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Inequality, Growth and Poverty in the Post-Reform People's Republic of China

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Abstract

Undoubtedly, the Four Modernisations launched by Deng Xiaoping in 1978 broadly succeeded in transforming China from an impoverished agricultural economy to the major world power we know today. Poverty levels were substantially reduced, and the resulting economic growth was astonishing. Notwithstanding, some academics note that this expansion left some segments of society behind and eventually created a significant social gap. This research paper offers a synopsis of the evolution of both poverty and inequality in the post-reform period, as well as a general introduction to the main disparities present in Chinese society – the rural-urban divide, the inland-coastal gap, the unequal educational opportunity, and the detrimental effects derived from the demographic change and the population dynamics.

Keywords: China, Four Modernisations, Economic Growth, Social Development, Inequality, Poverty, Rural-Urban Divide, Inland-Coastal Gap.

Desigualtat, Creixement i Pobresa a la República Popular de la Xina Post-Reforma

Resum

Sens dubte, les Quatre Modernitzacions impulsades per Deng Xiaoping el 1978 van aconseguir transformar la Xina d'una societat principalment agrària i empobrida a la potència mundial que coneixem avui en dia. La pobresa es va reduir de forma significativa i el creixement econòmic va ser espectacular. De totes maneres, nombrosos acadèmics indiquen que aquesta expansió va deixar enrere certs segments de la població, creant finalment una profunda bretxa social. Aquest document de recerca ofereix una sinopsi de l'evolució de la pobresa i la desigualtat al llarg del període post-reforma, així com una introducció general a les principals disparitats presents en la societat xinesa – l'escletxa urbana-rural, l'escletxa interior-costanera, l'accés desigual a les oportunitats educatives, i la influència negativa del canvi demogràfic i la dinàmica poblacional.

Paraules Clau: Xina, Quatre Modernitzacions, Creixement Econòmic, Desenvolupament Social, Desigualtat, Pobresa, Escletxa Urbana-Rural, Escletxa Interior-Costanera.

Table of Contents

I. INTRODUCTION

1. Rationale for this Thesis 6

2. Statement of the Problem 6

3. Hypothesis, Objectives and Research Methodology 6

4. Structure of the Thesis 7

II. A TURNING POINT: THE 1978 "REFORM AND OPENING-UP" POLICY

1. A Glimpse of China's Economy Prior to Reforms 9

1.1. *The First Five-Year Plan (1953–57)* 10

1.2. *The Great Leap Forward (1958–60)* 10

1.3. *The Cultural Revolution (1966–76)* 11

2. Reform and Development Strategy 12

3. Social Unrest: the 1989 Tiananmen Square Protests 15

4. Economic Performance in the Post-Reform China 17

III. INEQUALITY AND POVERTY IN CONTEMPORARY CHINA

1. A Brief Review of the Literature 20

1.1. *Previous Research on the Issue* 20

1.2. *Theoretical Background: Measuring Development* 23

2. Ongoing Trends on Poverty and Inequality 25

2.1. *The Rural-Urban Divide* 30

2.2. *Regional Differences: The Inland-Coastal Gap* 34

2.3. *Unequal Educational Opportunity* 40

2.4. *Population Dynamics and the Demographic Change* 42

3. The Effect of Poverty and Inequality on Economic Growth 43

IV. CONCLUSION: BUILDING A MORE EQUITABLE SOCIETY 46

V. LIST OF REFERENCES 49

VI. APPENDICES

Appendix A. General Trends on Poverty and Inequality. Data 59

Appendix B. The Rural-Urban Divide. Data 60

Appendix C. The Inland-Coastal Gap. Data 62

List of Figures

Figure 1. *(A)* GDP (¥100 Million) and *(B)* Per Capita GDP (¥), 1952–78 9

Figure 2. Value-Added by Activity (¥100 Million), 1953–57 10

Figure 3. Value-Added by Activity (¥100 Million), 1958–60 11

Figure 4. Value-Added by Activity (¥100 Million), 1966–76 11

Figure 5. Authorities' Response to the 1989 Protests 16

Figure 6. *(A)* GDP (¥100 Million) and *(B)* Value-Added by Activity (¥100 Million), 1978–2019 18

Figure 7. Kuznets' Inverted-U Hypothesis 21

Figure 8. Lakner-Milanovic Global Growth Incidence Curve, 1988–2008 23

Figure 9. *(A)* Head-Count Ratio and *(B)* Poverty Gap at $1.90 a Day (2011 PPP), 1990–2016 26

Figure 10. Gini Index, 1981–2018 26

Figure 11. *(A)* Distribution of Income by Quintiles in ¥, 2013–18 and *(B)* in %, 1990–2016 27

Figure 12. Distribution of Income by Deciles (%), 1990–2016 28

Figure 13. Rural and Urban Population (%), 1978–2018 30

Figure 14. Per Capita Disposable Income of Households in ¥, 1978–2018 30

Figure 15. Urban-Rural Income Ratio, 1978–2018 30

Figure 16. Distribution of Income by Quintiles in ¥, *(A)* Urban and *(B)* Rural, 2013–18 33

Figure 17. The Four Economic Regions of China 34

Figure 18. Population by Region (%), 2013–18 35

Figure 19. GDP by Region (%), 2013–18 35

Figure 20. Per Capita Disposable Income of Regionwide Households in ¥, 2013–18 36

Figure 21. Per Capita Disposable Income of *(A)* Urban and *(B)* Rural Households in ¥ by Region, 2013–18 39

Figure 22. Literacy Rate (% of People Ages 15 and Above) 40

List of Tables

Table A. Trends in China's HDI and IHDI, 1990–2018 29

Table B. Industrial Structure Evolution by Region (%), 2013–18 36

Table C. Rural and Urban Population by Region (10,000 Persons), 2018 38

I. INTRODUCTION

1. Rationale for this Thesis

China is commonly deemed to be one of the major emerging markets, and over the last decades has become a global economic powerhouse capable of competing in the international arena. Put differently, the nation has experienced a truly exceptional economic progress. Notwithstanding, several scholars often ignore whether the 1978 reforms have been successful in achieving high, equitable growth, or if they have left some segments of society behind – they consider the state as a whole, and do not examine each of its different "parts". This fact, together with my passion for political and social issues, has pushed me to explore to what extent inequality and poverty are present in Chinese society, as well as the tendency followed by these phenomena in recent years.

This subject area is highly relevant to my field of study, International Business. The astonishing economic expansion has granted the nation a key role in global commercial transactions. China is currently regarded as having achieved the status of major player in international commerce and presents endless opportunities for investment and business growth. It must be pointed out, however, that economic development is closely linked to social development – a high incidence of poverty or inequality could eventually weaken the economic performance of the country and scare off potential investors. Therefore, this is a complex matter that deserves further attention.

2. Statement of the Problem

The starting point of this thesis is the 1978 "reform and opening-up" policy envisioned by the Communist Party of China, then led by Deng Xiaoping. This economic programme incredibly transformed society and "opened the door" to foreign enterprises that wanted to establish in the country. The outstanding economic growth and the increase in the nation's wealth were likewise accompanied by a reduction of poverty rates within China. Nonetheless, these series of reforms also triggered serious adverse effects. Inequality levels rose significantly and have continued to increase in recent years, challenging the country's sustainable development and setting different living standards among its citizens on the basis of countless and diverse factors.

The goal of this paper is to analyse the most common trends on inequality and poverty, together with their root causes and their potential leverage on the economy. Social development will be studied first on a nationwide basis, and the most significant traits will be subsequently disclosed and further examined. Possible policy reforms will be briefly discussed as a concluding remark.

3. Hypothesis, Objectives and Research Methodology

This document departs from the hypothesis that the deep economic reforms executed under the leadership of Deng Xiaoping, by which the nation transitioned from a centrally-planned system to a more market-oriented economy, lacked inclusiveness and left specific segments of society

behind. Despite being highly successful in reducing poverty and speeding up the state's growth, the new economic model exacerbated inequality. Owing to the 1978 programme characteristics, individuals living in areas in which the productive and commercial activities of the country are located enjoyed a much greater improvement in their living standards. Those residing in other parts of China, conversely, only experienced quite modest progress. This eventually resulted in the emergence of considerable disparities among its inhabitants. This criterion will be subject to throughout scrutiny in this paper. Following are the primary objectives of this research study:

- To identify the specifics of the 1978 reform and the crucial factors that led to its success, together with the possible impact social unrest had on its implementation.
- To examine the economic growth experienced by China as a result of the 1978 reform.
- To find out the actual magnitude of poverty and inequality in the post-reform China.
- To analyse the most significant trends in poverty and inequality, alongside their major causatives and their plausible effect on the economy.
- To uncover the relationship between economic growth and both poverty and inequality.
- To briefly discuss, as a concluding observation, distinct policies that could be possibly adopted by the administration to cope with this problematic.

The research methodology employed to conduct this paper primarily relies on the review of the extensive literature on the subject and the examination of already published data. Information has been gathered from alternative authors and sources with the purpose of comprehending the degree of progress made in China, along with its determinants and the influence it exerts on the economy. On the one side, the empirical research of reputed academics and scholars has been employed to determine the pattern that income inequality is expected to follow as an economy prospers. On the other, different indicators of development have been collected from multiple institutions, at both the national and international level, to provide a more trustworthy portrait of the incidence of this problematic. These include, for instance, the World Bank and the NBSC.

4. Structure of the Thesis

With the aim of addressing the issue previously described, this composition is divided into two chief chapters. Each, in turn, contains several sections to better discuss and comprehend the real magnitude of the chosen theme.

- The First chapter deals with the 1978 "reform and opening-up" policy. The performance of the Chinese economy both before and after the plan will be analysed, as well as the potential influence that the 1989 Tiananmen Square Protests had on its implementation.
- The Second chapter is devoted to assessing the general trends of poverty and inequality in contemporary China, together with their root causes and consequences on economic growth. In addition, previous literature on the area – including the empirical studies of Kuznets, Piketty, and Milanovic – and diverse development indicators will be reviewed.

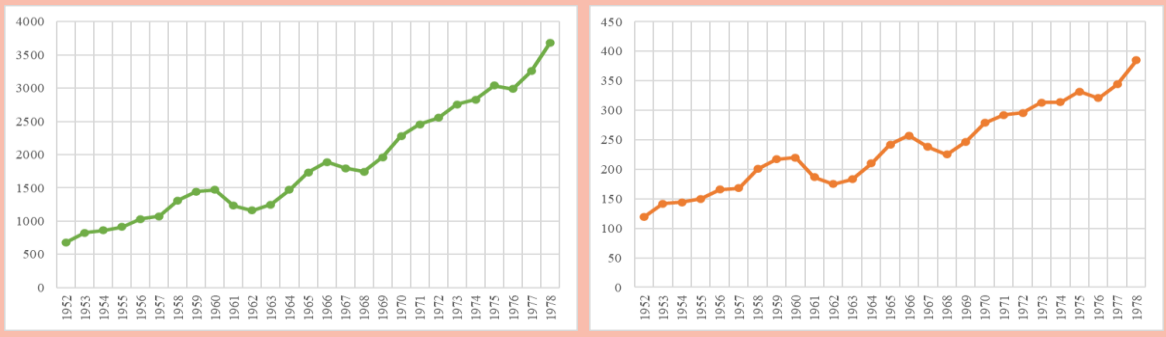
II. A TURNING POINT: THE 1978 “REFORM AND OPENING-UP” POLICY

1. A Glimpse of China's Economy Prior to Reforms

After the establishment of the People's Republic in 1949, China's economy was significantly debilitated as a result of the warfare that hit the country over the previous decades. Countless mines and factories were either damaged or destroyed, Soviet troops dismantled a considerable portion of machinery in the major industrial areas of the north-east and dispatched them to the Soviet Union, and agriculture suffered from a severe disruption (Worden *et al.*, 1988). Besides, as Chang (1958) pointed out, the nation underwent a hyperinflation in which prices were up by more than a thousand times. Hence, the prime objective for the Communist government was to prompt the reconstruction and consolidation of the economy. The administration implemented multiple policies to reach this ambitious target. A nationwide land reform program was enforced with the aim of confiscating and redistributing the titles to about 45 per cent of the arable land from rural landlords to peasants, who were then prompted to cooperate with each other through "mutual aid teams". Additional property expropriations were enacted, resulting in the end of the influence of many tycoons and the formation of a basis for the upcoming industrialization. The recovery strategy was successfully completed by 1952, when price stability was restored, trade was revived, and both agriculture and industry retrieved their previous production levels.

Mao Zedong, who was serving as Chairman at that time, pursued a centrally planned economy largely based on the Soviet model – a large portion of the economic output was instructed and managed by the executive, which was also responsible for setting production goals, controlling prices and directing resource allocation (Morrison, 2019). A series of economic reforms were executed to achieve economic growth in what has been regarded as "one of the largest economic policy experiments and development programs in modern history" (Cheremukhin *et al.*, 2015). However, the policies enforced before 1978 are commonly believed to have kept the economy extremely poor, stagnant, inefficient, and isolated from the outside world.

Figure 1. ***(A)*** **GDP (¥100 Million) and** ***(B)*** **Per Capita GDP (¥), 1952–78**



Source: Own Work Based on NBSC Data.

According to Chinese government statistics, the country's real GDP (see **Figure 1a**) grew at an average rate of 6.7 percent per year for the period 1953-78. The reliability of this data, however, has commonly been discussed by innumerable researchers who believe production levels have frequently been overstated on account of manifold political reasons. Angus Maddison (2007) deems the actual GDP growth to be at an annual 4.4 percent. Real per capita GDP (see **Figure**

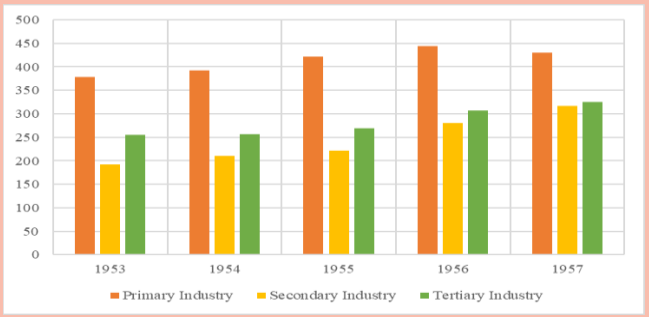
1b), in turn, grew at a modest annual average rate of 3 percent. As hinted by Zhu (2012), the primary source of economic growth for the aforementioned period was capital accumulation. It is also important to highlight this was a period rather tumultuous for the nation as a whole – the Great Leap Forward (1958-60) resulted in a terrible famine that allegedly caused the deaths of tens of millions of individuals, and the Cultural Revolution (1966-76) sparked a political chaos that eventually led to the disruption of the economy.

To better comprehend the fluctuations the economy suffered during this interval, three pivotal events that hit the Chinese society and, therefore, its economic growth will be briefly examined.

1.1. The First Five-Year Plan (1953–57)

Once conditions of economic stability had been achieved, the administration strongly committed to ensuring a swift industrialisation. The project, known as the First Five-Year Plan (1953-57), was largely inspired in the Soviet economic model and relied on the belief that a raised investment in heavy industries as steel, concrete, and heavy machineries would ultimately speed up the whole industrialization process. The aim, as pointed out by Lewis *et al.* (2020) was to assemble "large, sophisticated, and highly capital-intensive plants", somewhat at the expense of the other sectors.

Figure 2. Value-Added by Activity (¥100 Million), 1953–57



Source: Own Work Based on NBSC Data.

In spite of the strong emphasis on the industry sector, agriculture also underwent a profound transformation for the purpose of maximising efficiency, easing the mobilisation of agricultural resources, and expanding the government access to farming products. Peasants were prompted to organise first into small collectives comprising between 20 to 30 households, and eventually into advanced cooperatives in which they were allowed to own their house, a cattle, a private plot and their own savings – by 1956, collectivisation levels reached those of the Soviet Union.

As suggested by Worden *et al.* (1988), industrial production grew at an average annual rate of 19 percent within this period, whereas agricultural output increased by about 4 percent per year (see **Figure 2**). National income likewise raised at a yearly rate of 9 percent from 1953 to 1957.

1.2. The Great Leap Forward (1958–60)

As disparities between industrial and agricultural growth, abundant inefficiencies, and a lack of flexibility in the decision-making process started to become evident, authorities soon began to accept that the Soviet-based pattern of economic development did not properly suit the country. Instead, the government opted to launch the Great Leap strategy with the aim of turning China

from a predominantly agrarian society into a major industrial power capable of competing with Western industrialized nations by benefitting from its massive labour surplus. Altogether, the proposal was focused on two fundamental goals: a comprehensive industrialization and a deep reorganisation of rural production.

