

# Income Inequality in China

Jinjun XUE\*

## 1. Introduction

In 1980, the father of China's Reform and Opening-up, Deng Xiaoping, put forward the idea that "China should 'double its national income'" after referencing Japan's "National Income Doubling Plan". Since then, the income of Chinese citizens has doubled, or even quadrupled, every 10 years. In the 30 years from 1980 to 2010, China's GDP grew by 9% annually and in 2010, it surpassed Japan to become the world's second largest economy. Its export volume has also surpassed that of Germany and become the largest in the world. The IMF predicted (*World Economic Outlook 2011*) that if China continues its high-speed growth and the US economy stagnates, China would overtake America as the world's largest economy in 2016, much faster than economists and international organizations have predicted<sup>1</sup>. Meanwhile, living standard of Chinese people has been better off their GDP per capita increased from US\$ 313 in 1980 to US\$ 4200<sup>2</sup>, ranked as up-middle income economy. Furthermore, the 12th Five-Year Plan for the National Economic and Social Development, passed by the 11<sup>th</sup> National People's Congress in March 2011, proposed that GDP per capita should be doubled again, namely to US\$ 8400 by 2015.

However, behind these "lights" there exist some "shadows". The issues of increasing income disparity, nationwide environment pollution, spreading official corruption, serious conflict between the public and the governments, and so on are some of them. On the other hand, as we knew from international experience that when a nation's GDP per capita got to \$3000 and above, it may enter a transition phase in which some problems such as income inequality, social conflict and political risk will come about. These problems may make its economic growth stagnated and induce the country into an instable situation both in society and politics if the national couldn't pass through economic and social transition smoothly. Consequently the country may not be able to have a sustainable development and promote its income growth but fall in a "Middle Income Trap".

China is now on the cross-road of the above transition phase and facing to the "Middle Income Trap".

This paper will introduce you the process of China's rapid economic growth and discuss the issue of income inequality using the data sets of China Household Income Project (CHIP) and China Urban Labor Survey (CULS) in addition to the public data of the government. Moreover, the main factors causing these problems will be examined from the aspects of the policy orientation and market factors.

This paper is composed of 5 sessions. Session 2 presents income inequality in China by different

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\* Jinjun Xue, professor of economics at Graduate School of Economics, Nagoya University, Japan.

<sup>1</sup> Wall Street Journal Japanese version, April 26, 2011.

<sup>2</sup> World Bank, World Development Report 2011.

measures; Session 3 give an explanation to the Income Kuznets Curve and predicts the future trend of income distribution in China; Session 4 will implies some economic and the social meaning of income inequality for the future development.

## **2. Income Inequality in China**

During the era of Mao Zedong, for about 30 years starting in at the beginning of the 1950s, China advanced a socialist planned economic system under the slogan, “Make all people equal.” Under that system, urban workers’ wages were all set at the same rate and fixed for long periods. Even in rural areas, there was little income disparity, because under the people’s commune system agricultural income was distributed nearly equally irrespective of efforts. This meant that there was no serious problem with inequality, despite some degree of it. On the other hand, this injudicious equality did not give people the incentive to work, leaving production inefficiencies nationwide and preventing the people from rising out of poverty. For the reason, China was called “a poor socialist country with egalitarianism. However, in the era of Deng Xiaoping, China espoused a “let those who would become wealthy first, do so” policy to boost labor incentives, and set markedly divergent incomes in each area, among regions, among industries, and among job types. Then free market principles were introduced, leaving workers’ wages and farmers’ income to be determined by the market. Consequently, while China has been achieving its improvements of industry and agriculture productivity and enjoying the rapid economic growth, income gaps among regions and classes has been widening and become a serious economic and social problem. Aggravating the expanding disparity is the identification of problems such as bureaucratic corruption and distorted government policy.

This section will analyze three separate types of disparities: urban-rural disparities, inter-regional disparities, and income disparities among residents in both urban and rural areas.

### **2.1 Urban-rural Income Gap**

There is an expression, “urban area looks like Europe and rural area looks like Africa in China” that accurately conveys the polarization of China’s “thriving cities” and its “impoverished countryside.” This was the frank impression of a German ambassador who was stationed in China, expressing quite well the contrast between China’s urban and rural areas.

The urban-rural gap is not only a problem of the present day, but actually started from 1949 with the establishment of the new China. However, since the reforms and opening-up of the country, this gap has continued to widen speedily. While there are a variety of contributing factors to be explained, in China’s case it does not seem an exaggeration to say that the disparities have been primarily caused by the government’s policy orientation of emphasizing heavy industry over agriculture and cities over the countryside.

