# East Asian Strategies for Combating Income Inequality: A Comparative Analysis of Redistributive Fiscal Policy Efforts in China and Korea

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## Abstract

*Both China and Korea face different stages of national income inequality as well as distinctive structures in their income distribution. However, not only do levels and structures of income inequality differ in China and Korea, but their measures to tackle income inequality inherently differ. This article investigates how the Chinese and Korean governments respond to income inequality in their countries by analysing fiscal policy on both the expenditure and taxation fronts. The findings show that both China and Korea have increased their redistributive efforts in the recent past; however, Korea's commitment to tackling income inequality is stronger than that of China. Moreover, this article finds evidence for distinctive strategies for reducing income inequality in China and Korea. Responding to large income disparities at the bottom of the income distribution spectrum, the Chinese government tackles income inequality by supporting low income earners and reducing the tax burden for low income brackets. In contrast, given Korean income inequality can be largely explained by relatively large top income shares, the redistributive policy incorporates newly introduced social benefits excluding top income earners as well as income taxes aimed at the top of the income spectrum.*

**Keywords:** income inequality, policy strategy, fiscal policy, redistributive policy, East Asia

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## Introduction

Both the People's Republic of China and the Republic of Korea (hereafter referred to as China and Korea respectively) have faced growing income inequality since the start of the new millennium (cf. figure 1). When considering national measures of income inequality in China and Korea, income disparities not only differ in their level but also in their structure (cf. table 8). This raises the question of if and how the Chinese and Korean governments respond with efforts to combat income inequality and how they use fiscal policy making (differently) to react to their distinctive income distributions. This article thus aims to analyse systematically and compare Chinese and Korean current fiscal policies both on the tax and expenditure sides in terms of their efforts to reduce income inequality. In order to do so, an analytical framework is presented which aims to compare measures to reduce income inequality in fiscal policy making. Moreover, this article discusses how implemented political measures correspond to the introduced indices of income inequality in both China and Korea. In addition to providing context, an overall assessment of Chinese and Korean redistributive fiscal measures is shown, ultimately demonstrating which of the two governments implemented greater efforts to tackle income inequality within the analysed policy areas.

### Aims, Contributions, and Limitations[1]

Due to the scope of this article, I do not aim to outline or discuss single government measures, nor to include an in-depth analysis of policy measures. Its aim is not to assess the effect or effectiveness of redistributive fiscal policy in China and Korea, but rather to analyse and compare the governments' intententions and efforts with regards to certain criteria. This enables an assessment of the commitment to reduce income inequality through these measures. The criteria investigated are insufficient to provide a thorough and complete picture of social policy and tax policy in China and Korea. They serve, however, the purpose of this analysis, namely comparing and assessing governments' commitments to combating income inequality with effective and comprehensive approaches.

Comparing governments' efforts towards combating inequality has emerged as an approach in the recent past through assessing the Commitment of Reducing Inequality Index (CRI) in 2017 and 2018 (Lawson and Martin 2017; 2018). This analysis aims to provide qualitative context to a sole measurement of income inequality in China

[1] This article is based on the author's master's thesis (Menz 2019). The literature review and methodology have been adapted for this article. Data and facts have been updated, added, and newly presented. The analysis has been developed by discussing strategies for combating income inequality and by presenting new data.

and Korea. It contributes to the existing literature as it analyses and compares redistributive fiscal policy measures in China and Korea and finds evidence of different strategies for combating income inequality. Further, these new findings are assessed and discussed in the context of the distinctive structures and levels of income inequality in China and Korea, thereby contributing to existing literature. Overall, this article aims to provide a comprehensive picture of income inequality in China and Korea, both in quantitative and qualitative contexts. The extensive account of income inequality in China and Korea also contributes to the wider understanding of income inequality in East Asia in a variety of aspects. Finally, this article points out opportunities for further research.

## Relevance

The relevance of this analysis consists of five major points. First, analysing income inequality is particularly relevant due to its proven impact on society and economic growth. For instance, numerous academic studies demonstrate that social inequality increases criminality, mortality, and reduces happiness and health (Acemoglu and Pischke 2001; Dynan and Ravina 2007; Brush 2007; Weich, Lewis, and Jenkins 2001; Wilkinson and Pickett 2006). Moreover, inequality has been found to impact economic growth negatively (Berg, Ostry, and Zettelmeyer 2012; Stiglitz 2012). Therefore, income inequality and related policies not only affect societies but also sustainable economic growth.

Second, in addition to analysing measures of income inequality, a government's efforts in redistributive policy are relevant. According to the World Income Inequality Report (2018), income inequality has increased in almost every world region at varying speeds. The fact that income inequality levels vary so much across countries, despite experiencing similar stages of economic development, emphasises that inequality is not inevitable but rather a product of policy choices. Considering the notable role of national policies and institutions in shaping income inequality, a comparison is relevant. Thus, monitoring government policy next to solely observing levels of income inequality provides an insightful analysis of income inequality. Additionally, investigating a government's policy actions related to tackling income inequality in light of their commitment to the topic enables citizens to hold governments accountable for implemented actions (or the lack thereof) to reduce the gap between rich and poor (Lawson and Martin 2018). Moreover, data on measures of income inequality has numerous limitations as household survey data frequently under reports the incomes of the richest people and is furthermore not conducted regularly.[2] As a result,

[2] More on the limitations of income inequality data cf. (Atkinson and Brandolini 2001; Alvaredo et al. 2018)

analysing related policies is not just a recent but also a more reliable measure by which to hold governments responsible (Lawson and Martin 2018: 5). Accordingly, measuring a government's efforts to reduce income inequality represents a relatively new method for measuring and assessing a country's performance in regard to income inequality. This emerging perspective can develop into a state of the art method of observing and comparing income inequality.

Third, a comparative approach as adopted for this analysis is suitable not only for detecting the introduced differences in the level and structure of Chinese and Korean income distribution but also for elaborating upon distinctive efforts and strategies pursued by governments. Besides, the measurement of income inequality is a relative and comparative assessment. Income inequality determines differences in income but offers no threshold to assess when a system has reached an "undesireable" level (cf. Kuznets 1953: xxvii) or one required to be addressed by policy action, further prompting a comparative approach.

Fourth, choosing China and Korea as two East Asian case studies is relevant since both countries have experienced high per capita income growth during past decades. However, both East Asian growth 'miracles' ended in the recent past; Korea's 'miraculous' growth ended abruptly with the outbreak of the Asian financial crisis in 1998, and Chinese growth rates fell to the new normal from 2010 (Naughton 2018: 7–10). Different developments of income inequality in the context of economic growth during and after 'miraculous' growth in China and Korea prompt a comparative analysis of the development of income inequality and related policy measures. Also, given the two different political systems, analysing efforts and possible strategies for tackling income inequality is insightful.

Fifth, this article fills a research gap as a comparative analysis of Chinese and Korean redistributive fiscal measures and efforts to reduce income inequality has not yet been conducted. Further, distinctive structures of income inequality within China and Korea as well as policy related responses have not yet been discussed in the academic literature.

## Literature Review

Assessing governments' commitments to reducing inequality both methodologically as well as empirically, Lawson and Martin (2017; 2018) create the first index to measure government efforts and a ranking across 157 countries. The Commitment to Reducing Inequality Index (CRI) measures government policies in three areas, namely social spending, labour rights, and taxes. A further major methodological and empirical work in examining the commitment to equity is Lustig's (2018) contribution to theory and the practical methods for establishing the impact of taxation and public

spending on inequality and poverty. She argues that fiscal policy manifesting in taxation and public spending plays a major role in combating income inequality.

