



LUND UNIVERSITY  
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## Some Issues Matter More

—An Analytical Report of the Social Inequality in China

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**Abstraction:** China has ascended to be one of the best performing countries in the world and is always striving to be better. China has developed its economy by leaps and bounds; meanwhile, huge inequality has been created as the result of the rapid growth. Furthermore, besides China's income inequality, other unequal factors, for instance: uneven social opportunities, ill-distributed social welfare and educational access, are much more worthy of reconsideration. Moreover, currently China's inequalities involve not only inequality among regions, but also among individuals. Narrowing down the inequality is the precondition for achieving sustainable and stable economic growth. Therefore it's of valued importance to figure out what weighs more in China's problem of inequality.

**Key words:** inequality, income inequality, social inequality, unequal social opportunities, Chinese *hukou* system, migrant workers

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## **Introduction**

China has ascended to be one of the best performing countries in the world and is always striving to be better. Dani Rodrik suggested in his paper(Rodrik,2006) that China's economy has expanded by leaps and bounds, at historically unprecedented rates that few economists would have found plausible or feasible ex ante. More importantly, this growth has lifted hundreds of millions of people from deep poverty and has helped improve health, education, and other social standards.

Since the introduction of market-based economic reforms in 1978, a transition from China's state-planned economy to a market-oriented economy was being witnessed from numerous concrete acts. Today, China has become the world's fastest growing economy. As of 2012, it is the world's third largest economy, just after EU and the United States, measured by both nominal GDP and purchasing power parity (PPP)(Altucher,2010). It is also the world's largest exporter and second-largest importer of goods. According to the IMF, on per capita terms, China ranked 90th by nominal GDP and 91st by GDP (PPP) in 2011. It enjoys an average annual per capita GDP growth rate of around 9% from 1989 to 2005 and ranks first in the world. In terms of its trading performance, China has become an increasingly important part of the global trading system over the past two decades. Its share of world exports increased from 1% to 4% from 1980 to 2000 then soared to 10% in 2010 and is expected to reach 12% in 2014(Source: WTO, IMF, CEIC). Regarding China's manufacturing miracle, its share of global high-technology exports took off from nearly 7% to almost 20% during 2000 to 2008 and nearly 7% to 27% in information and communication technology products(Source: HIS global insight, World Trade Service database, Special tabulations). However, the average wage of China's manufacturing sector is almost lowest. In 2011, its hourly wage for manufacturing sector was just 1 USD dollar per hour which ranked even behind Brazil and Mexico. Even in the metropolis Shanghai, the monthly basic wages was 260 USD dollars ranking after Seoul(\$1200), Singapore(\$900), Hong Kong(\$1300) and Taipei(\$850)(Source: JETRO, China tells). These data enables us to get a glimpse of the insuring inequalities during China's fast economic growth. That's one reason why more and more people are getting worried about China's future even though what captures the headlines remains to be its booming economy. Its fast growth

with numerous issues concerning inequalities becomes the key point that I want to pursue the reconsideration of the problem that China's inequality is not eased by its rapid development; instead, it's heightened and worsened. To achieve a sustainable economic development and growth, the problem of inequality China is experiencing asks for a dire need to be acknowledged and resolved.

What's more, China's problem is not only the income inequality, but also the social inequality. Although some data showed us that China's current poverty is alleviated to some extent, we still could not find any evidence that poor people's lives are being completely well improved. Health care and education for the poor is generally of poor quality. According to World Bank economists, the mortality rate in the Chinese countryside is "as bad as you'll find in the developing world," and four out of five peasants can't afford to see a doctor. More than 180 million rural Chinese are illiterate (Hays,2008). China's market income and social welfare are improving to some extent, however, a great amount of people are still deprived of the access to certain social opportunities and social welfare. From this point of view, China's inequality is not decreasing; instead, it's still increasing. China's leaders see the "widening gap between rich and poor as a significant threat to social and political stability." The conventional view is that the unrestrained market economy has gone too far, and needs to be tempered by policies designed to redistribute income more evenly (Chovanec, 2011). To narrow down China's income inequality and achieve a sustainable and stable growth, we need to find the fundamental cause. Therefore the key question to be answered throughout the thesis is that: does China's problem of inequality lies only on the aspect of economic income or if there exist other issues and forces at play which matter more.

In this paper, I intend to analyze China's inequality from not only the aspect of income; more attention will be paid to unequal social benefits and opportunities to explain the reason why China's inequality is now increasing but not decreasing with its rapid growth. The first section is theoretical view towards inequality. Relevant theories which pave the way for my study will be reviewed. The second section concerns the methodology employed during the study. The third section is a detailed historical review of China's transition, which will focus on the historical development of China's

economy as well as the development of China's inequality from the founding of new China in 1949 to the present. People's living standard; the gap between rural and urban China; the fluctuation and development of inequality in different periods will be introduced. The fourth section focuses on literature review, which summarizes some relevant and important viewpoints in recent decades. The fifth section explores a new analytical report which will be utilized to analyze the inequality issue from different angles. Some current social phenomenon and cases will be introduced to back up the study. The fifth section comes to the conclusion of the study.

## **1. The theoretical view towards social inequality**

In the study, I set inequality into two aspects: one is income inequality, or in other words wealth inequality, which lies in the disparity in money owned; the other aspect is social inequality, the definition of which is that social inequality is the issue related to the lack of housing, health care, education, employment opportunities and other social benefits. There exist some valuable theoretical views towards them both, which pave the way for the further study.

Modern economists pay attention to the relationship between income inequality and economic growth. While the Classical economists advanced the hypothesis that inequality is beneficial for economic development. The neoclassical paradigm, which subsequently dominated the field of macroeconomics, dismissed the Classical hypothesis and advanced the viewpoint that the study of income distribution has no significance in the understanding of the growth process (Galor,2009). Moreover, the classical idea highlighted the beneficial effects of inequality on the economic growth, in contrast, the modern perspective underline the potential adverse effects on the economic growth. To be more precise, in a modern society, when inequality has developed to a certain extent, it's harmful to the further development of economy.

Three aspects of theories which related to social inequality are also worthy to be considered: Functionalist, Conflict and Symbolic-Interactionist. The Functionalist theory of social inequality is that each individual plays his specific role in the society so that inequality is inevitable and even

necessary for the smooth functioning of society. In other words, the Functionalist theory believes that setting different classes of rewards are necessary in order to attract people to fill in both important and less important job vacancies. This perspective appeals that a variation in rewards is the only motivator for people to work hard to gain a higher position. However, the theory neglects the fact that many people born in impoverished circumstance and received low-level education, or even no education, which makes it unfair for them to compete and maximize their abilities. The Conflict perspective supports the view that each individual in the society struggles to maximize their benefits. It believes rich and powerful people force social order on the poor and the weak(CliffsNotes). The Conflict theory of social inequality believes that powerful group of people control the distribution of wealth, resources and opportunities. Therefore, social inequality is the result of profit cluster: the rich become richer; the poor become poorer. The Symbolic-Interactionist perspective, on the other hand, focused more on micro-level analysis. It considers the interaction between individuals or between small- scale groups. Their perspective of social inequality lies in the inequality in certain relationships, such as the devious behavior in a company. However, there exists criticism claiming that symbolic interactionism focuses too much on the individuals and individual interactions but neglects the larger issues of society(CliffsNotes).