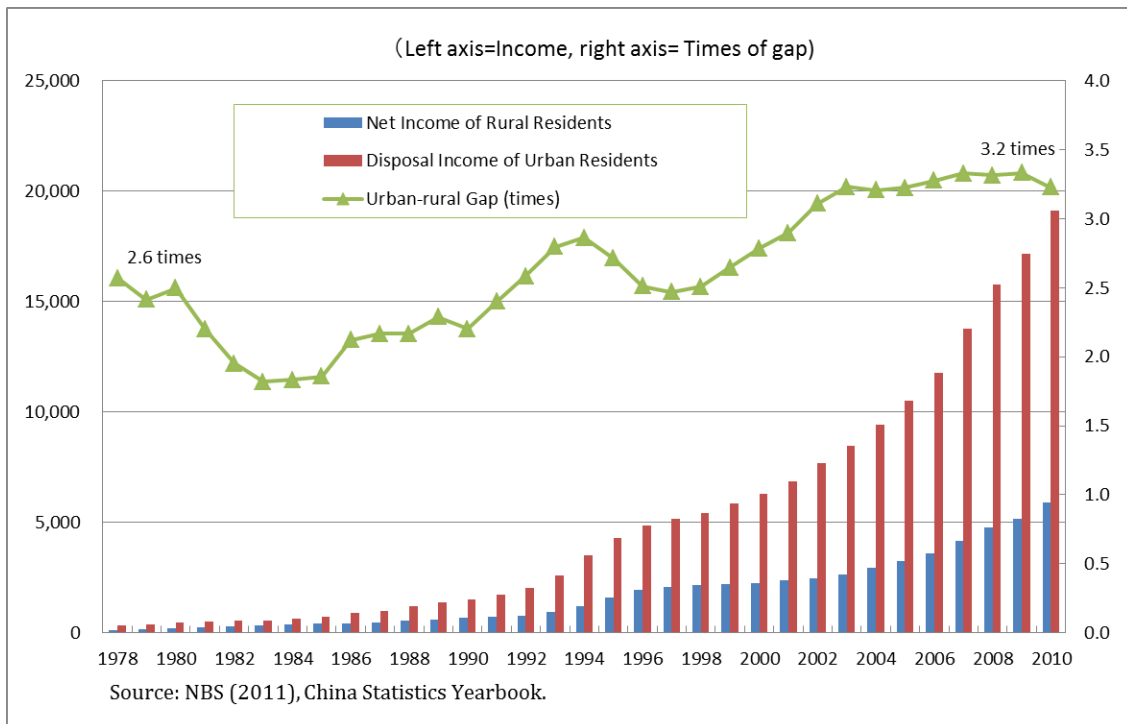
One policy factor is the government’s strategy to promote heavy industry based on a belief that that is the path to success. Starting in the 1950s, China began implementing a development strategy that preferentially focused on heavy industry as the development model in the former Soviet Union, based on Marxist economic theories. In 1958, the country embarked on the Great Leap Forward Campaign under the slogan, “China must surpass the United Kingdom in 10 years and the United States in 15 years.” Amid frenetic advancement of industrialization and urbanization, the government began implementing differential prices where industrial goods were set with high prices and agricultural

goods with low prices, in order to support industrial output and guarantee the food supply for urban residents. This policy induced a “scissor differences” problem (a reference to the fact that, when the price indices are graphed chronologically, the prices of agricultural goods trend down while the prices of industrial goods trend up, forming a scissor-like pattern) in the price of agricultural and industrial products, stripping countryside residents of much of their profits and beginning to expand the income disparity between urban and rural areas.

Another government policy factor is the urban residence registry system (named *hukou* in Chinese) segregating cities from the countryside. Up to 1978, approximately 80% of China’s population was rural statue, whereas the figure is currently approximately 60%. During the Great Leap Forward Campaign, to prevent excessive migration into the cities and secure food supplies for city residents, starting in 1958 the government implemented the urban residence registry system (under which rural residents not registered in the cities could not enjoy urban lifestyles, housing, education, employment, welfare, retirement pension, etc.) that managed urban residents separately from rural residents. Because of this system, until the 1990s the cities were segregated from the countryside, preventing large-scale labor migration from rural to urban areas.

