

## **Unequal economic opportunity amidst rapid economic growth in China**

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### **ABSTRACT**

China has been achieving unprecedented successes since reform began in 1979. Nevertheless, anomalies have also been emerging alongside glaring successes. This paper is a discussion on the topic of growing income inequality in China. The issue requires appropriate and prompt macro policies before it metastasizes into an unwieldy social and political dilemma.

When reform began in 1979, China identified competitive niches for development in the early 1980s. China's development policies helped actualize the potentials of such niches. Over the recent decades, the development sceneries have been changing. The accelerating pace of globalization and the integration of world markets is a relatively new world order. As a result, China's competitive edges that existed decades ago have been ceding grounds to the evolving economies in the region. The less developed segments of society and the vast regions of the less developed parts in China are potential new niches that help can sustain the nation's strident march toward a more developed and equitable economy and society.

This paper presents by a brief discussion of the major factors contributing to the anomaly of rapid increases in income disparities. The paper concludes with select recommendations for leveling the playing field so that all may reap equitable benefits from China's reform successes.

Keywords: China, inequality, income, economic opportunity

## AN INTRODUCTORY NOTE

Since economic reform began in 1979, China has been achieving unprecedented successes. China's experience with systemic transformation can rightfully claim to have added a new chapter in the history and theory of systemic transformation and economic development. Nevertheless, anomalies have also been emerging alongside glaring successes. Extensive underemployment and disguised unemployment, widespread abuse of power by lower level bureaucrats in select rural regions, incidents of social unrest, pervasive corruption, and housing and stock market bubbles are just some of the challenges facing the administration. This paper is a discussion on the topic of growing income inequality in China. The issue requires appropriate and prompt macro policies before it metastasizes into an unwieldy social and political dilemma.

This paper first provides a brief background on the political and economic scenarios in China since the founding of the People's Republic of China. It is followed by a cursory discussion of reform policies and processes and a brief review of the literature. Select quantitative indicators illustrating rising income inequality between the haves and the have-nots will be presented. That is followed by a brief discussion of the major factors contributing to the anomaly of rapid increases in income disparities. Finally, the paper concludes with select recommendations for leveling the playing field so that all may reap equitable benefits from China's reform successes.

### A Background Note (1949 - Present)

Atop Tiananmen Square on October 1, 1949, Mao Ze-Dong declared to the world the founding of the People's Republic of China (PRC). Mao was to be the great helmsman that would steer China along the path of rapid economic growth. After 27 years of Mao's dictatorial reign, China remained a country that had been left farther and farther behind the rapidly growing economies of the West and of the four Asian Tigers. With the demise of Mao in 1976, a new chapter dawned in the annals of China's economic history.

Deng Xiaoping, labeled as an 'opportunist' by Mao during the tumultuous cultural revolution of the 1960s, succeeded Mao as China's paramount leader. Though a staunch first-generation Communist, Deng was a pragmatist. The economy he inherited was structurally rigid and functionally inefficient. Mao's centralized Plan system left China's economy devoid of the dynamism of market forces. There was no work incentive. There was no entrepreneurial spirit. There was no purchasing power in an economy that also experienced perennial shortages of the most basic of consumer goods.

Pragmatic Deng recognized the imperative of economic reform and restructuring. It in effect meant a systemic transformation, transiting from a centralized Plan-dictated economy to one that is market coordinated and market driven. The Communist Party's Third Plenary Session of the Eleventh Congress on December 22, 1978 approved Deng's reform proposal.

Deng witnessed and was himself a victim of indescribable chaos consequent upon Mao's periodic political purges. For reform, Deng insisted on the absence of chaos or in-stability. The Communist Party remained as the sole arbiter of reform policies. The Central Planning Commission remained as the primary coordinating mechanism for the whole economy. However, the market's coordinating mechanism of supply and demand was permitted to 'supplement' the state's Five-Year Development Plan.

Systemic transformation began in 1978. China had no experience in an orderly transition from a centralized and rigidly controlled system to one that eventually would depend primarily on the interplay of market forces. Initial reform measures began only with pilot projects in select geographical locations. Only when patent successes resulting from the pilot reform projects were realized, was a given reform policy permitted to be promulgated nationwide.

Other than the Tiananmen Square demonstrations of 1989, China's three-and-half decades' systemic transition has been orderly and exceptionally successful. However, with steady and rapid economic growth, social ills correspondingly became increasingly more manifest. Among such anomalies is the widening income gap between the rich and poor.