The link between fiscal policy and income inequality has been established by a range of scholars. By investigating twenty-eight low and middle income countries, Lustig (2017) finds that fiscal systems reduce income inequality but not always poverty. Other scholars show that fiscal consolidation leads to an increase in income inequality in a range of advanced and emerging economies through different channels (Agnello and Sousa 2014; Woo et al. 2013), suggesting the significance of government actions and redistributive potential in this policy area. Further, the International Monetary Fund (IMF) emphasises the fiscal role of the state in closing the income gap (International Monetary Fund 2017). Additionally, Alvaredo et al. emphasise the role of progressive taxation and the avoidance of tax evasion, access to education, and well-paid jobs as well as government spending on education, healthcare, and environmental protection (Alvaredo et al. 2018: 248–286).

Large parts of income inequality across regions can be accounted for by differences in the levels of spending and progressivity of tax policies. As such, in advanced economies, fiscal policy has a significant impact on reducing income inequality, especially expenditure, but progressive taxation also plays an essential role (Bastagli, Coady, and Gupta 2012). Fiscal policy, more specifically social spending and progressive taxation, is also found to be significant for reducing the gap between rich and poor by several other scholars (cf. Martinez-Vazquez, Moreno-Dodson, and Vulovic 2012; OECD 2015).

Lustig (2015) further analysed thirteen developing countries' health and education spending and the reduction of their overall inequality levels. It resulted that sixty-nine per cent of the decrease in inequality resulted from more spending on public services. Also, according to a study by the United Nations, social spending—through the redistribution of child care, elder care, and healthcare—helps to reduce the amount of unpaid work at home which is often done by women and therefore closes the gap in income between men and women (United Nations 2015).

In regard to progressive taxation, the major role of the state has been shown in Organisation of Economic Co-operation and Development (OECD) countries (OECD 2015) as well as developing countries (Lustig 2018). Lawson and Martin (2018) claim that next to a progressive income tax, taxes on wealth and inheritance bear great potential to redistribute income from the top to the bottom of the income spectrum. Furthermore, the value added tax (VAT) disproportionately affects low income earners who spend a larger share of their income. Thus, reducing VAT rates can steer income inequality. These findings are also supported by Atkinson (2015) whose proposals for reducing inequality include, amongst others, progressive income tax rates as well as extended social insurance.

Income inequality in China has been studied widely, both by domestic scholars as well as abroad.[3] The redistributive role of Chinese fiscal policy has also been investigated. Cai and Yue (2017) study the redistributive role of government social security transfers and find that government social security transfers cause decreasing net Gini indices[4]. In contrast, they further suggest that government social security transfers increase income inequality if there is a universal increase in Chinese government social security transfers for all recipients. Another recent study by the IMF finds that fiscal policies, both taxes and expenditure, in particular bear strong potential to close the income gap in China (Jain-Chandra et al. 2018). Specifically, they suggest progressive tax systems reliant more on direct taxes than indirect, as well as wealth and property taxes. On the spending side, health, education spending, and social assistance offer the potential to boost inclusiveness in China.

Li and Sicular (2014) examine the effects of fiscal policies in China with explicit distributional objectives, such as the individual income tax, the elimination of agricultural taxes and fees, migration, the Dibao (*dībǎo* 低保) system, and further poverty reduction programmes. They find no clear evidence that taxes moderate income inequality but do show that the Dibao system has positive distributional outcomes. Cevik and Correa-Caro (2019) investigate the redistributive contribution of fiscal policy in China and the BRIC+ (Brazil, Russia, India, China +)[5] countries and find indications that higher government spending and taxation reduces Gini indices. However, both effects are small and statistically insignificant. In the case of China, government spending and taxation have been found to have opposite effects on income inequality: while taxation reduces income inequality, government spending has been found to increase income inequality. Li, Wan, and Zhuang (2014) review recent Chinese government policies such as social protection, tax reforms, and labour market policies that seek to tackle the issue of growing income inequality. They find that the Chinese government has implemented numerous policies to reduce poverty but not inequality.

[3] Most notably Nolan 1979; Khan et al. 1992; Hussain, Lanjouw, and Stern 1994; Khan and Riskin 1998; Gustafsson and Li 1998; Khan, Griffin, and Riskin 2001; Demurger et al. 2002; Gustafsson and Li 2002; Wu and Perloff 2005; Khan and Riskin 2005; Ravallion and Chen 2007; Chotikapanich, Rao, and Tang 2007; Sicular et al. 2007; Gustafsson, Shi, and Sicular 2008; Fan, Kanbur, and Zhang 2011; Li, Sato, and Sicular 2013; Chen, Pu, and Hou 2019.

[4] The Gini index is the most common inequality measure derived from the Lorenz curve (Lorenz 1905) and named after Gini (1912). The Gini index captures the area between the Lorenz curve and a completely equal distribution on the line of equality, which is the line at forty-five degrees (x=y) representing absolute equality of incomes. In a perfectly equal society, the Gini coefficient amounts to zero. The Gini coefficient reaches one in circumstances of complete inequality (Campano and Salvatore 2006: 64–65).

[5] Brazil, Russia, India, and China, plus thirty other emerging market economies.

In contrast to China, income inequality in Korea is a less widely discussed topic in academia.[6] Hyun and Lim (2005) find that Korea's income tax system can have a more redistributive effect by increasing the level of horizontal equity, leading to the equal tax treatment of equal income groups. Sung and Park (2011) investigate the redistributive effects of Korea's fiscal policies, including consumption taxes and in-kind benefits. They find that taxes and transfers reduce income inequality in Korea by 13.8 percent. In-kind benefits, direct taxes, and social security contributions all decrease the Gini coefficient by 6.7, 4.7, and 2.9 percentage points respectively. Policy simulations indicate that education spending financed by personal income tax has a positive redistributive effect and that the lower seventy percent of households enjoy positive net benefits. Spending targeting the poor has a strong redistributive effect.

The literature review demonstrates that two major policy areas in particular, namely social expenditure and taxes, bear potential to reduce income inequality not only in China and Korea but internationally.

## Method

Based on the results of the conducted literature review, this article focuses on analysing fiscal policy—both tax and expenditure—as these two policy areas are found to combat income inequality effectively. The redistributive efforts of a government are translated into analytical criteria which measure and compare government efforts in fiscal policy across the two case studies. In order to measure commitment in social spending, overall social spending is divided into spending on education, health, and social protection expressed as a percentage of total spending. Hence, this measure does not favour wealthier countries with greater capacity to spend by possessing higher budget revenue due to greater GDP (cf. Mariotti 2018).

Second, tax policy bears its redistributive potential through the progressivity of the tax system. Therefore, tax rates and thresholds for existing income brackets of personal income tax (PIT) will be analysed. Corporative taxes, value added taxes (VAT) as well as corporate income tax (CIT), wealth, inheritance, and gift taxes will also form analytical criteria. A lower VAT rate disproportionately benefits low income households as they spend a larger share of their income on consumption. Moreover, wealth, inheritance, and gift taxes have a redistributive effect, generating tax revenue from high income earners (Mariotti 2018: 10).

[6] Notable studies include Choo 1993; Ahn 1997; Kwack and Lee 2007; Sato and Fukushige 2009; Hong and Kim 2012; Mah 2012; Lee, Kim, and Cin 2013; An and Bosworth 2013; Shin and Kong 2014; Heshmati and Rudolf 2014; Shin and Kong 2015.

| | | | |
|---|---|---|---|
| Social spending<br><br>Redistributive fiscal policy<br><br>Tax policy | Education spending<br>Health spending<br>Social protection spending<br><br>Progressivity (thresholds, corporate income tax rate, VAT rate) | Who is (not) targeted?<br><br>Policy mix<br><br>Who is (not) targeted? | Chinese and/or Korean strategy? |

Table 1: Theoretical framework (designed by the author)

Table 1 summarises this article's theoretical framework which serves to analyse fiscal policy—both tax and expenditure. The analytical framework does not include analysis of government efforts towards the labour market (i.e. through implementing minimum wages, labour unions, or labour rights), despite being known for reducing inequality as well. This limitation applies for two reasons: first, fiscal policy has been shown to have a strong impact and the potential to reduce income inequality; and second, analysing more criteria goes beyond the scope of this article.

