

WAGE GROWTH, TRADE SURPLUS, AND DOMESTIC DEVELOPMENT: THE CHINA CASE

China has experienced remarkable economic growth since the transformation of its economy in the late 1980s, but its wage growth is comparatively slower. China's income inequality has simultaneously intensified, which can be observed on many dimensions. Such uneven distribution between urban and rural residents and among individuals in general has a negative impact on consumer demand, which influences China's trade patterns and economic growth. This article argues that China's economic growth could be sustained along with growing consumer demand through a narrowing of its income gap and the establishment of a social security network.

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TURKISH POLICY
QUARTERLY

Summer 2014

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TPQ Editorial Note: We would like to thank ÇITAM (China Institute Turkey) for connecting us with the authors to make this article contribution possible.

In the late 1980s, China initiated economic reforms to transition from a planned economy to a market economy, during which the concept of non-equilibrium economic development was introduced. Since then, China has experienced remarkable economic growth, especially in terms of poverty alleviation and world trade performance. 235 million Chinese were lifted out of the absolute poverty level in 2008, export volumes ranked number one in 2009, and China became the world's second-largest economy in 2010.¹ Despite these strides forward, China's income distribution gap has widened to an alarming degree across the nation. Questions have been raised about whether such an income gap has hindered the growth of residents' consumption – especially after the 2008 world economic crisis – which threatened China's export-oriented economic strategy. This paper first briefly displays the income distribution gap in China, followed by an analysis of the impact of stagnant wage growth on China's economic growth. It concludes with recommending potential policy actions and an assessment of the future trajectory of China's economy.

Income Distribution Disparity and Labor's Slow Wage Growth

National Income Distribution and Labor Gains

Despite high economic growth rates, it is widely acknowledged that China's income distribution is becoming more and more uneven as a result of an incomplete production factor market in that the price of some productive elements like labor, capital, land have not been determined by market factors, which distorts the pricing of labor wages. This pricing is further distorted when local governments try to attract foreign capital with the promise of an abundant, low-wage labor force supply. The primary national income distribution mechanism thus heavily favors capital. From 1994 to 2010, the proportion of employee compensation dropped from 51.2 percent to 45 percent, while the ratio of capital gain (depreciation of fixed assets and operating surplus) over labor gain increased from 0.72 percent to 1.14 percent, before dropping after 2009. Moreover, the level of employees' compensation was further undermined as the proportion of government gains increased from 11.9 percent to 15.2 percent between 1994 and 2010.

¹ Data sources from World Development Indicators.

Table 1.1: Proportion of National Income Distribution in China by Segment (1994-2010)

Year	Labor Gains	Government Gains	Capital Gains		Ratio of Capital Gain over Labor Gain
	Compensation of Employees	Net Taxes on Production	Depreciation of Fixed Assets	Operating Surplus	
1994	51.2%	11.9%	13.6%	23.3%	0.72
2002	50.9%	15.7%	14.0%	19.4%	0.66
2007	39.7%	14.8%	14.2%	31.3%	1.14
2010	45.0%	15.2%	12.9%	26.9%	0.88

Source: China Statistic Year Book 1996-2011, China Statistics Press

On the other hand, the secondary income distribution mechanism is also not significant. The level of residents' income improved marginally, which was largely due to the limited impact of the fiscal redistribution system. This system is blamed for the low efficiency of government transfer payments and high cost of bureaucracy, alongwith issues like unnecessary government investment and corruption.

Households Income Dispersion at the Urban and Rural Levels

It is widely acknowledged that the dualistic structure of the Chinese social economic environment determines and increases the disparities in disposable income between urban and rural residents. From 1978 to 2010, the disposable income of urban households increased from 343.4 Yuan to 19,109.40 Yuan (over 50 times) in nominal terms. Comparatively, the disposable income of rural residents increased only from 133.6 Yuan to 5,919.0 Yuan (over 40 times). Thus, the income gap between urban and rural residents has increased in absolute value from 209.8 Yuan to 13190.4 (40 times), and in relative value from 2.57 times to 3.23 times (25.7 percent increase). Even taking price index into consideration, the annual compound growth rate of urban households is 7.2 percent; this is 1.7 percent higher than in rural householders. It is worth noting that both growth rates are mostly lower than the GDP growth rate, which means both urban and rural residents have received limited welfare in household income from GDP growth.