## **REFORM POLICIES AND PROCESSES**

Employment security and income equality were two of the standard features during the Mao era. However, after more than a quarter century of Mao's oligarchic reign, the wellbeing of the people and the nation's economy seemed to have been fossilized in a state of static immobility. Reform was imperative. Systemic transformation instead of piecemeal reform measures was perceived as the appropriate solution to thawing the long-frozen productive potentials of the masses. Deng accepted the foreseeable reality that unemployment would materialize and income equality would no longer be realizable.

To ensure orderliness in transition from a rigidly controlled and centralized economic system to one that eventually would be market-based and driven, all major reform policies began with well-defined pilot projects. By early 1979, nearly 80 percent of the people in China were still engaged in farm related activities. Reform on the farms, therefore, began China's march from having been saddled with a backward economy to one that has since become the world's second largest in the world.

Prior to reform, China was sorely in need of investment capital, modern technology, advanced managerial skills and foreign reserves. Reform, therefore, began on two fronts: decentralization on the domestic front and development of foreign economic relations

In the external sphere, China began a series of opening-up policies that would help induce foreign capital inflow and extend the frontier of foreign trade. On reforming the domestic economic structure and functioning, the central government began with an experimental project. It permitted the introduction of a 'contract responsibility' system in 1979 that involved 18 farm households in one of the innumerable agricultural communes in the country. This pilot project was carried out quietly without other farm workers' knowledge. Instead of being members of a production team in an agricultural commune, those 18 households were permitted to work independently. They first signed an agreement with the local administration that stipulated that they would deliver the assigned production quota by the end of a given period. Yields over and above the assigned quota could be sold to the state at a predetermined price. The proceeds would then go to the contract-system farm households instead of being automatically absorbed into the commune system. The exceptional successes of that pilot project assured the central government of the merits of reform and decentralization. The contract system was promulgated throughout China over the ensuing years.

While reform proceeded on farm, the state-controlled system remained in effect in urban centers and in the industrial sector. Consequently, while income on farms began a steady upward ascent, no income movement was occurring in industrial/urban centers. By 1984, land-leasing programs had effectively supplanted the commune-collective systems. The focus of reform and

systemic transformation, therefore, began to be trained on the industrial sector while farm producers were left to be on their own.

Throughout the reform decades, one of the primary instrument that the government relied upon had been China's planning-mechanism. Before reform, the State's Planning Commission (SPC) served as a key control mechanism through which the government's economic policies were planned and implemented. With the inception of reform, decentralization also granted progressively more decision-making powers to lower levels of administration and productive units. As economic performance became increasingly more efficient with corresponding phases of decentralization, China's economy was achieving growth rates that were historically unprecedented. By the end of the 20<sup>th</sup> century, the SPC was re-organized as the State's Development and Planning Commission (SDPC). Planning was more focused on development and less so on state control. Early years of the 21<sup>st</sup> century continued to witness China's 'economic miracle.' By 2003, the SDPC merged with two other state administrative units and re-named the National Development and Reform Commission (NDRC) thereby synchronizing sustained domestic reform and external economic relations. Administrative decentralization, privatization, profit incentive and the emergence of the private sector translated into significantly improved productive efficiencies.

Despite of the phenomenal successes that China has been reaping on the growth frontier, anomalies and social ills have correspondingly been appearing. Among such ills is the phenomenon of glaring income inequality that has been accompanying economic successes. The ensuing section presents select quantitative indicators that can help illustrate the issue.

## **A BRIEF REVIEW OF LITERATURE**

Simon Kuznets was one of the pioneers delving into the relationship between economic growth and income inequality in the middle of the 20<sup>th</sup> century. The 'inverted U' hypothesis he espoused has since become a standard topic in textbooks for economic development. The hypothesis stipulates that as an economy begins to grow, the income distribution correspondingly becomes more and more unequal. However, the distribution would begin to become increasingly equal after the growth process itself has matured. Numerous other studies and hypotheses pertaining to the subject have since emerged analyzing the variables that might contribute to the phenomenon of income inequality in the growth process. Urbanization and off-farm migration are two of these variables. Fiscal and monetary policies, the development and flow of financial assets, ease of access to educational opportunities, among others, are some of the other major factors that might give rise to the reality of unequal income distribution (Serhan Cevik and Carolina Correa Caro, 2015).

Li (2013) cites four factors that gave rise to urban income inequality: (1) Emergence of the private sector, (2) privatization of state-owned enterprises (SOEs) that resulted in rising urban unemployment, (3) Implementation of the new wage system based on performance in SOEs, and (4) The rise of monopoly power of privatized SOEs. Jansen and Wu (2011) suggested that the marketization process and increase in entrepreneurial spirit as well as wage disparities between the public and the private sectors during earlier stages of economic restructuring were significant factors contributing to income inequality.