In addition to the existence of the urban residence registry system, the government’s policy preference to emphasizing industry, urban areas, and urban residents over agriculture, rural areas, and rural residents has made China into a dual economy and society, and has resulted in a disparity between the cities and the countryside. As shown in **Figure 1**, urban-rural gap, measured by rural household average net income (income less administrative expenses and taxes) and urban household disposable income (earnings after tax and social insurance expenses) reached 2.6 times as of 1978. Although the gap shrunk to 1.8 times thanks to the implementation of the farm management contract system and other rural reforms starting in 1978, the disparity resumed its expansion starting in 1984 when the focus of the reforms was shifted to urban areas, and had increased to 2.9 times as of 1994. Thereafter the gap temporarily decreased because of a surge in the price of agricultural products, but the disparity factor had grown all the way to 3.2 time as of 2010 (China Statistics Yearbook, 2011). It has been pointed out that this figure is still an underestimate, with some scholars holding that China is the most unequal society in the world, because the urban-rural disparity is at least 6 times large when taking into account factors such as the fact that rural residents do not enjoy the privileges that urban residents do, namely benefits and social guarantees such as medical insurance household allowances, corporate pensions, unemployment payments, guaranteed minimum wages, and financial assistance for schooling and educational investment. (Li and Yue, 2004)

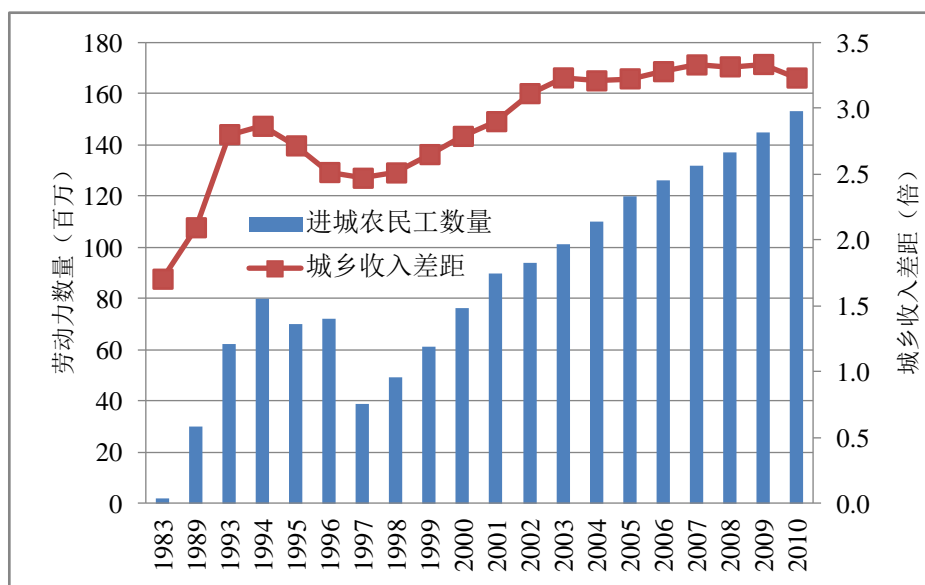
In addition, if we analyze the urban-rural disparities, urban disparities, and rural disparities using the Theil index and calculate how much they each contribute to the overall level of inequality, we find that the figures are 43%, 19%, and 38%, respectively. Accordingly, the urban-rural disparities account for more than 40% of the total, and appear to be the largest factor explaining the inequality. (Li and Yue, 2004)



**Figure 1: Urban-Rural Disparities in China**

According to the Lewis' theory of labor migration, in developing country, there exists a dual economy, due to the income gap between urban area and rural area will induce labor migration from agricultural sector to industrial sector until all surplus labor had been used out. At final, the urban-rural income gap will be vanished and then the industrialization will be comprehended. In the case of China, however, owing to the urban residence registry system, labor migration had been restricted from the 1950s to the 1980s, and this regulation induced a continuing increasing of urban-rural income gap. The urban residence registry policy has been easing since the latter half of the 1980s due to the improvement of agricultural productivity and the labor shortage induced by rapid growth of urban economy. However, from 1980s-1990s, labor migration was limited in certain areas or within the same region. From later of 1990s, Chinese government deregulated labor policy and allowed gradually labor migration between rural to rural, local to local and finally rural to urban areas, migrant workers still have to come back to their hometown even though they have lived in the city for years. Just because of the contradictory policies, the labor market has been segmented and the labor price has distorted and finally, there induced a phenomenon that millions and millions migrants had rushed in to urban areas while the urban-rural income gap has not been shrink but continue to widen.

Figure 2 shows a co-relationship between labor migration and urban-rural income gap. It indicates that accompanying an increasing urban-rural gap, a large numbers of migrant workers flowed into urban areas from the countryside, numbering 70 million at the end of the 1990s (Minami and Xue, 2000), and had reached 130 million, or 24% of the rural labor force, in 2008. (Cai, 2009) and 150 million in 2010 (MOA, 2011). However, since migrant workers are very difficult to attain urban statue even if they go to urban areas, and for that reason are unable to gain employment in official sectors in urban areas and partake of urban education, job security, residences welfare, pensions, or other benefits, a disparity with urban workers has developed in terms of wages and benefits. Many surveys place migrant worker wages at less than 70% of those of urban workers (Table 3) (Du and Xue, 2011).