Table 1.2: Comparison of Per Capital Income Growth Rate between Urban and Rural Households. (1986-2010)

Year	Per Capita Annual Disposable Income of Urban Households	Per Capita Annual Net Income of Rural Households	Urban – Rural Income Difference	Urban/Rural Income Ratio	Urban Growth Rate ¹	Rural Growth Rate ²	GDP Growth Rate
1978	343.4	133.6	209.8	2.57	-	-	
1986	899.6	424	475.8	2.12	13.7%	0.5%	8.8%
1994	3496.2	1221	2275.2	2.86	8.5%	7.4%	13.1%
2002	7702.8	2476	5227.2	3.11	13.4%	5.0%	9.1%
2010	19109.4	5919.01	13190.39	3.23	7.8%	10.9%	10.4%
1986-2010 Annual Compound Growth Rate	-	-	-	-	7.2%	5.3%	9.8%

1 Real growth rate adjusted by urban residents' consumption price index

2 Real growth rate adjusted by rural residents' consumption price index

Source: China Statistic Year Book 2011, China Statistics Press

Household Income Dispersion at Regional Level

As big as the urban-rural income gap is, the economic development in different regions are also affected by the non-equilibrium development strategy that prioritizes high-yielding regions/sectors with scarce resource supplies before the regions/sectors take off the driving effects on other regions/sectors. Thus, households in different regions also have a very different average income level due to the convergence of complex variables such as natural resources, average education level, etc. Although the absolute value of income difference has increased, recent regional development policies with a bias toward western regions have diminished the income distribution gap in relative value among different places. Also, the top five provinces are relatively stable and are all based near the East coast. While the bottom five keep changing, most are located in western regions. In the case of rural households, the regional income gap has widened in both absolute value and relative value. Also, the top and bottom five provinces have revealed stronger evidence of regional character in recent decades, implying that the income gap has widened between the east and the west. Besides that, the ranking of different regions varies greatly, revealing the unstable income conditions of rural households.

Table 1.3: Rank of Per Capita Disposable of Urban Households by Region (1995-2010)²

Year	Urban Top 5		Urban Bottom 5		Rural Top 5		Rural Bottom 5	
2010	Shanghai	31838.08	Ningxia	15344.49	Shanghai	13977.96	Shanxi	4104.98
	Beijing	29072.93	Heilongjiang	13856.51	Beijing	13262.29	Yunnan	3952.03
	Zhejiang	27359.02	Qinghai	13854.99	Zhejiang	11302.55	Qinghai	3862.68
	Guangdong	23897.80	Xinjiang	13643.77	Tianjin	10074.86	Guizhou	3471.93
	Jiangsu	22944.26	Gansu	13188.55	Guangdong	9118.24	Gansu	3424.65
	Top/Bottom 2.41				Top/Bottom 4.08			
1995	Guangdong	7438.7	Shanxi	3305.98	Shanghai	290	Henan	101.4
	Shangxi	7191.77	Henan	3299.46	Beijing	224.8	Shandong	101.2
	Beijing	6235	Jilin	3174.83	Xinjiang	199.2	Inner Mongolia	100.3
	Zhejiang	6221.36	Gansu	3152.52	Guangdong	182.3	Gansu	94.8
	Tianjin	4929.53	Inner Mongolia	2863.03	Jilin	179.2	Hebei	91.5
	Top/Bottom 2.60				Top/Bottom 3.17			