There also exist some viewpoints providing useful insights into the relationship between institution and inequality. Many scholars argue that political institutions affect economic and social inequality, whereas others claim that inequality affects institutions. Ronald & MacRae (2004) suggests that exogenous changes in technology, trade, or demography alter the value of factor endowments and thus change both inequality and institutions. It also argues that changes in income inequality create incentives for political leaders to adopt new institutional arrangements such as if income inequality grows then countries will adopt less representative and democratic political institutions. By contrast, if it decreases, countries will get incentives and broaden political institutions. Calderon and Chong (2009) refers to the labor market institutions: labor market institutions are supposed to help achieve socially desirable redistributive goals. In this context, such policies may be an effective tool for reducing income inequality. However, there is growing debate on the benefits of labor policies, such

as minimum wages, mandated benefits, collective bargaining, job security or public sector employment. Lin et al. (1994) then leads us to the connection between industrialization, institutions and inequality: the heavy-industry-oriented development strategy derives a series of distorted institutions which are often urban-biased, such as household registration system which isolates rural residents from urban residents, the price scissors between industrial and agricultural products, urban-biased tax system, public goods provision, etc.

## **2. Methodology**

A qualitative research methodology was utilized to conduct the study. The study originated from the need to answer the question that if China's inequality is just about economic income or there exist other issues and forces at play. In this study, light was not only shed on the income inequality but also on the social inequality. Efforts were made on exploring people's real lives and their unfair access to social opportunities, which matters more in China's current situation. Therefore the study focused more on a micro-level analysis, which emphasized on the inequality among individuals.

The objects of study were mainly Chinese provinces. Some representative provinces and cities were selected, for example: the coastal cities Shanghai and Shenzhen; the inland area Sichuan Province. The study analyzed China's inequality of the period from New China's founding (1949) to the present, and the recent decades were highlighted. In addition, the data sets adopted in the study were Gini Coefficient and GE(Generalized Entropy) Index, which were within the range from 1952 to 2000. The source of the data was Kanbur and Zhang (2005). Regarding the remaining data from 2001 to the present, National Bureau of Statistics of China, the most reliable source in China, did not publish any Gini Coefficient after 2000. Other reliable sources such as World Bank, provides the data: 42.6 for 2002; 42.5 for 2005. In addition, according to the United Nations Human Development Report, China's Gini coefficient in 2001 was 44.7. A 2005 report from the Chinese Academy of Social Sciences said the Gini coefficient was nearly 47 in 2005. Due to the incomplete data set from 2001 to the present and obvious inconsistencies and inaccuracies with the data provided, the approach of data analysis was not emphasized.

More importantly, to analyze the social inequality, such as the unequal distribution of opportunities, social welfare and so forth, the method of case analysis is more evident and convincing. Therefore, numerous cases and examples were adopted in the study in order to support the viewpoints and theory analysis. The source of the case study was *Larry H.P Lang Say* No.142, 2010. Overall, an approach combining theory analysis, literature review and case analysis was adopted in this study. The sources of the selected cases were published newspaper articles, journal articles and television programs.

Regarding how to select the literatures, some previous studies were finally settled upon as the most relevant and helpful sources for this study. One way adopted was to search published researches through Internet. In order to make sure that relevant studies were not missed, the search terms were broad. These terms such as “Inequality”, “China”, “Income inequality”, “Social welfare”, “*hukou* system” were the most basic and effective ones. The other way to collect literatures was visiting school library. The selection took into account the recommended books during the courses, such as EKHM31.*China and the Asia Pacific Economy*. The sources included both Chinese researchers and foreign researchers. No language restrictions were employed. Moreover, some studies by well-known researchers were mainly considered, for instance: Martin Ravallion, Carl Riskin, Justin Yifu Lin and Qin Gao.

During the research procedure, a main step was to carefully exam all the papers collected. Keeping the research question in mind: if China’s inequality is just about income distribution, or there exist other issues matter more, focus was on those papers discussing more about China’s unequal social benefits and the urban-rural disparity. First, for the studies which used econometric methodologies, their results and conclusions were retained. For example, Jeon (2007) adopted A Kaldorian Spatial Econometric Approach to explore the regional income inequality in post-1978 China and drew conclusion that the secondary industry and the Chinese local government played important role in regional economic growth, and this may also explain the pattern of regional income inequality after 1990. Second, for the studies which used numerous cases, samples and investigated the relationship



between China's social inequality and economic growth, the review included the representative cases, samples as well as the results. Moreover, this kind of studies was seen as the most valuable resources. Third, for the studies which provided fresh ideas and new investigating areas, information would be absorbed into this study after ensuring their reliability. Finally, the studies with poor data analysis, weak theoretical analysis or unreliable sources were not taken into consideration in the study.

### **3. Literature review**

First of all, numerous studies have provided the pattern of China's economic performance. "Grzegorz W. Kołodko: Considering the fact that China is the most populous country in the world – having roughly 1.3 billion inhabitants, that is 20 or so percent of the global population – remarkable economic expansion of its economy and fast growth of output and standards of living of Chinese people over the last quarter of a century should be considered as one of the greatest economic achievements in the mankind's history." (Lin, 2004)

China's economic performance in the past 30 years is outstanding and remarkable. On the macro-level it has successfully dragged its people stepping out of poverty. However, China is a populous country. Therefore, on the micro-level, China is full of disparity, which is still deteriorating with its economic growth. Ravallion and Chaudhuri (2006) indicate that the aggregate incidence of absolute poverty measured in terms of consumer consumption reduced dramatically in China. However, the author highlighted more on the unevenly spread growth: some segments of the population left behind in relative and even absolute terms and this unevenness has shown up as rising income inequality. Davis and Feng (2007) compares China's inequality problem with its overseas counterparts: in the case of Taiwan and Korea, two predecessors of rapid economic growth in Asia, export led industrialization and rising GDP initially resulted in a pattern of growth with equity (Fei, Ranis, and Kuo 1979). Recent Chinese experience, however, is closer to that of Brazil, Mexico, or Indonesia where inequality rapidly increased and greater affluence further distorted income distribution.

The former Chinese leader Deng Xiaoping stated that: “Let some people get rich first”, to encourage economic growth and reduce poverty. China followed Deng’s instruction. Part of the country started to get rich from the 1990s. Shenzhen is located in the south of coastal Guangdong Province and is one of the most famous Special Economic Zones. In the 1990s, countless people rushed to Shenzhen to earn money. Moreover, numerous companies were set up every day. Shenzhen was described as constructing "one highrise a day and one boulevard every three days". Its modern cityscape is the result of the vibrant economy made possible by rapid foreign investment due to the institution of the policy of "reform and opening" and establishment of the SEZ in the late 1979. More than US\$30 billion in foreign investment has gone into both foreign-owned and joint ventures, at first mainly in manufacturing but more recently in the service industries as well (U.S. Commercial Service,2007). However, Sichuan Province, which is located in the inland area, does not enjoy such significant benefits from China’s opening-up to the outside world. Its economy showed improvement to some extent, but people are still living comparative poor lives. The expectation of Deng’s statement was that people who got rich first led and helped the remaining people become rich and achieve common prosperity. The unexpected thing is the huge inequality among regions.

Some scholars hold the opinion that China’s inequality is narrowing down. The Organization for Economic Cooperation and Development suggests the increasing in inequality in China has leveled off in recent years and could be less severe than previously thought. For example, Beijing, the capital city of China is starting to make progress in tackling one of its biggest social problems(Batson,2010). Gao and Riskin (2006) suggests that using the national China Household Income Project (CHIP) survey data, Khan and Riskin(1998; 2005) revealed declines in income inequality—slightly in urban areas but quite substantially in rural areas—from 1995 to 2002, after sharp increases between 1988 and 1995 in both areas. Lin and Yao (2006) suggests that China's economic development in the past 30 years has been supported largely by the rapid growth of its rural industrial sector, which is composed of numerous small-scale rural enterprises (REs) established by townships, villages, and individuals. China's unique feature is its unprecedented scale. Stiglitz,J and Yusuf,S (2001) indicates that although the regional income disparity remains controversial, the remarkable growth in rural

areas has brought more equal income distribution at the local level.