Figure 3. Value-Added by Activity (¥100 Million), 1958–60

Source: Own Work Based on NBSC Data.

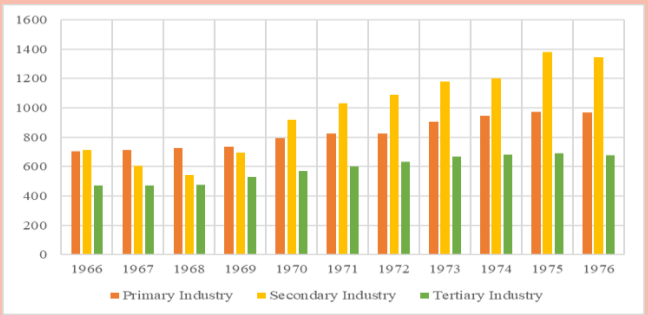
Advanced cooperatives were pressed to reconstitute into people's communes, which seized the ownership rights of all those assets that could be used in production and were responsible for the arrangement and decision-making of agricultural activities. These massive rural units were ideally envisioned to maximise yielding, boost local industrial production, provide better opportunities for rural schooling, and shape a local militia force. In practice, they destroyed the working incentives of peasants, who were not encouraged to produce beyond state quotas, and failed to lead to a notable growth in output and productivity (Aglietta and Bai, 2012). This contingency sparked the Great Chinese Famine, in which official data admit to 15 million deaths and unofficial estimates suggest up to 45 million.

The Great Leap Forward had disastrous results on the economy. In 1959 and 1960, as disclosed by Worden *et al.* (1988), the gross value of agricultural output dropped by 14 percent and 13 percent, respectively (see **Figure 3**). Besides, living standards are believed to have declined by 20.3 percent as a consequence of this particularly devastating economic stage (Morrison, 2019).

1.3. The Cultural Revolution (1966–76)

As opposed to the preceding schemes, the Cultural Revolution did not spawn a new economic model. It was rather a mass political movement to strengthen Mao's personality cult and preserve the Communist ideology by destroying the capitalist and traditional elements still present in the Chinese society. Events escalated rapidly as students, with the support of the Chairman, commenced to harass members of the elderly and intellectual community through the paramilitary groups known as Red Guards. Although the rebellion was called to a halt in 1968, it continued under further phases until Mao's death in 1976. The riot resulted in a death toll ranging from 500,000 to 2 million individuals and severely disrupted China's economy, particularly in its early phase.

Figure 4. Value-Added by Activity (¥100 Million), 1966–76



Source: Own Work Based on NBSC Data.

As a means of illustration, Worden *et al.* (1988) highlighted that industrial production declined by 14 percent in 1967 (see **Figure 4**), whereas the output of 1968 fell by 12 percent below that of 1966. The phase spanning from 1966 to 1968 additionally saw a drop in living standards of 9.6 percent (Morrison, 2019).

2. Reform and Development Strategy

The economic policies undertaken under Mao's leadership introduced a series of distortions in the economy. Since most aspects were centrally coordinated and supervised, the result was a lack of market mechanisms that, in turn, led to a large misallocation of resources and an absence of initiatives to become more productive or to manufacture a higher quality outcome. Instead, businesses, workers, and farmers solely produced those quantities set by the authorities, hence operating within its set of production possibilities and creating a large potential but unrealized output. Overall, the period 1952-78 witnessed a descending aggregate productivity, constant food crises and a modest enhancement of living standards. Nevertheless, as Brandt and Rawski (2008) hinted, it must be noted that illiteracy dropped from 80 percent to 16.4 percent within this interval thanks to the creation of village schools, while health standards likewise improved because of the contribution of "barefoot doctors" to the medical services for rural communities.

Given that China had failed to reach the stage of development attained not only by the Western industrialized nations but also by other authoritarian states such as Singapore, Taiwan and South Korea, a change in strategy seemed inevitable. Hence, after the death of Mao Zedong in 1976 and the subsequent end of the Cultural Revolution, a series of economic reforms began to take place in a gradual, incremental, decentralized manner – policies were first implemented on an experimental basis in some areas before being eventually applied to the whole country as a way of minimizing the possible disruption they might occasion. Deng Xiaoping, who took power in 1978, intended not to conclude communism but to enhance it through the introduction of market mechanisms and the reduction (but not withdrawal) of government intervention in the economy. As Naughton (2008) clarified,

> during the economic transformation, the Communist Party hierarchy did not sit off to one side, frozen in time while everything else in China changed. Rather, the hierarchical political system shaped the process of market transition, and the political hierarchy itself has been reshaped in response to the forces unleashed by the economic transition.

The Four Modernisations – of agriculture, industry, science and technology, and defence –, first developed in the 1960s by Zhou Enlai, were put at the top of the nation's agenda with the hope of increasing economic growth and raising living standards. The ultimate purpose was to turn China into a fairly modern nation by the end of the 20th century, which in practice signified the inception of a "socialist market economy" that combined government planned decisions with capitalist features. A wide-scale political reform, however, was not embraced by the Chairman.

Agriculture, a field historically mismanaged by Communist leaders, constituted a critical first step. The main inspiration behind Deng's rural reform is found in a local experiment in Anhui province, in which land was leased to each family in return for delivering quotas assigned under the central plan. Each member household, now responsible for the management of a given share of the commune, had the free will to select the crop it wanted to grow. Upon fulfilment of the quota, the sale of extra output on the free market was permitted and, hence, families could either entirely benefit from the gains or suffer from any possible loss on their own. No one was made economically worse under this contract: the commune was still able to dispatch the government-imposed quota and households were not forced to produce beyond this target (Lau and Zheng, 2015). In less than a year, farmers' yield was large enough not only to cover their own needs, but also to be put for sale at market-determined prices. This successful organization approach rapidly spread across the country until being eventually adopted nationwide in the early 1980s.

As Lin (1992) noted, the transition from the collective system to the household responsibility system started in 1979 and was fundamentally concluded by the end of 1983. The abolition of the communes signed the beginning of a "dual-track" economy in which both free markets and mandatory central plans coexist and completely revived the Chinese agriculture – it generated incentives for production as it gave peasants the freedom to administer their land and effectively linked rewards with their performance (Chen and Davis, 1998). As a means of illustration, the annual output during the commune-era ranged from 30 to 50 billion kilograms, but by 1984 this figure rose to 400 billion kilograms. It must be said, nevertheless, that the system was locally implemented with notable variance as a result of the inability of the central administration to supervise local authorities and the lack of effective means for rural individuals to defend their rights (Vendryes, 2010).

Changes were also implemented in industry in an effort to shift from a model in which resource allocation was mostly dictated by planning and administrative directives to one guided by the interaction of autonomous, competitive, profit-oriented economic agents in the market (Perkins, 1988). Under this marketisation strategy, as Byrd (1992) emphasised, "government supervision was to be […] oriented toward economic rationality". As in agriculture, experiments were first performed on a small scale before spreading throughout the whole country – the pilot test was originally carried out in Sichuan province and eventually proved to be a success, since the 6,600 state-owned enterprises on which these reforms were applied ended up manufacturing about 45 percent of the total industrial output of the nation (Chow, 2002).

Overall, three major adjustments were applied to the sector. First, state-owned companies were granted autonomy in production, marketing, and investment decision-making, thereafter being released from the demands of state planning. Secondly, they were made financially independent by enabling them to retain, after payment of state taxes, the earnings as their own profits. Lastly, firms put into effect a contract responsibility system comparable to the household responsibility system in agriculture. It allowed them to keep above-quota profits for distribution to its workers and for capital investment and provided a remarkable flexibility in the face of market or other

shocks (Byrd, 1992). In addition, the government ceased ownership of small and medium-sized firms by issuing shares that were typically purchased by its managers and staff, hence providing both an infusion of capital to the venture and substantial motivation to its labourers, who now shared part of the profits. Most of the large state-owned companies, in turn, were transformed into shareholding enterprises in which the executive controlled the majority of shares. In spite of introducing certain inefficiencies on their own, reforms pushed up the total amount of profits kept by national firms from ¥2 billion in 1978 to ¥10 billion in 1980 (World Bank, 1988). These increased funds were subsequently employed to finance employee's housing, public facilities, and welfare, which greatly contributed to the outstanding improvement of their living standards.

The Chairman firmly believed that the stimulation and support of foreign trade and investment was essential to modernize China's science and technology, revamp its industry, and ultimately boost the entire economy. This conviction led to the launch of a new plan, known as the Open-Door Policy, intended to "open the door" to foreign businesses that were willing to invest in the country. In consequence, Special Economic Zones (SEZs) were instituted with the purpose of drawing in foreign investment, stimulating exports, and importing high technology equipment. They were characterised, as reported by Crane *et al.* (2018), by "a defined geographical area, local management, unique benefits, and separate customs and administrative procedures". Put in other words, these areas were authorised to experiment with market mechanisms and release themselves from the direction and guidance of the central administration. They were expected to eventually fuel economic development by supplying low-cost labour to foreign investors and prompting mass exportation. The first four SEZs were set up in 1980 in south-eastern coastal China and encompassed the then small cities of Shenzhen, Zhuhai, and Shantou (in Guangdong province), and Xiamen (in Fujian province). As Yongning (2009) stressed, these geographical areas were selected because of their strategic location adjacent to "anticipated sources of foreign capital" – Hong Kong, Macau, and Taiwan. Indeed, they offered an advantageous tax regime and low wages to bring capital and tempt businesses from these regions.

The real GDP growth in the communities where SEZs were put into effect was extraordinarily high: while the Chinese economy grew at an average rate of 9.6 percent per year over the period 1981-93, Shenzhen expanded at an impressive annual average rate of 40 percent (Ge, 1999). In addition, its population grew from about 52,000 in 1979 to more than 1,000,000 by 1993. This astonishing progress, as Ge (1999) explained, was nevertheless derived from the poor economic base these cities presented before the implementation of this policy and proved unsustainable on the long-term. SEZs succeeded in attracting international capital, technology, and technical and managerial expertise, and dramatically changed those territories in which they were located. This ultimately persuaded the executive to further expand this status to other parts of the nation, including fourteen coastal cities, the Hainan province, some major cities in inland China, and multiple areas along both the border and the Yangtze River. It must be noted, though, that SEZs contributed to the increase in the disparity gap between regions. They were expected to exercise a "spillover effect" where the expansion achieved in coastal regions would sequentially spread

to central and western China (Litwack and Qian, 1998). Unfortunately, as Gross (1988) stated, the aforementioned effect did not materialise, and regional discrepancies were widened instead.

Defence was the last field to undergo modernization, but it is of minor relevance for the purpose of this paper. In brief, the reform of the People's Liberation Army was primarily based on three courses of action (Sahay, 2016). First, the military was to be disengaged from civilian politics to guarantee the political stability that characterised the pre-Cultural Revolution era. Secondly, with the intention of enhancing combat effectiveness of the armed forces, the executive revised its organisational structure, education and training, and personnel policies. Lastly, efforts were focused on reorganising the defence R&D and industrial base to attain a modern military force.

Further changes were also adopted in other parts of the economy – including the price system, the banking and financial sector, and the social welfare system – to support the modernisations.

3. Social Unrest: the 1989 Tiananmen Square Protests

The upheaval exhibited at Tiananmen Square in 1989 was, as Davis and Vogel (1990) indicated, a product of the social consequences of the economic reforms initiated under the leadership of Deng Xiaoping. Indeed, student-led demonstrations began to gain momentum after the end of the Cultural Revolution, and were intended to compel the executive to implement democratic structures that would eventually enable Chinese individuals to actively participate in decision-making – examples can be found in Tiananmen Square, in 1976; the Democracy Wall, in 1978, and Hefei, in 1986. The so-called "Fifth Modernization" (democracy) was, nonetheless, never contemplated for the 1978 plan. The administration rather justified its decision by accentuating the distinction between the intellectual and cultural aspects of the Western economies and their technological and scientific accomplishments, but the precepts of capitalist countries certainly penetrated China. As highly trained technical personnel returned from abroad, where they were sent to receive advanced education, a collection of new ideas and influences reached the society and ultimately fuelled the 1989 events (Spence, 1990). Overall, as highlighted by Zhao (2001), the movement was characterised by "frequent government policy changes back and force from concession to repression, quick and successful participant mobilisations, and the dominance of traditional forms of language and action".

The death of Hu Yaobang, a Communist party leader who aimed to make the government more transparent, acted as a catalyst for the Protests. Pro-democracy demonstrators, mostly students, peacefully gathered on the day of his funeral to call for a more open, democratic, fair system. In the following weeks, they were overwhelmingly joined by tens of thousands of individuals that occupied Beijing's Tiananmen Square and around 400 other cities nationwide to transmit a solid message to the Communist Party: the population petitioned an end to both corruption within the administration and unbridled inflation, the enforcement of democratic reforms, and the freedoms of press, speech and association. One of the greatest ironies, as stressed by Spence

(1990), is that a number of these demands were in fact included in the Constitution that the own Party designed but were never actually permitted. It must be noted, though, that the movement soon became complex, convoluted, and sometimes contradictory as a result of the astonishing expansion of participation (Odgen *et al.*, 1992).

Given the rapid expansion of dissidence throughout the country, the executive increasingly saw both its legitimacy and its position in power threatened. Indeed, the 1989 events were the largest spontaneous mass movement since the People's Republic of China was established in 1949. As Béja (2011) underlined, this unprecedented movement caused an intense debate among party officials. Moderates, such as Zhao Ziyang, defended negotiating with the students and offering concessions; but the Chairman could not accept this standpoint and insisted instead on violently repressing the demonstrations. Along these lines, martial law was declared on May 20 and up to 300,000 army troops were mobilized to the capital. There they encountered tens of thousands of Beijing citizens, who flooded the streets and successfully prevented them from advancing. Troops were finally called to withdraw on May 24, but that did not translate into the end of the government's response to the incidents. In the early morning hours of June 4, tanks and heavily armed soldiers forcibly moved towards Tiananmen Square, the hub of the protests, slaughtering those who attempted to stop them. By June 5, the movement had been essentially suppressed in what has been constantly qualified as a "massacre" (See **Figure 5**). Authorities additionally arrested innumerable suspected dissidents, employed analogous military tactics in several other Chinese cities, expelled foreign journalists, ensured a stern control over the domestic media's coverage of the events, and purged sympathisers of the uprising within the Party (Miles, 1997).

Figure 5. Authorities' Response to the 1989 Protests

Source: Reuters/Shunsuke Akatsuka.

Source: Jacques Langevin/Sygma via Getty Images.

The death toll has remained under discussion since the end of the occurrence. As announced by the executive's spokesman Yuan Mu, the official count of those killed was 241 – including both civilians and soldiers –, along with 7,000 wounded. The Chinese Red Cross, however, initially estimated 2,600, a figure that soon disclaimed given the intense pressure from the government (Yang and Wagner, 1990). Yet, according to *The Impact of the Tiananmen Crisis on China's Economic Transition* (Naughton, 2009), the events did not have a large impact on the Chinese economy. The fundamental distinction between the pre- and post-Tiananmen period lies in the shift in the Party's priorities. Before the crisis, political leaders subordinated national interests to the economic reform in an effort to pursuit a better economy and society. After, alternatively,

the ambition of a revamped economy was put below the authorities' desire for a strengthened, stabilised, and more effective government power. The most direct effect of this shift is found in both the provision of public goods and growth-oriented public investment (Naughton, 2009).

