

HIGH INEQUALITY LEVELLING OFF IN CHINA

ZHAO Litao

EAI Background Brief No. 1346

Date of Publication: 26 April 2018

Executive Summary

1. China is one of the most unequal countries in Asia by government statistics and in the world by some surveys done by independent researchers. The change from a relatively equal country to a highly unequal one took place in a generation's time between the early 1980s and the early 2000s.
2. China's income inequality has been driven by the large urban-urban divide, the disparity between the coastal region and the rest of China, and the growing rich-poor gap.
3. After 2008, China has moved from the first phase of rapid inequality growth to the second phase, in which high inequality is levelling off but a sustained decline is yet to be in sight.
4. Driving this change is the spread of industrialisation from the coastal region to the inland region after the mid-2000s. A pattern of "domestic flying geese" has been emerging in China.
5. There have been worries that China's high inequality will lead to the eruption of a "social volcano". Surveys designed to gauge Chinese attitudes towards inequality, however, suggest otherwise.
6. In general, Chinese citizens are less likely to view current inequality as excessive or harmful to society. They are also optimistic about the prospect of upward mobility. Yet, they demand for greater equality and enhanced welfare programmes.
7. China unveiled a comprehensive blueprint to battle inequality in early 2013, only a few months after Xi Jinping came to power. "Unbalanced development" was identified in 2017 as a major challenge facing China during Xi's second term (2018-2022) and beyond.

8. Xi has prioritised on anti-poverty and anti-corruption. While much progress has been made on both fronts, there has been little success in inequality reduction so far.
9. One reason is the developmental state's weak and ineffective social policy in curtailing inequality. Second is Xi's agenda which largely ignore the middle class. Moreover, some dis-equalising factors are at work. For instance, income from assets and investment is growing as a source of inequality.
10. Looking to the future, China's inequality reduction depends on how fast it becomes a middle class society, how generous and effective its redistributive policies can be and whether equalising factors, such as the pattern of domestic flying geese, more than offset the dis-equalising ones.