Source: NBS, *China Statistics Yearbook 2009*; Ministry of Agriculture, *Labor Survey 2011*.

**Figure 2 Urban-rural Gap and Labor Migration in China**

**Table 1 Wage Disparity between Urban Workers and Migrant Workers**

Year	Migrants (NBS)		Migrants (MOA)		Local Workers		Wage Difference as share of LW, times
	Nominal	Real	Nominal	Real	Nominal	Real	
2001	644	644	-	-	903	896.7	<b>1.39</b>
2002	659	665.7	-	-	1031	1041.4	<b>1.56</b>
2003	702	702.8	781	774	1164	1153.6	<b>1.64</b>
2004	780	755.9	802	776.4	1327	1284.6	<b>1.70</b>
2005	861	821.3	855	841.5	1517	1493.1	<b>1.82</b>
2006	946	889	953	938.9	1738	1712.3	<b>1.93</b>
2007	1015 <sup>a</sup>	912.8	1060	1014.4	2078	1988.5	<b>2.18</b>

Note: "a" is the average monthly earnings for the first three quarter in 2007.

Source: Xue and Du (2010).

Source: urban local wages are from China statistical Abstract in 2008, and migrants wages are from Statistical Report of NBS and Research Center of Rural Economy, MOA.

The Chinese government recognizes this issue and considers increasing farmers' income an important policy challenge. In the 11<sup>th</sup> five-year-plan of social and economic development, the government emphasizes that its most important issue is rural measures to arrest the widening gap between cities and the countryside. Moreover, to solve the "Three rural issues" and lessen the burden on rural residents, on December 29, 2005, a resolution was adopted at the 19<sup>th</sup> meeting of the Standing Committee of the 10<sup>th</sup> National People's Congress to abolish the "agriculture tax ordinance" starting on January 1, 2006, thereby doing away with the agricultural taxation system that had been in place for 2,600 years. According to the data of the Ministry of Agriculture, in the 28 provinces that succeeded in waiving the agricultural tax in 2005 ahead of schedule, the burden on farmers was reduced by 22 billion yuan, resulting in substantial benefit for some 800 million farmers. Furthermore, viewing delays in infrastructure development as a factor in rural poverty, in 2006 the government

spent 151.3 billion yuan on road construction in rural districts, to improve 325,000 kilometers of roads. Simultaneously, the government also spent 2.417 billion yuan to set up 4,646 passenger terminals in rural areas nationwide, as well as 29,300 bus stops and other vehicle pickup locations. In addition, at the National People's Congress in March 2007, a new set of policy measures is scheduled to be hammered out to exempt all future tuition and miscellaneous expenses for compulsory education of the children of rural residents in the western part of the country. At a press conference for the National People's Congress, Premier Minister Wen Jiabao indicated the government's determination to solve the unemployment, poverty, and disparity issues and espoused new measures, stating, "What is most important at this time is to promote equal opportunity in education. We will implement proactive employment policy measures, gradually shrink income disparities, and establish a social insurance system that covers cities and the countryside. Laws have already been enacted to waive the agriculture tax and special agricultural products tax, and to make the nine years of compulsory education free. Going forward, we will enact laws to create a minimum lifestyle guarantee system that covers cities and the countryside. We are also currently proposing a medical and sanitation business reform act for cities and the countryside, and this will also ultimately become part of the system." These initiatives represent acceleration in measures to protect farmers, and these efforts are expected to ameliorate the relative poverty of rural areas going forward.

However, the advancement of industrialization and urbanization is increasing the incomes of urban residents faster than that of rural residents, and no matter how good a policy is implemented the urban-rural income gap is widening. It is certainly no simple matter to eliminate the urban-rural disparities.