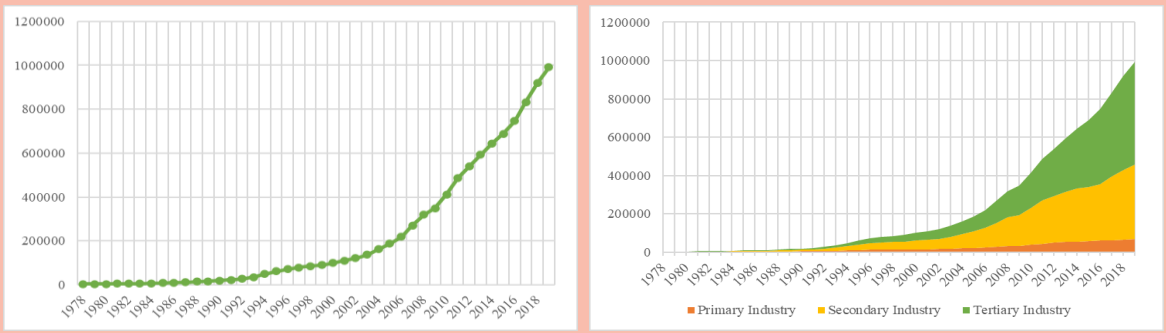
4. Economic Performance in the Post-Reform China

Since 1978, China has undergone a certainly exceptional economic transformation. It is beyond doubt that Deng Xiaoping's Four Modernisations broadly succeeded in transitioning the nation from a centrally planned system to a more market-oriented economy, ultimately leading to an astonishing economic growth. Indeed, as Kong *et al*. (2012) indicated, the relaxation of state control over the economy, the creation of market incentives, the support for private businesses, the curtailment of protectionist policies, and the market opening unquestionably improved the efficiency of the economy. Only the events of 1989 succeeded to disrupt this path of substantial expansion – multiple countries imposed trade sanctions against China, and economic reforms were put on hold. Real GDP growth rate consequently decreased from 11.3 percent in 1988 to 4.2 percent in 1989, and further fell to 3.9 percent in 1990 (Morrison, 2019). But, as mentioned in the previous section, the economic slowdown did not have a long-term effect on the market: in 1991 foreign sanctions were either reduced or removed and reforms resumed. This significant progress has allowed the nation to become the second-largest economy in the world by nominal GDP – although it ranked 73rd by GDP per capita in 2019 – and the largest by purchasing power parity (IMF, 2019b). In addition, as stressed by the OECD (2020), it remains the second-largest recipient of foreign direct investment in the globe after the United States. When considering all these aspects, it seems clear that China has turned from a poor, stagnant country into a major emerging power. As Morrison (2019) outlined, the two major forces behind this rapid economic advancement are found on large-scale capital investment (funded by vast domestic savings and foreign investment) and swift productivity growth.

On the one hand, the country has historically maintained an impressively high national savings rate. Back in the 1980s, national savings constituted around 35-40 percent of GDP, a figure that climbed to an unprecedented peak of 52 percent in 2008 following China's entry into the World Trade Organisation in 2001. The Global Financial Crisis, nevertheless, led to a gradual decline of the rate to 46 percent in 2017. Despite this shrinkage, Zhang *et al.* (2018) reported that the state's national savings are believed to be one of the highest in the world, widely exceeding the global average rate of 20 percent and of 15 percent for emerging markets. On the other hand, it must be noted that China's total factor productivity increased from 3 percent to 13 percent of the US level during the 1978-2007 cycle (Zhu, 2012). This remarkable rise has been primarily attributed to the reallocation of resources to more productive uses brought by the 1978 reform, particularly in those sectors that were previously heavily intervened by the executive. However, Hsieh and Klenow (2009) predicted that an additional 30 percent potential factor productivity could be attained if distortions in the state's manufacturing sector were reduced to the US level.

The metamorphosis from an extremely impoverished agricultural system to a mighty industrial powerhouse has also been reflected in the evolution of both GDP (see **Figure 6a**) and the value-added by each of the productive activities (See **Figure 6b**). As reported by Kong *et al.* (2012), China's per capita GDP before reforms were implemented was lower than India's, Pakistan's, Indonesia's, and Thailand's, and merely about 3 percent of that of the United States. Since then, the country has prospered in what has been depicted by the World Bank as "the fastest sustained expansion by a major economy in history" – more than 850 million people have been released from the stronghold of poverty, and real GDP growth has approached a formidable 10 percent per year during the 1979-2018 period. In the last few years, however, this rate has evolved on a gradually decreasing basis (except for a slight increase in 2017): it fell from 10.6 percent in 2010 to a preliminary estimate of 6.1 percent in 2019 (NBSC, 2020b), the nation's slowest rate since 1990. In a similar manner, the IMF (2019a) forecasted in its *World Economic Outlook* a progressive slowdown to 5.5 percent by 2024, a digit that could be reduced even further given the unpredictability surrounding the growing trade war between China and the United States. To avoid stagnation, as pointed out by Morrison (2019), the administration must turn the state into a major hub for new technology and innovation and/or put new comprehensive economic reforms into effect. Otherwise, it could eventually be caught in what is known as the "middle-income trap". This phenomenon refers to low-income countries that successfully transitioned to middle-income economies, but that could not maintain high levels of productivity gains and were finally unable to achieve a high-income, fully developed status.

Figure 6. *(A)* GDP (¥100 Million) and *(B)* Value-Added by Activity (¥100 Million), 1978–2019



Source: Own Work Based on NBSC Data.

The economic restructuring was also accompanied by a substantial opening of China to the rest of the world. According to Prasad and Rumbaugh (2004), the nation's share in global trade has been boosted from less than 1 percent in 1979 to about 6 percent in 2003. Indeed, the country has rapidly become a major player in international trade: it has been the largest trading economy since 2013, and currently ranks as the world's leading exporter and second-biggest importer of goods. Notwithstanding, the IMF recently warned about the severe recession triggered by the ongoing COVID-19 pandemic. It may impact trade flows worldwide, in turn affecting Chinese GDP, by means of a decline in both external and domestic demand. Early effects of the outbreak already display a drop in industrial profits of 38.3 percent and a 20.5 percent fall in total retail sales of consumer goods (NBSC, 2020c; NBSC, 2020d) in solely the first two months of 2020.

III. INEQUALITY AND POVERTY IN CONTEMPORARY CHINA

1. A Brief Review of the Literature

1.1. Previous Research on the Issue

This section seeks to give a brief description of the most significant literature on both income distribution and poverty problems. Empirical studies and relevant hypothesis will be reviewed to provide a theoretical background for this problematic before delving deeper into the ongoing trends present in the Chinese society. But first there must be a clear understanding of what the concepts of *inequality* and *poverty* mean, as they will be used extensively throughout this paper.

The Oxford Advanced Learner's Dictionary describes inequality (n.d.) as "the unfair difference between groups of people in society, when some have more wealth, status or opportunities than others". However, as this is such a broad concept, most authors generally distinguish between two different views when referring to economic or monetary disparities (Alfonso *et al.*, 2015a).

- **Inequality of opportunities:** It depicts a state in which individuals' freedom to pursue a life of their own choosing is restricted by circumstances beyond their control, such as their gender, ethnicity, family background or disability. Possible examples of this view include unequal access to employment or education.
- **Inequality of outcomes:** It occurs when members of a society do not possess the same level of material wealth or general levels of living and economic conditions, which may be the result of both disadvantageous attributes outside of their control and their talent and effort. This view is primarily concerned with the material dimensions of well-being and embraces aspects like the level of income, educational attainment, and health status.

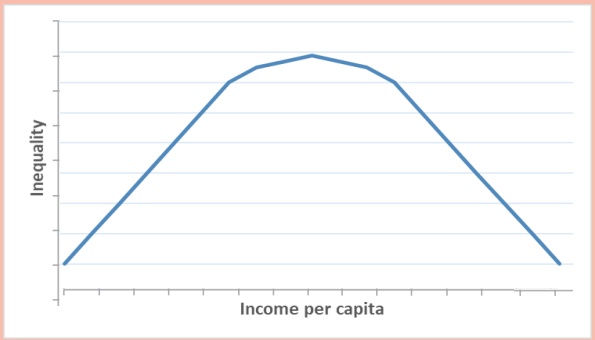
Each specific inequality is the outcome of a multitude of different factors and suggests distinct scenarios, so unique economic policies must be employed in each case. The former is concerned with setting a "common starting place", that is to say, with equalizing individuals' opportunities of living so that they are able to freely determine their life. Hence, equality of opportunities is provided when policies are enforced to compensate particular members of a society for their disadvantageous attributes. The latter, in contrast, is concerned with the "finish line". It argues that equality of outcomes could exist if both income levels and means of living were equalised.

Poverty, on the other hand, can likewise be understood from two different standpoints. Absolute poverty, as the 1995 UN *World Summit for Social Development* depicted, refers to a "condition characterised by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to services". Individuals, hence, are unable or just barely able to meet their absolute needs under this scenario. Relative poverty, in turn, affects people whose household income falls below half the median level prevailing in the state where they live (OECD, 2005). Sometimes, yet, a 60 percent of the median income is used instead (Marx and Van Den Bosch, 2007). Individuals are said to be impoverished if they are able to meet their basic needs, but do not possess the amount of income considered necessary to sustain the average standard of living

determined by society. The main difference between both views lies in the fact that the latter's notion changes over time as economic growth occurs, since the state's wealth levels are altered.

Income inequality has historically been a theme of interest for many economists, who have been actively presenting alternative explanations for this widespread phenomenon. Plausible causes are multiple and diverse. Larrain (2012) has suggested inequality may be the result of financial liberalization, whereas Cassette, Fleury and Petit (2012) claimed it emerged on account of the spectacular growth of international trade. Tsai, Huangy and Yangz (2012), conversely, drew attention to globalisation, and noted that income distribution appears fairer in highly developed nations as they enjoy a deeper international economic integration. But, without a doubt, one of the best-known hypotheses is the one first conceived by Simon Kuznets in the 1950s and 1960s.

Figure 7. Kuznets' Inverted-U Hypothesis



Source: Own Work.

Kuznets did pioneering research on income distribution and structural change, a field of study "plagued by looseness in definitions, unusual scarcity of data, and pressures of strongly held opinions" (Kuznets, 1955) prior to the promulgation of his empirical work. In *Economic Growth and Income Inequality* (1955) and *Quantitative Aspects of the Economic Growth of Nations* (1963), he comprehensively examined the relation between income inequality and economic growth. He ultimately discovered that both variables are indeed connected in what came to be known as the inverted-U hypothesis (See **Figure 7**). This theory postulates that as an impoverished economy develops, market forces first increase the level of income inequality until eventually reaching a peak from which it begins to decline.

The inverted-U hypothesis departs from the logic that, in a country's early development phase, individuals who already possess enough income can benefit from the appearance of emerging investment opportunities – hereby, making their wealth even greater. In contrast, the working class does not witness a significant change in wage levels by reason of the influx of low-cost rural labour to the urban environment. The combination of both factors causes a large expansion in the income gap, which becomes increasingly evident as society undergoes industrialization. This process sparks a shift of the centre of the economy to the cities, thus triggering a growth in internal migration by rural labourers seeking better-paying jobs. As a result of such a trend, rural population plummets as urban population continually rises, and a considerable urban-rural gap arises. Inequality is expected to eventually drop once a certain level of average income is attained and industrialization allows for both democratization and the conception of a welfare state. As Ravallion (2016) pointed out, the Kuznets argument can also be understood as a model explaining the active role of urbanisation in the reduction of poverty – poverty, he argues, could be directly diminished through the absorption of rural labour into the expanding modern sector.

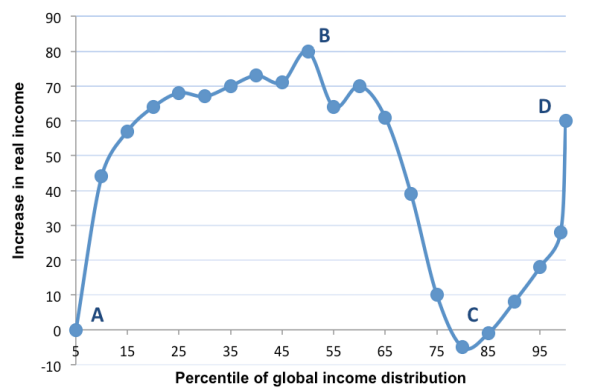
Some experts have nevertheless questioned the validity of Kuznets' hypothesised pattern since the late 1980s. They contend that the inverted U-shaped curve does not result from a particular nation's economic progress, but rather indicates historical dissimilarities between the countries studied in terms of both economic development and inequality. As suggested by Fields (1999), Kuznets' highest inequality observations belong primarily to Latin American economies. Thus, he emphasizes, being a middle-income country does not necessarily imply having high levels of inequality – it is Latin America that has historically presented highly unequal distributions of land, wealth, and other assets with respect to other developing states. When controlling for this variable, the inverted-U shape relationship tends to fade, and the aforementioned postulate is consequently rejected.

Piketty's work has been acknowledged as one of the most relevant criticisms of Kuznets' thesis, sometimes deemed as "not only scientifically but also politically motivated" (Lyubimov, 2017). In *Capital in the Twenty-First Century* (Piketty, 2014), he carefully compiled an extensive data base covering the change in both wealth and income inequality in Europe and the United States since the 18th century. He found that the two regions indeed share a similar pattern of evolution. For the former, he selected the leading 19th century colonial powers: France and Britain. Data illustrates that these economies were experiencing an increasing inequality at that time, a trend that was successfully disrupted by the World Wars and the Great Depression. The authorities implemented relatively high tax rates to fund war-related expenditures, which subsequentially diminished disparities until the 1980s. Since then, they began to climb once again at a dramatic pace. Along the same lines, the United States showed growing inequality levels during the 19th century. They similarly dropped during the 1920s and did not increase again until the 1980s, when deregulation and privatization policies were enacted. Unlike Kuznets, Piketty believed that the reduction of inequality from the 1920s to the 1980s is the consequence of fiscal policies and shocks and asserted that a mature stage of economic expansion does not by itself reduce inequality. He summarised his argument on the formula $r > g$, by which he claimed that the main driver of inequality "is the tendency of the rate of return on capital *r* to exceed the rate of growth of output *g*" (Piketty, 2014). He also indicated that disparities – which are viewed as an integral part of capitalism by the author – potentially pose a risk to the democratic order, since affluent individuals could eventually take both the political and economic powers. Given such a scenario, he proposes a global wealth tax of up to 2 percent as a means to address this matter.

Global Inequality: A New Approach for the Age of Globalization (Lakner and Milanovic, 2016) has also been considered one of the leading exponents in the field of global income inequality. Drawing on a vast array of relevant data, the authors clearly found that economic globalisation has produced both winners and losers. To support this position, they reproduced in a chart the change in each percentile of the world's income distribution for the period 1988-2008. Wealth gains created during this era of "high globalization", as it accordingly proved, were not evenly distributed. The resulting curve greatly differed from Kuznets' inverted-U and Piketty's S – it rather adopted a distinctive "elephant" shape, with its tail on the left and its trunk lifted up on

the right-hand side (see **Figure 8**). The four highlighted dots (namely *A*, *B*, *C*, *D*) reveal which percentiles have benefited the most from this process and which have been left behind. The two big winners are the middle global class (*point B*), especially due to the spectacular growth of some emerging Asian economies; and the global elite (*point D*), primarily concentrated in Europe and North America. The biggest losers, in contrast, are the global extreme poor (*point A*), who have been trapped in a vicious cycle of poverty and violence; and the global upper middle class (*point C*), with stagnant or even falling incomes. The logic behind this dynamic can be explained through the increase in both international trade and competition: it has boosted the incomes of currently emerging powers and highly skilled individuals at the expense of the working middle class of wealthier Western countries. Further elaborating on the issue, Milanovic (2016) reported that, while inequality *among* nations seems to fall, inequality *within* nations seems to increase. He claimed that this trend could eventually turn social class – rather than location – into the main source of disparities, as in the 19th century.

Figure 8. Lakner-Milanovic Global Growth Incidence Curve, 1988–2008



Source: Asian Development Blog.

In any case, discussion on the causal effect of inequality is highly controversial and still remains an open issue. Not surprisingly, the OECD finally concluded that "the empirical evidence as to the key drivers of inequality remains largely inconclusive" in its 2011 report *Divided We Stand*.

1.2. Theoretical Background: Measuring Development

Before providing an overview of the state of nationwide social development, it is necessary to identify the main indicators used to monitor both poverty and inequality and to underline their relevance and appropriateness for this paper.

The most common instruments to gauge poverty are the *head-count ratio* and the *poverty gap*. The former indicates the proportion of a country's population living below the national poverty line (Tendulkar and Jain, 1995). The latter, in contrast, signals the average distance separating the total population from the poverty line (counting the non-poor as having a distance of zero), expressed as a percentage of the poverty line (United Nations, 2003). The higher the index, the greater the poverty gap – in other words, the living conditions of the poorest will be well below the poverty threshold. It provides, therefore, a good insight of the actual incidence and depth of poverty within a society. It is additionally regarded as an improvement of the head-count ratio, which merely counts the number of individuals falling below the poverty line and is completely insensitive to how income is distributed among them, thus considering them equally poor (Sen, 1976). Both indicators, as stressed in their definitions, heavily rely on the so-called *poverty line*.