Zhang (2016) suggests that once free movement was permitted, off farm migration began to take place. Even for those who could not find a job in the formal labor market, many managed to earn a living through the informal labor market. Their income would generally be higher than

if they had remained in rural regions. The author also believes that urbanization helps create income inequality in urban centers as well. That is, the income gap between those employed in the formal or in the informal sectors could be significant.

Unequal opportunity to access diverse levels of formal education, as Gan (2013) concludes, is one of the primary factors contributing to income inequality in China during the recent decades of reform. The author recommends that an effective policy to help narrow income disparity is through investment in human resource formation. That is, narrowing the productive capacity between the better educated and those less fortunate ones can effectively reduce the earning capacity between the haves and the have nots.

In an essay titled "Capitalism and Inequality in China," Wilms (2012) traces the phenomenon of income inequality in China to the country's reform policy that began in 1979. A main factor contributing to regional income disparities has been the presence or absence of foreign investment and foreign trade activities in a given geographic location. The principal beneficiaries of China's policy opening up to external economies have been the major cities along the coastlines, especially those that had a history of commerce and early industrialization prior to the founding of the PRC in 1949.

China's National Bureau of Statistics reported that the Gini coefficient had declined from .49 in 2010 to .46 in 2015, intimating that improvements had been achieved to mitigate the anomaly of income inequality. However, Hsu (2016) explained that whether income inequality in China has been widening or narrowing would depend on divergence in the regions, sectors of society and data sets being studied and used. The reality, as Hsu asserted, is that "...the poor are not much better off than they have been, and the rich are." Readily deduced from that statement is that there has been no improvement in mitigating income inequality in China.

Zhang, C., et. al. (2014) studied recent survey results from four different sources and concluded that official estimates of poverty rates in China had been significantly understated. China's National Bureau of Statistics estimated that 35 million people in rural regions in 2010 lived below the 1,196 Yuan poverty line. However, according to a study conducted by the Chinese Academy of Sciences in 2012, there were 128 rather than 35 million rural population living below the poverty line in 2010. However, based on data gathered from four recent surveys, Zhang and associates used both \$1.25 and \$1.50 per day poverty line marks to estimate the number of people living below the poverty line in 2014. Their estimates concluded that, pending on the data from the four survey results, there were between 147 to 196 million people in rural regions and 30 to 42 million urban center were living below the poverty line in 2014. That is, amidst sustained economic growth, the gap between the haves and the have-nots is notably wider than that *reported* by the official sources.

Finally, the Institute of Social Science Survey at the Beijing University carried out a nearly nationally representative panel survey in 2010, titled "China Family Panel Studies (CFPS)." The survey covered most of China's 34 provincial level administrative units that represented 95% of China's total population. After analyzing seven nationally representative data sets collected by diverse research institutions, including that of survey results from CFPS, Yu and Zhou (2014) asserted that the rising income inequality in China may be attributed to the government's development policies. That is, although meaningful economic development in China began with reform in the rural regions, the development policies since 1984 consistently favored urban over rural and coastal over interior regions. In brief, the phenomenon of income inequality in China may be attributable more to structural than functional factors.

## QUANTITATIVE INDICATORS

Figure 1 (Appendix) describes the Gini ratio of China over the last several decades. The Gini coefficient/ratio is a measure of a country's income equality. A value of 0 indicates perfect equality, meaning that all incomes are exactly the same. A value of 1 indicates maximal inequality. As observed in Figure I, China's Gini ratio was notably low at the inception of reform. That is, the overall income distribution in China in the early 1980s was 'enviably' equal. The one exception was that the average income in urban centers was marginally higher than those on farms. On the domestic scene, reform began with the agricultural sector. With the introduction and promotion of land-leasing-contract-system being introduced in the early 1980s, farmers began leaving the commune system and became independent producers. As a result, average farm income began rising while income in industrial and urban centers remained constant because no reform measure had yet been introduced in the industrial sector. As a result, even the slight income disparity between rural and urban centers that existed before 1979 began narrowing. As may be seen in Figure I, the already low Gini ratio declined further from 1980 through 1984. What deterred the Gini ratio from declining more significantly between 1980 and 1984 may be attributed to circumscribed liberalization practices in urban centers. Vendors, some self-initiated small business activities and independent service activities that were prohibited before 1979 began to appear in major urban centers. However, when the focus of reform began to shift from rural to urban and from agricultural to the industrial and service sectors by 1984, the GDP share from the industrial sector began a sustained and rapid ascent, contributing to a correspondingly rapid increase in the Gini coefficient.