## **2.2 Regional Disparities**

In China, since the era of the centralized planned economy, economic regions have been divided into three: the East, the Central, and the West. The eastern region consists mainly of 12 provinces and direct cities, including Beijing, Shanghai, Tianjin, Jiangsu, Zhejiang, Guangdong, and Fujian, and is the most developed region. The central region consists of nine provinces, cities and autonomous areas, including Henan, Shanxi, Jilin, Heilongjiang, and Hubei. The western region consists of 10 provinces, cities, and autonomous regions, including the city of Chongqing (a government-ruled municipality), Sichuan, Guizhou, Yunnan, Sichuan, Shaanxi, Gansu, Qinghai, Xinjiang, and Tibet. Under the planned economy, China implemented a balanced development strategy and diverted financial resources to each region in a roughly equal manner. Moreover, in the era of Mao Zedong, many state-owned enterprises and heavy industry corporations were placed inland because of the Taiwan issue, conflicts with the United States and former Soviet Union, and other military strategy and political reasons. However, in actual practice, funding, management and technical problems prevented China from achieving effective economic development. Starting in 1978, the Chinese government chose a strategy of unequal development like a terraced rice field ("gradual development") via the philosophy of "letting those who would become wealthy first, do so," and implemented preferential policy measures for coastal regions, directing government funding, foreign capital, technology, and human resources to the eastern region. This resulted in the eastern region developing ahead of the rest as an advanced region. However, even as the eastern region functions as the driver of the country's rapid growth, the economic disparity between the coastal and inland regions is growing. As shown in **Table 2**, to look at the differences in average income among the three major regions of the country, if we set the eastern region at 100, the relative average incomes of the central and western regions in 1980 were 68 and 57, respectively, falling gradually thereafter to 68 and 55 in 1985, 64 and 53 in 1990, and 54 and 44 in 1995, finally reaching large disparities of 44 and 35 in 2000. Recognizing the problem of regional

disparities, the government extended the preferential measures being carried out in the coastal regions to certain inland regions, and starting in 1992 began to expand the open regions to include many inland regions. Furthermore, in 2001 the government hammered out a major development project for the western region and has commenced a full-fledged effort to correct regional disparities. The project has entailed loans, infrastructure improvement, and spread of education, technology transfer, and assistance from the eastern and central regions to the western region. This resulted in a gradual shrinking of the gap between the western and eastern regions, and between the central and eastern regions, from 2000 to 2005. However, the differences with the eastern region in terms of geographical conditions, infrastructure, capital, human resources, and technology are so large that, even in 2008, incomes in the western and central regions were still only 41% and 47%, respectively, of those in the eastern region. It appears it will take considerable time for the gap to shrink.

**Table 2: Trends in Regional Disparities**

Year	1980	1985	1990	1995	2000	2005	2008
Actual Income (yuan)							
Nationwide	447	825	1,607	4,804	8,167	15,468	25,555
Eastern	569	1,058	2,103	6813	1,3698	25,130	40,116
Western	389	714	1,346	3,664	6,045	11,992	19,006
Central	322	580	1,120	2,973	4,758	9,281	16,376
Index (eastern = 100)							
Eastern	100	100	100	100	100	100	100
Central	68	67	64	54	44	48	47
Western	57	55	53	44	35	37	41
Source: Compiled from China Statistics Yearbook, 2009 CD-ROM version, and other yearly versions.							
Note: 2008 figures calculated from real gross regional product (GRP).							

Major factors that could be pointed to as contributing to regional disparities include differences in government policy, geographical conditions, and levels of infrastructure development, but other related factors include the amount of foreign investment, whether there is export orientation, the development level of local businesses, the number of state-owned enterprises, and especially the differences in the education levels of residents. According to government-published data, the central government's rate of disbursement of education expenses to each region (the percentage of education expenses to distributed to each region out of total education expenditures) in 2005 was 56% to the eastern region and a mere 18.6% to the western region. It is clear that the central government's policies are slanted toward the eastern region. Moreover, according to recent research on the relationship between income disparities and educational disparities, China's inter-regional disparity in education levels appears to be a factor in its inter-regional income disparities. (Xue, 2009)

### 2.3 Income Inequality of Residents

The Gini coefficient is often used as an indicator to express degrees of income inequality. However, because of the problems of income statistics and income reporting systems in China preventing household income surveys from being administered to all residents nationwide, the Gini coefficient for the whole country cannot be derived directly. The Urban Social and Economic Survey Department and Rural Social and Economic Survey Department of National Bureau of Statistics of China, has been taking periodic sampling surveys on the same items for urban and rural residents every year since 1985, but the data for urban and rural areas are separate and the original source data are not released to

the public, so a chronological national Gini coefficient cannot be obtained from these surveys. Although the World Bank estimated China’s national Gini coefficient using data from the National Bureau of Statistics of China, its actual figures only go to 2004 (Ravallion and Chen, 2007). Then, in 2004, the National Development and Reform Commission’s Employment and Income Distribution Department began to release Gini coefficients by urban and rural areas dating from 1978 with the cooperation of the Nation Bureau of Statistics. However, neither of these estimates included adequate source data or explanation of estimation methods. In particular, even though the above were governmental estimates, they do not necessarily match with international standards in terms of such aspects as the definition of income and the methodology of surveying, so it is difficult to say that these data are sufficiently reliable. Moreover, since there are issues of high income earners concealing their income and corruption among government bureaucrats, it is difficult to accurately measure inequalities in income distribution. Therefore, starting in the 1988, some international organizations and economists in China and other countries conducted household surveys in an effort to ascertain the actual levels of income inequality. Among these, an international research group composed of scholars from the United States, the United Kingdom, China, Japan, Australia, and other countries used Chines Social Science Academy’s (CASS) large-scale household survey (CHIP, China Household Income Project), which resulted in highly reliable numerical estimates that are often used.

