WHY CHINA NEEDS TO URGENTLY ADDRESS ITS RISING INCOME INEQUALITY

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Executive Summary

1. China has achieved spectacular growth for over three decades, lifting a record number of people out of poverty.

2. However, China's increasing GDP has been accompanied by widening income and wealth gaps, implying that the benefits of growth have not been effectively "trickled down".

3. Recently, China published its Gini coefficients (a statistical measure of inequality) for the past 10 years, which all exceeded the warning level of 0.4, peaking at 0.491 for 2008 and then slightly down to 0.474 for 2012.

4. In fact, China's true level of Gini coefficients could well be higher still because of the potential under-reporting of incomes by high income earners and the widespread existence of "grey income", as so admitted by officials.

5. Even if the current Gini figure of 0.474 for 2012 could stand on its own without considering potential downward biases, it would still badly reflect China's extremely high inequality in global and regional contexts.

6. China's inequality level is among the highest 10% of countries in the world, ranking it with some notoriously income unequal countries in Latin America and Africa.

7. The "perceived inequality" in China is similarly high as income inequality is starkly visible everywhere to the common people, often manifested in the blatant flaunting of wealth by the rich and corrupt officials.

8. The origin of China's income inequality can be traced back to Deng Xiaoping's policy of allowing some people "to get rich first" as well as China's "pro-GDP growth" strategy, also sanctioned by Deng.

9. In fact, the sources of China's income inequality stemmed from the sources of China's economic growth, which has been basically investment-led and export-propelled, rather than consumption driven.

10. Technically, China's high income inequality is also reflected in its declining share of household consumption in GDP (from 50% in early 1980s to now 35%), as well as decreasing labour share in GDP (now about 37%).

11. Ironically, the period of rising income inequality coincided with the Hu-Wen regime, and that is an affront to Hu-Wen's much vaunted "pro-people" policies.

12. Rising income inequality in China, apart from seriously de-stabilising society, is presenting a major challenge to the realisation of Xi Jinping"s "Chinese dream".

13. Though the new Xi leadership has unveiled sweeping policies to curb rising inequality (e.g. spending more on various social services), they would merely offer short-term relief.

14. Long-term remedy requires more difficult-to-achieve fundamental structural changes like removing institutional biases against equality (e.g. reforming the *hukou* system) and providing a more equal access to educational and income-earning opportunities.

15. These will be a long-drawn process. The Chinese people will have to wait.