## Comparing Social Spending

When comparing Chinese and Korean public spending on education, both countries are situated above the OECD average with an education spending rate of 14.84 per cent and 16.3 per cent as a share of total expenditure respectively. Moreover, both China and Korea have increased their education spending as a share of total government expenditure within the past decade. Korea's education spending increased more than that of China.

Concerning public health spending, Korea's share of health spending as a share of total expenditure is substantially higher than China's, accounting for 12.5 per cent and 7.12 per cent respectively. However, the public health spending share has almost doubled in China as compared to Korea where it grew by two percentage points. Based on the criteria chosen, Korea's efforts to tackle income inequality in this area are greater than those of China. Nonetheless, China's commitment has increased more since 2007.

Regarding social protection spending, Korea surpasses China with a public social protection spending rate of 19.4 per cent as a share of total expenditure. Meanwhile, China's public social protection spending rate amounts to 12.12 per cent. The increase in public social protection spending is higher in Korea, amounting to 4.2 percentage points, while in China public spending grew by approximately one percentage point since 2007. As a result, the comparison of Chinese and Korean social spending as a

share of total expenditure demonstrates that Korea's efforts to reduce income inequality in public social spending are greater than those of China. Table 2 summarises this section's findings.

| Social spending | Indicator | China 2007 | China 2017 | Korea 2007 | Korea 2015 |
|---|---|---|---|---|---|
| Education | % total expenditure | 14.31% | 14.84% | 15.5% | 16.3% |
| Health | | 4.00% (Medical and Health Care) | 7.12% (Medical and Health Care, and Family Planning) | 10.5% | 12.5% |
| Social protection | | 10.94% (Social Safety Net and Employment Efforts) | 12.12% (Social Safety Net and Employment Efforts) | 15.2% | 19.4% |

Table 2: Summary of social spending in China and Korea (2007 to present) (designed by the author). Source: China Statistical Yearbook (2008), China Statistical Yearbook (2018), OECD (2017a). N.B. Chinese shares are calculated by the author.

China has implemented social assistance systems and managed to increase coverage in recent years. According to the OECD (2017b), this is one of the main contributors to steadily reducing poverty rates. Despite developing rapidly, the Chinese social assistance system retains residual features. In other words, only selected individuals are provided with benefits and services, including people facing difficulties, thus relieving marginalised populations. The state merely intervenes when families and markets fail and individuals' needs cannot the met (Pan 2019: 19–20).

China's largest and most discussed social assistance programme is the Dibao system. It provides a minimum living security system, including the most basic goods in rural as well as urban areas and represents the most extensive safety net programme in both China and worldwide (cf. Gao 2017). The Chinese government introduced the Dibao system in 1990, aiming to reduce poverty and inequality. It is implemented in both urban as well as rural areas and provides non-contributory cash transfers targeted at supporting the purchase of basic goods, such as food, clothing, and shelter. The direct payments amount to the difference between the average income per person in a household and the minimum local income standard. The recipients are also determined locally. As such, the Dibao schemes differ across regions and are implemented by local governments; they share, however, similar features. Urban and rural coverage of the Dibao programme has expanded significantly since the year 2000. The number of urban recipients increased from 11.7 million people in 2001 to its maximum at 23.5 million in 2009. Also, the rural scheme increased its coverage from three million to a maximum of 53.9 million in 2013 (OECD 2017b: 104). It is targeted at those positioned lowest on the income spectrum and is committed to reducing poverty directly as opposed to reducing income inequality. Next to the Dibao system, rural and urban

medical assistance systems, a nature disaster emergency rescue system, relief regulations for urban vagrants and beggars, rural and urban housing assistance, and assistance for education exist. All of these social assistance schemes are targeted at the very bottom of income distribution (Pan 2019).

In Korea, the relatively large increase in social protection spending is reflected by a range of newly introduced welfare policies (cf. Ministry of Health and Welfare 2018). As such, the Ministry of Health and Welfare of Korea (MOHW) has implemented policies explicitly targeted at low income households providing a range of measures, such as child and elder care. Child benefits have been introduced for children from birth to age five in households with two or more family members (KRW 100,000 per month for each eligible child). Remarkably, the "wealthiest ten per cent of households are excluded" from this benefit according to the website (Ministry of Health and Welfare 2019a). Furthermore, senior citizens in the bottom seventy per cent income group are eligible for monthly benefits ranging from KRW 25,000 to 250,000. Again, the top thirty per cent of income earners are expressly excluded from these benefits as stated on the ministy's website (Ministry of Health and Welfare 2019b). Moreover, a booklet published by the Korean Ministry of Health and Welfare (2018) outlines fifty Korean primary social protection and welfare programmes in 2018. Examples emphasised by the MOHW include child care specifically aimed at low income households, namely the Individual Development Account programme as well as the Child Development Account which offer cash payments and social benefits. Moreover, the Emergency Aid and Support programme aims to support low income households with similar social benefits (Ministry of Health and Welfare 2019b; Ministry of Health and Welfare 2018).

Summarising Chinese and Korean measures to reduce income inequality through spending policies, it can be said that both countries have increased their efforts in the recent past. However, Korea's commitment can be assessed as greater than that of China because Korean public social spending is higher than China's in all three investigated areas, namely education, health, and social protection spending. Furthermore, both China and Korea have implemented particular social policies in order to tackle income inequality. While China has realised the Dibao system, a social programme providing direct, unconditional cash transfers to low income earners, Korea has introduced policies that specifically exclude top income earners. In China, no such measures exist. Both Korean as well as Chinese social spending policies are profoundly insightful and tend to tackle income inequality from different angles. While China leans towards reducing income inequality with policies targeting the very bottom of the income distribution, Korea tends to reduce income inequality through the exclusion of top income earners from social benefits. Overall, China's efforts tend to combat income poverty whereas Korea's efforts aim to redistribute from the very top to the middle and bottom of the income spectrum.

## Comparing Tax Policy

Comparing tax policies across China and Korea reveals several changes in both tax systems in the recent past. Both China and Korea carried out significant tax reforms in the year 2018, enhancing progressivity within their tax systems.

Chinese personal income tax reform set the goal of lessening the tax burden for lower income earners (International Tax Review 2018). Under the new personal income tax scheme, lower income brackets widened, meaning that more tax payers are eligible for lower personal income tax rates. The higher tax bracket thresholds for personal income tax remain unchanged. Thus, in 2018, the Chinese tax structure became more progressive. Starting at a monthly taxable income from zero to 3,000 Chinese Yuan (CNY), a tax rate of three per cent is applied. For monthly incomes between 3,000 and 12,000 CNY, the tax rate amounts to ten per cent. Other personal income tax rates in the middle income spectrum are twenty per cent (12,000–25,000 CNY), twenty-five per cent (25,000–35,000 CNY), and thirty per cent (35,000–55,000 CNY). The second highest tax rate is thirty-five per cent and applies to the threshold between 55,000 to 80,000 CNY. Lastly, incomes exceeding 80,000 CNY monthly are taxed at a rate of forty-five per cent (PWC 2019a). Besides this progressive tax on personal income, there is a flat rate of twenty per cent applied on several other sources of income, such as incidental income, rental income, interest income, dividends, and capital gains. This flat rate is imposed as indicated unless specifically reduced by the State Council.