**2.3.1. How Large is the Gini Coefficient?**

**Table 3** and **Figure 3** summarize the above estimates in tabular form. Whether we look at the estimates of the World Bank staff, the estimates of a Chinese government organization, or CASS’s own household surveys, we can see that China’s national Gini coefficient rose dramatically, from 0.25 in 1978 to 0.46 in 2002. Furthermore, the Gini coefficient in 2007 was even higher, at 0.478, recording a new all-time high in the CHIP survey. (Li Shi, *China Daily*, June 12, 2010)

**Urban Income Disparity:** The Gini coefficient for urban resident was 0.23 as of 1988, but since then it has risen, reaching 0.29 in 1995 and then 0.32 in 2002 (Xue, 2008). According to government’ data, the Gini coefficient was 0.34 in 2008, clearly indicating a deteriorating income distribution in urban areas as the years go by.

**Rural Income Disparity:** The Gini coefficient rural resident rose dramatically from 1988 to 1995, then improved slightly (4%) from 1995 to 2002 owing to rising prices of agricultural goods and the effect of policy measures to combat the three rural issues, but in 2008 the figure again worsened to reach a new high of 0.38.

Contrasting the disparities in urban areas with those in rural areas, we could see that the Gini coefficient is higher in rural areas than urban areas, showing that income distribution is more unequal in rural areas. Factors include the large number of extremely impoverished people in rural areas, the ultra-high incomes of the managers of rural farming businesses, and corrupt officials in rural governments. Another cause is the change in the agricultural income structure that farmers who engage in agriculture are earning less from such activities, while rural industry, management and other non-agricultural income is on the rise. (Zhang, 2010, page. 57)

**Table 3: Changes of the Gini Coefficient**

Survey Year	Urban		Rural		Entire Country	
	Gini	Rate of	Gini	Rate of	Gini	Rate of



	Coefficient	Change (%)	Coefficient	Change (%)	Coefficient	Change (%)
1988	0.233		0.338		0.382	
1995	0.286	22.7	0.416	23.1	0.445	16.5
2002	0.319	11.7	0.366	-12	0.454	2.0
2007					0.478	5.3
2008	0.34		0.38			

Sources: The Gini coefficient for 1988 and 1995, CHIP; for 2002 and 2007, Li and Yue (2004); for 2007, Li Shi (2010); for 2008, government-issued figures (Zhang 2010: 239).

### 2.3.2. How Serious is China's Inequality?

The above analysis clearly shows that China's income gap is growing. However, the questions arise of how large China's income disparities are from an international perspective, and to what level they will expand. **Table 4** is an international comparison of income inequality using datasets of the World Bank. Although we cannot say that these data are absolutely synchronized, due to differences in survey years, definition of income and contents of the survey (for example, the Gini coefficient for India is estimated based on consumption expenditure data), and survey methods employed, the table roughly reflects the income disparities in each country. According to the table, the fact that China's Gini coefficient is ranked after such worst examples of income distribution as South Africa, Brazil, and the Philippines, and higher than Thailand, Indonesia, India, and Bangladesh, reveals the seriousness of China's real state of affairs. This is one reason China is attracting the attention of the international community.

**Table 4: International Comparison of Inequality**

Country/Region	Gini Coefficient	Ration of Top 20% to Bottom 20%	Year
South Africa	0.58	20.5	2000
Brazil	0.55	19.4	2007
Mexico	0.48	11.5	2006
China	0.47	8.3	2007
Philippines	0.44	9.0	2006
China-Hong Kong	0.43	9.6	2006
Singapore	0.43	9.7	2006
Thailand	0.42	8.1	2004
United States	0.41	8.4	2000
Indonesia	0.39	6.6	2005
Russia	0.38	6.9	2005
India	0.37	5.6	2005
Japan	0.32	3.4	2003
Korea	0.32	4.7	1998
Germany	0.28	4.3	2000

Sources: WDI Database, the World Bank, various years. Figures for China from Li Shi (2010); figures for Japan from Tetsuo Fukawa (2006).