Source: China Statistic Year Book 2011, China Statistics Press

Stagnant Ranking of Sector Wages

Just as income varies in urban-rural groups and across different regions, income distribution varies in different industries due to a regional cluster effect. State capital and foreign direct investment (FDI) keep flowing to the eastern part of the country where profitable industries are clustered, and thus, lead to an increasing dispersion of average wages among different sectors. From 1978 to 2010, employees in the financial sector had the highest wages, ranging from 13,478 Yuan to 70,146 Yuan, while the wages in primary and secondary industries such as agriculture, forestry, and animal husbandry had the lowest. Income for employees in these latter industries increased from 5,184 Yuan to only 16,717 Yuan. The ranking of high wage sectors and low wage sectors generally remained relatively stable over 30 years, except for some sectors that were vulnerable to world energy prices. The financial sector is the highest income industry (172,123 Yuan), and the animal husbandry sector is the lowest (10,803 Yuan); there is a 16-fold disparity between top and

² Data regarding Tibet in 1995 is missing and Chongqing is recorded only after 1997, thus only 31 provinces and municipalities are taken into comparison.

bottom. This proves that most labor-intensive industries are low wage sectors, compared with knowledge-intensive and capital-intensive sectors. It is obvious that the monopolistic industries such as air transportation, banking, telecommunication, and other information transmission services have an advantage in terms of wage level compared to other sectors. It is noticeable that the highest sectors come from the tertiary industry, while most bottom industries come from primary industries with low added value.

Table 1.4: Top 5 and Bottom 5 Average Wages of Staff and Workers by Sector in Detail (2008)

Top 10 Industry	Salary (Yuan)	Last 10 Industry	Salary (Yuan)
Security Activities	172123	Animal Husbandry	10803
Other Financial Activities	87670	Farming	11590
Air Transport	75769	Forestry	11716
Software Industry	74610	Processing of Timbers, Manufacture of Wood, Bamboo, Rattan, Palm, and Straw Products	15663
Computer Services	74324	Manufacture of Textile	16222

Source: China Statistic Year Book 2009, China Statistics Press

Meanwhile, the minimum wage regulation was first set up in 1993 by the Ministry of Labor and only applies to enterprises. The latest regulation was published by the Ministry of Labor and Social Security in 2003. This regulation applies to all kinds of economic units and has been modified several times. The general approach to minimum wages is standardized, but each province is allowed to determine their own minimum wages, in which the highest is almost twice that of the lowest.³ Also, the minimum wage still does not apply to rural residents.

³ By 2012, the highest minimum wage was 1,500 Yuan per month for Shenzhen, and the lowest was 870 Yuan for Jiangxi.

Poverty Alleviation and Social Security

According to World Bank data, China had lifted 235 million people out of absolute poverty by 2008. However, there is no national criterion for “absolute poverty,” as each province determines its own criteria, and the double standard for urban and rural households also undermines the measurement of poverty. Despite this, China has still achieved remarkable success in poverty reduction, mainly in rural areas. Rapid urbanization has increased the proportion of the urban population to almost 50 percent. Urbanization improved overall living standards because of a better social security system for urban households.⁴ However, this is limited to high-income urban and rural households; there is no strong improvement in low-income households. The low-income group has a lower annual income growth rate than that of the high-income group. From 1995 to 2010, the urban income gap increased from 4,278.20 Yuan to 33,621.10 Yuan. However, it is also worth mentioning the proportion has increased from 2.26 percent to 52.41 percent of rural residents with net income level over 5,000 Yuan.

Table 1.5: Percentages of Rural Households Grouped by Per Capita Annual Net Income