It represents the minimum level of income necessary to satisfy basic needs and is computed by taking the overall value of the resources deemed essential to sustain an average adult in a given country. For this reason, those falling beneath this monetary threshold are believed to be living in absolute poverty. Since the cost of living varies significantly from state to state, each nation displays a unique poverty line. It should be noted, though, that the data used for the purpose of this paper is primarily based upon the World Bank's international poverty line, given that ratios applying the Chinese poverty threshold are not available. This global standard was established by the aforementioned institution to help estimate the total number of people living in extreme poverty and enable a comparison between countries. It has to be periodically updated to reflect the evolution of the costs of basic food, clothes, and shelter across the world – the last revision was made in October 2015 (at 2011 PPP), and established $1.90 per day as the global absolute minimum. Individuals under this benchmark accordingly suffer severe levels of deprivation in terms of basic human needs.

Income inequality, on the other hand, is most commonly expressed in the figure known as *Gini coefficient*. It is a measure of statistical dispersion that ranks a nation's income distribution in a range between 0 and 1. If a given society obtains a score of 0, everyone would be expected to possess the very same amount of wealth. A score of 1, conversely, indicates perfect inequality – it could mean, for instance, that a single individual within that particular society owns all the country's income, whereas the remaining residents have none. The higher the coefficient, the more unequal the allocation is. This digit, hence, evaluates the extent to which the distribution within a given economy deviates from what would be considered a perfectly equal distribution (Alfonso *et al.*, 2015b). This paper will review the *Gini index* – that is to say, the Gini coefficient multiplied by 100 – published not only by the National Bureau of Statistics of China, but also by other academics and international organisations. The variety of sources will provide a better portrait of the current dynamics present in the country. It is worth mentioning that a value above 50 is considered high; a value ranging from 30 to 49, medium; and a value lower than 30, low.

Income distribution will be further examined by sorting households into *quintiles* and *deciles*, so a clear understanding of both terms is essential. When a given population is divided into five equal-sized groups, each of the resulting shares is known as a quintile. Households are ordered in accordance with the value of their total disposable income, from lowest to highest. Therefore, the lowest quintile represents the 20 percent of the population with the lowest incomes, whereas the fifth quintile refers to the wealthiest 20 percent. Similarly, each of the segments that result from the division of a given population into ten equally large subsections is known as a decile. Data is arranged in the same manner: the lowest decile refers to the poorest 10 percent, and the tenth decile contains the highest income 10 percent. This dissertation will employ this cleavage as a complement of the Gini index for the analysis of economic disparities within the Chinese society. The Gini index will be used in the first place to appraise the overall incidence of income inequality, and a split of the population into quintiles and deciles will be subsequently carried out to disclose the existing differences in income distribution among the distinct income groups.

The *Human Development Index* will be finally reviewed to provide an overview of the progress made in the levels of national socio-economic development. It is a composite index devised by the United Nations that measures the average achievement in three basic goals or end products of progress: *longevity*, assessed by life-expectancy at birth; *knowledge*, measured by a weighted average of adult literacy (two-thirds) and gross school enrolment ratio (one-third); and *standard of living*, evaluated by gross national income per capita (Todaro and Smith, 2009). Each country is ranked on a scale from 0 to 1 – the higher its score, the greater its level of human development. This indicator will be compared to the Inequality-adjusted Human Development Index, which adjusts for inequality each of the aforementioned dimensions with the purpose of capturing the actual HDI of an average individual. In other words, this index inspects how these achievements are distributed within a society, thus disclosing the overall loss in human development resulting from the presence of disparities among its members. Under a scenario of perfect equality, both indices will be identical. But if, on the contrary, the distribution of health, education and income is unequal, the IHDI will fall below the HDI. The main difference between both metrics lies in the fact that, while the IHDI represents the actual level of human development (accounting for inequality), the HDI suggests the potential or maximum level of human development that could be achieved in a fair and equal society (Kovacevic, 2010).

These indicators offer a powerful tool to better examine the living conditions and well-being of the Chinese population, not to forget their opportunities to achieve a better, more fulfilling life.

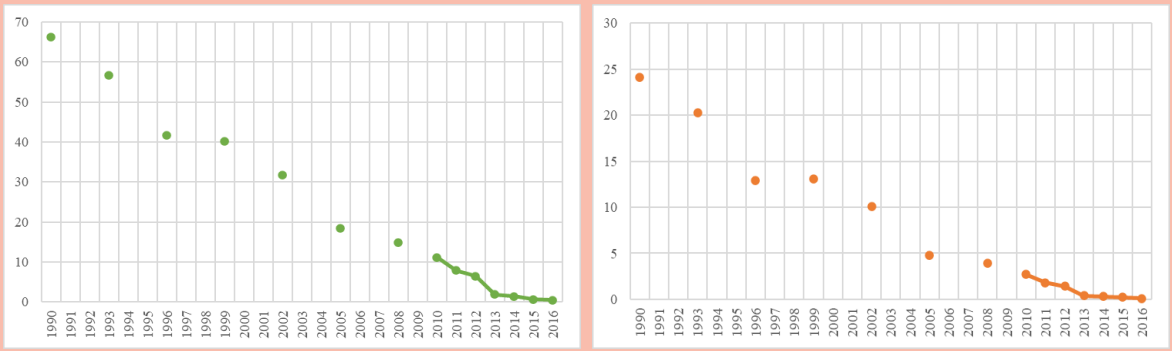
2. Ongoing Trends on Poverty and Inequality

This section aims to provide a deeper understanding of the current state of both poverty and inequality in China, as well as to identify and discuss the most observed trends. The starting point of the present study is the 1978 "reform and opening-up" policy, explained in detail in the previous chapter. As already mentioned, this reform resulted in a spectacular economic growth, which was accordingly reflected in the national GDP. The objective, hence, is to examine if the increased wealth has been equally distributed among the Chinese population, not to forget the overall impact the reform had on poverty. It should be noted that the focus will be on the last few decades, both because the GDP grew at a more intense rate during this period, and because it is the moment from which data on this issue is available.

World Bank estimations illustrate that the *head-count ratio* has clearly followed a downward trend since the 1990s (see **Figure 9a**). Data was first made available in 1990, when the ratio was estimated at 66.2 percent. This means that about 66.2 percent of the Chinese population was living in absolute poverty or that, in other words, this proportion of individuals could not satisfy their most basic needs. Nevertheless, this value began to gradually decrease since then until eventually becoming 0.5 percent in 2016 (the last year for which records exist). Nowadays, therefore, only about 0.5 percent of society lives beneath the international poverty line of $1.90.

In a similar manner, the World Bank estimates a significant drop in the size of the *poverty gap* since the early 1990s (see **Figure 9b**). The indicator equalled 24.1 percent when it was initially reported in 1990. This means that, on average, the poor had an expenditure shortfall of 24.1 percent of the $1.90 per day poverty line. But it similarly declined throughout the last decades until reaching a minimum level of 0.1 percent in 2016. It represents the current difference, on average, between poor individuals and the poverty line – it is a remarkable low value, especially if compared to accessible historical records.

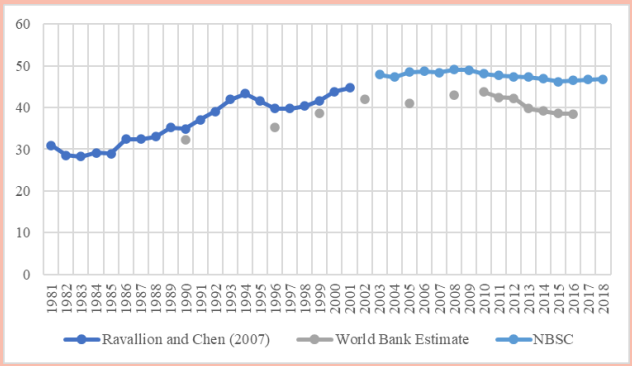
Figure 9. *(A)* Head-Count Ratio and *(B)* Poverty Gap at $1.90 a Day (2011 PPP), 1990–2016



Source: Own Work Based on World Bank Estimates.

According to these figures, thus, it can be concluded that Deng Xiaoping's Four Modernisations and the ensuing internationalization of China notably contributed to the reduction of absolute or extreme poverty within the country. Since 1990, the share of population that fails to maintain basic living standards has been reduced by 99.24 percent. The poverty gap, in turn, has likewise been cut by 99.59 percent. This implies that, although a small percent of absolute poverty still exists, poor households have incomes near the international poverty threshold. In consequence, the incidence and depth of extreme poverty in the Chinese population can be deemed irrelevant.

Figure 10. Gini Index, 1981–2018



Source: Own Work Based on Ravallion and Chen (2007), World Bank Estimates and NBSC Data.

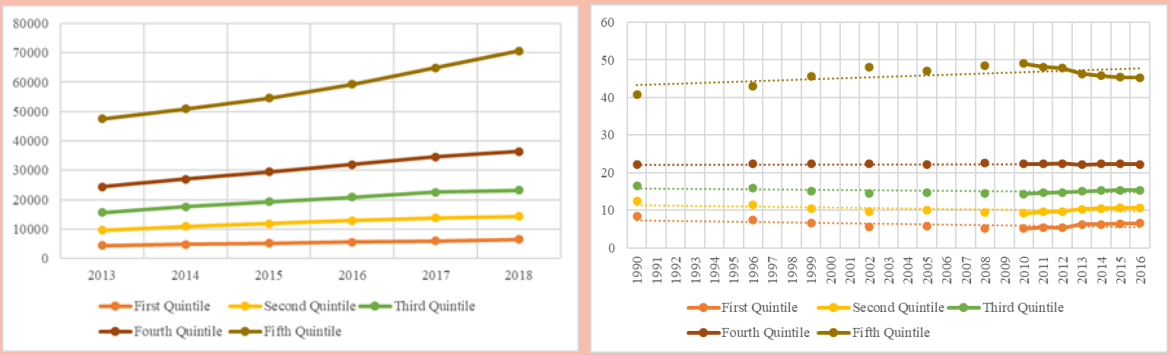
Income inequality, however, displays a distinct pattern of evolution. Information has been gathered from different sources with the purpose of presenting a more realistic image of the existing disparities among the population. These include the empirical work of Ravallion and Chen (2007), World Bank estimates, and data from the National Bureau of Statistics of China. When scanning the change in the *Gini index*, two separate periods can be distinguished (see **Figure 10**). The first, from 1985 to 2001, exhibits a clearly upward trend. It should be underlined, though, that this interval experienced a series of fluctuations: there was a downward tendency during the years 1995-96, and a slight decrease was noted in 1987 and 1990. The index increased from a mere 28.95 in 1985 to 44.73 in 2001, a value that denotes

medium inequality levels. Before this interval, conversely, the index scored under 30 in most years for which data is available, even reaching a minimum of 28.28 in 1983 – inequality was, in consequence, considered low. The second period, from 2003 to 2018, is characterised by a relative stability. According to the NBSC, values regularly ranged from a low of 46.2 (2015) to a high of 49.1 (2008) – no significant changes have occurred, and inequality levels are thus still considered medium. Yet, it must be pointed out that these estimates are close to 50, a value that denotes high inequality levels. The World Bank, by contrast, points towards a totally different scenario. The institution reports a declining trend since 2010, decreasing from 43.7 in 2010 to 38.5 in 2016 (as opposed to the 48.1 and 46.5, respectively, stated by the NBSC). It indicates figures that are considerably lower than the official ones, together with a much steeper decline.

As these data illustrate, the growth of wealth has brought more inequality to the Chinese society. Figure 10 reflects that aspects of both Kuznets and Piketty's theories are met. On the one hand, as Kuznets stressed, an increased income per capita led to higher inequality levels. The period 1985-2001 gives evidence of this hypothesis, as disparities grew from a low to a moderate level. On the other, as highlighted by Piketty, a mature economic stage did not by itself result in a reduction of inequality. The interval 2003-18, if considering official figures, exemplifies this premise: the Gini index remained relatively constant, without recording any significant change.

In order to delve deeper in the analysis of inequality, Chinese citizens have been classified into *quintiles* and *deciles*. This will allow for a better assessment of the general pattern of income distribution and will provide a good insight of the prevailing differences between social groups.

Figure 11. ***(A)*** **Distribution of Income by Quintiles in ¥, 2013–18 and** ***(B)*** **in %, 1990–2016**



Source: Own Work Based on *(A)* NBSC Data and *(B)* World Bank Estimates.

The National Bureau of Statistics of China relayed that the distribution of income for the period 2013-18, in terms of yuan, showed an upward tendency for all five quintiles (see **Figure 11a**). The fourth quintile presented the biggest percentual increase (49.71 percent), and was followed by the highest (48.85 percent), second (48.76 percent), third (47.72 percent), and lowest (46.30 percent) income quintiles. In absolute terms, however, the fifth quintile registered the greatest growth, with ¥23,182.9, whereas the first recorded the smallest, with ¥2,038.1. In addition, data from 2018 shows that there is still a gap of ¥64,199 between the upper and lower quintiles. The overall rise in wealth substantiates Lakner and Milanovic's hypothesis: the unequivocal winners

of globalisation have been the middle and upper classes of emerging Asian markets, like China, which has been accordingly reflected in the significant expansion that the second, third, fourth, and fifth groups experienced.

For the purpose of comparing the different data already collected and enhancing the discussion, World Bank estimations have also been considered. (see **Figure 11b**) They reflect, in percentual terms, the variation in the distribution of income by quintiles for the period 1990-2016. The interval 2013-16, for which figures were also supplied by the NBSC, presents increases in all but the fifth quintile, which decreased by about 2.16 percent. The greatest growth was registered by the first quintile (4.84 percent), which was followed by the second (3.88 percent), third (2 percent), and fourth (0.45 percent) income quintiles. The whole time span, nonetheless, exhibits a distinct scenario. From 1990 to 2016, all except the fourth and upper quintiles (which recorded a 0.45 and 11.03 percent increase, respectively) experienced a percentual decline. It was most notable in the lower quintile (21.69 percent), which was followed by the second (13.71 percent) and the third (6.71 percent) income groups. Data from 2016 also shows that, while the highest income quintile owns about 45.3 percent of the total nation's wealth, the lowest income quintile only possesses about 6.5 percent – a profound gap between better- and worse-off social groups.

Estimates for the income distribution by deciles reveal a comparable pattern (see **Figure 12**). In a similar vein, the World Bank reported, for the period 1990-2016, a remarkable decrease of 22.86 percent for the bottom decile, and a rise of about 13.57 percent for the top decile. But, if only the interval 2013-16 is considered, the lowest decile instead presents an 8 percent increase, whereas a 3.30 percent drop is registered for the highest. Recent data additionally reveals that the richest tenth percent of the Chinese population possesses about 29.3 percent of the country's wealth, while the less affluent tenth percent owns only 2.7 percent.

Figure 12. Distribution of Income by Deciles (%), 1990–2016

Source: Own Work Based on World Bank Estimates.

These figures illustrate that a similar evolution and tendency can be observed when evaluating estimates provided by the World Bank. From 1990 to 2016, the most unprivileged households have seen their incomes diminished, whereas the richest have enjoyed a growth in their capital. In other words, the overall trend has been for the wealthiest to become wealthier, and for the poorest to become poorer. It should be pointed out, notwithstanding, that this pattern appears to be questioned since 2010. The latest data on both the Gini index and the income distribution by quintiles and deciles corroborates that the exact opposite effect is taking place at the present time. This means that, while the national income belonging to the less affluent social groups is currently experiencing a steady growth, that of the richest Chinese residents is instead dropping.

The *Human Development Index* has been finally evaluated to gauge the overall degree of socio-economic development in China (see **Table A**). According to the United Nations Development Programme, the HDI value has grown from 0.501 in 1990 to 0.758 in 2018. This 51.30 percent increase has enabled the country to be labelled as having a "high level of human development". It is important to highlight that the nation has moved from a value lower than 0.550 (which is considered a low HDI) to one near 0.800 (which would be considered a very high HDI) in just over three decades. Correspondingly, the indicator's components have risen over this time span. From 1990 to 2018, life expectancy increased by 7.6 years, reaching an average of 76.6 years. As far as the knowledge aspect is concerned, the expected and mean years of schooling rose by 5.1 and 3.1, respectively. The most recent information suggests they score at 13.9 and 7.9 years. The GNI per capita (at 2011 PPP), in turn, presented a considerable growth of $14,597, rising to $16,127 in 2018. Yet, these figures are insensitive to the degree of inequality, so the HDI must be adjusted to appropriately cover the real progress made in health, education, and income.