However, more opposite opinions exist, which doubt China's development narrows its inequality. John Walley (2011) suggests that the absolute poverty in China measured by headcount ratios (fraction of the population below various poverty lines) has been falling sharply. However, relative inequality has grown quickly. A widely used measure is the ratio of urban to rural incomes, which has increased from around 1.8 in the mid-1980s to around 3.2 today (NBSC,2006). The national Gini coefficient has increased from under 0.28 in the 1981 to 0.41 today (World Bank,2007). Batson (2010) suggests that Chinese officials often focus on the gap between the country and cities. Last year, per-capita annual income in urban areas was about \$2,500, more than three times the \$750 in rural areas – a ratio that has risen over the past decade. Besides, there exist some opinions doubting the calculation and estimate of China's inequality. In Gibson et al.(2001)'s survey, they suggested that it's very likely that the inequality condition in China has been reported was underestimated and the international comparisons of inequality are actually more severe.

More importantly, regarding the cause of China's inequality, some previous researches contribute to the problem. Richard Herd, a senior economist at the OECD, showed that much of the inequality was due to an enormous movement of rural people off farms and into urban jobs, a change which allows them to raise their incomes significantly (Batson, 2010). Davis and Feng (2007) shows that by the time China had entered the WTO in 2001, the compressed urban wage structure of earlier decades had largely disappeared and urban labor markets increasingly resembled those in other capitalist economies. Urban incomes surged, but so too did income inequality. Lin, et al.(1997) suggests that the most significant factor contributing to China's income disparity is the income gap between rural and urban residents, whereas the gap between coastal and inland areas is not a significant factor. Therefore, the regional income disparity is likely related to the contrast between a large rural population in the inland provinces and a smaller rural population in the coastal provinces (Stiglitz,J&Yusuf,S,2001). Lin and Chen (2011) argue that China's higher urban-rural inequality is closely related to government policies and have collected numerous previous study which discussed

about the causation of China's large urban- rural disparity: He and Yu (2003), Lu and Chen (2004) attribute the widening urban-rural income disparity to the urban-rural dualistic division system, the urban-biased economic and social policies in China. Chen et al. (2010) finds that the enlargement of China's urban-rural inequality is associated with urban-biased government education budget. Meanwhile, there are many other important urban-biased policies which may lead to higher urban-rural inequality, including depressed agricultural products prices, urban-biased tax system, social welfare and social security system, labor market segregation between rural and urban areas, etc. (Li, 2003). Lin et al. (1994) argues that most of the urban-biased policies in China are rooted in the government's heavy-industry-oriented development strategy. Cai and Yang (2000), Cai (2003), Kanbur and Zhang (2005) point out that the most important reasons behind the higher urban-rural inequality in China are the government's development strategy and a set of urban-biased policies which are rooted in the government's development strategy.

After considering these opinions towards the cause of China's inequality, one thing is certain: the problem of China's inequality is not just about income distribution, more is about unequal social opportunities, which is likely the fundamental cause of China's increasing inequality.

#### **4. Historical review of the inequality in China:**

China is famous of its incredible growth and development in the past 30 years. Someone describes China as: it's running a 1000m long-distance in a 50m sprint speed! The description sounds like joke and irony but it does make some sense. The rate of its growth has been almost miraculous and has grown more than ten times during the period. In this section, both of China's development of economy and inequality were introduced.

Generally, communist Chinese history can be divided into several phases: 1949–56 (revolution and land reform), 1957–61 (the Great Leap Forward and the Great Famine), 1962–65 (post-famine recovery), 1966–78 (Cultural Revolution and transition to reform), 1979–84 (rural reform), and 1985–present (post-rural reform, decentralization, and opening up to trade and foreign direct

investment) (Kanbur& Zhang,2005).

To go along with the fluctuation of China's historical inequality, which was showed in graph 1 . The time series were slightly adjusted and divided into five periods: New China founding to Great Famine (1949~1960); Post-Great Famine to Pre-Cultural Revolution (1960~1967); Cultural Revolution to Pre-Rural Reform (1967~1976); Rural Revolution to Opened-up (1976~1984); Opened-up to the present (1984 onwards).

#### **4.1.New China founding to the Great Chinese Famine (1949~1961)**

In October 1949, the Chinese Communist Party proclaimed the establishment of the People's Republic of China. A faction led by Mao Zedong argued that government taking control of the agricultural sector was the best way to finance industrialization. Thereby, the Chinese government started to monopolize the grain system, such as supply and distribution. The founding of New China actually showed the restriction to the poor and peasants but laissez-faire to the wealthier and landlords. The consequence was that the poor became poorer and the rich became richer. The inequality started to rise from then onwards.

Two key words organize this period: Great Leap Forward and Great Chinese Famine. The Great Leap Forward reflected in planning decisions from 1958 to 1961, which aimed to use China's vast population to rapidly transform the country from an agrarian economy into a modern communist society through the process of rapid industrialization and collectivization. Before 1949, peasants had farmed their own small pockets of land, and observed traditional practices connected to markets—festivals, banquets, and paying homage to ancestors (Jonathan,2009). During the Great Leap Forward, private farming was prohibited, and those engaged in it were labeled as counter revolutionaries and persecuted. Restrictions on rural people were enforced through public struggle sessions, and social pressure. By 1958, private ownership was entirely abolished and households all over China were forced into state-operated communes.

The Great Leap ended in catastrophe, resulting in tens of millions of excess deaths (Dennis,2008). The mess caused by the series of institutional and policy changes and planning errors resulted in the Three Years of Great Chinese Famine. Meanwhile, the inequality reached the first peak after the precipitously rise.

The Chinese land reform (1949-1958) is also worthy of considering. The occupation of land was transferred from peasant private ownership to public ownership; the land operation was transferred from the unity of ownership and usufruct to the rural cooperatives; the allocation was transferred from the average allocation to the mode which depended on the land productivity. The reform seems to be fair and equal; however the essence is the restriction on the poor and peasants, which also fueled the increasing inequality.

Which is noteworthy is that the Chinese household registration system, namely the hukou system was also established by the Chinese government during this period. It confined people migrate from and to rural areas and urban areas to make sure that there were enough agricultural labor to produce sufficient grain for urban residents. What's more, urban workers and residents were guaranteed and entitled to specific social welfare and benefits like housing guarantee. During the famine, most of the urban residents were protected from starvation at the expense of about 30 million deaths in the rural areas (Lin&Yang,2000), which was reflected in the sharp increase of regional inequality. By 1960, the Gini Index and Generalized Entropy Index (GE Index) of China reached 32.2 and 16.6 respectively (table 1). During this period, the crux of China's inequality was series of institutional planning errors and improper land reform.

#### **4.2.Post-Great Famine to Pre-Cultural Revolution (1961~1967)**

During this period, China's agricultural sector was once again given priority because of the huge reduction of agricultural production and high demand of grain in urban areas. In the years between 1961 and 1964, 20 million state workers and 17 million urban high school students were sent to the countryside for "re-education" by participating in agricultural production (Selden, 1992). Meanwhile,

the Chinese *hukou* system continued to play a role. It made sure there were enough agricultural labor to produce grain and prevented them migrating from rural areas to urban areas by the identity of village or city. The share of industry decreased and rural-urban disparity narrowed in the period, which led the regional inequality to a trough at the eve of the Cultural Revolution.