In August 2018, the Amendment to China's Individual Income Tax Law passed, incorporating numerous changes such as revisions to the criteria for determining tax residency status. Updates to tax rates and taxable income brackets as well as the introduction of anti-avoidance rules formed part of the 2018 amendment (PWC 2019b). A further change was redefining taxable income. Accordingly, incomes for residents, employment income, remuneration for labour services, author's remuneration and royalties are combined and referred to as 'comprehensive income'. This comprehensive income provides the basis for annual aggregate tax calculations and became effective on January 1, 2019. Under the new personal income tax scheme, the lower brackets were widened, meaning that more people are eligible for lower personal income tax rates. The higher thresholds for the personal income tax remain the same. Thus, the tax structure has become more progressive. Table 3 compares Chinese PIT schemes before and after the PIT reform.

| Chinese PIT Before 2018 | | Chinese PIT After 2018 | |
|---|---|---|---|
| Taxable income (CNY) | Tax rate | Monthly taxable income (CNY) | Tax rate |
| 0–1,500 | 3% | 0–3,000 | 3% |
| 1,500–4,500 | 10% | 3,000–12,000 | 10% |
| 4,500–9,000 | 20% | 12,000–25,000 | 20% |

| | | | |
|---|---|---|---|
| 9,000–35,000 | 25% | 25,000–35,000 | 25% |
| 35,000–55,000 | 30% | 35,000–55,000 | 30% |
| 55,000–80,000 | 35% | 55,000–80,000 | 35% |
| Over 80,000 | 45% | Over 80,000 | 45% |

Table 3: China's personal income tax rates and income brackets before and after 2018 comprehensive income reforms (designed by the author). Source: PWC 2019a.

In addition, all five tax brackets for business income were substantially expanded, alleviating the tax burden for low and middle business incomes (International Tax Review 2018). The highest income tax rate now only applies for business incomes surpassing 500,000 CNY, signifying no change in taxation for these individuals. All incomes smaller than that are now subject to lower tax rates. Also, there was effectively no change for the zero to 15,000 CNY income bracket, which is still subject to a tax rate of five per cent. Furthermore, business incomes of 80,000 CNY were taxed with a rate of thirty per cent before 2018, and today are subject to a personal business income tax rate of ten per cent. Overall, the income tax on business income is less progressive than that for comprehensive income.

Another criterion, corporate income tax, amounts to twenty-five per cent in China. However, there are exceptional rates of fifteen per cent or ten per cent which apply to small scale companies (with annual taxable incomes of less than one million CNY), research, key-software or high tech companies, or enterprises located in particular areas such as Qianhai Shenzhen-Hong Kong Modern Services Industry Cooperation Zone, Pingtan Comprehensive Experimental Zone, or Zhuhai's Hengqin New Area (PWC 2019c).

Concerning VAT, the Chinese Ministry of Finance and State Administration of Taxation issued a policy reducing VAT rates in 2018. The VAT rates of seventeen per cent, eleven per cent, and six per cent were lowered to sixteen per cent, ten per cent, and six per cent respectively from May 1, 2018. Reduced VAT rates of ten per cent apply for instance to agricultural goods, transportation, postal services, communications, construction services, immovable property leasing services, sales of immovable properties, and the transfer of land use rights. A six per cent VAT is imposed on telecommunications services, financial services, modern services (except for leasing services), consumer services, and sales of intangible properties (except for land use rights). No VAT exists on the exportation of goods and services. In China, no inheritance, gift tax, nor tax on wealth or worth exists at present (PWC 2019d).

The Korean government has shown willingness to impose more progressive taxes in repeated tax revision bills in 2017, 2018, and 2019. Furthermore, the Korea's PIT structure has become more progressive as of 2019, increasing taxation on upper income groups (PWC 2020a). Besides, "bringing about [the] redistribution of income" through taxation policies indicates commitment to reducing inequality in this respect (Ministry of Economy and Finance 2019). Since the enactment of the new tax policies,

tax progressivity has increased to a great extent, designed to redistribute income and increase the tax revenue base. High income earners, as well as big corporations, are subject to higher tax rates as of the year 2018. Also, large and progressive inheritance and gift taxes reflect the Korean government's recent commitment to reducing inequality regarding tax policies.

In regard to the first criterion, namely PIT rates and their progressivity, seven PIT groups have existed in Korea since the tax reform in 2018. The lowest PIT rate amounts to 6.6 per cent for monthly incomes between zero and twelve million Korean Won (KRW). Additional PIT rates amount to 16.6 per cent (twelve to forty-six million KRW), 26.4 per cent (forty-six to eighty-eight million KRW), 38.5 per cent (eighty-eight to 150 million KRW), 41.8 per cent (150–300 million KRW), forty-four per cent (300–500 million KRW), and 46.2 per cent (exceeding 500 million KRW) respectively. In Korea, the PIT rate is a tax collected from individuals and is imposed on different sources of income, such as labour, pensions, interest, and dividends. Before the 2018 PIT reform, the highest marginal income tax rate amounted to forty-four per cent (including local income tax) which applied to tax bases over KRW 500 million. The second highest marginal income tax rate was thirty-eight per cent (41.8 per cent including local income tax) which applied to tax bases in excess of KRW 150 million and up to KRW 500 million. The other income brackets remained the same after the 2018 tax reform. Compared to before 2018, Korea's tax structure has become more progressive, increasing taxation on the upper income groups (PWC 2020a). Table 4 compares Korean personal income tax characteristics before and after the PIT reform in 2018.

| Korean PIT Before 2018 | | Korean PIT After 2018 | |
|---|---|---|---|
| Annual taxable income (in millions KRW) | Tax rate | Annual taxable income (in millions KRW) | Tax rate |
| 0–12 | 6.6% | 0–12 | 6.6% |
| 12–46 | 16.6% | 12–46 | 16.6% |
| 46–88 | 26.4% | 46–88 | 26.4% |
| 88–150 | 38.5% | 88–150 | 38.5% |
| 150–500 | 41.8% | 150–300 | 41.8% |
| | | 300–500 | 44.0% |
| Over 500 | 44.0% | Over 500 | 46.2% |

Table 4: Korea's personal income tax rates and income brackets before and after 2018 (designed by the author). Source: PWC 2020a.

Concerning Corporate Income Taxes (CIT), the Korean government recently increased the top marginal corporate income tax rate from twenty-two per cent to twenty-five per cent. This rate applies to corporations with more than 300 billion KRW of taxable income in a year. Rates of ten per cent, twenty per cent and twenty-

two per cent apply to tax bases of zero to 200, 200–20,000 and 20,000–300,000 million KRW respectively. In Korea, the CIT rate is a tax collected from companies, and its amount is based on the net income companies obtain through business activity, usually in one business year (Trading Economics 2020a; PWC 2020b).

The VAT in Korea amounts to ten per cent; however, farm products, health services, and government transactions are exempt (Trading Economics 2020b). Korea has an inheritance and gift tax, imposing progressive tax rates between ten per cent and fifty per cent on the transfer of property. As such, for a transfer worth one-hundred million KRW or less, a rate of ten per cent is applied. The second highest rate applies to properties above KRW one billion to KRW three billion and requests taxes of KRW 240 million plus forty per cent of the excess above KRW one billion. For a value more than KRW three billion, the tax rate is KRW 1.04 billion plus fifty per cent of the excess above KRW three billion. The same rates apply for both the inheritance and gift taxes. No tax on wealth or worth currently exists in Korea (PWC 2020c). Table 5 summarises tax policy in China and Korea.

| Tax Policy | China | | Korea | |
|---|---|---|---|---|
| | Details and progressivity | Rate in % | Details and progressivity | Rate in % |
| PIT | Progressive PIT, tax reform relieved bottom income earners | 3%–45% | Progressive PIT, tax reform increases tax burden for top income earners | 6.6%–46.2% |
| CIT | Exception for smaller scale companies as well as research, high tech companies or enterprises in particular areas, which pay a reduced CIT of 10% or 15% | 25% | 2018: Increased from 22% to 25% | 25% |
| VAT | 10% for agricultural goods, transportation, postal services, communications, etc.<br>6% for telecommunications services, financial services, etc.<br>0% on the export of goods and services | 16%<br><br>Reduced since May 2018 | Exemptions: farm products, health services, government transactions | 10% |
| Inheritance/ gift tax | None in China | – | Progressive inheritance and gift tax | 10% to 50% |
| Wealth tax | None in China | – | None in Korea | – |

Table 5: Summary of tax policies in China and Korea (designed by the author). Sources: PWC 2019a, 2019c, 2020a, 2020b, 2020c; Trading Economics 2020a, 2020b.