Table A. Trends in China's HDI and IHDI, 1990–2018

	Life Expectancy at Birth	Expected Years of Schooling	Mean Years of Schooling	GNI per Capita (2011 PPP$)	HDI Value	
1990	69.1	8.8	4.8	1.530	0.501	
1995	69.9	9.1	5.7	2.522	0.549	
2000	71.4	9.6	6.5	3.651	0.591	**IHDI**
2005	73.0	11.0	6.9	5.665	0.643	**Value**
2010	74.4	12.9	7.3	9.458	0.702	0.541
2015	75.9	13.8	7.7	13.485	0.742	*N/A*
2016	76.2	13.9	7.8	14.311	0.749	*N/A*
2017	76.5	13.9	7.8	15.212	0.753	0.644
2018	76.7	13.9	7.9	16.127	0.758	0.636

Source: Own Work Based on UNDP Human Development Report 2019 and UNDP Data.

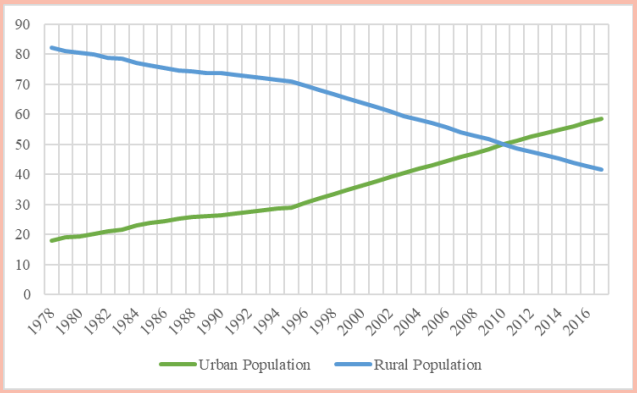
The *Inequality-adjusted Human Development Index* for 2018 was 0.636, which supposes a loss of 16.09 percent with respect to the original (unadjusted) 0.758. The 2019 Human Development Report (UNDP, 2019) estimates an average coefficient of human inequality of 15.7 – this value represents an unweighted arithmetic mean of disparities in health, education, and income. The approximate inequality in each of these dimensions, hence, was 7.9 percent in life expectancy, 11.7 percent in education, and 27.4 percent in income. It should be stressed that, although the HDI registered in 2018 was higher than that of the preceding year, the IHDI value was slightly smaller – 2017 registered a lower loss of human development, estimated at about 14.48 percent. Yet, it still constitutes a lower loss than that suffered in 2010, which approached 22.93 percent.

Several scholars agree on the existence of a series of trends hidden within these data that still persist in nowadays China. These include a relevant rural-urban divide, a gap between regions on the basis of their geographical location (depending principally on their proximity to the sea), inequality of opportunities in education, and an adverse impact derived from the demographic change. These phenomena will be accordingly assessed in the following sections of this paper.

2.1. The Rural-Urban Divide

The income gap between rural and urban households is considered one of the major causative factors of overall inequality in China. As indicated by Li *et al.* (2013), the gap contributed 45 percent and 51 percent to national disparities in 2002 and 2007, respectively. And it appears to have widened over the last decades, since its contribution was 37 percent in 1988 and 45 percent in 1995 (Sicular *et al.*, 2007). But, before further examining this phenomenon, it is interesting to observe how the rural-urban composition of the Chinese population has changed since 1978.

Figure 13. Rural and Urban Population (%), 1978–2018

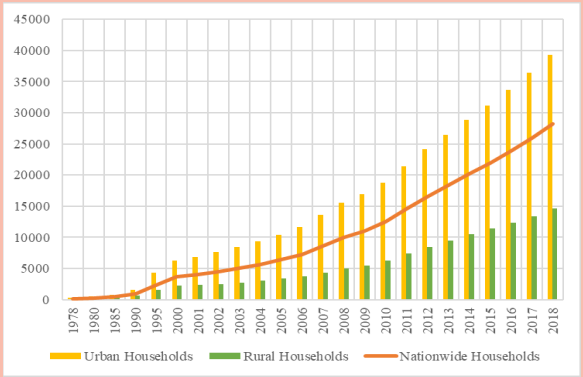


Source: Own Work Based on NBSC Data.

The population structure, by urban-rural typology, has been considerably altered since the 1978 "reform and opening-up" policy was enforced (see **Figure 13**). By then, rural people accounted for the vast majority of the population – only about 17.92 percent of residents were living in urban centres, while the remaining 82.08 percent dwelled in rural areas. Yet, this arrangement progressively changed until urban residents outnumbered rural ones, starting from 2011. The most recent figures available indicate that, in 2018, 59.58 percent of Chinese inhabitants dwelled in urban areas, while around 40.42 percent lived in the countryside. This implies that urban population has expanded by as much as 232.48 percent over the time span 1978-2018, whereas rural citizens have decreased by 50.76 percent over the same period.

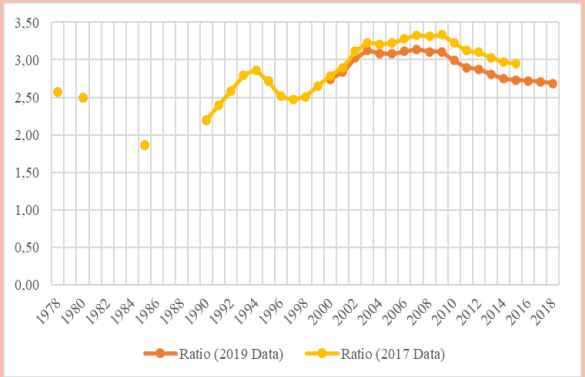
Now that the rural-to-urban population shift experienced by China has been substantiated, it is necessary to review how the distribution of income by rural and urban households has changed.

Figure 14. Per Capita Disposable Income of Households in ¥, 1978–2018



Source: Own Work Based on NBSC Data*.

Figure 15. Urban-Rural Income Ratio, 1978–2018



Source: Own Calculations Based on NBSC Data*.

** Per capita disposable income reported in the 2017 China Statistical Yearbook differs from that reported in 2019. The first graphic displays 2019 data; the second, a combination of both.*

All dwellings, regardless of their geographic location, have recorded a strong and steady growth in their income over the time period considered (see **Figure 14**). At a national level, per capita disposable income has increased from a mere ¥171.2 in 1978 to a significant ¥28,228 in 2018. Data can be likewise classified on the basis of urban or rural residence. On the one hand, urban households have seen their per capita income rise from ¥343.4 in 1978 to ¥39,250.8 in 2018. On the other, that of rural households has increased from ¥133.6 in 1978 to ¥14,617 in 2018. If the entire time span is considered, individuals brought up in cities appear to be the ones that have experienced the most significant progress in both absolute and relative terms – per capita disposable income grew by 11,330.05 percent in the cities, and by about 10,840.87 percent in the countryside. But, if analysing just the more recent years, rural areas seem to have enjoyed the greatest relative increases. For instance, the change in per capita income from 2017 to 2018 was 8.82 percent in the countryside, but only 7.84 percent in urban areas. In a similar manner, the variation from 2016 to 2017 was about 8.65 percent in rural areas, and around 8.27 percent in the cities. In spite of consisting only of slight differences, this tendency has been followed uninterruptedly since 2008. This indicates that, since 2008, the disposable income of the rural community has been rising at a much faster rate.

The household per capita disposable income is closely related to the urban-rural income ratio. This indicator is computed as the average income per capita of urban residents divided by the average income per capita of rural residents, and measures by how much the income in urban areas is higher than that in rural areas. It should be noted that, since the NBSC applied a different calculation basis starting from 2018, figures from the 2017 China Statistical Yearbook do not correspond with those published from 2018 onwards. This paper has employed data from both dossiers with the purpose of obtaining a more realistic view of the factual situation in the nation.

The urban-rural income ratio for the years 1978 to 2018 is characterised by frequent fluctuations (see **Figure 15**). The indicator followed a downward path until 1985, when a minimum of 1.86 was recorded. This means that urban residents' income was 1.86 times higher than that of rural inhabitants. Based on historical accessible records, this is the lowest figure ever registered since the implementation of Deng Xiaoping's economic reform. Notwithstanding, it showed a general rising trend since the mid-80s, and particularly between 1997 and 2009. This interval presents the widest income gap in the whole time series, reaching a maximum value of 3.33 both in 2007 and 2009 (according to NBSC 2017 data), or 3.14 in 2007 (according to NBSC 2019 data). In any case, per capita disposable income of people living in cities more than tripled that of those living in rural locations. As reported by Knight and Song (1999), this differential is very high by international standards. But the gap began narrowing again since then, and a value of 2.69 was recorded in 2018. Despite being a lower figure, it still implies that the urban community's income more than doubles that of the rural one. The Gini coefficient supplements this postulate. It increased from 0.34 in 2007 to 0.36 in 2013 for urban areas, and from 0.36 to 0.37 for rural environments (Li *et al.*, 2015) – income disparities are slightly greater in the state's countryside.

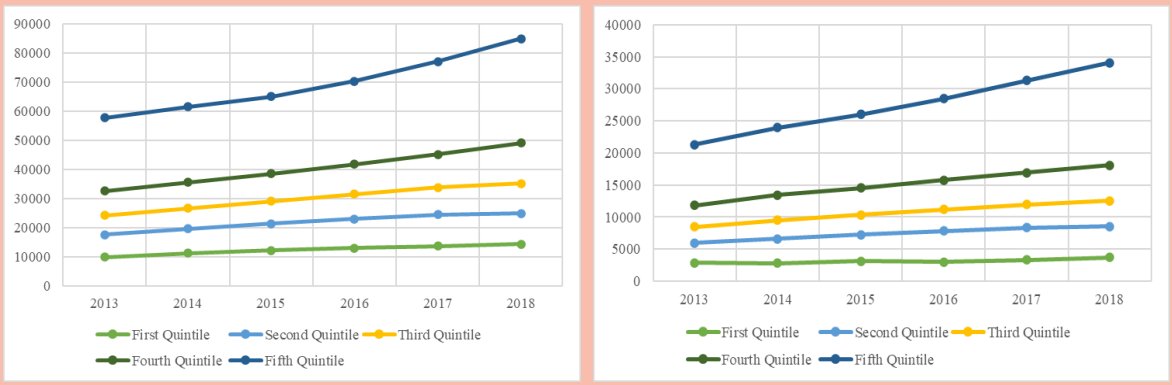
It is argued that China's household registration or *hukou* system is a major contributing factor to the urban-rural difference (Sicular, 2013). It is an internal passport system that, as underlined by Liu (2005), has been used since the mid-1950s as a means of preventing unplanned migration and introducing formal administrative control over population movements, whether intra-urban, intra-rural, or rural-to-urban. Under the *hukou* system, Chinese individuals are divided into two separate groups: urban *hukou* holders and rural *hukou* holders. This classification is determined by birth and is passed from one generation to the next. Once a resident is assigned a category, changing his or her permanent place of residence can be extremely difficult, if not impossible – the system inhibits labour mobility and segregates the labour force (Boffy-Ramirez and Moon, 2018). Urban individuals, as reported by Liu (2005), are provided with subsidized food, urban employment (commonly includes subsidized housing, healthcare, pension, and other benefits), subsidized education, welfare programs, and community cultural activities. Rural residents, in contrast, are relegated to second-class citizenship and deprived from such government-provided services. It should be noted that, since the mid-1990s, the *hukou* system has undergone a series of reforms that have eventually resulted in a reduction of the constraints on geographic mobility and a rapid migration from rural to urban areas (Sicular, 2013). Indeed, Li (2016) reported that the increased number of rural-urban migrant workers has been crucial in moderating the urban-rural income gap via their remittances to rural areas. However, rural migrants continue to face serious barriers to permanent relocation, like employment discrimination, high housing costs, and low access to public services such as education and health care (Sicular, 2013). A revision or dismantling of this system, therefore, would be necessary to create a uniform labour market and to diminish rural-urban disparities in terms of both outcomes and opportunities (Liu, 2005).

The detailed analysis of the urban-rural income ratio revealed, nevertheless, a slight narrowing of the gap in the last few years. This declining trend, as Li (2016) suggested, has been the result of the combination of multiple and diverse factors. First, the wages of unskilled and rural-urban migrant workers have just begun to grow at a faster rate than those of skilled urban workers. Li *et al.* (2015) reported that real wages of the former rose by 16 percent in 2010, and by 15 percent in 2011. Secondly, the Chinese administration launched a stimulation package in 2009 with the aim of mitigating the effects of the 2008 financial crisis. It included significant investments in infrastructures, which triggered further demand for both unskilled and migrant workers. Urban employment, in turn, was not adversely affected by the economic downturn – there was a 24 percent increase in the number of urban workers over the 2007-13 period. Thirdly, the Chinese government has been actively issuing a series of policy measures to increase the income of rural and low-income households since 2003, which have notably contributed to the reduction of the urban-rural income gap (Li and Sicular, 2014). These include an exemption from agricultural taxes and fees since 2006, as well as agricultural subsidies for farming households since 2002. Besides, the *Dibao* program – an unconditional cash transfer programme aimed at providing a minimum livelihood guarantee, first introduced in urban areas in the 1990s – was extended to rural areas in the early 2000s with the purpose of alleviating poverty and enhancing the living standards of the poor in the countryside (Kakwani *et al.*, 2008). Another relevant measure has

been the expansion of the rural social protection network, which currently covers most people living in the rural environment. For instance, the New Rural Cooperative Medical Scheme had a participation rate near 99 percent in rural zones by the end of 2013, and the New Rural Pension Scheme was established in 2010 to endow rural people 60 years old and over with 65 yuan per month (Li, 2016).

This document has also examined income distribution by quintiles both in urban and rural areas to learn about the state of income disparities within each of these communities (see **Figure 16**).

Figure 16. Distribution of Income by Quintiles in ¥, *(A)* Urban and *(B)* Rural, 2013–18



Source: Own Work Based on NBSC Data.

In the case of urban zones, the NBSC reported a steady increase in income for all five quintiles over the period 2013-18. The fourth quintile recorded the greatest percentual increase (50.78 percent), and was followed by the highest (46.99 percent), third (45.60 percent), lowest (45.38 percent), and second (41 percent) income quintiles. In absolute terms, the top quintile registered the biggest increase, with ¥27,145, whereas the bottom recorded the smallest, with ¥4,491. Data also shows that the gap between the first and fifth quintile was estimated at ¥70,520.20 in 2018.

According to the same data source, all but the lowest quintile – which underwent a number of fluctuations – experienced a continued growth of income over the same time span in rural areas. The biggest percentual increase was registered by the fifth quintile (59.65 percent), which was followed by the fourth (52.77 percent), third (48.49 percent), second, (42.63 percent), and first (27.39 percent) income quintiles. In absolute terms, the highest quintile similarly recorded the greatest growth, with ¥12,718.90, whereas the lowest registered the smallest, with ¥788.30. A gap of ¥30,376.4 can be computed from 2018 data between better- and worse-off social groups.

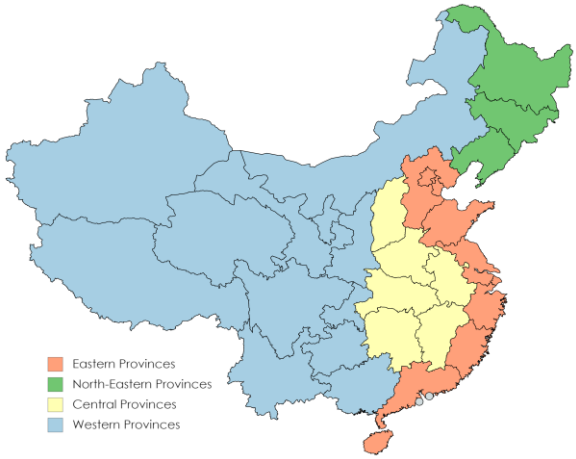
Upon careful review of these findings, two notable conclusions can be drawn (in relative terms). On the one hand, the lower quintile displays better chances of prospering in the city, where it presented a 45.38 percent wealth increase from 2013 to 2018. The growth in rural environments, conversely, was only 27.39 percent. On the other, upper quintile's wealth seems to benefit from greater relative increases in the countryside, where it exhibited a 59.65 percent growth over the same time series. In the cities, it accounted for a relatively lower 46.99 percent. The remaining wealth quintiles do not show significant dissimilarities on the basis of urban or rural residence.