#### **4.3.Cultural Revolution to Pre-Rural Reform (1967~1976)**

The Great Proletarian Cultural Revolution, commonly known as Cultural Revolution started from 1966 and ended in 1976 lasting for 10 years of chaos. The revolution was set into motion by Mao Zedong to impose his Maoist orthodoxy within the party after the failure of the Great Leap Forward. Large numbers of uneducated farmers followed the instruction of the party attempting to produce steel on a massive scale and leaving their land out in the cold. The steel produced was low quality and largely useless. Furthermore, local authorities frequently exaggerated production numbers, hiding and intensifying the problem for several years (Rin Supp,2010 &Qiu,1999).

During the Cultural Revolution, the Communist Party instituted a policy known as the Down to the Countryside Movement, in which educated youths living in the urban areas were sent to live and work in agrarian areas. Most of the young people voluntarily took part in the revolution in the initial stages, although later on the government forced many of them to move to agriculture. Consequently, large numbers of young people missed their best opportunities to pursue their further education. The college entrance examination was abolished and not resumed until August 1977. The closing of university also delayed the development of science and technology, which kept the agricultural sector inactive.

During this period, land was still controlled by government so that peasants could not get any benefits and bonus from farming, which reduced the incentives in agriculture and caused the soaring inequality. The rural-urban inequality soared to another peak at the end of Cultural Revolution. The Gini index and GE index exceeded 30.0 and 15.0 again respectively(table 1).

#### **4.4. Rural Reform to Opened-up (1976~1984)**

China shifted its focus back to its comparative advantage during this period: agriculture. To solve the mess caused by the past trouble, the Chinese government strengthened the incentives to agricultural producers. On the one hand, the land reform developed the “household responsibility system”. The operation of land transferred from unity of ownership and usufruct to household contract responsibility management; the allocation of land was transferred to the mode depending on the productivity of each household.

In the new household responsibility system, the land belonged to the collective. Through the land contract, households are ensured operation rights and they are responsible for both profits and losses. Peasants were no longer exploited by landlords: no high tax any more. Moreover, subsidies were granted for farming. Peasants got incentives in production and technology innovation. The household responsibility system spread from its origins in Anhui province to cover 98% of all villages in China by 1983(Lin, 1992).

On the other hand, market-oriented reform was gradually launched around 1978. After Mao’s death in 1976, Deng Xiaoping and the new Chinese leadership began to reform the economy and move towards a more market-oriented mixed economy under one-party rule. These and other market-oriented strategies led to a remarkable growth in agricultural output, and the share of heavy industry dropped. The first five years of the post-1979 reforms saw a sharp decline in the rural–urban divide (Kanbur& Zhang, 2005).

#### **4.5.Opening-up to the present (1984 onwards)**

China’s opening-up to the world fueled the inequality again after its narrowing down. One reason was that China accelerated its integration into the global economy through greater openness in trade and especially in foreign direct investment. The trade ratio, after showing no trend for 35 years, began a steady increase from the mid-1980s both because of reductions in nominal tariffs and because of increases in import volumes. Between 1984 and 2000, the value of exports grew 11% per year. Changes in FDI flows are even more astonishing (Kanbur &Zhang, 2005).



To develop its export-led economy further, China also implemented a series of coastal-biased policy as well as established special economic zones (SEZ). It is notable that most of SEZs are in coastal areas of China where sea is very accessible for transportation of goods. Therefore, in addition to the increasing rural-urban inequality, the inland-costal inequality rocketed in this period. Meanwhile, People gradually realized the growing job opportunities and benefits of working in those cities and started to migrate.

The pronounced surge in inequality from 1984 to 1995 was dominated by the rise in urban-rural and coastal-hinterland gaps. This pattern suggests that China's inequality - - like that of Russia, Indonesia and other giants - - has been raised by differential access to the benefits of the new economy, not by widening gaps among those who participate in it, or among those who do not (Lindert & Williamson, 2001). From then onwards, China's inequality gradually showed that it was not only a problem among regions but also among individuals. Urban or rural identity, social class differences, protection on certain groups, migration urge us to reconsider the question: is China's inequality just about economic income, or there are other issues matter more?

## **5. A New report of China's Inequality**

Income distribution and social inequality as both cause and consequence of economic growth are always hot topics. Especially, income redistribution and the reduction of poverty have created increasing critical assessment. World Bank reported that today (2008) about 1.29 billion people in less developed countries still subsist on less than \$1.25 per day. Although life expectancy, school enrollment, and other indicators of social well-being have improved dramatically across the developing world, and although the proportion of the poor has declined in the last few decades, the absolute number of poor people in the world has actually increased (Birdsall & Londono,2012).

Concerning China's current situation, various kinds of information have been collected: China's income per capita and saving rate rise fast; its consumption and wealth rise; poverty reduction is

remarkable; wealth concentration is huge. BCG Wealth Market Sizing Database (2008) reported that in mainland China 0.38 million people held wealth by households with AuM (assets under management) over 1 million US dollar and 2.88 million people held wealth by households with AuM of US dollar between 100 thousand to 1 million. These two parts only covered 0.8% of total households in China, which means the small portion of households held a majority of wealth. On the one hand, China has shown its economic improvement in the past few decades. On the other hand, some vital problems have been exposed.

In China, the Gini coefficient is the most common way and the most important index for measuring or estimating income inequality (Sen, 1997; Champernowne and Cowell, 1998). However, the last time Chinese officials announced a Gini coefficient (0.412) was 2000 (Fang and Yu, 2012). For the eleventh year in a row, Chinese officials say they cannot publish the nation's Gini coefficient. The main reason, National Bureau of Statistics Director Ma Jiantang said on January 17, was that data on high-income groups is incomplete (Fang and Yu, 2012). In addition, there exist shortcomings of current measurement of the Chinese Gini coefficient. For instance, China Statistical Yearbook is the most important data resource for calculating the Chinese Gini ratio, especially when no household survey data were available (Chen et al., 2010). While Khan and Riskin (2001) commented that the statistical data in the yearbook were too aggregated to prohibit carefully analysis of income inequality. Different data sources and different calculation methods adopted make the existing Chinese Gini Coefficients highly inconsistent. For example, the Chinese Academy of Social Sciences said the Gini coefficient was nearly 0.47 in 2005 (Fang and Yu, 2010), however, a World Bank reported the figure was 0.425 in 2005. According to the definition of Gini Coefficient—A Gini coefficient of zero expresses perfect equality where all values are the same. A Gini coefficient of one expresses maximal inequality among values. A relatively reasonable income gap if the number is between 0.3 and 0.4. A Gini index between 0.4 and 0.5 then shows signal of a large income gap (US Census Bureau; Fang and Yu, 2012), one thing is certain: there exists severe income gap in China.

What's more, the measurement of poverty is not only based on income and money owned, but also

on how people live and how they feel about their lives. People could live a healthy, rustic and thrifty life with pleasure if they are entitled to reliable public services, comprehensive social welfare, stable employment status, safe and peace living conditions and so forth. The World Health Organization (1995) states, 'The world's most ruthless killer and the greatest cause of suffering on earth is extreme poverty.' This statement emphasizes the importance of poverty as a variable adversely influencing health. Poverty is a multidimensional phenomenon, encompassing inability to satisfy basic needs, lack of control over resources, lack of education and poor health (Murali and Oyebode, 2004). Stressful lives, health problem, unrewarding and depersonalizing work, unsafe environment torture the poor. For instance, in northwestern Gansu, China's earliest province to conduct poverty reduction programs, planting potatoes and corn is the primary method of boosting its poorest citizens' incomes. Li Jian, an official from Gansu's poverty alleviation office, said most poor people in the region live in mountainous areas with little access to transportation and infrastructure. "If disasters or serious illnesses befall these people, poverty reduction progress could fall down to an even worse state," Li says, referring to the difficulty of his job (Xinhua, 2011).