When comparing personal income tax structures across China and Korea, it becomes evident that income tax rates for the upper income brackets increased in Korea. The highest rate amounts to 46.6 per cent, which is slightly more than in China (forty-five per cent). China's second-highest income tax rate amounts to thirty-five per cent, whereas in Korea, several tax brackets exist in between, such as the second highest of forty-four per cent or 41.8 per cent and 38.5 per cent thereafter. However, the three smallest income tax rates are lower in China than in Korea, amounting to three per cent, ten per cent and twenty per cent in China as opposed to 6.6 per cent, 16.6 per cent and 26.4 per cent in Korea (cf. table 3 and 4).

Both the Chinese (6,374 CNY)[7] and Korean (33.43 million KRW)[8] average income earner falls into the second lowest tax bracket. On average, a Chinese person pays three per cent personal income tax while a Korean earner is subject to a tax rate of 16.6 per cent—more than a five-fold difference. Both countries restructured their personal income tax rates as well as income brackets in 2018. However, Korea's tax reform has increased taxes at the top of the income spectrum, whereas China has relieved the tax burden at the bottom of the income distribution.

Both China and Korea employ a corporate income tax of twenty-five per cent. Korea demonstrated its commitment by raising the top corporate tax rate from twenty-two to twenty-five per cent in 2018. Both China and Korea provide progressive corporate tax rates for smaller scale companies. Furthermore, China tackled income disparities by reducing VAT in May 2018. The maximum VAT rate is equal to ten per cent in Korea and sixteen per cent in China. Also, while the Korean government has introduced a progressive inheritance and gift tax, no such tax exists in China. Neither nation employs a tax on wealth.

Overall, both the Chinese and Korean governments implemented measures to reduce income disparities through tax policy. Based on the criteria analysed, Korea's performance reducing income inequality through its tax system is stronger than that of China. First, Korea's value-added tax rate is lower, benefiting low income households. Second, Korea introduced a progressive inheritance and gift tax and increased its corporate income tax. By implementing personal income tax reforms in 2018, both China and Korea have increased their measures to combat income inequality to a great extent. Similar to social spending, China and Korea pursue distinctive strategies to tackle income inequality. While China reformed its income tax scheme in order to reduce the tax burden for lower income earners, Korea increased income taxes for top income brackets.

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[7] Average annual national income per adult in China in 2018: 76,487 CNY (current CNY) (WID.world 2020). As the PIT applies to monthly taxable income in China, annual income is divided by twelve.

[8] Average annual national income per adult in Korea in 2017: 33.43 million KRW (current KRW) (WID.world 2020)

## Government Efforts and Strategies for Combating Income Inequality

Having discussed China and Korea's efforts in redistributive fiscal policy, table 6 summarises this article's analysis. Overall, Korea's efforts to reduce income inequality in social spending and progressive taxes can be assessed as greater than that of China. First, Korea's public social spending as a share of total public expenditure is larger in Korea than in China. Second, Korea's tax system more progressive. Nonetheless, both China and Korea increased their public social spending in all three categories analysed and recently implemented progressive taxation. Therefore, both governments increased policy action to combat income inequality. This result suggests that policies aimed at reducing income inequality in China and Korea are on the political agenda and that both governments attempt to redistribute income through distinctive channels.

| | China | Korea | Evaluation |
|---|---|---|---|
| Spending policy | –High education spending, however, lower than in Korea<br>–Large increase in health spending<br>–Relatively low social protection spending<br>–Measures addressing the very bottom of the income spectrum | –High education spending<br>–Much higher health spending than China<br>–Much higher social protection spending than China<br>–Several social assistance measures addressing the very top of the income spectrum | Apart from education spending, both governments' public spending is below the OECD average. Korea's commitment to reducing income inequality is stronger |
| Tax policy | –Progressive personal income tax reform in 2018: relieving bottom income brackets<br>–Equal CIP 25%<br>–Higher VAT than Korea; no inheritance, gift or wealth tax | –Progressive personal income tax reform in 2018: higher taxation of high income brackets<br>–Equal CIP 25%<br>–Lower VAT<br>–Progressive inheritance and gift tax; no wealth tax | Both governments have increased their commitment through PIT reform and further tax reforms. Korea's commitment to reducing income inequality is stronger |

Table 6: Comparison of Chinese and Korean efforts in fiscal redistributive actions (designed by the author).

Besides assessing what efforts the Chinese and Korean governments make in redistributive fiscal policy measures, this analysis further reveals evidence of different strategies pursued by both governments to tackle income inequality. Accordingly, China addresses income inequality at the bottom of the income spectrum. It does so

through support programmes for the income-poor, lowering taxes and expanding bottom income brackets in PIT reform, as well as lowering VAT. In contrast, Korea tends to tackle income inequality at the top of the income spectrum. For instance, it does so by implementing social assistance policies excluding top income earners, increasing tax rates for corporations and high personal incomes, and implementing a progressive inheritance and gift tax, in turn fighting income inequality further through wealth inequality. Table 7 summarises Chinese and Korean redistributive fiscal policy strategies to combat inequality.

| | Welfare system: Social assistance system | Tax system | Strategy |
|---|---|---|---|
| China | Dibao (minimum living support)<br>Natural disaster emergency rescue system<br>Rural medical help system<br>Urban medical help system<br>Relief regulation for urban vagrants and beggars<br>Assistance for housing<br>Social assistance for rural poor households<br>Assistance for education<br>Serving the income-poor at the very bottom of the income spectrum | Expanding lower PIT brackets, relieving the tax burden for lower incomes<br><br>No wealth, gift, or inheritance tax | Combat income inequality by targeting the very income-poor through social welfare and relieving the tax burden for lower and median income earners<br>Fight income inequality at the bottom of the income spectrum |
| Korea | Tie social welfare to relative income shares<br>Child benefits excluding the "wealthiest ten per cent"<br>Pension support excluding the top thirty per cent<br>Housing supply long-term<br>Housing rental support excluding above average income earners and house-owners<br>Employment support excluding the top 50%<br>"Babysitting services," dementia screening excluding people generating more than 120% of median income | Increasing PIT rates for upper tax brackets<br><br>Increasing taxes on corporate income<br><br>Relatively high and progressive taxes on inheritances and gifts | Combat income inequality by aiming social welfare at the bottom, median and above-median income earners, excluding top income earners from benefits and implementing higher taxes for the top income spectrum. |

Table 7: Chinese and Korean redistributive fiscal policy strategies (designed by the author).