Year	1980	1985	1990	1995	2000	2005	2007	2008	2009	2010
Per Capita Annual Net Income (Yuan)	191.33	397.6	686.31	1577.74	2253.42	3254.93	4140.4	4760.6	5153.2	5919.0
<100	9.8	0.95	0.3	0.21	0.31	0.65	0.53	0.61	0.72	0.48
100-200	51.8	11.2	1.78	0.36	0.2	0.11		0.09	0.11	0.09
200-300	25.3	25.64	6.56	0.78	0.43	0.2	0.13	0.13	0.14	0.10
300-400	8.6	24.1	12.04	1.47	0.69	0.31	0.19	0.13	0.14	0.10
400-500	2.9	15.94	14.37	2.3	1.01	0.41	0.25	0.17	0.21	0.14
500-600		9.13	13.94	3.37	1.37	0.57	0.34	0.27	0.23	0.16
600-800		7.99	20.8	9.54	4.44	1.88	1.18	0.79	0.66	0.43
800-1000	1.6	2.85	12.49	11.63	5.72	2.84	1.65	1.23	1.08	0.64
1000-1200				11.83	6.75	3.53	1.97	1.55	1.49	1.06
1200-1300		1.76	12.25	5.38	3.75	1.97	1.18	0.91	0.82	0.66
1300-1500				9.74	7.42	4.4	2.64	2.07	1.83	1.30
1500-1700		0.29	3.48	7.92	7.48	4.89	3.16	2.44	2.18	1.55
1700-2000				9.39	10.45	7.67	5.21	4.14	3.69	2.81
2000-2500				10.29	14.54	12.49	9.73	7.95	7.14	5.74
2500-3000				5.89	10.29	11.42	9.89	8.63	7.74	6.49
3000-3500				3.49	7.11	9.55	9.17	8.13	7.77	6.55
3500-4000		0.15	1.99	1.95	4.76	7.57	8.34	7.93	7.35	6.68
4000-4500				1.34	3.44	5.93	7.40	7.06	6.93	6.43
4500-5000				0.86	2.4	4.64	5.98	6.46	5.97	6.19
5000 ≤				2.26	7.45	18.96	30.94	39.29	43.80	52.41

Source: China Statistic Year Book 2011, China Statistics Press

⁴ According to China Statistical Year Book 2011, the urban proportion of population is 49.95 % in 2010. China Statistical Year Book 2011, <http://www.stats.gov.cn/tjsj/ndsj/2011/indexeh.htm>

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In addition, the social security system is still far from satisfactory. This system in China mainly includes a pension fund, public insurance, welfare, subsidies, charities, personal savings, etc. But the system is also split into urban and rural areas, and each province has its separate system account that is not well integrated with the others. There are transprovince obstacles that lead to problems such as retirement pension withdrawal by migrant workers from workplaces and difficulty in transprovince health-care payments. However, recent changes

to help improve the social security system have been set in motion, including urban and rural system unification and transprovincial information sharing. Overall, social security reforms have emphasized both coverage and quality.

Slow Growth of Labor’s Wage

Although the average wage of employed persons in urban units has increased from 5,348 Yuan in 1995 to 41,799 Yuan in 2011, the growth rate of average real wages is not as significant as the growth of China’s macro performance. The growth rate of average real wages began declining in 2002, when China joined the World Trade Organization and started performing astoundingly well in international trade. Even compared with other economies, China’s manufacturing wage level is still at a level similar to that of other developing economies like Thailand and Jordan, and much lower than more advanced economics like Korea, Japan, etc. It is even lower than other emerging countries like Russia and Mexico.

Table 1.6: 1995-2011 Indices of Average Real Wage

Year	Average Wage (Yuan)	Indices of Average Real Wage (preceding year=100)
1995	5348	101.8
2002	12373	115.4
2007	24721	113.4
2010	36539	109.8
2011	41799	108.6

Source: China Statistic Year Book 2012, China Statistics Press

The paradox of economic growth and wage stagnancy is attributable to four key factors: (1) The long-lasting low-income results in long-term domestic insufficiency and oversupply, the latter of which depends on exports and requires price advantages, including labor cost, over other countries; (2) A low education level and uneven redistribution results in a large pool of vulnerable and low-skilled labor, especially from rural areas; (3) The pricing system is still far from complete market pricing so that the prices of both capital investment and natural resources are undervalued and thus have negative substantive impact on labor's wage; (4) Fragile labor negotiation power coupled with a weak social security system further magnifies the situation.

The Impact of Stagnant Wage on Export-Oriented Economic Growth

Negative Impact on Insufficient Demand

The low-wage growth results in insufficient demand, which involves five key problems: consumer demand that is undermined by low wages, a crowding-out effect of government expenditure, an urban-rural income distribution and consumption gap, a decline in the marginal preference of consumption, and under-urbanization.