Viewed from varied perspectives, Figures II and III (Appendix) illustrate more distinctly the mounting anomaly of a rapidly growing trend of income inequality. Figure II illustrates that, by the mid-1980s, the disposable income growths between the top and the bottom 20% of income earners, respectively, were not unduly unequal. However, the income gap between these two groups of income earners began widening at a disconcertingly rapid rate beginning by the late 1980s and earlier years of the 1990s. Translated into real-life scenarios, the benefits of China's rapid economic growth were being disproportionately distributed in favor of the wealthier and higher income classes. In an economy that was used to equitable, or nearly equal, distribution of incomes only not very long ago, this rapidly bulging anomaly deserved to merit increased concern from the central administration.

Figure III above illustrates wealth distribution in China between 2000 and 2014. By the year 2,000, reform had been ongoing for nearly two decades. That is, after two decades of reform, nearly 20% of the nation's wealth was already concentrated in the hands of only 1% of China's population. Thereafter, within a brief span of 14 years, wealth concentration had increased from slightly below 20% in 2000 to above 35% by 2014. By early 2017, China had 594 billionaires compared to 535 in the U.S., and "the gap (of number of billionaires between the two countries) is widening." <http://www.bbc.com/news/business-37640156>. The rapidity with which the number of billionaires has been increasing in China as well as the rapidity of growth rate in the concentration of wealth raises two cogent questions. First, what have been the contributing factors that gave rise to this anomaly? Second, what appropriate policies might be in order to rectify this social ill?

Viewed from yet another perspective, Figure IV (appendix) represents China's Gini coefficient since reforms began. In 1980, China's Gini coefficient was .3144. Compared to the Gini coefficient for the world at .43 and that of the U.S. over .40, China's .31 was impressive.

Since reforms have begun, China's income inequality as measured by the Gini coefficient has worsened to .46 by 2015. Conversely, the world's coefficient increased dramatically until 2000 with slight declines thereafter. Most researchers attribute the increase in the world's inequality to globalization and point mostly to the rise of inequality in China and India.

China's GDP soared during the earlier decades of reform. In more recent years, however, the annual GDP growth has been tapering off. The correlation between slower GDP growth and correspondingly slight decreases in the Gini ratio further illustrates the significant positive correlation between GDP growth and paralleling growth rates in the Gini. The correlation coefficient between GDP (current price) and Gini is 0.792. Data included the years from 1980 to 2015. The correlation indicates that as the GDP (current price) increases, the Gini coefficient also increases. That is, as GDP increased in China, so too does the inequality. Another way of describing this relationship is that as the country's economy grows, the gap between the rich and the poor widens.

Various multiple regression analyses were conducted using the Gini coefficient as the dependent variable and several independent variables such as GDP, the Human Development Index, the percent of people under the poverty line of \$1.90 a day, the top 10% income, and the bottom 10% of income. A variety of regression methods were conducted such as stepwise, enter, and backward. Tolerance levels were closely monitored to control for collinearity. In almost all analyses, over 77 percent of the variance in Gini was explained by the two income groups (Bottom 10% and Top 10%). When one or both of the income groups were removed from the regression, 86% of variance in Gini is explained by the percent of the population under the poverty line of \$1.90 a day. None of these analyses is surprising as Gini is measuring inequality. One would expect that a poverty gap or amount of wealth held by the rich versus the poor is what Gini is measuring. What is surprising is the  $R^2$  values in all regressions. The  $R^2$  was .860 for the stepwise regression including all the independent variable with Poverty rate.  $R^2$  is a measure describing the goodness-of-fit for the regression line. It is understood as the ratio of the explained variable by the independent variable(s) and the dependent variable. An  $R^2$  of 1.0 is a perfect fit. For complex social constructs, an  $R^2$  is rarely so high.

## **PRINCIPAL FACTORS CONTRIBUTING TO INCOME INEQUALITY**

The tide of earlier income increases in favor of farm producers began to be reversed in a relatively brief period after 1984. Wage and income increases in both state and private enterprises were sustained and rapid. Income inequality between urban and farm sectors, therefore, correspondingly began widening. The phenomenon of growing income inequality between urban and rural, and later on within urban centers as well, may be attributed to the ensuring principle factors.

(1) Foreign investment policy. Parallel with phased administrative decentralization and agricultural reform policies on the domestic front that began in 1979 was China's foreign investment policy. China was sorely in need of investment capital, convertible currencies, new technology and modern management skills. Attracting foreign investment capital would help fulfill all those objectives. The government first designated five special economic zones (SEZs) in 1980. Privileges were granted to investors from overseas if investments were made in those designated zones. All designated zones were either urban centers fronting the coastlines or had geographic proximity to sources of foreign capital. By April 1984, China designated 14 additional sites along the coastlines as 'open cities,' replete with investment incentives for

prospective foreign capital inflow (Mantzopoulos and Shen, 2011). Income gap between these select urban centers and rural regions as well as population centers in the interior provinces began widening. The principle markets for goods and services produced in designated economic zones or open cities were destined for exports. Not only wages but also earnings actualized from investments within these privileged urban centers began surging far beyond rural and less privileged regions. Wealth in all major urban centers began accumulating, prompting further investment activities and accelerating increases in income and savings. As a result, income gap between urban and rural kept widening over time.