Korea is an outstanding example of combating social inequality by explicitly excluding the top ten per cent from public welfare. China has not been found to target the top income spectrum with such measures or similar. Alongside the aforementioned child and pension benefits, which exclude top income earners, Korea further offers housing supply for individuals younger than forty and older than sixty-five for applicants with household/family incomes equal or less than one-hundred per cent of the average monthly urban income (Ministry of Health and Welfare 2018: 12). Considering that average income is usually higher than the median income,[9] a share smaller than the top fifty per cent are excluded from this service; in other words, this service again is offered to the majority but excludes higher income earners. Moreover, assets are taken into consideration for eligibility as well, which means that Korean social assistance services not only tackle income inequality but also address wealth inequality. Accordingly, Korean individuals or household members (aged nineteen to thrity-nine or senior citizens) without home ownership who also generate one-hundred per cent or less of the average monthly income of an urban worker can apply for housing. Moreover, Korean household members who do not exceed the average monthly income of an urban worker, possess a car valued at a certain amount or own a home are eligible for long-term housing rental support.

Additionally, employment support programmes exist for individuals with one-hundred per cent or less of the median income. Individuals with sixty per cent or less of the median income receive higher payments and support services. However, according to the eligibility definitions, the top fifty per cent of the income distribution are excluded from this social assistance programme entirely (Ministry of Health and Welfare 2018: 23). Besides, Korean child-care assistance (so-called "babysitting services") are progressively supportive according to parental incomes. Income earners generating over 120 per cent of the median income do not receive government support (Ministry of Health and Welfare 2018: 39). Finally, free dementia screening for people aged over sixty is available for those generating 120 per cent or less of the standard median income (Ministry of Health and Welfare 2018: 51).

Needless to say, a range of Korean social assistance measures aimed specifically at below-median income earners also exist. They are mostly targeted at those earning forty per cent, fifty per cent, or sixty per cent of the average or median income, in other words addressing people living in relative poverty. Nonetheless, by measuring income thresholds by relative income shares oriented at the median or average income, Korea actively addresses inequality and not absolute poverty. China in contrast supports people with basic needs according to absolute income measures.

[9] In 2018, Korean median and mean household income amounted to 45.67 million KRW and 58.28 million KRW respectively (KOSTAT 2019).

Sung and Park (2011) simulate the impact of social spending policy excluding the top ten and top thirty per cent and find great redistributive potential in Korea. They state that governments often prefer concurrent increases in taxes and benefits. However, the current Korean government realised such measures, resulting in net losses for the top income spectrum. Accordingly, Korea sets an example of unconventional social spending policy that other countries might follow in the future if incomes continues to polarise. This prompts further research: an analysis of public opinion on implemented government policies is of great interest, especially in the case of Korea where recent measures directly excluding top income earners from social benefits are likely to cause public debate among Korean politicians and the wider population. Also, investigating the effects of such policies would prove insightful.

Overall, China and Korea's approach to fiscal policy is inherently different. Chinese fiscal policy lowers the PIT and VAT and thus reduces public revenue, relieving the bottom income spectrum. China's social benefits exclusively benefit income-poor people and public social expenditure is lower than in Korea. In sharp contrast to Korea, the income-rich are not targeted in regards to spending or tax in China. Accordingly, no gift or inheritance tax exists in China, unlike Korea. Korean fiscal policy increases public revenue by raising PIT, CIT and by implementing progressive gift and inheritance taxes. The Korean government also increased expenditure over the past decade and designed a range of social assistance programmes targeted at the majority of the population, excluding the income-rich. Korea's strategy also includes addressing wealth inequality through tax and expenditure. Accordingly, a number of social assistance schemes are not only bound to income thresholds but also to wealth and property thresholds. Moreover, progressive gift and wealth taxes tackle wealth inequality.

## Explaining Different Strategies for Tackling Income Inequality

The divergent strategies to combat income inequality in China and Korea can be explained by the two nations' different levels and structures of income disparity. When looking at recent national measures of income inequality in China and Korea, two conclusions can be drawn. First, when considering Gini indices, it becomes apparent that China faces substantially greater income inequality than Korea. The Chinese national Gini index of per-capita disposable household income amounted to 46.8 Gini points in 2018. Korea scored approximately ten Gini points lower, suggesting that Korea's income distribution is more equal than that of China. Second, alongside different overall levels of income inequality in China and Korea, the structure of income disparities is inherently different in the two nations. Hence, when analysing poverty

measures, such as the head count ratio (HCR),[10] poverty gap,[11] and relative poverty shares,[12] it becomes evident that these are higher in China than in Korea (cf. table 8). Consequently, China still faces greater disparities at the bottom of the income spectrum than Korea. In contrast, considering top income shares in China and Korea, large disparities in Korea's top income spectrum become apparent. Accordingly, in 2000, the top ten per cent of Korean income earners held 35.96 per cent of the total income, while the same income share[13] amounted to 35.56 per cent in China. This gap widened until 2015 and accounted for 43.32 per cent and 41.43 per cent in Korea and China respectively. Comparing income inequality measures across China and Korea demonstrates that China and Korea's income distributions not only differ in their levels of inequality but also in their structure.

| | China 2000 | China 2018 | Korea 2000 | Korea 2018 |
|---|---|---|---|---|
| HCR at 5.5$ poverty rate | 89% | 27.2% (2015) | 0.5% (2005) | 0.5% (2012) |
| Poverty gap at 5.5$ poverty rate | 51.6% | 7.8% (2015) | 1.5% (2005) | 1.5% (2012) |
| Relative poverty rate 60% | 25.4% (2002) | 26.89% (2013) | 20.39% (2006) | 20.10% (2012) |
| Gini index | 43.82 * 43.21** | 46.8 | 30.6 (2006) | 34.5 |
| 10% top income share | 35.56% | 41.43% (2015) | 35.96% | 43.32% (2016) |
| 1% top income share | 10.37% | 13.9% (2015) | 8.29% | 12.16% (2016) |

Table 8: Poverty and income inequality measures, China and Korea, 2000 and 2018 (designed by the author). Source: World Bank 2018; Luxembourg Income Study 2018; KOSIS 2020; Ravallion and Chen 2007*; Chen, Pu, and Hou 2019**; UNU-WIDER 2019; National Bureau of Statistics of China 2019.

[10] The headcount ratio (HCR) represents the share of the population that lives below the poverty line (Klugman 2002)

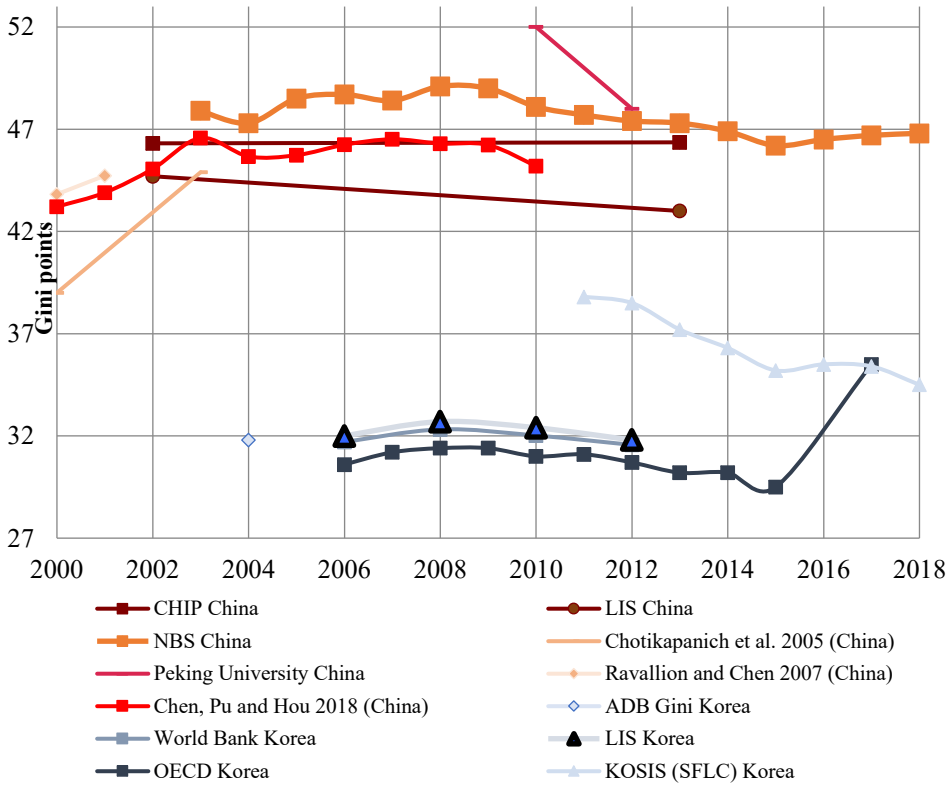
[11] The poverty gap measures households' distance from the poverty line. It provides information about income or consumption shortfalls relative to the poverty line across the population. It can also be regarded as the total amount of resources required to lift all individuals above the poverty line (Klugman 2002).