2.2. Regional Differences: The Inland-Coastal Gap

As Kanbur and Zhang (1999) underlined, the rural-urban gap is much greater than the inland-coastal gap, and still remains a major source of income inequality in China. Notwithstanding, the trends followed by these disparities are significantly different – the rural-urban contribution stayed roughly constant over time, whereas the inland-coastal contribution rose markedly. This implies that differences between inland and coastal regions are becoming an increasing concern. In fact, Xie and Zhou (2014) found that around 12 percent of national income inequality can be attributed to disparities across provinces. This phenomenon, yet, does not constitute a distinctly unique circumstance in China: Kanbur and Venables (2007) highlighted that differences within countries are striking and have been increasing in the past quarter century. But it certainly stands as an important obstacle to generating equity across regions in China, particularly because of its broad territory, varied resource endowments, long economic history, and complex cultural features (Li and Haynes, 2010).

China's provinces can be grouped into four separate economic regions (see **Figure 17**): the *Eastern* region, which includes Beijing, Tianjin, Hebei, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong, and Hainan; the *Central* region, which includes Shanxi, Henan, Anhui, Jiangxi, Hubei, and Hunan; the *Western* region, which includes Inner Mongolia, Guangxi, Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia, and Xinjiang; and, lastly, the *North-Eastern* region, which includes Liaoning, Jilin, and Heilongjiang. It should be noted that the two SARs of Hong Kong and Macau are not incorporated in this classification.

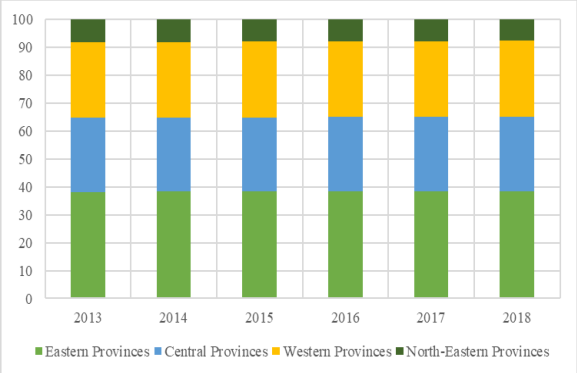
Figure 17. The Four Economic Regions of China



Source: Own Work Using MapChart.

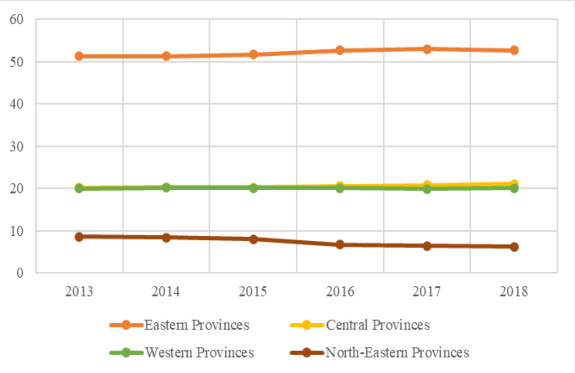
Before delving into the suggested analysis, the population of each of these economic regions has been examined with the purpose of learning about their importance in terms of demographic density. According to the NBSC, the population distribution has remained fairly constant over the period 2013-18 (see **Figure 18**). The Eastern region is by far the most populous one, with about 38.5 percent of the Chinese total inhabitants. It is followed by the Western region, with 27.2 percent; Central region, with 26.6 percent; and the North-Eastern region, with 7.8 percent of the nation's inhabitants. The change, as previously stated, has been insignificant. The greatest increase was recorded by the North-East (3.70 percent), which was followed by the East (0.79 percent) and West (0.74 percent) of the country. The Centre, conversely, remained unchanged. One of the possible explanations for this minimal variation will be discussed later in this section.

Figure 18. Population by Region (%), 2013–18



Source: Own Work Based on NBSC Data.

Figure 19. GDP by Region (%), 2013–18



Source: Own Work Based on NBSC Data.

The breakdown of GDP data for the period 2013-18 by region provides a better comprehension and interpretation of the overall value of economic activity within each of the economic regions (see **Figure 19**). In 2018, as reported by the NBSC, the Eastern region made the most notable contribution to the national GDP: around 52.6 percent. This implies that, out of 31 provinces, just 10 provided slightly more than half of total China's GDP. The Central region, in turn, made the second largest contribution (21.1 percent), and was followed by the Western (20.1 percent) and North-Eastern (6.2 percent) regions. In terms of relative development levels, the Central region recorded the highest growth (4.46 percent). The Eastern and Western regions similarly recorded percentual increases for this time span (2.73 and 0.50 percent, respectively), but the North-Eastern region instead presented a considerable decline of 27.91 percent. A number of conclusions can be drawn from these figures. On the one hand, Central provinces appear to be the ones that have upgraded their economic activity at a faster pace, whereas the North-Eastern ones seem to have witnessed a significant slowing down in their economic growth. On the other, the ratio between the Eastern and North-Eastern regions – the highest and lowest contributions to national GDP – reveals that there is a difference of 8.48, meaning that the contribution of the former was eight times greater than that of the latter in 2018. The difference with respect to the Western and Central provinces is of 2.62 and 2.49, respectively. In both cases, consequently, the contribution of the Eastern territory is more than twice that of the Western and Central areas.

Yet, it must be pointed out that figures provided by the NBSC are not adjusted for population data from each of the regions. Thus, they do not present a realistic image of the factual situation in the country – firm conclusions cannot be drawn from this analysis, since it is not appropriate to compare the overall contribution of the Eastern region (10 provinces, 38.5 percent of the total population) with that of the North-Eastern region (3 provinces, 7.8 percent of the population). Disparities will be further studied through the review of per capita disposable income by region.

But before getting there, it is interesting to compare these regions on the basis of their economic structure. In other words, to review the relevance of the primary, secondary, and tertiary sectors. This will provide a good insight of the composition and patterns of each of the economic areas.

Table B. Industrial Structure Evolution by Region (%), 2013–18

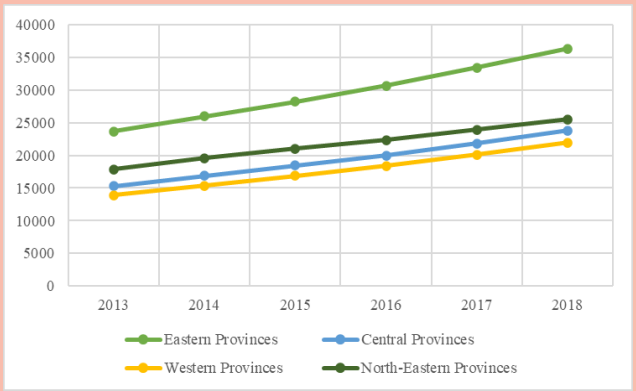
Year	Eastern Provinces			Central Provinces			Western Provinces			North-Eastern Provinces		
	Primary	Secondary	Tertiary	Primary	Secondary	Tertiary	Primary	Secondary	Tertiary	Primary	Secondary	Tertiary
2013	34.9	49.2	56.8	26.4	21.6	17.2	27.6	20.3	18	11.1	8.8	7.9
2014	34.5	49.6	55.9	26.3	21.5	17.9	28.2	20.4	18.4	11	8.5	7.8
2015	34.5	50.6	55.6	26.1	21.4	18.3	28.5	20.2	18.4	10.9	7.7	7.7
2016	34.4	52	56.1	26.4	21.9	18.5	29.2	20.2	18.5	10	6	6.8
2017	34	52.3	56	25.4	22.5	18.8	30.9	19.5	18.6	9.6	5.7	6.5
2018	34	52.2	55.4	25	22.5	19.4	31.4	19.8	18.9	6.4	5.4	9.6

Source: Own Work Based on NBSC Data.

Table B illustrates the industrial structure evolution in each of the regions for the period 2013-18. The NBSC indicates that the service sector represents the largest sector in the Eastern zone, contributing 55.4 percent of national GDP in 2018. However, industry was the only expanding sector in the region (6.1 percent) – both the primary and tertiary activities recorded a decline of 2.58 and 2.46 percent, respectively. Agriculture is a key sector for the Central provinces and represented about 25 percent of total China's GDP in 2018. But its predominance in the region appears to be fragile, as it declined by 5.30 percent over this time span. Industry and services, conversely, presented a 4.17 and 12.79 percent growth, respectively. Western territories, in turn, heavily rely on the primary sector, which accounted for 31.4 percent of the national GDP and rose by 13.77 percent over the time period considered. The tertiary industry similarly increased by 5 percent, but the secondary industry instead fell by 2.46 percent. As for the North-Eastern region, lastly, the services sector makes the largest contribution to national GDP (9.6 percent) and has experienced a significant rise of 21.52 percent since 2013. The primary and secondary activities, oppositely, presented a sharp decline of 42.34 and 38.64 percent, respectively. To put it briefly, provinces located near the cost (Eastern, North-Eastern) seem to rely most on tertiary activities, while those situated inland (Central, Western) depend mainly on their primary sector.

Per capita disposable income provides a better reflection of the actual disparities among Chinese regions. As suggested by Goh *et al.* (2009), income in inland areas doubled, while that of coastal areas more than tripled between 1989 and 2004. For this research, data reported by the NBSC for the period 2013-18 has been scanned with the purpose of obtaining a view of the present situation in the country (see **Figure 20**). In absolute terms, estimates for 2018 reveal that the richest provinces

Figure 20. Per Capita Disposable Income of Regionwide Households in ¥, 2013–18



Source: Own Work Based on NBSC Data.

are those located in the East of China (¥36,298.2). These are followed by those situated in the North-East (¥25,543.2), Centre (¥23,798.3), and West (¥21,935.8) of the nation. Nonetheless, relative increases display a distinct pattern. Over the time period considered, the Western region recorded the greatest growth, with 57.60 percent. It was followed by the Central (55.91 percent), Eastern (53.43 percent), and North-Eastern (42.75 percent) regions. These inequalities can be more easily explained through the ratio between the better- and worse-off economic regions. A comparison between the wealthiest and the poorest zones – Eastern and Western, respectively – hints that, in 2018, the per capita income of the Eastern provinces was 1.65 times greater than that of the Western ones. It was also 1.53 times higher than that of the Central region, and 1.42 times higher than that of the North-Eastern region. Hence, these findings suggest that inequality tends to be greater the farther a given territory is from the sea.

A number of authors have supported the idea that Deng Xiaoping's economic reform is the root cause of the last surge in regional inequalities. Li and Haynes (2010) underlined that it resulted both in a decentralization of central government authority and a strengthening of the authority of provincial and local government, including in fiscal terms. This, they argue, urged regional and local economies to formulate development strategies based on their respective comparative advantages – in consequence, the nation moved from a position of relative homogeneity among regions to one of increased diversity among them. Coastal regions benefitted the most from the openness brought by the 1978 policy, since they were located closer to the international market and more advanced economies, particularly Hong Kong and Taiwan (Fan *et al.*, 2011). Besides, as emphasized by Yao (2009), they received a greater share of the central government's capital investment. From 1999 to 2005, the coastal area was granted ¥4,696.7 billion (52.94 percent), whereas Central and Western provinces received ¥2,255.1 billion (25.42 percent) and ¥1920.4 billion (21.65 percent), respectively. As explained in the previous chapter, these reforms rapidly turned the country into one of the largest recipients of foreign direct investment. But the coastal zone was the one that experienced much higher growth, which thus contributed to the widening of the inland-coastal gap (Fan *et al.*, 2011).

Income disparities among regions have remained significant over the past decades as a result, once more, of the *hukou system*. Kanbur and Zhang (1999) observed that labour migration may occur more easily from rural to nearby urban areas than from inland to coastal regions – in other words, migration at the *inter*-provincial level is much more challenging than that at the *intra*-provincial level. As a means of illustration, a research led by Zhang and Chi in 1996 found that more than 96 percent of the migration from rural to urban zones was within the same province.

As Jian *et al.* (1996) stressed, this tendency towards divergence will undoubtedly persist, since the geographic advantage of being a coastal province will always remain unaltered. However, political and institutional action is crucial to address this challenge, as it could eventually pose a serious threat to national unity and political stability (Liao and Wei, 2016). This is the reason why the Chinese administration considered regional disparities and polarisation as a major issue in policy making in its Ninth Five-Year Plan (1996-2000) (Wei, 2002). The government aimed

to ensure an "harmonious development", particularly across regions. To achieve that objective, Fan *et al.* (2011) explained that three multiprong approaches were employed by the authorities: infrastructure investment and clustering, social protection investment, and governance reform.

- First, investment in **public infrastructure** was prioritised for the lagging regions, where returns tend to be generally high. The Western Development Strategy is a good example of this policy: the government made considerable investments in infrastructures, mainly through improvements of roads and railways. This enabled the region to receive some of the outsourcing orders from coastal production facilities, in which demand for labour was greater than the available supply (Zhang *et al.*, 2011). In addition, the **cluster-based production model** began to be promoted among the lagging regions, mostly because of its success in the coastal regions' industrialization process.
- Secondly, the country has made tremendous progress in **social protection investments**, which are especially important both in rural and inland areas. Nevertheless, the benefits provided by social protection programs are not portable across provinces. Migration, as a result, is implicitly discouraged – this certainly poses deep and serious problems given its ability to mitigate inequality. A possible solution to tackle this issue, hence, may be to connect social security systems across provinces and to make these benefits portable.
- Thirdly, the regional gap may be addressed through **governance reform**, but measures can be more heterodox and context specific in such case. An experimental or trial-and-error approach, therefore, must be adopted when implementing the required changes in this area instead of looking at the experience of other countries. For instance, Zhejiang province put all the counties under provincial government's administration to better deal with the distributional consequences of the previously mentioned fiscal decentralisation.

In order to enhance the study, per capita disposable income of both urban and rural households by region has been scrutinised. This will allow for a deeper and more effective analysis of the actual differences between the urban and rural areas among the separate economic regions and will supplement the findings obtained in the previous section of this paper. Before, nonetheless, the population composition in each of the groups has been audited to better assess the incidence of inequality. Own calculations were made to estimate the share of urban and rural inhabitants.

Table C. Rural and Urban Population by Region (10,000 Persons), 2018

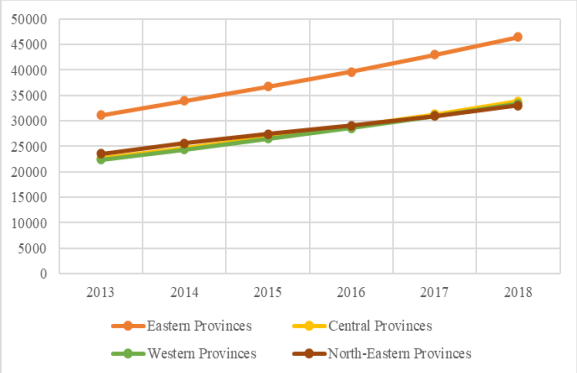
Eastern Provinces				Central Provinces			
Province	**Urban**	**Rural**	**Total**	**Province**	**Urban**	**Rural**	**Total**
Beijing	1863	291	2154	Shanxi	2172	1546	3718
Tianjin	1297	263	1560	Henan	4967	4638	9605
Hebei	4264	3292	7556	Anhui	3459	2865	6324
Shanghai	2136	288	2424	Jiangxi	2604	2044	4648
Jiangsu	5604	2447	8051	Hubei	3568	2349	5917
Zhejiang	3953	1784	5737	Hunan	3865	3034	6899
Fujian	2594	1347	3941				
Shandong	6147	3900	10047				
Guangdong	8022	3324	11346				
Hainan	552	382	934				
Total	36432	17318	53750	**Total**	20635	16476	37111
	0.68	**0.32**	**1.00**		**0.56**	**0.44**	**1.00**

Western Provinces				North-Eastern Provinces			
Province	**Urban**	**Rural**	**Total**	**Province**	**Urban**	**Rural**	**Total**
Inner Mongolia	1589	945	2534	Liaoning	2968	1391	4359
Guangxi	2474	2452	4926	Jilin	1556	1148	2704
Chongqing	2032	1070	3102	Heilongjiang	2268	1505	3773
Sichuan	4362	3979	8341				
Guizhou	1711	1889	3600				
Yunnan	2309	2521	4830				
Tibet	107	237	344				
Shaanxi	2246	1618	3864				
Gansu	1258	1379	2637				
Qinghai	328	275	603				
Ningxia	405	283	688				
Xinjiang	1266	1221	2487				
Total	20087	17869	37956	**Total**	6792	4044	10836
	0.53	**0.47**	**1.00**		**0.63**	**0.37**	**1.00**

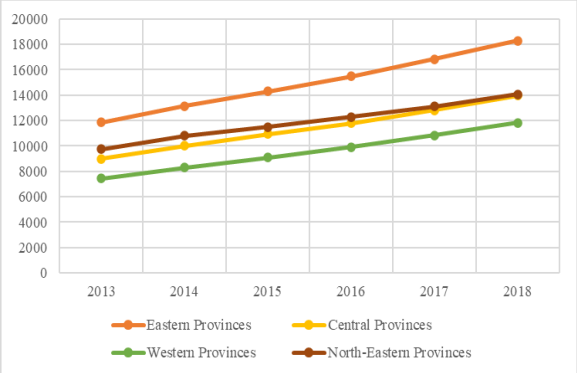
Source: Own Calculations Based on NBSC Data.