Therefore once again it returns to the question of what holds the essential and fundamental cause of China's inequality. Bearing in mind the historical process of China's growth as well as the roots of its inequality, current issues are more worthy of considering. To fulfill and reinforce the report, three parts: income inequality, migrant workers and the Chinese *hukou* system, China's urbanization path were analyzed respectively in the following part. The purpose was to make it clear that China's problem is not only regarding income inequality, some issues matter more.

### **5.1. Income inequality**

Batson (2010) suggests that Chinese officials often focus on the gap between the country and cities. Last year (2009), per-capita annual income in urban areas was about \$2,500, more than three times the \$750 in rural areas – a ratio that has risen over the past decade. To help the poor step out of poverty, Chinese government made some efforts. For example, Henan Province, which boasts the largest provincial population in China and is home to more than 5 million people living in poverty

according to the 1,500-yuan standard, has been attempting to reduce poverty by improving the skills of its workers and encouraging their self-development, says Zhang Chengzhi, director of Henan's poverty alleviation office(Xinhua, 2011). To narrow down the urban-rural disparity, an “anti-poverty tool” was also implemented in China: raise the lowest wages.

The lowest wage, also known as minimum wage, is the lowest hourly, daily or monthly remuneration that employers may legally pay to workers. Supporters of the minimum wages say that it increases the standard of living of workers, reduces poverty, and forces business to be more efficient (Black, 2003). In the past few decades, many cities in China have raised the minimum wages respectively. The southern city of Shenzhen, where the minimum wage has historically been China's highest, increased the monthly rate by 15.9 per cent in February to Rmb1500 (\$238). In 2011, the minimum wage in the boom town, just across the border from Hong Kong, was increased 20 per cent. The city of Beijing has also raised its minimum wage by 8.6 per cent to Rmb1260 (Tsui and Rabinovitch,2012). On the one hand, Chinese government raises the minimum wages in order to boost the domestic consumption as well as narrow down the widening income disparity. On the other hand, the government wants to attract more labor force to migrate to the cities so that China could re-lead the world manufacturing market, which has spread to other developing countries, like Brazil, Vietnam, Indonesia. However, whether raising the minimum wages an effective “anti-poverty tool” in China remains unsolved. Tsui and Rabinovitch (2012) reveal that the rise in basic wages last year(2011) came as the cost of living went up sharply. China's consumer price index fell from its summer peak of 6.5 per cent to just above 4 per cent in November, many blue collar workers complained that their disposable income had not gone up. “Factories often deduct mandatory pension and insurance contributions from the workers, even though it is the employer's responsibility to make those payments. What's left for the workers rarely covers increases in utilities bills and rent,” said Zhang Zhiru, a labor activist in Shenzhen. China's raising minimum wages becomes superficial behavior. Generally speaking, there is few solid evidences that low-wage workers have benefited from the increases in minimum wages.

*Race to the bottom* is an ironic but apt metaphor. Concerning China, this concept is used to describe the situation: although employment in the low-wage industries in China was expanding, the wages of the workers in these industries was not rising, and for many of them had been falling due to the foreign investment flowing into China after its join in the WTO in November 2011(Chan, 2003). William Greider (2001) argues that in the ‘race to the bottom’, China is defining the bottom. Chan (2003) shows that China has set its minimum wage standards very low, to the point that it is even competitive with Vietnam and Cambodia, two countries where the cost of living is lower than China. In short, the minimum legal wage system has went against the original intention that to protect labors in the export sector. It has simply become an empty shell. The minimum legal wages have become the numbers what employers report to the government. However, whether they really do it or not remains unknown. This is a common phenomenon in the labor-intensive export industries in China. It’s almost impossible for employers to pay the workers above the minimum wage, sometimes even below. Chan (2003) draws conclusion: the benefits have not trickled down to the assembly-line workers from largely rural backgrounds who make the exported goods. Indeed, their situation has even worsened. It’s common in China that many provisions or rules are just empty shells. The minimum legal wage is a good example to illustrate how the Chinese authorities turn a blind eye to violations of China’s own labor regulations and laws in order to achieve their own benefits. This system is too weak to protect manufacturing labors’ right; too weak to truly reduce poverty.

## **5.2. Migrant workers and the Chinese *hukou* system**

### **5.2.1. Migrant workers in China**

The acceleration of urban population in China can be attributed to two reasons: one is urban population increases due to reproduction; the other is the reclassification of rural population, namely the rural-to-urban migration. During the 1990s, migration contributed more than half of China's urban population growth (Sicular et al.,2007). It is argued that migrant populations are difficult to count, and estimates of inequality in China do not adequately incorporate this group. What’s more, unregistered rural-to-urban migrants are also largely absent from the rural samples. Regarding China’s current inequality, migrant worker issue is the most vital one.

Internal migration in China is characterized by two important features: first, most migrants left their farmlands for urban areas and/or for non-agricultural activities; second, such labour flows are basically directed from the interior to coastal areas, and/or from central and western regions to eastern areas(Huang and Zhang, 2005). Hence they are the main force for urbanization in the People's Republic of China. Furthermore, China is now experiencing the largest mass migration of people from the countryside to the city in history. An estimated 230 million Chinese (2010) — a number equivalent to two thirds the population of the United States — have left the countryside and migrated to the cities in recent years. About 13 million new people join the legions every year. The number is expected to reach 250 million by 2012 and surpass 300 million and maybe reach 400 million by 2025(Hays,2008).

As it is known to all, China has achieved incredible economic growth in recent years: skyscrapers, undergrounds, and other infrastructures were constructed one after another. To achieve these large-scale constructions, numerous workers are in demand. Wave upon wave migrants are contributing to the development of modern cities in China. For example, the Shanghai Metro is the urban rapid transit system of China's largest city, Shanghai. The system incorporates both subway and light rail lines. It opened in 1995, making Shanghai the third city in Mainland China. As of 2011, there are eleven metro lines, 278 stations and over 434 kilometers of tracks in operation, the longest network in the world(Shanghai Daily, 2010). The system continues to grow, with new lines and extensions of old lines currently under construction. In Shanghai, the number of migrant workers was 1.41 million in 1988 and it reached 3.87 in 2000(Shanghai 2000 Population Census). Now the number has been 4 million—about 40 percent of the city's total employed population(Zhen, 2012). With massive construction projects' springing up, more and more migrants are in huge demand. That's why in China, a rapid-growing country, policy makers should pay particular attention to the group of migrant workers, which is too huge to be managed.

Most of the migrant workers chose to go to big and coastal cities, such as Beijing, Shanghai and

Shenzhen in search of opportunities and jobs. Regional inequality is a main reason of labour flow in China. Namely, the original motivator of those migrants is earning money in most cases. It's possible for migrants who have education background to seek entry-level jobs in a city. However, the majority of the immigrant workers do not possess a valid educational certificate. Therefore, the employment structure of migrant workers is usually men get construction jobs or become assemble-line workers; women work in cheap-labor factories, such as become textile workers. Besides the manufacturing sector, there are three other sectors that have also absorbed a large number of rural migrants, notably the construction, restaurant and commercial and services sectors (Huang and Zhang,2005). It's also common that migrants cannot hunt a job so that they become street vendors or beggars. More opportunities means more competitions. It's difficult for outsiders to hunt a job in big cities, not to mention those migrant workers without education background. In some cities, now migrants almost outnumber the local residents, and more are coming. According to the Beijing Bureau of Statistics, more than one-third of the capital's 19.6 million residents are migrants from China's rural hinterland, a figure that has grown by about 6 million just since 2000(Hays,2008).