## 3. China's Kuznets Curve

How large will China's disparities become? When income distribution can be equalized? Is it possible for China to get equalized through a gradual growth path as it is said in economic theory? There are the issues international society highly concerns. Here we will examine this question by adapting income Kuznets Curve based on chronological data.

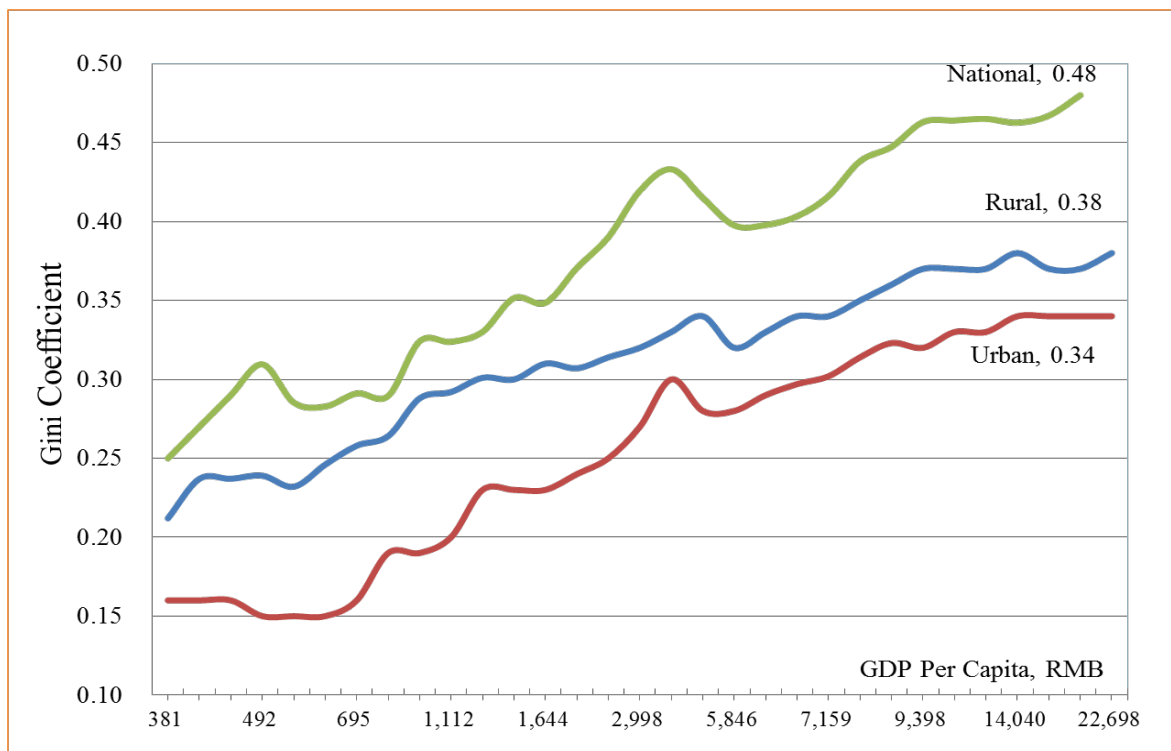
According to Kuznets, who analyzed the relationship between economic growth and income distribution in a long term, a "polarization" occurs in the early stages of economic growth between the people who find clever ways to increase their assets and income by riding the wave of economic growth, and those who are late to ride that wave, which causes the level of inequality to rise up. As the economy eventually matures and the average income rises, along with progressive income taxes and other policies, the blessings of growth reach the low-income earners, thereby decreasing the level of inequality. This rule of thumb can also be verified using data by cross country analysis. With a single country's average income on the horizontal axis and its Gini coefficient on the vertical axis, an inverted U-shape appears. This is called the Kuznets Curve. According to the Kuznets hypothesis, changes of the Gini coefficient in a country can be divided into three stages: rising stage, peak stage, and falling stage. For example, Japan and most developed countries of Europe have achieved equal societies with high incomes and low Gini coefficients, so they are in the third stage. In contrast, many developing countries are in the second stage.

Can the Kuznets hypothesis be applied to China? This is a matter of interest to many scholars. In contrast with the long-term analysis of the Kuznets curve, China's development history is still young and there is a shortage of the time series data. Although some scholars claim that comprehensive research along these lines is premature for these reasons, in order to ascertain future trends, we will here attempt to form a Kuznets Curves for China using data released by the World Bank and the Chinese government.

In Figure 3, we do not yet see a full inverted U-shaped curve, because only a little over 30 years have passed since the economic reforms and opening up of the country in 1978, and there are limits on the data. However, looking at the trend we can obtain the following results.