(2) Privatization of State Owned Enterprises. Consequent upon the policy of administrative decentralization was the directive that state-owned enterprises (SOEs) were gradually to be transformed into corporations. With the exception of select few key SOEs that were deemed of critical importance to the wellbeing of the state, all other SOEs were to make their own decisions instead of being directed by the 5-Year Development Plans (FDPs). Viewed from the fiscal perspective, SOEs would henceforth no longer be allocated budgets from the FDPs. Instead, as incorporated entities, though still owned by the state until being privatized, operational losses would no longer be covered by the central budget. Survival and profit making therefore replaced meeting production quota as the primary operational objective. Profit incentives in time translated into increased productive efficiency. Both wages and earnings of SOE-transformed corporations kept growing. Income increases in urban centers thereby outpaced income growth in rural regions at an ever increasing rate.

(3) Development of the Service Sector. With increases in income and wealth in urban centers came increased demand for goods and services. New business enterprises began mushrooming in urban centers. Demand for services kept growing. Segment of population engaged in the production and service of higher-end products commanded higher wages and benefits. By the turn of the new century, China was admitted into the WTO. Among the conditions for admitting China into the organization were significant reductions in trade barriers and restrictions on services from foreign interests. Banking, financial services, insurance, communication and related service industries from both domestic and foreign interests kept growing. Wages and benefits for labor and earnings for investors in urban centers began leaving the slow income increases in rural areas farther and farther behind. As a result, income disparity between urban and rural population therefore kept widening over time.

(4) Differing growth rates between urban and rural. Deepening reform in the industrial sector and growth in the private sector in urban centers were rapid and sustained. Corresponding increases in rural areas were slow, unsteady and halting. As observed in Figure V and Table 1 (Appendix), in time, unequal income distribution between rural and urban kept widening. Off-farm migration became commonplace. For economic reasons and for abuse of powers by many lower level officials on farm, a growing number of farmers simply abandoned their farms and began flooding urban centers in search of better paying employment. In time, income inequality in urban centers became increasingly more noticeable. Figure V and Table I (Appendix) clearly reflect the reality of widening income gap between urban and rural populations.

(5) Declining GDP share by labor. While income gap kept growing between urban centers and rural regions, income equality within the urban sector itself also materialized. Two factors helped contribute to this phenomenon. First, corporatization and privatization of SOEs meant that, instead of fulfilling production quotas, firms were to operate with optimizing profit as the objective. As a result, layoffs of surplus labor or inefficient workers became



commonplace. The displaced labor that used to have an income and social benefits thus by now having no income and no social safety net to rely on while the wages of those still employed kept rising with increased productive efficiency. The rank of the urban poor was then further compounded by a large number of off-farm migrants who were either unable to land any gainful employment or worked in jobs that paid less than subsistence wages. That helped to contribute to the overall declining share of GDP by labor. Figure VI (Appendix) illustrates how the overall share of remuneration by labor began a downward trend beginning in 2007. Second, as in other more developed economies, it is capital that often reaps a greater or much greater share of increased earnings than labor. Alternately stated, the share of earnings by capital was correspondingly growing. The gap between the high income and the low segments of society thereby also help to accentuate the trend of widening income inequality in China.

In brief, a host of factors have helped contribute to the phenomenon of rapidly growing income inequality in China. The World Bank's most recent Gini coefficient estimates for Canada, the U.S. and China were .34, .41 and .42, respectively (World Bank, 2017). However, it bears to be reminded that both Canada and the U.S. have been market-based economies for centuries whereas China began the introduction of market coordinating mechanism only since the early 1980s. Alternately stated, China's growth path and its corresponding income distribution pattern suggest less than a healthy approach to economic development. The ensuing paragraphs briefly highlight select recommendations for realizing a more equitable society whose reform approach has caught the imagination of development economists.

## **CURRENT SITUATIONS AND POLICY RECOMMENDATIONS**

An ideal economic situation is a society that has a sizable and growing middle- income class with substantive purchasing power. Through the multiplier effect, economic growth and development may be sustained. China's rapid economic growth during the recent decades has been powered by foreign capital inflows and export growth. However, China's growth potentials have been eroded by a number of factors.

First, the world market has reached the saturation point with lower-end exportable products from China. Unless the quality and variety of China's exports be significantly upgraded, growth in exports will decline. As a result, a significant segment of the cumulative investments made in export industries during the past decades will be idled for lack of markets.