Concerning the question how migrant workers influent China's inequality, Lindert and Williamson (2001) suggest that migration affects equilibrium output, wages and living standards by influencing aggregate labor supply, and these effects have also now been estimated. In the absence of the mass migrations, wages and labor productivity would have been a lot higher in the New World and a lot lower in the Old. In the absence of the mass migrations, income per capita would have been a bit higher in the New World and a bit lower in the Old World. Not surprisingly, the biggest impact was on those countries that experienced the biggest migrations. China is now experiencing this process. Migrants look for almost all kinds of low-end jobs. Because of increasing rural-urban migrants and the rising competition among them, migrants don't mind how low the wages are. Some of them take extremely low-wage job just for the purpose of staying. This large volume of people looking for low-end jobs drives down wages and working conditions and allows these migrants to be exploited by employers, who can pay them the lowest possible wages (Chan,2003). Thus, employers, especially factories owners, keep depressing wages, which confines the specific group of people in

poverty and enlarges the disparity. Another practice used by many unscrupulous employers is not to pay a portion of the wages every month, promising to pay the withheld portion at the end of the year. In this situation, the longer a worker has worked, the more money he or she is owed by the employer, and the more difficult it is for the worker to leave(Chan,2003).

The internal migration problem in China does not only cause income inequality, but also incredible social inequality, especially in the large cities, such as Beijing and Shanghai. Fang Lizhi wrote in the New York Review of Books, “Beginning in the 1980s, tens of millions of migrant workers from the countryside crowded Chinese cities to sell their labor in construction, sanitation, and other menial tasks. They were the bedrock that made Deng’s “economic miracle” possible. But under the government’s “household registry” system, they technically remained rural residents and were denied the rights of urban residents. Their children—even children born in the cities—also lacked urban registry and thus were not allowed to go to school (Fang, 2011). Migrant workers are treated unfairly in cities, which is a good example of the current social inequality. They are not sharing in the standard of working and living conditions of the urban population. For instance, Workers’ dormitories, usually located within the factory compound, extend management control over workers’ lives beyond work hours(Chan,2003). Acute occupational health and safety problems are also commonplace. A startlingly high incidence of severed limbs and fingers has been recorded. In Shenzhen city alone, there were over 10,000 certified cases in 1999 among a migrant population of some three to four million(Chan,2003). Edsall (2004) describes migrant workers’ life like: they enter the factory system and often step into a nightmare of twelve-hour to eighteen-hour work days with no day of rest, earning meager wages that may be withheld or unpaid altogether. What’s more, migrant workers are depressed by feeling the lack of equality in job opportunities and the difficulty of being understood by the local residents.

Without an urban household residence register (the urban *hukou*), migrants would not be counted as urban residents. They would not be able to be entitled to the same social welfare, public services, social insurance and education access of the urban population. Even their children could not to be



enrolled in free public schools like urban children, instead, they could just pursue their education at migrant schools(*Nong Min Gong Zi Di Xue Xiao*). After middle school, their children must go back to hometown for high school—to live separately from their parents or stay in cities, engaging in low wage jobs just like their parents after graduation. To explain China's inexhaustible supply of cheap labor and its extremely low wages compared to other countries, there is a fundamental reason—China's *hukou* system, or household registration system.

#### **4.2.2. The Chinese-style household registration system**

China's urban–rural income gap is often attributed to policies that have inhibited labor mobility, most importantly the household registration or *hukou* system (Sicular et al,2007). The Chinese household registration system, called *hukou* system in China, refers to the system of “class system” residency permits which dates back to ancient China. A household registration record officially identifies a person as a resident of an area and includes identifying information such as name, parents, spouse, and date of birth(Zhang,2009). In 1958, the Chinese government officially promulgated the family register system to control the movement of people between urban and rural areas. Individuals were broadly categorized as a "rural" or "urban" worker (Macleod,2001). A worker seeking to move from the country to urban areas to take up non-agricultural work would have to apply through the relevant bureaucracies. People who worked outside their authorized domain or geographical area would not qualify for grain rations, employer-provided housing, or health care(Pines et al,1998). There were also controls over education, employment, marriage and so on(Macleod,2001).

The characteristic of Chinese *hukou* system is that residence registration is divided into agricultural residence registration and non-agricultural residence registration according to geographical area and relationship between family members. Although until the end of 2005 China has set about reforming the *hukou* system because of more and more extensive controversy and accusations, its characteristic that controls and restricts people's living area, class and job occupation has been retained to the present day. Generally speaking, new *hukou* system retains massive traditional *hukou* system features. For example, it marks residents' identity; there exist obvious class differences between urban

residence registration and rural residence registration; its hereditary mark: most of the children of rural residents inherit their parents' rural residence registration. Chan (2003) suggests that the hukou system helps to regulate the flow, letting in more labourers when needed and driving them out when their number exceeds demand, or when the number stretches local facilities to the limit. When workers lose their working ability due to industrial accidents, or when they have become too "old" by the age of about thirty to keep up with the break-neck work intensity, the pass system enables cities to ship them back to the countryside—because without a job a migrant has no right to stay in an urban area. In short, the *hukou* system places constraints on the geographical mobility of migrant workers, and the means by which this can drive down wages and other labour standards today(Chan,2003). With the deepening of market-oriented economic reform, the drawbacks of the existing household registration system has become increasingly evident, the reform of household registration system is imminent.

An interesting case is that: In Shǎnxī(陕西) Province(which should be distinguished with Shānxī(山西) Province in China), which located in the central part of Mainland China. A policy called "Exchange land for social security" was implemented experimentally in 2007. The essence of the policy is to encourage the rural inhabitants to submit their lands to the local government so that they would be provided with social security eligibility. Other similar policies, such as "Exchange housing land for urban residence registration" were also implemented in some areas in China. These policies are unreasonable and maybe illegal because government is responsible for providing public services and social security to every inhabitants. It's unfair that urban residents are entitled to social welfare whereas rural residents not. Moreover, according to these unreasonable policies, the cost of having an urban residence registration is losing their lands. For many rural inhabitants, land is their only property and the only tool to earn a living. These policies did not solve the current problem caused by the *hukou* system. What's more, they exploit rural inhabitants' interests in disguised form.

Now urban population is 600 million, among which 150 million are migrant workers and at least 200 million are ineligible to enjoy social insurance and welfare. The existing *hukou* system has become

the obstacle of economic development and social stability. Precisely speaking, because of the hukou system the local government has no obligation to pay anything for the welfare of these temporary sojourners. They are not eligible for any of the medical, housing or unemployment benefits available to the local urban populace. Nor are the workers from the countryside allowed by China's pass system to bring their families with them, and thus the urban government has no additional educational expenses to meet either(Chan, 2003). To sum up, first of all, it weakens the free flow of economic factors and obstructs the sustainable economic development. Second, it hinders the process of urbanization, modernization of agriculture and rural population transfer. Furthermore, massive migrant workers rush into cities every day. Their lack of basic living condition and their unstable working status depress the further development of consumer market.