[12] The relative poverty line creates a current poverty threshold for distribution, such as the mean, median, or some quantile and then defines the cut-off as a certain percentage of this standard (Foster 1998: 336).

[13] Top income shares express the percentage of national income a subpopulation accounts for. Income shares are especially useful for measuring fractions of income accrued to top income earners, such as the top ten per cent, one per cent etc. (Alvaredo et al. 2018).

The different responses to income inequality in China and Korea appear to correspond to the introduced structure of Chinese and Korean income distribution (cf. table 8). Accordingly, China and Korea's income inequality measures reveal that China's income distribution faces disparities at the bottom of the income spectrum, reflecting relatively high absolute and relative poverty measures, while Korean income inequality can be widely explained by relatively large top income shares. Figure 1 demonstrates the development and characteristics of income inequality in China and Korea since the start of the new millennium according to two measures of income inequality: the Gini index of disposable per-capita household income and top income shares of per adult pre-tax household income.

National Gini indices China and Korea 2000–2018



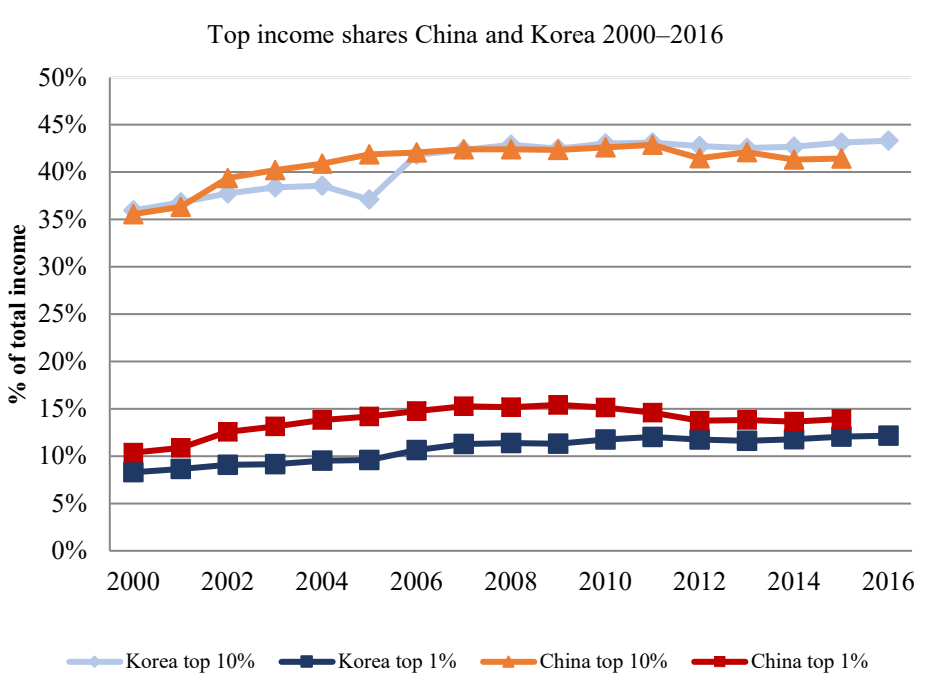



Figure 1: Development of income inequality in China and Korea 2000–2018 according Gini indices (top graph) and top income shares (bottom graph) (designed by the author). Source: UNU-WIDER 2019; Chen, Pu, and Hou 2019; National Bureau of Statistics of China 2019; KOSIS 2020; WID.world 2020. N.B. Gini index is based on annual disposable per capita household income.

The Gini indices data differs by data bank despite equal underlying definitions. Considering all available data sources, trends in the development of overall income inequality in China and Korea can be observed. Income inequality peaked in both nations around 2008. Since 2014, income inequality has continually increased in China, whereas it has decreased in Korea. Regardless of data source, income inequality across the entire income spectrum is much greater in China than in Korea according to the Gini index. In contrast, when examining top income shares as a measure for income inequality, Korea's top ten per cent income share has been higher than China's since 2008. The top one per cent income share, however, is higher in China than in Korea. Accordingly, the top one per cent of Chinese income earners account for more of the total income than their Korean counterparts, yet the top ten per cent in China account for less income than the top ten per cent of Korean income earners.

Contrasting the structure of income inequality and fiscal policy action provides evidence that both the Chinese and Korean governments specifically address the disparities faced in income distribution through policymaking. In other words, according

to this analysis, China and Korea appear to respond to the characteristics of their respective income distributions. However, while China addresses its disparities at the bottom of the income spectrum, the Chinese government does not respond to the relatively large top one percent income share.

A further reason for different strategies to combat income inequality in China and Korea might be the distinctive respective political systems and governing political parties. Excluding the top income spectrum from social benefits is an unpopular political decision taken by the Korean government yet not by the Chinese. The latter justifies government action by eradicating poverty and thereby creating a harmonious society. Moreover, the Chinese Communist Party requires support from elites; it might not be able to exclude the top explicitly from benefits or target tax reforms at elites by increasing PIT for top income brackets or introducing a wealth, inheritance, or gift tax. Ultimately, inequality destabilises both democracies as well as authoritarian regimes. Accordingly, we can state that both political systems act against income inequality and include this topic on their respective political agendas.

Different approaches to combat income inequality can be explained further by varying levels of economic growth in both countries. 'Miraculous' economic growth started about twenty years later in China than in Korea. While both East Asian growth miracles have been achieved (cf. Naughton 2018), China and Korea are still at different stages of economic development as average income is higher in Korea (€29,873) than in China (€15,265).[14] Moreover, China's economic growth is greater than that of Korea.[15] Given that the Chinese economy is still growing at a larger rate than the Korean economy, Chinese policy making might still rely more on the growth of the overall pie instead of direct redistribution as implemented in Korea. However, as can be observed in the data, economic growth does not necessarily include all income shares. As figure 2 shows, China's bottom fifty per cent have continually benefitted less from economic prosperity since the 1978 reform and opening. In contrast, income-rich people became rich faster, reflected in rapidly increasing top ten and top one percent income shares. The middle forty per cent, in other words percentile fifty to ninety, largely remained constant in China (cf. Figure 2).[16] In other words, from the overall pie growth, the bottom fifty per cent received twenty-seven per cent in 1978 on average, whereas as of 2015, their share decreased to fifteen per cent. Concurrently, the top one per cent income share more than doubled and the top ten income share increased from twenty-seven per cent to forty-one per cent. Hence, the displayed data

[14] Average national household income per adult in purchasing power parities (PPP) 2017 prices (WID.world 2019).

[15] The average real (2017 prices PPP) Chinese and Korean annual national income growth since 2010 amounts to 7.6 per cent and 1.5 per cent respectively (WID.world 2019).