(1) The distribution system turned out to be disfavoring households after 1996, when households' income started falling to 50.63 percent and that of government and enterprises started approaching 25 percent. The dramatic drop in the ratio of labor compensation indicates that households benefited marginally from the economic growth. Such income distribution leads to lower household consumption. During 2000-2009, the final consumption rate and households' consumption rate declined respectively from 62.3 percent to 48 percent and 46.4 percent to 35.1 percent.

Table 2.1: Consumption and other Macroeconomic Indicators in 2000-2010

Year	Capital formation rate (%)	Final consumption rate (%)	Household consumption rate (%)	Ratio of household consumption/ government consumption	Proportion of Total social consumption wholesales value over GDP (%)	Contribution Share of Net Exports of Goods and Services (%)
2000	35.3	62.3	46.4	2.93	39.60	12.5
2005	41.6	52.9	38.8	2.75	35.60	23.1
2010	48.6	47.4	33.8	2.49	39.13	9.2

Source: China Statistic Year Book 2011, China Statistics Press

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of households’ consumption, and thus leaves economic growth vulnerable to the external environment. Thus, there is an argument that the Chinese government should try to promote households’ consumption by relieving the tax burden on households through measures such as income tax reforms and lifting wage standards.

(3) The large urban-rural income gap is another key problem because of the negative relationship between the income gap and consumption demand. The income disparity between urban and rural households has been exaggerated. However, the real income gap would have reached 5-6 times already if compulsory education, basic health care, social security, and the lack of public services factors were taken into consideration. According to the Sixth National Enterprise Workforce Survey 2007 data, the wage income of migrant workers – rural residents moving towards cities – is equivalent to 79.70 percent of that of urban workers. These dispatched workers have become a new vulnerable group due to problems in the social security system. Besides that, rural households have a much lower expenditure than urban households and drive the demand of consumption down, despite growth in wage standards. The consumption of lower income household groups is concentrated in primary and secondary industries, while that of higher income household groups is concentrated in the tertiary (service) industry.

(4) The dramatic increase in the per capita balance of saving deposits above rural residents’ net income suggests a high savings rate in urban households, which implies the decline of the marginal preference of demand among urban residents. In other words, the higher urban residents gain, the more they save, which leads to a greater amount of saving deposits and a wider urban-rural income gap. Because of this, the economy has to return to a focus on investment and net exports.

(5) Although urbanization is frequently regarded as a huge achievement of China's rapid development, the massive skyscrapers and infrastructure projects do not present the proper picture of urbanization in China. The urbanized population increased to almost 50 percent in 2010. This percentage is not a real indication of the country's urbanization, however. This is especially the case because, in most instances, it is the land that has been "urbanized," not the population. In 2010, the migrant population in Shanghai and Beijing consisted of 39 percent and 36 percent of these cities' whole populations respectively, but

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unique institutions like household registration system namely "Hukou" remain the biggest obstacles that prevent them from sharing the welfare with urban households. *Hukou*, which is a certificate of registered permanent residence, is believed to provide the local government with information about the local population, so that the government can have better allocate of the resources across the country. Nowadays, this institution is ineffective due to population's high mobility. For example, students who do not hold a *Hukou* of Shanghai, mostly children of migrant workers, cannot go to public urban primary and secondary schools that are funded/affiliated by Shanghai's urban government. Students are only allowed to attend private schools in urban places or public schools that correspond to the place on their *Hukou*. That is to say, these migrant workers are still not urbanized although they are working and living in urban areas.