### **5.3.Chinese-style urbanization**

Urbanization in China is taking place at an unprecedented pace and will continue over the next decades(Song, Yan and Ding,2007). This increase holds implications for estimates of the urban–rural gap and inequality. Mean incomes for urban and rural areas depend on who is classified as urban and rural(Sicular et al,2007). The Chinese-style *hukou* system, which places constraints on the mobility of rural residents, is contradictory to China's urbanization path. Song et al.(2007) suggest that it is expected that China will quadruple its total GDP and reach 55 percent of urbanization by 2020. According to the data released on 17<sup>th</sup> January of 2012 by National Bureau of Statistics of China, by the end of 2011 reached the urban population 690 million, the urbanization rate met 51.27% numerically. These numbers show that the urban population outpaced the rural population for the first time. Whereas, where is the boundary line between Chinese urban area and rural area? In censuses and other similar statistical exercises, rural and urban populations are usually defined by residence in settlements above or below a certain size; agriculture is assumed to be the principal activity of rural populations whereas urban dwellers are thought to engage primarily in industrial production and services(Tacoli,1998). However, in reality, things seem to be far more complex: ways to define rural area and urban area are quite different between different nations.

Something interesting is that in addition to *urbanization*, there exists another word with similar definition: *townization*. *Townization* is my own-created word which is built up to describe the phenomenon of the unique Chinese-style urbanization. In the process of China's urbanization, the grey areas, which were officially classified as urban area (however, no corresponding infrastructures, public services and social welfare covered the areas), have been created. Actually, there already exist such phrases considering about the interrelations between rural and urban in the world. The term *kotadesasi* joins the Indonesian words *kota* (town) and *desa* (village) to describe urban and rural activities taking place in the same geographical area (McGee, 1987). The term *kotadesasi* refers to a process and to qualitatively distinct and spatially delimited zones that are generated by that process. *Kotadesasi* zones are defined by a cluster of associated characteristics, including an increase in nonagricultural activities in areas formerly agricultural, extreme fluidity and mobility of population, an intense mixture of land-use type, and increased female participation in nonagricultural labor. McGee emphasizes that 'in the *kotadesasi* regions we have no clear-cut division between rural and urban relations but rather activities in the two sectors that are fused and complementary' (Ginsburg et al, 1991). In Taiwan, there also exists such phenomenon. Some projects like reclassification of village have been implemented, during the reclassification some former villages are now defined as cities. Whereas the residents still claim that they live in the village.

In western society, urbanization is a crucial step on the path of transformation of social structure. In China, during the process copying the lesson of urbanization from western world, a model of *townization* was born. Precisely speaking, now, a Chinese region could be cut into three parts: rural area, *town area* and urban area. Classifying *town area* as urban enables China's urbanization to show its effectiveness and success. During China's years of urbanization, numerous *town areas* have been created, which substantially increase the urbanization rate. Strictly speaking, they are far less qualified to be classified as urban. It's the areas where people are not entitled to fair infrastructures, education, health care, social security, and basic respect. What's more, large portion of inhabitants in *town areas* are repatriated migrants who are not able to find a job in cities and therefore repatriated by government. But these people do not want to stay in their home villages anymore, so they live in

the *town areas*, where social order is poor and police stations are rare so that they don't need to worry about being arrested again. Satterthwaite and Tacoli(2003) suggest that regional rural–urban migration, especially of the poorest groups, often concentrates in those small and intermediate urban centers(similar to the *town areas* I defined above) where there are employment opportunities. But the costs are constraints on access to housing, urban identity, and equal social benefits.

Fortunately, a positive example is the “Chongqin model”. A systematic project was designed in Chongqin Province China in 2011, which was composed of three steps. First was to construct 40 million square meters of apartments for renting in order to relieve huge housing pressure. Second, implemented the policy of “land quota tickets”, which means 3 million migrant workers would be gradually registered with urban household (permanent residence in cities). They would also be encouraged to exchange their housing land for “land quota tickets”. Then the tickets would be auctioned and in the future developers would construct buildings by the tickets they buy. Third, IT industrial clusters such as HP, CISCO would station in, which would be followed by enterprises like Foxconn and other parts& components factories. This means massive demand in workers would be created so that the problem of unemployment would be solved effectively and efficiently.

## **6. Conclusion**

The key question organizing the thesis is that: regarding China's current problem of inequality, if the economic income is the only thing, or there exist other issues at play which matter more? The Observer (2006) proposes that how we can understand our present or glimpse our future if we cannot understand our past and how we can know who we are if we don't know who we were. Bearing the historical development of China's inequality in mind, the present and future could be measured better. It would be easy to conclude from the historical review section that throughout China's historical process since the founding of New China (1949), the income inequality increased in the three stages to different extents: the Great Leap Forward and the Great Famine(1952-1960); Cultural Revolution(1967-1976) and China's reform and opening-up(1984-present). Regarding the first two stages, the cause of income inequality lay more in the fault of institutional planning and the improper

land reform. The Chinese policy makers failed to follow the right developing goal in order that several planning errors were made. Mao Zedong, then Chairman of China, saw steel as the key fact of economic development and he was indecisive about China's comparative advantage at that time: industry or agriculture, which led to the failure of agricultural policies and economic regression. Moreover, concerning the land system, fairness and justice were not advocated. Therefore, numerous land resources were not allocated fairly and put into the effective production. Overall, massive institutional and policy changes which accompanied with the Chinese feudalism and exploitation at that time led to unequal income distribution and unfair wealth concentration.

Regarding the final stages, namely from China's opening-up to nowadays, Deng Xiaoping, a reformer and then leader of Communist Party of China, led China towards a market-oriented economy. Deng opened China to foreign investment, the global market and limited private competition. He is generally credited with developing China into one of the fastest growing economies in the world for over 30 years and raising the standard of living of hundreds of millions of Chinese (Kau and Marsh, 1995). However, more and more severe inequality has been witnessed. To some extent, an increase in income inequality is the inevitable outcome of rapid economic growth. Birdsall (2007) suggests that inequality reflects a system that rewards hard work, innovation, and productive risk-taking—which ultimately ensures higher output and productivity, and thus higher average income and rates of growth. The rapid economic growth of China has produced numerous opportunities and competition undoubtedly. Where there is competition, there is elimination. Therefore, income inequalities in China have been gradually intensifying. However, the current problem of China's inequality is more than just income inequality. What matters more is the social inequality: not only among regions, but also among individuals. On the one hand, the Chinese *hukou* system easily keeps wages of migrant workers so low, besides, it has produced a huge, vulnerable underclass living in constant insecurity, accompanied by daily discrimination, repression, hardship and denial of their human dignity (Chan, 2003). On the other hand, the real situation of China's increasing urbanization rate that classify some rural areas which are far less qualified as urban areas shows the lack of integrity and unfair treatment of numerous rural residents. The severe social

inequality has made tremendous impacts on the income inequality, which further influences China's sustainable economic growth.

It's not hard to conclude that throughout the whole process of the development of China's inequality, the common features of the fundamental cause are *improper policy planning* and *unfair governing system*. From Mao's several institutional and policy changes accompanied with the feudalism and exploitation to the current unfair policies for migrant workers and the biased *hukou* system, *improper policy planning* and *unfair governing system* are always the fundamental issues. To cure the wealth disparity and achieve sustainable economic growth and a stable society, these fundamental issues should be paid particular attention.

One implementation is to reform the *hukou* system, which has become a breakthrough to improve the current situation. In 2001, the State Development and Planning Committee drafted the new five-year plan, which aimed at unifying the national labour market within the next five years, eliminating the restrictions on the flow of the rural labourers, and establishing a system of employment registration and a matching new social security system(Huang and Zhang,2005). Besides, talents and technology should be paid particular attention and opportunely introduced to the urban market. The *hukou* system should not become a barrier between rural talents and urban market. What's more, incentive policies should be made to encourage rural residents to acquire urban residence registration by showing their efforts and hardworking. For example, in Guangdong Province, a new policy—migrant workers are eligible to apply for urban residence registration once they collect more than 60 “*points*” —was implemented experimentally in June, 2010. The Guangdong Provincial government plan to encourage 1.8 million migrant workers to apply for urban residence registration by “*the points system*” from 2010 to 2012.