Second, the economies of neighboring countries like India, Pakistan, Bangladesh and Vietnam have recently been scoring successes in their respective export industries. Wages in China's industrial centers at the same time have been on a sustained increase. The neighboring countries' wages, therefore, have become more competitive than that of China's. That could further reduce the productive potentials of China's existing investments in the export sector.

Third, economic growth leads to increased imports. With widening income inequality between the haves and the have-nots, the richer consumers increase their purchases from overseas while the low income ones lack purchasing power to absorb the surplus productive potentials of the idled investments made in the export industries. Policies aimed at enhancing the purchasing power of low income households can also help minimize idling the excess productive capacity of export oriented industries.

For the factors and the desired objectives cited above, the few ensuing policy recommendations are briefly advanced for consideration. First, there are the unemployed in urban centers and there are disguised unemployed and under-employed in the rural regions.

Government expenditure policies may be implemented to create employment opportunities in less developed provinces and regions. Modernizing infrastructures in China's interior and the economically depressed regions, for instance, may help create a significant pool of hitherto less productive segments of the labor force. Modernized infrastructure thus can translate into reduced production costs and improved investment incentives.

Another recommendation is the state may implement new investment policies granting tax incentives. Such investment policies are aimed at inducing domestic investors to explore the improved investment environment in regions that are currently less developed. Increased employment opportunities for those not currently fully employed helps increase income and purchasing power. It is a feasible approach to reduce the income gap between the richer and the poorer ones in China.

A final recommendation concerns China's rapid economic growth during the past three and half decades was to a large measure due to its foreign investment and foreign trade policies. China's neighboring economies, however, have since become more competitive and are attracting foreign investments. China can adapt and adjust its policies for potential foreign capital inflows, granting special privileges to foreign capital that can help develop the less developed regions. Comparable to the SEZs in the early 1980s, the state may designate those areas in the interior that can yield the greatest positive impact for foreign capital inflows. Such positive results can then serve as fermenting catalyst for the desired multiplier effects, thereby help narrowing income gap between the rich and the poor.

## A CONCLUDING NOTE

China's historically unprecedented successes in systemic transformation and economic development help provide a valuable lesson for other less developed economies. In a brief span of three decades, China transformed itself from a less developed economy to being the second largest economy in the world. Amidst its glaring successes, however, there have also been anomalies such as corruption, social unrest, stock market bubbles, long-unoccupied new housing/office structures and growing income inequality among segments of society. It was China's strategic reform policies that helped reap bountiful dividends for the nation. Therefore, given the parallel appearance of anomalies, state policies can help reduce and minimize social, economic and political ills.

More equitable distribution of economic opportunities and gains is more than an issue of distributive justice. It is the fruit and proof of a healthy and sound approach to sustained economic growth and development. China's more recent Five-Year Development Plans have elaborated on developing China's interior provinces and less developed regions and townships. Evidence of success on that front has been less than evident.

When reform began in 1979, China identified competitive niches for development in the early 1980s. China's development policies helped actualize the potentials of such niches. Over the recent decades, the development sceneries have been changing. The accelerating pace of globalization and the integration of world markets is a relatively new world order. As a result, China's competitive edges that existed decades ago have been ceding grounds to the evolving economies in the region. The less developed segments of society and the vast regions of the less developed parts in China are potential new niches that help can sustain the nation's strident march toward a more developed and equitable economy and society.