Stimulus Impact on Investment

Chinese government authorities, especially at subordinate levels, have a strong motivation to generate government investment as a result of a "GDP-oriented competition" evaluation pattern. Investment – one of the three engines of GDP growth (consumption, investment, and net exports) – is an efficient and convenient method to increase GDP compared to the other two engines, which are more like passive results of households' consumer behavior and the foreign market than a direct action. Thus, there is great pressure for government authorities to invest heavily in state-owned enterprises (SOEs) that have good relationships with the local government. Also, the SOEs can help reduce the unemployment rate only if cash flows are sufficient after investment. A good example is the steel industry; many steel SOEs

receive or borrow capital at a low cost from the government or banks to import raw materials like steel from Australia or Brazil. The steel outputs cannot be absorbed in the domestic market, and thus the government further offers export subsidies for the SOEs to dump outputs into western countries like the US and Europe, and end up with massive anti-dumping and counterfeiting trade remedies. This goes for the solar panel industry as well.

Dual Impact on FDI and China's Export Growth

Since 1993, and especially after 2000, a huge amount of FDI surged into China, making China a top FDI destination.

Table 2.2: Direct Foreign Investments in China

Year	Direct Foreign Investments
1979-1984	41.04
1985	19.56
1993	275.15
2000	407.15
2008	923.95
2011	1160.11

Source: China Statistic Year Book 2012, China Statistics Press

Some recent research indicates that two types of FDI investments have had large impacts on China's export growth:⁵

(1) Export-oriented FDI. The low wage growth in China contributes to the comparative advantages in labor-intensive sectors and thus attracts processing trade companies like those from Hong Kong, China, and Chinese Taipei. These companies thrive in the East coast, like Foxconn in Shenzhen, and create a huge trade surplus in China's processing trade, generating a large amount of foreign exchange reserves. The trade data also reveals the dominance of processing trade in China's external surplus.

⁵ According to Yu Yongding and Tan Donghai(2006), there are three kinds of FDI in China: (1) technology-oriented FDI imports advanced equipment and skills and aims at exporting, but accounts for small proportion of China's FDI inflows; (2) export-oriented FDI is mainly processing trading industries from Hong Kong, China and Chinese Taipei, and accounts for a large proportion; (3) market occupation FDI imports equipment and does not export. See: Yu Yongding and Tan Donghai, "Quality, Origin and Solution to China's Dual Surplus," *The Journal of World Economy*, No.3 (2006), pp. 31-41.

Table 2.3: Trade Patterns in China 2003-2012

	2003	2005	2008	2009	2011	2012
Overall	253.77	1021.05	2974.01	1981.55	1578.51	2327.65
General Trade	-57.30	355.48	916.51	-20.18	-592.45	-19.70
Processing Trade	637.35	1256.46	2769.01	2476.00	3672.51	4009.72

Source: World Trade Atlas

(2) Market-oriented FDI. China's uneven income distribution also attracts market-oriented FDI, which targets the huge market of local demand. One of the good examples is the popularity of branches of top world brands in metropolises like Beijing, Shanghai, and Shenzhen. Also, media reports revealed that China has become the top luxury production destination for the high-income class. The trade data also proves that general trade has become negative after the external shock of the global economic crisis in 2008.

Determinant Impact on China's Economic Growth

As mentioned above, the slow growth of labor wages in China has a great impact on China's export growth and trade patterns. Most politicians and academics agree that externally orientated growth is not sustainable and that income distribution policies should be changed. However, income distribution is a very broad topic, and no argument can be reached easily.⁶ Recent research has reached a broad consensus demonstrating that income distribution has two mechanisms affecting economic growth.