Table C shows that the majority of the population is currently urban in all the economic regions. Notwithstanding, this pattern appears even more accentuated in the Eastern and North-Eastern provinces, where it represented about 0.68 and 0.63 percent of their total population. Figures of the Central region, in turn, reveal that around 0.56 percent of dwellers where urban, while those of the Western area point towards a 0.53 percent rate. Upon careful examination, the data seems to indicate that the farthest a given province is from the sea, the greatest its rural community is.

Figure 21. Per Capita Disposable Income of *(A)* Urban and *(B)* Rural Households in ¥ by Region, 2013–18



Source: Own Work Based on NBSC Data.



Source: Own Work Based on NBSC Data.

As specified by the NBSC, per capita disposable income of urban households has maintained a steady upward trend over the period 2013-18 in all the economic regions (see **Figure 21a**). The Eastern area presents the highest absolute values during the whole time series, with ¥4,6432.6 in 2018. The remaining provinces display similar values. In the same year, urban dwellers had a per capita income of ¥33,803.2 in the Central region, of ¥33,388.6 in the Western region, and of ¥32,993.7 in the North-Eastern region. Probably the most surprising finding is the position held by the North-Eastern provinces in this ranking, as they recorded the second greatest value in terms of the per capita disposable income of overall households – in other words, regardless of their urban or rural status. In relative terms, the Western zone registered the highest growth (49.30 percent) over the considered time span, and was followed by the Central (49.14 percent),

Eastern (49.05 percent), and North-Eastern (40.36) areas. Hence, data illustrates that, apart from presenting the smallest absolute value, North-Eastern provinces likewise displayed the smallest relative increase. The gap between the richest and the poorest economic regions was estimated at ¥1,3438.9 in 2018. Put differently, per capita income available for living of urban households in Eastern China was 1.41 times higher than that in the North-East of the nation.

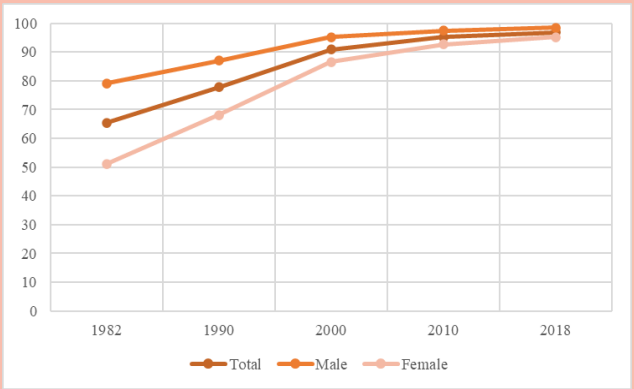
The NBSC similarly determined a gradually rising tendency in the per capita disposable income of rural households for the four economic regions over the same time period (see **Figure 21b**). In absolute terms, the Eastern provinces recorded yet again the greatest values, with ¥18,285.7 in 2018. During the same year, they were followed by the North-Eastern (¥14,080.4), Central (¥13,954.1), and Western (¥11,831.4) regions. In this instance, therefore, the ranking presented the same sequence as that of the per capita income of regionwide households. There is a distinct pattern, however, for relative increases. The Western area registered the greatest growth, with 59.10 percent, and was followed by the Centre (55.34 percent), East (54.22 percent), and North-East (44.24 percent) of the country. The gap between the Eastern and Western regions was of ¥6,454.3 in 2018 – put another way, the per capita disposable income of rural households in the former was 1.55 times greater than that in the latter. The gap is thus wider than that of the city.

These findings are in line with Kanbur and Zhang's (1999) empirical work. They stressed that rural areas surrounding the coastal urban explosion greatly benefitted from the spillover effect. The most recent NBSC data reinforces this postulate, since the rural community from coastal zones, particularly from the Eastern region, appears to be the wealthiest in China. In addition, relative figures indicate that the Western Development Strategy has been extremely successful in boosting the economic growth of the region, as it recorded the greatest percentual increases.

2.3. Unequal Educational Opportunity

China has made huge progress in expanding its education system and raising the average levels of education attained by its enormous population (Golley and Kong, 2018). In 1986, the nation introduced the nine-year compulsory education system with the purpose of achieving universal enrolment among school-aged children and increasing the literacy rate. The reform was highly successful. Yang *et al.* (2014) indicated that average years of schooling rose from 6.794 in 1996 to 8.28 in 2008, and World Bank Estimates denoted that the literacy rate grew from 65.505 percent in 1982 to 96.841 percent in 2018 (see **Figure 22**). Furthermore, it has been one of the major factors contributing to poverty reduction (Dollar, 2007), since the poverty rate for individuals with nine years or more of education is only 2 percent. Nonetheless,

Figure 22. Literacy Rate (% of People Ages 15 and Above)



Source: Own Work Based on World Bank Estimates.

current arrangements in education do not allow for a more harmonious development of China. Instead, they perpetuate and reinforce inequality and generate a widening income gap between households with greater human capital endowment and those with less (Goh *et al.*, 2009). Given education's ability to boost economic development, determine household income, and enhance social mobility, urgent action from the government is required to address such disparities in an effective manner. Otherwise, inequality in opportunity may lead, in the long-term, to inequality in income, therefore worsening the previously discussed regional differences (Heckman, 2005).

The divide between urban and rural areas contributes the most to overall education inequality (Goh *et al.*, 2009). As a result of the aforementioned fiscal decentralization, local governments became the principal financial supporters of education. Considering that these communities are affected by different resource constraints, notable disparities soon emerged between them. On the one hand, as outlined by Yang *et al.* (2014), students from urban zones have better chances of accessing a relatively good-quality education, progressing to the next educational level, and accomplishing an overall better achievement. On the other, nevertheless, teachers with higher degrees and modern equipment tend to be rare in rural environments – these localities are less able to fund schooling, and poor households are less able to afford the high private cost of these services (Goh *et al.*, 2009). Highly qualified individuals tend to live in urban areas, where they enjoy greater wealth, which consequently increases inequality levels. Owing to such a situation, Knight and Song (1999) contended that the place of a person's birth can transform into a major determinant of that person's skill level: the *hukou* system prompts dwellers to seek education in their respective places of residence, and by doing so reinforces disparities between urban and rural inhabitants in terms of educational attainment. In addition, Wang (2007) highlighted that further inequalities emerged because of the executive's decision to stop providing free higher education and guaranteed employment for university students since the mid-1990s. He argues that less affluent students lacked both sufficient resources to afford their tertiary education and social networks to compete for jobs in the market economy.

Social stratification constitutes the second major cause of disparities in educational opportunity (Goh *et al.*, 2009). As stressed by Wang (2007), changes in education policies have been largely determined by the upper classes or elite groups over the past decades. These refer to individuals who are wealthy, powerful, or who hold professional positions in the nation. They have profited from education to maintain their class superiority and pass it from one generation to the next – in consequence, instead of promoting upward social mobility, education has been employed as a mechanism to perpetuate the benefits enjoyed by the most affluent families. Probably the most obvious example is the distinction between *best* and *general* schools in the urban areas (Wang, 2007). The high classes make use of its social power and significant economic resources to send their children to *elite* schools. These educational facilities are endowed with better funding and the best professors and formators and prepare their pupils to attain an exceptional performance.

Other minor elements that contribute to the unequal educational opportunity are the age factor, gender differences, and regional inequalities. Yet, their impact is much smaller in comparison.

First, older people tend to have less education than the young, particularly as a consequence of the notable progress made in the provision of basic education for school-aged children (Goh *et al.*, 2009). Said differently, younger people now reach higher levels of educational attainment thanks to the Nine-Year Compulsory Education law. Secondly, the gender gap has been largely reduced by means of the aforesaid education policy and the gender equity promotion. In fact, as **Figure 22** illustrates, the literacy rate in 2018 was estimated at 98.467 percent of males, and 95.159 of females. This small difference might be the product of both cultural norms and family notions. Thirdly, Goh *et al.* (2009) underlines that, despite a considerable reduction in the Gini coefficient of the nation's education, that of Western provinces is generally higher than that of Eastern provinces. This implies that educational inequality tends to be higher in Western areas, and thus fits the pattern of economic development detailed in the previous section of this paper.

2.4. Population Dynamics and the Demographic Change

Historically, as noted by Zhong (2011), the influence of population aging on income inequality has received little or no attention. It was not until recent times that emphasis has started to be made about how this phenomenon can further increase present disparities and harm economic growth. Nevertheless, there is clearly no consensus among scholars on its real effects on these dimensions. Some of them, such as Lan, Wei, and Wu (2014) and Miyazawa (2006), indicate that population's aging indeed leads to a significant rise in income inequality. Others, including Jantti (1997), contend that it accounts only for a low share of the overall increase in disparities.

Within a period of only 30 years, China has rapidly completed a demographic transition from a pattern featuring a low death rate, high birth rate, and high growth rate to one featuring a low death rate, low birth rate, and low growth rate (Cai and Wang, 2010). The country's 2010 census indicated that the population aged 65 and above accounted for more than 8.92 percent of total population, and this figure could reach 16.52 percent in 2030 (Wang *et al.*, 2017). This process of rapid aging is likely the result of notable socio-economic development, the broad diffusion of medical knowledge, and the 1997 one-child policy. As pointed out by Hsu *et al.* (2018), these factors led both to a reduction in the total fertility rate (it fell to less than 3 following the policy enforcement, and further to a value between 1 and 2 after 1990) and to a longer life expectancy. In consequence, they are frequently thought to have been active contributors to the decrease of the ratio of household members in working age. It changed from 0.62 in 1997 to 0.63 in 2000, but fell sharply to 0.48 in 2006 (Zhong, 2011). Moreover, Zhong (2011) hints that the average age of working adults rose considerably from about 40 in 1997 to 45 in 2006 as a direct result. For all these reasons, many authors, like Zhong (2011), agree that demographic change is found responsible for a significant part of the increases in inequality levels.

He argued that the influence of population aging in income inequality is much greater in rural communities, mostly because of rural-to-urban migration and pension benefits. On the one side, migration to urban centres comprises mainly younger adults, and has thus increased the share of older individuals living in villages. This, as stressed by Eggleston *et al.* (2013), has posed a

dilemma about whether or how to reorganise the rural landscape to streamline governance and better provide public goods. Problems might probably emerge in urban areas too. Peng (2011) suggested that cities could absorb 335 million new residents in the next decades. This creates a paramount challenge for social and economic development – as rural dwellers migrate to cities, conventional problem-solving capacities soon become obsolete, and concerns regarding social welfare, old-age support, health care, and conflict resolution begin to surface (Eggleston *et al.*, 2013). On the other hand, people working in urban areas are more likely to exit the labour force before attaining the official retirement age, mostly because of the pension system's structure. Pensions mitigate the repercussions of the exit from the labour market over household income, but not all Chinese inhabitants are able to enjoy such privilege (Zhong, 2011). Urban dwellers are generally granted pension benefits, but rural old people may be unable to get them. Hence, they usually must work hard and start saving money when they are young (Wang *et al.*, 2017).

Wang (2010) emphasised that the unbalanced population represents in itself a significant crisis, since its arrival is imminent and inevitable, its ramifications are huge and long-lasting, and its effects will be hard to reverse. An increasingly aging population can lower the share of working-age population, which in turn could create a labour shortage. Some experts allege that a lack of manpower can contribute to slower economic growth by means of raised wages and by forcing the government to bear the costly upgrading of the state's industrial structure (Eggleston *et al.*, 2013). It is also worth noting, as highlighted by Eggleston *et al.* (2013), that population aging can likewise imperil financial and social stability and deeply alter China's traditional methods of governance when interacting with both gender imbalance and rapid urbanisation. Given that demographic change can eventually have a considerable impact in the economic, political, and social context, further policy action should be devoted to effectively address this phenomenon.

3. The Effect of Poverty and Inequality on Economic Growth

Prominent academics and intellectuals have recently begun to re-focus attention on the impact of poverty and inequality on economic development. Some argue that these phenomena act as a constraint on growth, and that policymakers must inevitably face a trade-off between equity and efficiency – improving the distribution of income and achieving sustainable development, they argue, are conflicting priorities. Others, conversely, claim that their influence is not robust enough to significantly impact the economic performance of a country. Thus far, the real effects of poverty and inequality on economic growth remain largely inconclusive.

Throughout the 20th century, as highlighted by Leoni and Pollan (2003), authors had a greater propensity to think that equality is associated with economic costs, and that a certain degree of inequality favours economic progress. Keynes (1920) indicated that only the existence of richer classes provides for the capital accumulation needed to trigger growth, since they typically have a higher saving rate than poorer income groups. Notwithstanding, Kaldor (1956) pointed out that this pattern describes much better the period in which a state transitions from its traditional

economic structure and industrializes but is no longer valid for advanced economies. Countries at this stage of development generally face a trade-off between equity and efficiency or, in other words, regarding whether to prioritise equal distribution or economic expansion (Okun, 1975). At present, nonetheless, there is an ongoing debate regarding the veracity of these assumptions, and numerous scholars advocate for a re-assessment of the economic conditions that influence growth dynamics.

Breunig and Majeed (2020) developed a theory that can serve as a framework for understanding the interaction among poverty, inequality, and economic growth. They suggest that the adverse effects of disparities on growth are related to the incidence of poverty. If poverty rates are below 30 percent, the relationship between inequality and economic rise is not significant. But, if they reach higher levels, inequality is believed to harm economic development. For this reason, they hold that policies aimed at alleviating poverty could be helpful to promote growth, even if they do not reduce disparities. Ravallion (2002), nonetheless, supports a different thesis. He argues that poverty indeed has a negative impact on progress – nations with a higher initial incidence of poverty, he asserts, generally tend to experience a lower subsequent rate of economic growth.

On the issue of inequality, one of the most relevant theories is that developed by Nobel Laureate Michael Spence (2018). He affirms that growth strategies that lack inclusiveness and exacerbate inequalities are generally unsuccessful. Individuals who are adversely affected by such policies, including those who are not provided with sufficient opportunities, become increasingly more frustrated. As a result, social polarization emerges and eventually provokes political instability, gridlock, or short-sighted decision-making. Plans and investments to foster long-term growth are consequently scrapped, which hurts overall economic performance – economic and social progress should be simultaneously pursued. Notwithstanding, The Economist (2012) outlined that some measure of inequality is beneficial, as it offers incentives to work hard and take risks.

Barro (1999) provides a different view on the matter. He contends that inequality tends to retard growth in impoverished countries but boosts development in richer ones. When per capita GDP falls below $2,000, growth tends to decline. When it exceeds this level, conversely, growth is higher. Income-equalizing policies, thus, are employed by poor nations to encourage economic expansion, but rather constitute the product of the aforementioned trade-off in the richest ones. In fact, Chinese official figures seem to partly support this claim. Per capita GDP in 2019 was ¥70,892 ($9,905.82), and the country recorded a gradual and steady increase in total GDP over the 1979-2019 period despite the higher levels of inequality. However, it is also true that China has continuously registered smaller relative increases in total GDP since 2010 (except in 2017).

In any case, a number of scholars agree that deciding which levels of inequality are desirable is strongly related to the theory of distributive justice, and that reducing this issue to the economic dimension can be extremely difficult. The relationship among poverty, inequality, and growth is complex, and further attention should be paid to its real impact on the economy’s efficiency.

