnote-ref-107)
108. (Ghosh, 2010) [↑](#footnote-ref-108)
109. (Sen & Himanshu, 2005) [↑](#footnote-ref-109)
110. (Ghosh, 2010) [↑](#footnote-ref-110)
111. (Sen & Himanshu, 2005) [↑](#footnote-ref-111)
112. (Ghosh, 2010) [↑](#footnote-ref-112)
113. (Sen & Himanshu, 2005) [↑](#footnote-ref-113)
114. (Monan, 2015) [↑](#footnote-ref-114)
115. (Rodrik D. , 2000) [↑](#footnote-ref-115)
116. Bill Clinton Speech at World Economic Forum (2000) [↑](#footnote-ref-116)
117. (Dollar & Kraay, 2002) [↑](#footnote-ref-117)
118. The hypothesis was launched by Simon Kuznets in 1955. Although is one of the most disputable and empirically difficult proven theories, is paradoxically considered as having a category of an economic law. This assumption postulates that growth and inequality are in the time period shaped into a U-curve. [↑](#footnote-ref-118)
119. (Ghosh, 2010) [↑](#footnote-ref-119)
120. (Indexmundi) [↑](#footnote-ref-120)
121. (Indexmundi) [↑](#footnote-ref-121)
122. (Indexmundi) [↑](#footnote-ref-122)
123. (The Economict, 2015) [↑](#footnote-ref-123)
124. (Ghosh, 2010) [↑](#footnote-ref-124)
125. (Bardhan) [↑](#footnote-ref-125)
126. (Bardhan) [↑](#footnote-ref-126)
127. (Bardhan) [↑](#footnote-ref-127)
128. (Chen & Ravallion, 2010) [↑](#footnote-ref-128)
129. (Ghosh, 2010) [↑](#footnote-ref-129)
130. (Indexmundi) [↑](#footnote-ref-130)
131. (Ghosh, 2010) [↑](#footnote-ref-131)
132. (Indexmundi) [↑](#footnote-ref-132)
133. (Ghosh, 2010) [↑](#footnote-ref-133)
134. (Ghai) [↑](#footnote-ref-134)
135. (Angang, Linlin, & Zhixiao, 2003) [↑](#footnote-ref-135)
136. (Ghosh, 2010) [↑](#footnote-ref-136)
137. (Ghosh, 2010) [↑](#footnote-ref-137)
138. United Nations report, July 2010 [↑](#footnote-ref-138)
139. (Oommen, 2001) [↑](#footnote-ref-139)
140. (Morrison, 2015) [↑](#footnote-ref-140)