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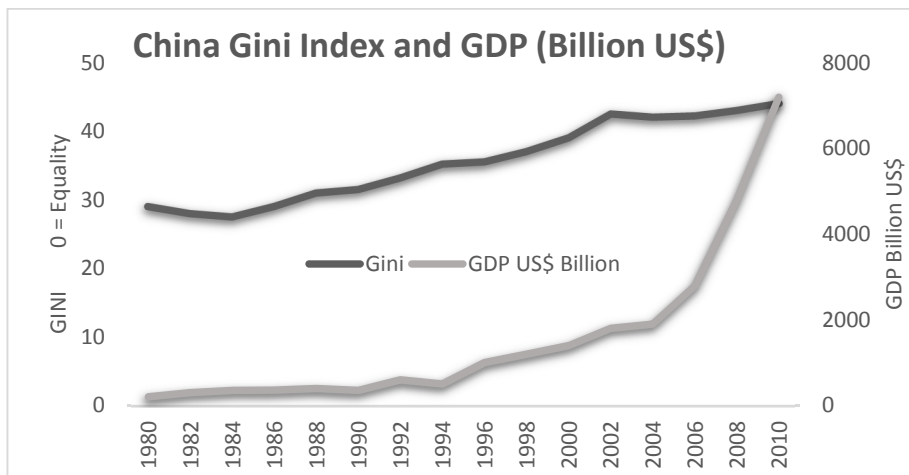
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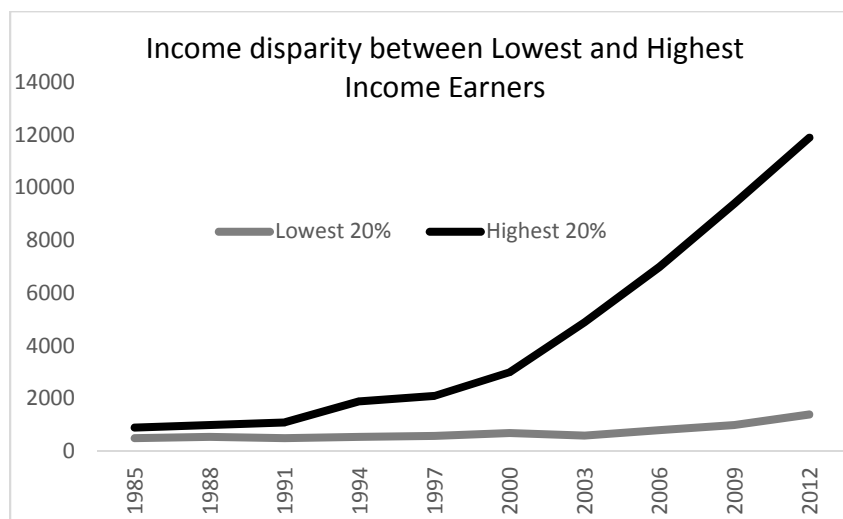
**APPENDIX**

Figure I: GDP and Gini Ratio 1980-2010



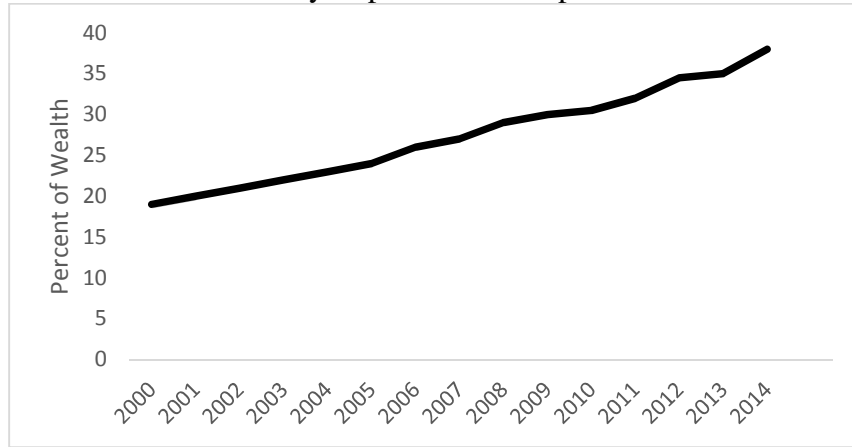
(Source: Growing Unequal: Fiscal and Income inequality in China and BRICs: IMF: 2015)

Figure II Growing income disparities between two cohorts of income earners



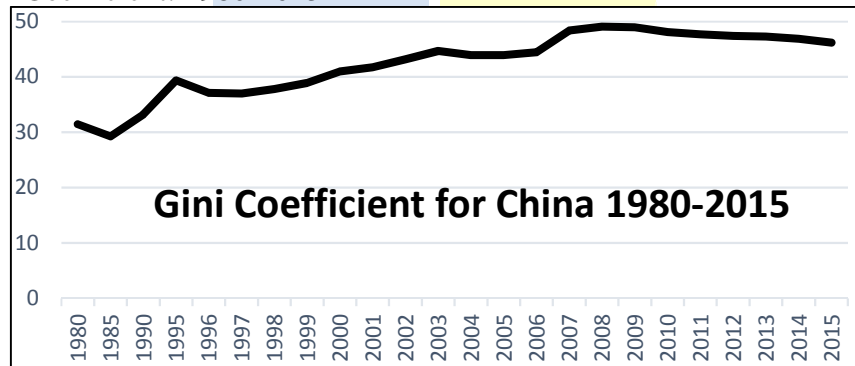
(Source: Growing Unequal: Fiscal and Income inequality in China and BRICs: IMF: 2015)