[16] Currently, no Korean data on the bottom fifty per cent and middle forty per cent income shares exists.

demonstrates that high economic growth is not necessarily shared equally among all income groups, nor is it a natural tool for redistribution. Rather the reduction of income inequality is a policy choice, reflecting the relevance of analysing governments' efforts to tackle income inequality.

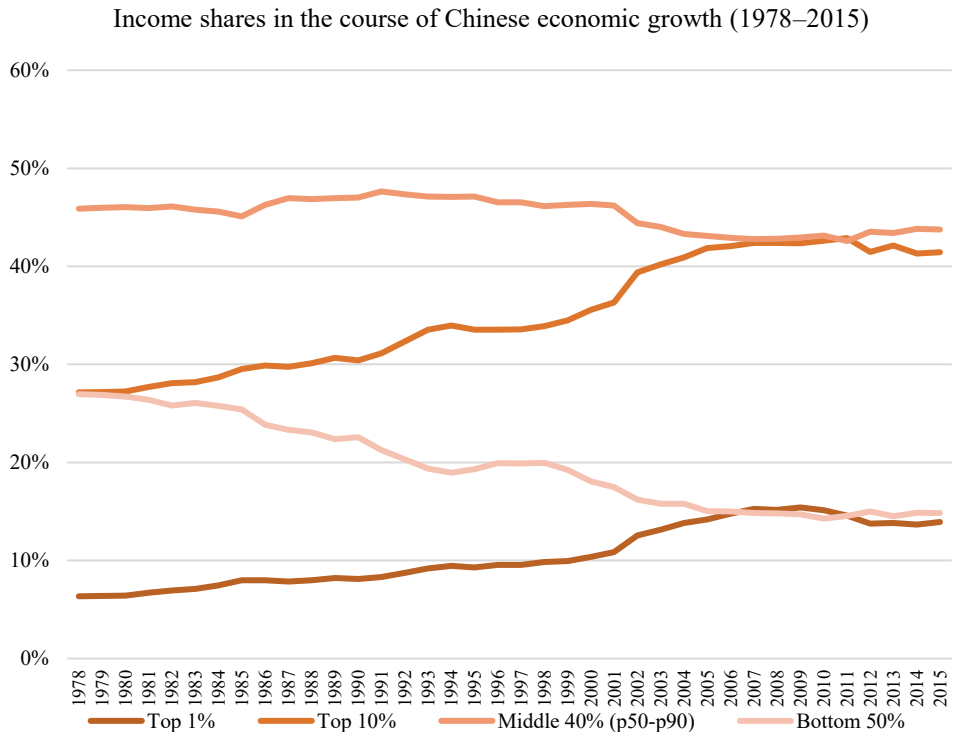



Figure 2: Income shares in the course of Chinese economic growth (1978–2015) (designed by the author). Source: WID.world 2020.

## Outlook

Income inequality is likely to have already peaked in China due to two outcomes of the analysis. First is the trend of decreasing indicators of income inequality as well as poverty according to a variety of measures. In China, income inequality is lower today than ten years ago. However, between 2015 and 2018, the Gini index increased every year for the first time since its peak in 2008. Nonetheless, China is some way from reaching the relatively high level of income inequality amounting to a Gini of 49.1 (NBS) or 52.0 (PKU). Moreover, according to the Gini index, income inequality was still lower in 2017 (46.7) than in 2003. Second, the analysis of government actions

suggests increased efforts to reduce income inequality, including increases in public spending and the 2018 tax reform. Hence, the outlook, based on this article's findings, suggests that China's highest income inequality level has been reached and is not likely to be exceeded in the near future, despite increasing Gini indices from 2014–2018.

In the case of Korea, the prognosis is similar yet supported for different reasons. Korea's income inequality has been substantially lower than that of China according to the Gini index. As such, when taking into consideration the entire Korean income distribution by looking at Gini coefficients, it becomes evident that income inequality has decreased in the past four years; it is, however, greater today than at the beginning of the millennium. Top income shares suggest that income inequality has risen since 2000. However, mainly underpinned by Korea's substantial increase in government action towards reducing income inequality, the outlook for Korea is similar to that of China: the peak has been already reached. Thus, income inequality is likely to have peaked based upon the ten per cent top income shares as an indicator. Korea has implemented a range of government actions specifically targeting the redistribution from the top ten per cent towards the rest of the income distribution spectrum, including comprehensive redistributive tax reforms in 2018 as well as specific social spending policies. Thus, income inequality is likely to have reached its height in Korea too. Compared to China, however, it is less supported by income inequality measures but more strongly reinforced by government actions.

## Conclusion

This article's analysis of government action demonstrates that China and Korea's efforts in redistributive fiscal policy measures increased in the recent past. Not only did both countries increase their public spending in health, education, and social protection spending, but the two governments also implemented progressive tax reforms for personal and business income taxes. However, Korea's efforts to reduce income inequality by fiscal policy can be assessed as greater than that of China. This finding adds to the existing literature as Chinese and Korean government actions to combat income inequality have not been comprehensively compared to date. Along with different efforts in the two policy areas, this article further finds that China and Korea pursue different strategies in order to combat income inequality in their respective nations.

China aims to address income inequality at the bottom of the income spectrum through support programmes for the income-poor, lowering taxes, and expanding bottom income brackets in personal income tax reforms. In contrast, Korea tends to tackle income inequality at the top of the income spectrum by implementing social policies excluding top income earners as well as increasing tax rates for corporations and high

personal incomes. Overall, both China and Korea appear to actively respond to the distinctive characteristics of their income distributions. China tends to target the bottom more intensively, whereas Korea is inclined to direct policy action to the very top of the income spectrum.

Comparing measures of income inequality in China and Korea demonstrates that income inequality in China is greater than in Korea. Accordingly, the Chinese and Korean Gini index amounts to 46.5 and 35.5 respectively, suggesting a relatively large difference of more than ten Gini points. However, this picture turns around when examining top income shares. In 2000, the top ten per cent of the Korean population captured more of the total income than their Chinese counterparts. Overall, China and Korea's income distributions have distinctive characteristics overall. While China still faces vast disparities at the bottom of the income spectrum, Korea's income inequality can to some extent be explained by a concentration of income at the top of the income spectrum. Next to discussing these characteristics of income inequality in China and Korea, this article further prompts that the Chinese and Korean governments respond to these very same structures of income disparity.

This article's findings are relevant in order to understand income inequality in East Asia from two angles, namely through analysis and contrast of government actions as well as assessment and comparison of established income inequality measures. As a result, this analysis provides a comprehensive picture of income inequality in China and Korea, in turn adding to existing literature in the field. Furthermore, opportunities for further research have been pointed out.

## ABBREVIATIONS

| | |
|---|---|
| ADB | Asian Development Bank |
| BRIC+ | Brazil, Russia, India, China, + |
| CHIP | Chinese Household Income Project |
| CIT | Corporate Income Tax |
| CNY | Chinese Yuan |
| CRI | Commitment to Reducing Inequality Index |
| HCR | Head Count Ratio |
| IMF | International Monetary Fund |
| KOSIS | Korean Statistical Information Service |
| KOSTAT | Statistics Korea |
| KRW | Korean Won |
| LIS | Luxemburg Income Study |
| MOHW | Ministry of Health and Welfare (Korea) |
| NBS | National Bureau of Statistics (China) |
| OECD | Organisation for Economic Co-operation and Development |

| | |
|---|---|
| PIT | Personal Income Tax |
| PKU | Peking University |
| PPP | Purchasing Power Parities |
| SFLC | Survey of Household Finances and Living Conditions |
| UNU- WIDER | United Nations University World Institute for Development Economics Research |
| VAT | Value Added Tax |
| WID.world | World Inequality Database |
| WIID | World Income Inequality Database |

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