6 No result is commonly acknowledged in the international academy about the impact income disparity on economy growth. Scholars like Li and Zou (Hongyi Li and Hengfu Zou, "Income Inequality is not Harmful for Growth: Theory and Evidence," *Review of Development Economics*, Feb 1998, pp. 318-334), Forbes (J. Kristin Forbes, "A Reassessment of the Relationship Between Inequality and Growth," *The American Economic Review*, Sept 2000, pp. 869-887), Perugini and Martino (Cristiano Perugini, and Gaetano Martino, "Income Inequality Within European Regions: Determinants And Effects On Growth," *Review of Income and Wealth*, Sept 2008, pp. 373-406), etc. believe income gaps would stimulate economy growth, while others like Bertola (Giuseppe Bertola, "Factor Shares and Savings in Endogenous Growth," *American Economic Review*, Dec 1993, pp. 1184-98), Alesina and Rodrik (Alberto Alesina and Dani Rodrik, "Distributive Politics and Economic Growth," *Quarterly Journal of Economics*, May 1994, pp. 465-90), Persson and Tabellini (Torsten Persson and Guido Tabellini, "Is Inequality Harmful for Growth Theory and Evidence," *American Economic Review*, 1994, pp. 600-621.), Clarke (R. Harry Clarke, "International labor-cum-capital migrations: Theory, welfare implications, and evidence," *Open Economies Review*, Vol. 6 No. 4 Oct 1995, pp. 323-340), Deininger and Squire (Klaus Deininger and Lyn Squire, "New ways of looking at old issues: inequality and growth," *Journal of Development Economics*, Feb 1998, pp. 259-287), Sukiassyan (Grigor Sukiassyan, "Inequality and growth: What does the transition economy data say?," *Journal of Comparative Economics*, Mar 2007, pp. 35-56), Cellini (Roberto Cellini, "Migration and welfare: a very simple model," *Journal of International Development*, Jul 2007, pp. 885-894), Ezcurra (Roberto Ezcurra, Pedro Pascual, and Manuel Rap, "The spatial distribution of income inequality in the European Union," *Environment and Planning A*, Apr 2007, pp. 869-890) believe income gaps would hinder economy growth. (HengQuan, *Income Distribution and Income Mobilit: China Experience and Theory*, Truth and Wisdom Press: Shanghai, 2012).

On the one hand, Chinese income distribution policies favor the government and enterprises and thus lead to insufficient consumption demand due to a decline in household income, which forces economic growth to rely on investment and net exports. On the other hand, the high income disparity hinders consumer demand because of the disparity between marginal preferences for consumption and disposable incomes of the rich and poor. This, again, forces economic growth to rely on investment and net exports.

Transition and New Politics – The New Road to China’s Future Growth

Apparently, the remarkable economic growth in China is not achieved without cost – the GINI coefficient of resident’s income, recently published by National Bureau of Statistics of China, is very close to 0.5, which many scholars believe to be the minimum level before widespread social unrest. The GINI coefficient, which measures inequality, continued to increase before beginning to decline in 2009. Although data estimated in some international reports is much lower (41.5 for China in the 2010 Human Rights Report), the country’s official data is highly challenged and believed to be underestimated by scholars.⁷ Meanwhile, the external environment is no longer a friend to Chinese exporters due to rising costs like Chinese currency appreciation and frequent trade remedies over Chinese products, etc.

Table 3.1: GINI Coefficient of Residents’ Income in China (2003-2012)

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
GINI Coefficient	0.479	0.473	0.485	0.487	0.484	0.491	0.490	0.481	0.477	0.474

Source: National Bureau of Statistics

Economic development in China will not be sustainable in the long-run with the dual structure of the economy and the global financial crisis, but such complex issues cannot be solved easily. More and more, politics and scholars have recognized the priority of another round of economic reforms, especially at the income distribution level. It is necessary to start facilitating economic development to increase the level of household income as a whole. The economic structure should be transformed properly so that the relationship of investment to consumption can be rebalanced without further volatility. To achieve this, effective political involvement requires

⁷ Some research work conducted by university professors has much higher GINI coefficient. The household GINI coefficient of China is even 0.61. The Survey and Research Center for China Household Finance, <http://www.chfsdata.org/>

guiding society towards a consensus about the income distribution problem. Such an attitude would in the end shape the current income distribution orders so as to establish an institutional safeguard system.

Therefore, as many scholars have suggested, the Chinese government should increase public education expenditures to narrow the human capital gap, and push forward experimentation with personal financial accounting so that individual income levels could be monitored dynamically. Methods of taxation and the fiscal system also need to be improved to make better use of the function of income redistribution. This, in turn, would improve institutions of social protection and establish an effective social security network. The government should also facilitate rural economic development, and establish a long-term mechanism to enhance rural households' income.