Figure III: Percent of Wealth Owned by Top 1% of the Population in China



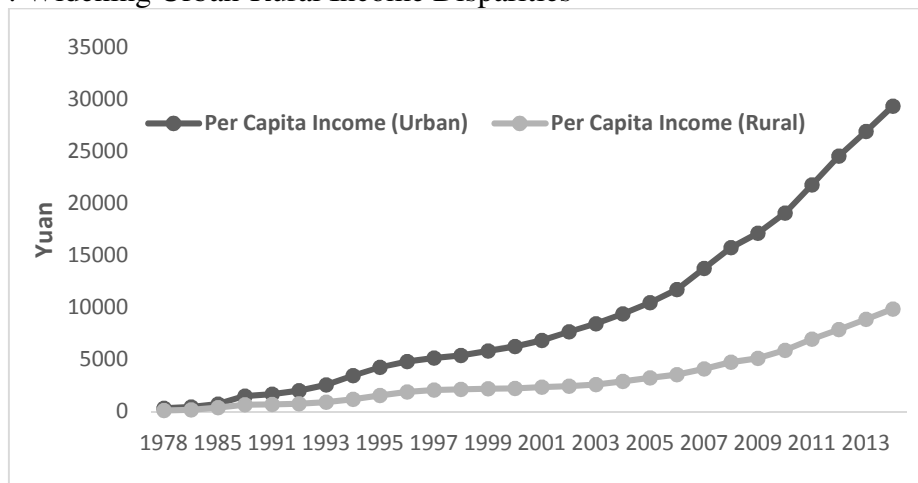
(Source: CSFB Global Wealth Data book 2014)

Figure IV: Gini Coefficient: 1980-2015



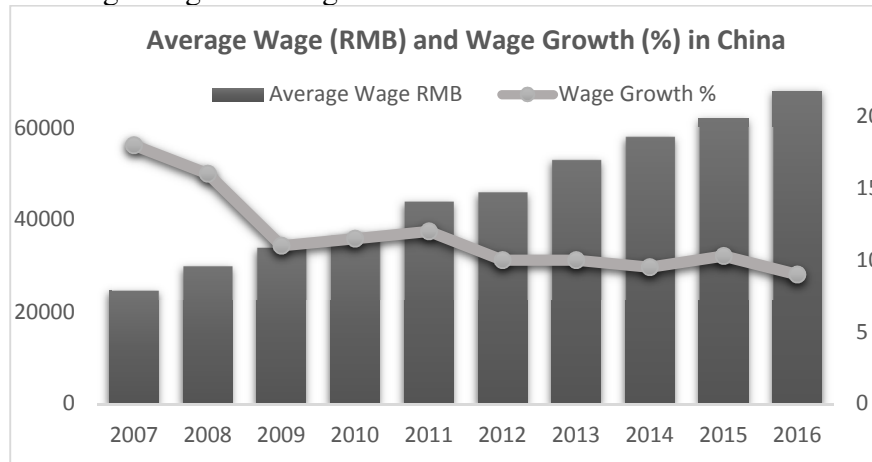
(Source: United Nation Development Program (UNDP) and Statistics)

Figure V: Widening Urban-Rural Income Disparities



(Source: China Statistical Yearbook 2015)

Figurer VI: Average Wage and Wage Growth



(Source: German Chamber of Commerce in China, page 10.)

Table 1 Per Capita Income for Urban and Rural areas.

| Year | Per Capita Income (Urban) | Per Capita Income (Rural) |
|------|---------------------------|---------------------------|
| 1978 | 343                       | 133                       |
| 1980 | 477.6                     | 191.3                     |
| 1985 | 739.1                     | 397.6                     |
| 1990 | 1510.2                    | 686.3                     |
| 1991 | 1700.6                    | 708.6                     |
| 1992 | 2026.6                    | 784                       |
| 1993 | 2577.4                    | 921.6                     |
| 1994 | 3496                      | 1221                      |
| 1995 | 4283                      | 1577.7                    |
| 1996 | 4838.9                    | 1926.1                    |
| 1997 | 5160.3                    | 2090.1                    |
| 1998 | 5425.1                    | 2162                      |
| 1999 | 5854                      | 2210.3                    |
| 2000 | 6280                      | 2253.4                    |
| 2001 | 6859.6                    | 2366.4                    |
| 2002 | 7702.8                    | 2475.6                    |
| 2003 | 8472.2                    | 2622.2                    |
| 2004 | 9421.6                    | 2936.4                    |
| 2005 | 10493                     | 3254.9                    |
| 2006 | 11759.5                   | 3587                      |
| 2007 | 13785.8                   | 4140.4                    |
| 2008 | 15780.8                   | 4760.6                    |
| 2009 | 17174.7                   | 5153.2                    |
| 2010 | 19109.4                   | 5919                      |
| 2011 | 21809.8                   | 6977.3                    |

|      |         |        |
|------|---------|--------|
| 2012 | 24567.7 | 7916.6 |
| 2013 | 26955.1 | 8895.9 |
| 2014 | 29381   | 9892   |

(Source: China Statistical Yearbook 2015)