IV. CONCLUSION: BUILDING A MORE EQUITABLE SOCIETY

The findings of the present study seem to partially confirm the working hypothesis that, despite bringing unprecedented economic development and prosperity, the Four Modernisations failed to strengthen social inclusion. Put another way, broad segments of society were left behind as a consequence of the particularities of the 1978 programme. The figures examined by this paper reveal that dwellings in urban settings, especially those located in coastal areas, have enjoyed higher increases in their per capita disposable incomes than those located in inland provinces and rural environments. As mentioned before, such disparities could possibly be the product of the policy specifics. Special Economic Zones (SEZs), for instance, rapidly became a powerful attraction pole for foreign investment and high technology equipment, stimulated commercial activity, and succeeded in boosting progress in the territories in which they were instituted. Not surprisingly, the vast majority of SEZs are located in south-eastern coastal China, the nowadays Eastern economic region. The administration expected a spillover effect, but it never actually materialised and a social gap was created among Chinese individuals. This is one of the factors that shaped the new patterns of growing inequality that were speculated at the start of this paper.

Nevertheless, the theory posed by this academic document is not completely correct. In recent years, both the rural and inland zones have presented the highest relative increases in income. This is the result of the administration's efforts to achieve a more harmonious development: it has implemented a number of measures to tackle this issue, some of which have been reviewed by this paper. Pro-farmer policies, such as the exemption from agricultural taxes and fees and the agricultural subsidies for farming households, were enacted as part of its sustainable growth strategy. Reasonable efforts have also been made in the expansion of the social security system, with the universalisation of the New Rural Cooperative Medical Scheme and the establishment of the New Rural Pension Scheme. In turn, regional development strategies and fiscal transfer policies have been enforced with the purpose of narrowing the regional gap, such as the Western Development Strategy. This set of actions has disrupted the tendency of the previous decades, so the initial hypothesis would consequently be partially rejected.

In general terms, this document corroborated two major events. On the one hand, the economic reform considerably contributed to the reduction of absolute poverty in China. The proportion of people falling below the $1.90 international poverty line decreased from 66.2 percent in 1990 to 0.5 percent in 2016. By the same token, the poverty gap declined from 24.1 percent in 1990 to 0.1 percent in 2016, which means that individuals in a situation of extreme poverty have an income near $1.90 per day. On the other hand, nevertheless, the Four Modernisations resulted in a rise in the levels of inequality. The empirical research of Ravallion and Chen revealed that the Gini index was 30.95 shortly after the policy implementation, but the NBSC estimated it at 46.8 in 2018. In addition, official figures appear to suggest that upper-middle-class and upper-class households registered the greatest relative increases in the per capita disposable income over the considered time span. Several trends hidden within these data have also been examined.

The rural-urban divide is undoubtedly the most significant phenomenon. The urban-rural ratio is currently reaching a level slightly above that of 1978 – it accounted for 2.57 and 2.69 in 1978

and 2018, respectively. Nonetheless, this indicator was above 3 during most of the last decade: per capita disposable incomes in urban environments were more than 3 times greater than those in rural settings. Furthermore, findings indicate that, over the 2013-18 period, the income of the lowest class rose more rapidly in the cities than in the countryside. That of the highest class, by contrast, grew at a faster pace in rural zones than in urban centres. Regional disparities are the second greatest factor contributing to overall income inequality in China. Data provided by the NBSC illustrates that per capita disposable incomes are higher in Eastern localities, which are followed by the North-Eastern, Central, and Western regions. In line with previous studies, this research paper also corroborated that the rural communities surrounding the most dynamic and competitive areas – mainly the coastal zones – have greatly benefitted from the spillover effect.

The educational opportunities of disadvantaged pupils can similarly be mentioned as another issue of concern to Chinese society and are mainly the product of both the rural-urban divide and social stratification. First, the difference between rural and urban communities in terms of resource constraints exercises a marked influence on the local government's ability to provide these services. Secondly, elite groups have historically employed education as a mechanism to maintain their class superiority and to pass the privileges of their class status over generations. In a similar vein, the demographic change is often considered as an additional factor responsible for the increased inequality levels – the notable socio-economic development, the diffusion of medical knowledge, and the 1997 one-child policy have led to an increasingly aging population that could ultimately cause considerable economic harm.

A number of researchers and scholars agree that unsustainable levels of income inequality can eventually undermine the efficiency of the economy. For this reason, policy action is necessary to avoid its potential harmful effects on political, social, and economic stability. Jain-Chandra *et al*. (2018) have recommended further possible actions to address this problematic. They claim that fiscal policy could play a crucial role in alleviating poverty, and that tax reforms to boost inclusiveness (both on the tax and expenditure side) should be taken. For instance, they propose redesigning direct taxes and social security contributions and introducing property and wealth taxes to improve progressivity. Besides, they advocate for further public spending on areas such as education, health, and social assistance, together with increased equality on their provision. These policies would enhance social integration and would greatly contribute to the reduction of disparities, an important milestone also set by the UN Sustainable Development Goals 2030.

Notwithstanding, the previously described scenario could be substantially altered by the present COVID-19 pandemic. As the first chapter of this thesis highlighted, it could impact commercial flows worldwide, in turn influencing Chinese GDP, by way of a reduction in both external and domestic demand. This generates a great deal of uncertainty, since a post-pandemic economic performance is hard to predict – trade, investments and population movements across borders could be notably reduced for a prolonged period of time. Decreased rates of economic growth could generate higher levels of inequality and social exclusion, hence modifying the indicators studied throughout this paper. Further attention and consideration must be devoted to this area.

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VI. APPENDICES

Appendix A. General Trends on Poverty and Inequality. Data

A.1. Gini Index, 1981–2018

Year	*Source:* Ravallion and Chen, 2007	*Source:* World Bank	*Source:* NBSC
1981	30.95		
1982	28.53		
1983	28.28		
1984	29.11		
1985	28.95		
1986	32.41		
1987	32.38		
1988	33.01		
1989	35.15		
1990	34.85	32.2	
1991	37.06		
1992	39.01		
1993	41.95		
1994	43.31		
1995	41.5		
1996	39.75	35.2	
1997	39.78		
1998	40.33		
1999	41.61	38.7	
2000	43.82		
2001	44.73		
2002		42	
2003			47.9
2004			47.3
2005		40.9	48.5
2006			48.7
2007			48.4
2008		43	49.1
2009			49
2010		43.7	48.1
2011		42.4	47.7
2012		42.2	47.4
2013		39.7	47.3
2014		39.2	46.9
2015		38.6	46.2
2016		38.5	46.5
2017			46.7
2018			46.8

A.2. Head-Count Ratio at $1.90 a Day, 1990–2016
Source: **World Bank**

Year	Head-Count Ratio
1990	66.2
1993	56.6
1996	41.7
1999	40.2
2002	31.7
2005	18.5
2008	14.8
2010	11.2
2011	7.9
2012	6.5
2013	1.9
2014	1.4
2015	0.7
2016	0.5

A.3. Poverty Gap at $1.90 a Day, 1990–2016
Source: **World Bank**

Year	Poverty Gap
1990	24.1
1993	20.3
1996	12.9
1999	13.1
2002	10.1
2005	4.8
2008	3.9
2010	2.7
2011	1.8
2012	1.4
2013	0.4
2014	0.3
2015	0.2
2016	0.1

A.4. Distribution of Income by Quintiles					
Year	First Quintile	Second Quintile	Third Quintile	Fourth Quintile	Fifth Quintile
Source: NBSC (¥), 2013–18					
2013	4402,4	9653.7	15698	24361.2	47456.6
2014	4747,3	10887.4	17631	26937.4	50968
2015	5221.2	11894	19320.1	29437.6	54543.5
2016	5228.6	12898.9	20924.4	31990.4	59259.5
2017	5958.4	13842.8	22495.3	34546.8	64934
2018	6440.5	14360.5	23188.9	36471.4	70639.5
Source: World Bank (%), 1990–2016					
1990	8.3	12.4	16.4	22.1	40.8
1996	7.4	11.5	15.9	22.4	42.9
1999	6.5	10.5	15.1	22.3	45.6
2002	5.6	9.6	14.5	22.3	48
2005	5.8	10.1	14.7	22.2	47.1
2008	5.2	9.4	14.5	22.5	48.4
2010	5.1	9.2	14.3	22.3	49
2011	5.4	9.6	14.6	22.3	48.1
2012	5.3	9.7	14.7	22.4	47.8
2013	6.2	10.3	15	22.1	46.3
2014	6.2	10.5	15.2	22.3	45.8
2015	6.4	10.6	15.3	22.3	45.4
2016	6.5	10.7	15.3	22.2	45.3

A.5. Distribution of Income by Deciles (%), 1990–2016 *Source:* World Bank		
Year	Lowest Decile	Highest Decile
1990	3.5	25.8
1996	3.1	27.3
1999	2.7	29.5
2002	2.3	31.3
2005	2.4	30.8
2008	2.1	32
2010	2	32.6
2011	2.1	31.8
2012	2.1	31.5
2013	2.5	30.3
2014	2.5	29.7
2015	2.6	29.4
2016	2.7	29.3

Appendix B. The Rural-Urban Divide. Data

B.1. Rural and Urban Population (%), 1978–2018 *Source:* NBSC		
Year	Urban Population	Rural Population
1978	17.92	82.08
1979	18.96	81.04
1980	19.39	80.61
1981	20.16	79.84
1982	21.13	78.87
1983	21.62	78.38
1984	23.01	76.99
1985	23.71	76.29
1986	24.52	75.48
1987	25.31	74.68
1988	25.81	74.19
1989	26.21	73.79
1990	26.41	73.59

1991	26.94	73.06
1992	27.46	72.54
1993	27.99	72.01
1994	28.51	71.49
1995	29.04	70.96
1996	30.48	69.52
1997	31.91	68.09
1998	33.35	66.65
1999	34.78	65.22
2000	36.22	63.78
2001	37.66	62.34
2002	39.09	60.91
2003	40.53	59.47
2004	41.76	58.24
2005	42.99	57.01
2006	44.34	55.66
2007	45.89	54.11
2008	46.99	53.01
2009	48.34	51.66
2010	49.95	50.05
2011	51.27	48.73
2012	52.57	47.43
2013	53.73	46.27
2014	54.77	45.23
2015	56.1	43.9
2016	57.35	42.65
2017	58.52	41.48
2018	59.58	40.42

B.2. Per Capita Disposable Income of Households in ¥, 1978–2018

Source: **NBSC**

Year	Nationwide Households	% Change	Urban Households	% Change	Rural Households	% Change
1978	171.2	-	343.4	-	133.6	-
1980	246.8	44.16	477.6	39.08	191.3	43.19
1985	478.6	93.92	739.1	54.75	397.6	107.84
1990	903.9	88.86	1510.2	104.33	686.3	72.61
1995	2363.3	161.46	4283	183.60	1577.7	129.88
2000	3721.3	57.46	6255.7	46.06	2282.1	44.65
2001	4070.4	9.38	6824	9.08	2406.9	5.47
2002	4531.6	11.33	7652.4	12.14	2528.9	5.07
2003	5006.7	10.48	8405.5	9.84	2690.3	6.38
2004	5660.9	13.07	9334.8	11.06	3026.6	12.50
2005	6384.7	12.79	10382.3	11.22	3370.2	11.35
2006	7228.8	13.22	11619.7	11.92	3731	10.71
2007	8583.5	18.74	13602.5	17.06	4327	15.97
2008	9956.5	16.00	15549.4	14.31	4998.8	15.53
2009	10977.5	10.25	16900.5	8.69	5435.1	8.73
2010	12519.5	14.05	18779.1	11.12	6272.4	15.41
2011	14550.7	16.22	21426.9	14.10	7393.9	17.88
2012	16509.5	13.46	24126.7	12.60	8389.3	13.46
2013	18310.8	10.91	26467	9.70	9429.6	12.40
2014	20167.1	10.14	28843.9	8.98	10488.9	11.23
2015	21966.2	8.92	31194.8	8.15	11421.7	8.89
2016	23821	8.44	33616.2	7.76	12363.4	8.24
2017	25973.8	9.04	36396.2	8.27	13432.4	8.65
2018	28228	8.68	39250.8	7.84	14617	8.82

B.3. Urban-Rural Income Ratio, 1978–2018

Source: **NBSC**

Year	Ratio Using 2019 Data	Ratio Using 2017 Data
1978	2.57	2.57
1980	2.50	2.50

1985	1.86	1.86
1990	2.20	2.20
1991		2.40
1992		2.58
1993		2.80
1994		2.86
1995	2.71	2.71
1996		2.51
1997		2.47
1998		2.51
1999		2.65
2000	2.74	2.79
2001	2.84	2.90
2002	3.03	3.11
2003	3.12	3.23
2004	3.08	3.21
2005	3.08	3.22
2006	3.11	3.28
2007	3.14	3.33
2008	3.11	3.31
2009	3.11	3.33
2010	2.99	3.23
2011	2.90	3.13
2012	2.88	3.10
2013	2.81	3.03
2014	2.75	2.97
2015	2.73	2.95
2016	2.72	
2017	2.71	
2018	2.69	

B.4. Distribution of Income by Quintiles in ¥, Urban, 2013–18
Source: **NBSC**

Year	First Quintile	Second Quintile	Third Quintile	Fourth Quintile	Fifth Quintile
2013	9895.9	17628.1	24172.9	32613.8	57762.1
2014	11219.2	19650.5	26650.6	35631.2	61615
2015	12230.9	21446.2	29105.2	38572.4	65082.2
2016	13004.1	23054.9	31521.8	41805.6	70346.8
2017	13723.1	24550.1	33781.3	45163.4	77097.2
2018	14386.9	24856.5	35196.1	49173.5	84907.1

B.5. Distribution of Income by Quintiles in ¥, Rural, 2013–18
Source: **NBSC**

Year	First Quintile	Second Quintile	Third Quintile	Fourth Quintile	Fifth Quintile
2013	2877.9	5965.6	8438.3	11816	21323.7
2014	2768.1	6604.4	9503.9	13449.2	23947.4
2015	3085.6	7220.9	10310.6	14537.3	26013.9
2016	3006.5	7827.7	11159.1	15727.4	28448
2017	3301.9	8348.6	11978	16943.6	31299.3
2018	3666.2	8508.5	12530.2	18051.5	34042.6

Appendix C. The Inland-Coastal Gap. Data

C.1. Population by Region (%), 2013–18
Source: **NBSC**

Year	Eastern Provinces	Central Provinces	Western Provinces	North-Eastern Provinces
2013	38.2	26.6	27	8.1
2014	38.3	26.6	27	8.1

2015	38.3	26.6	27.1	8
2016	38.4	26.6	27.1	7.9
2017	38.4	26.6	27.2	7.8
2018	38.5	26.6	27.2	7.8

C.2. GDP by Region (%), 2013–18

Source: **NBSC**

Year	Eastern Provinces	Central Provinces	Western Provinces	North-Eastern Provinces
2013	51.2	20.2	20	8.6
2014	51.2	20.3	20.2	8.4
2015	51.6	20.3	20.1	8
2016	52.6	20.6	20.1	6.7
2017	52.9	20.8	19.9	6.4
2018	52.6	21.1	20.1	6.2

C.3. Per Capita Disposable Income of Regionwide Households in ¥, 2013–18

Source: **NBSC**

Year	Eastern Provinces	Central Provinces	Western Provinces	North-Eastern Provinces
2013	23658.4	15263.9	13919	17893.1
2014	25954	16867.7	15376.1	19604.4
2015	28223.3	18442.1	16868.1	21008.4
2016	30654.7	20006.2	18406.8	22351.5
2017	33414	21833.6	20130.3	23900.5
2018	36298.2	23798.3	21935.8	25543.2

C.4. Per Capita Disposable Income of Urban Households by Region in ¥, 2013–18

Source: **NBSC**

Year	Eastern Provinces	Central Provinces	Western Provinces	North-Eastern Provinces
2013	31152.4	22664.7	22362.8	23507.2
2014	33905.4	24733.3	24390.6	25578.9
2015	36691.3	26809.6	26473.1	27399.6
2016	39651	28879.3	28609.7	29045.1
2017	42989.8	31293.8	30986.9	30959.5
2018	46432.6	33803.2	33388.6	32993.7

C.5. Per Capita Disposable Income of Rural Households by Region in ¥, 2013–18

Source: **NBSC**

Year	Eastern Provinces	Central Provinces	Western Provinces	North-Eastern Provinces
2013	11856.8	8983.2	7436.6	9761.5
2014	13144.6	10011.1	8295	10802.1
2015	14297.4	10919	9093.4	11490.1
2016	15498.3	11794.3	9918.4	12274.6
2017	16822.1	12805.8	10828.6	13115.8
2018	18285.7	13954.1	11831.4	14080.4