First, since the reforms and opening-up of 1978, China's Kuznets curve is trending upward, unmistakably indicating that the income gap is widening.

Second, as China enters its rapid economic growth phase its Kuznets curve is passing the "deterioration stage" and entering the "peak stage." However, looking at the manner in which the Gini coefficient is rising, the Kuznets curves appear not to have peaked yet. In view of such trends, income disparities in China are expected to get even worse as the country approaches the peak of its Kuznets curve.



Source: National data 1980-2004 (M. Ravallion and Chen, 2007), 2005-07, rural and urban data (Zhang Dongsheng, 2009)

**Figure 3: China's Kuznets Curves (1978 to 2009)**

## 4. Conclusions

Some economic and political implications obtained from the analyses up to this point will be indicated.

### 4.1. Economic implications

The experience of China raises a question in dilemma: should we take income disparity as an engine of high economic growth or treat it as an obstacle to social development?

Regarding measures to shrink disparities, the Chinese government is working on urban employment measures as well as measures to raise farmers' income and reduce their tax burden. It is also working on a western region development strategy, the phased repeal of preferential measures for the coastal region and on attracting investment to the interior regions, and shifting from a development pattern focused on external demand to one focused on internal demand. Whether or not these policies will pan out must be watched with diligent attention. Moreover, there is tremendous significance in the fact that China is consulting the income redistribution schemes in Japan and other developed countries, particularly their progressive income tax schemes. China is currently gradually introducing the progressive income tax scheme, yet fears remain strong that this will diminish the motivation of high income earners, who are after wealth. But for China, which has made shared prosperity its goal, there is value in paying this short-term price in order to seek sustainable, long-term economic growth.

The economic history of developed country shows us that urban industry grows rapidly during the initial stages of industrialization. But since it takes a long time for the effects from this to permeate out to rural areas, this tends to give rise to urban-rural disparities and regional disparities. Moreover, the progress of moves towards a market economy has inevitably produced both rich people and poor

people. In China there are still deep-seated opinions to the effect that the income disparities are the desired result of economic reforms, that they carry great significance in terms of improving the willingness to work and the introduction of foreign capital, and that a rapid reduction of such disparities would have a negative impact on economic growth.

#### **4.2. Political risk**

In China there is the proverb “Inequality, rather than want, is the cause of trouble.” Long ago in the Chinese history, rebellion movements arose time and time again, including those against the corruption of the bureaucracy, oppressive taxes, and farmers’ uprisings stemming from their poverty. “Equal wealth between the poor and the rich” was the slogan for mobilizing the populace back in those days. Holding this past history up as a mirror reveals the concerns that unless such disparities can be eliminated, they will act as a contributing factor to social and political destabilization. The riots which occurred in Lhasa, the capital of the Tibet Autonomous Region, in March 2008 and the large-scale insurrection which occurred in Urumqi in the Xinjiang Uygur Autonomous Region in July 2009, the migrant workers’ demonstration in Guangdong province and some coastal areas in May 2011, are not simply ethnic conflicts independence movements and a mere request for wage rise. The regional disparities and income disparities between ethnic groups which have persisted for a long period of time are also thought to be important contributing factors behind them. Furthermore, there have been demonstrations and strikes by workers at foreign companies—mainly Japanese companies in the coastal regions—that started in the fall of 2009 and have persisted down to the present. While there are certainly problems with the management systems at and the responses by these companies, these could also be characterized as an outburst of dissatisfaction with urban-rural disparities, regional disparities, and disparities among residents. There is no denying the fact that the risk of internal problems shifting out into the international community is becoming more pronounced. A series of editorials that ran in Xinhua News, a state-run newspaper company, in May of this year offered the strong warning that, “China’s Gini coefficient is already over 0.5, which poses the possibility of ushering in social unrest” (*Economics Report* from May 21, 2010). Amidst such circumstances, the feeling is that reducing the urban-rural disparities and regional disparities as well as rectifying the gap between the rich and poor within rural and urban areas is extremely important for China, which is after continuous economic development.

China’s characteristics of economic growth is a growth that started from the changeover to reform and opening-up policies, in other words, it is development that came from the forceful leadership of the government. Because of this, the occurrence of problems like poverty, unemployment, and income inequality are mainly closely linked to government policy. For this reason, unlike with other countries it will be difficult to eliminate income inequality and China’s other problems naturally by means of economic development. The thinking is that these should not be eliminated by forceful policies on the part of the government. However, the Chinese government has adopted a number of income policies thus far, but these have been severely limited in their outcomes and are nowhere near to eliminating the problems from inequality. Therefore, the hope is that China will perform an international comparison and propose better policies.

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