Second, relevant labour rules and laws should be completed and enforced. For example, in the export industries, labour's working and living conditions should be improved by setting down relevant rules and regulations. Three Asian countries (Cambodia, Vietnam and Thailand) are now taking a new

direction in their industrial development strategies. They are trying to attract foreign investment and trade by raising labour standards instead of depressing them(Chan, 2003). Chan also suggests that so far, China has not shown any signs of changing its policy of low labour standards. The government has not publicly addressed the issue of corporate social responsibility. The Guangdong provincial government has tried to alleviate some of the most blatant abuses, but no fundamental change in policy has been adopted. The Chinese government really should take action before it's too late. In addition, due rights of migrant workers should be attached importance and protected according to the law. For instance, the issue of unpaid wages by many unscrupulous employers should be fundamentally killed by making law and frequent inspections.

Last but not least, ensure basic respect and fair treatment of rural population and migrant workers. Everyone should be entitled to fair and equal treatment as a Chinese citizen. Rural population and urban population should be provided with the same access to education, skills training, health care, social welfare and other public services. What's more, children of migrant workers should be provided with the access to education which is similar to that for children of urban residents. Basic respect and civil rights of rural population and migrant workers should be advocated nationwide. According to the 1990 International Convention on migrant rights, "Migrant workers are viewed as more than laborers or economic entities. They are social entities with families and accordingly have rights, including that of family reunification. Fundamental human rights should be extended to all migrant workers, both documented and undocumented, with additional rights being recognized for documented migrant workers and their families, notably equality of treatment with nationals of states of employment in a number of legal, political, economic, social and cultural areas."

Compared with the inequality of economic income, the inequalities of social issues matter far more in China's current situation. To narrow down these social inequalities on a large scale, China still has a long way to go. Many people complain that provisions and rules in China are always just empty shells. Authorities seldom implement policies or rules by real action. The director of the human rights programme in Asia for Reebok indicates that "Who enforces Chinese labour law? Nobody. If it



were enforced China would be a much better place for millions of people to work in. But it is ignored more than in any other country I work in.”(Associated Press Newswire, 2002.) Some fundamental changes in China is now to urgently need .

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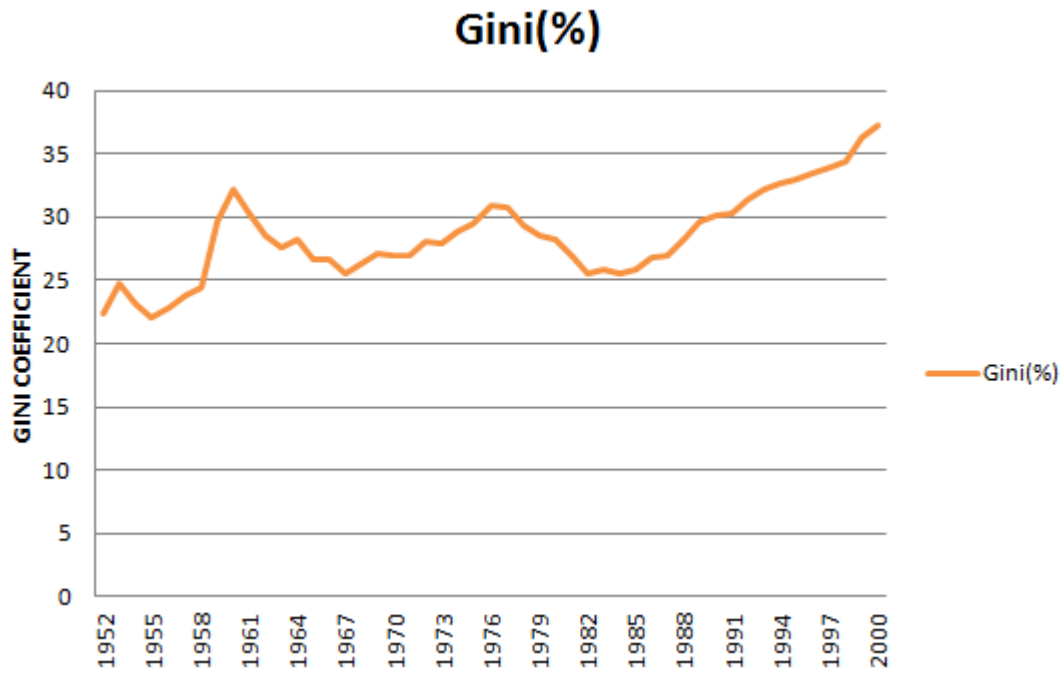
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## Appendix

Graph 1. Inequality in China (Gini Coefficient), 1952-2000



Source: Kanbur&Zhang,2005



*Table 1. Inequalities and Decompositions, 1952–2000*

<i>Year</i>	<i>Gini (%)</i>	<i>GE (%)</i>	<i>Rural–Urban</i>	<i>Inland–Coastal</i>
1952	22.4	9.0	6.9	0.6
1953	24.7	10.7	8.6	0.7
1954	23.2	9.4	7.9	0.6
1955	22.0	8.6	7.3	0.3
1956	22.9	9.4	8.2	0.2
1957	23.8	9.8	8.5	0.1
1958	24.4	10.2	8.8	0.2
1959	29.7	14.3	11.6	0.2
1960	32.2	16.6	13.5	0.3
1961	30.3	14.5	11.2	0.2
1962	28.5	13.1	10.7	0.2
1963	27.6	12.4	9.6	0.2
1964	28.2	12.8	9.5	0.2
1965	26.7	11.8	8.7	0.2
1966	26.6	11.7	9.1	0.2
1967	25.5	10.8	8.5	0.2
1968	26.3	11.3	8.7	0.3
1969	27.1	12.2	9.9	0.3
1970	27.0	12.1	9.8	0.3
1971	26.9	12.1	9.8	0.3
1972	28.1	12.8	9.8	0.3
1973	27.9	12.7	9.9	0.3
1974	28.8	13.5	10.3	0.3
1975	29.5	14.2	11.2	0.5
1976	30.9	15.5	12.1	0.5
1977	30.8	15.4	12.1	0.5
1978	29.3	14.0	11.0	0.4
1979	28.6	13.3	10.1	0.4
1980	28.2	13.1	9.9	0.5
1981	27.0	12.0	9.1	0.6
1982	25.6	10.6	7.2	0.5
1983	25.9	11.1	6.8	0.4
1984	25.6	10.9	6.3	0.4
1985	25.8	11.1	6.6	0.5
1986	26.8	11.9	6.9	0.5
1987	27.0	12.0	6.8	0.6
1988	28.2	13.1	7.7	0.8
1989	29.7	14.4	9.3	1.0
1990	30.1	14.9	9.5	1.0
1991	30.3	14.9	9.9	1.2
1992	31.4	16.0	10.2	1.5
1993	32.2	16.8	10.9	1.7
1994	32.6	17.2	10.8	2.0
1995	33.0	17.7	11.5	2.3
1996	33.4	18.2	11.7	2.6
1997	33.9	18.9	11.7	2.7
1998	34.4	19.6	12.2	2.9
1999	36.3	23.4	12.8	3.2
2000	37.2	24.8	13.9	3.8

*Notes:* Calculated by the authors. GE refers to the generalized entropy index with  $c = 0$ .

GE with  $c = 1$  was also calculated but the results are similar and not reported here.

Source: Kanbur&Zhang,2005