

Jack Craik: Should China Be Concerned About Its Levels of Inequality?

Introduction

China's economy has exploded over the past 30 years, currently boasting the second largest economy in terms of nominal GDP and the largest when accounting for its purchase power parity (PPP) (World Bank, 2024 as cited in: CSIS China Power Project, 2024).

Comparing GDP: Nominal v. Purchasing Power Parity (PPP) (2021)

Figures are in trillions of \$

Country Name	Nominal (current US\$) ▼	PPP (current international \$)
United States	23	23
China	17.7	27.3
Japan	4.9	5.4
Germany	4.2	4.8
United Kingdom	3.2	3.3
India	3.2	10.2
France	2.9	3.4

Source: CSIS China Power Project; World Bank

Following the rapid growth in the economy, living standards have also improved from a GDP per capita of \$468.66USD in 1994 to \$12,970USD in 2024 (IMF, 2024). Such fortune doesn't favour all across China as "income inequality has increased substantially since the beginning of the reform process" (Piketty, Yang, and Zucman, 2019). I recently watched the documentary 'Tough Out' (Xu Huijing, 2020), which follows an organisation's attempts to help disadvantaged children escape poverty through means of baseball. It intrigued me to delve into China's poverty and inequality situation, to ultimately answer the question: 'Should China be concerned about its levels of inequality?'.

Summary of ‘Tough Out’

The documentary follows the life of a twelve year old boy called Ma Hu. Ma Hu is born into a poor family who live on the outskirts of Beijing. He was a trouble maker at school, causing fights and disrupting classes. A baseball camp scouted the young Ma Hu to play in a team with various other children from challenging upbringings, training them to potentially become professional baseball players. From the beginning, Ma Hu continues his disruptive behaviour on the baseball pitch. This fades away towards the end of the documentary, where he becomes a positive member of the team. The boy doesn't make it to be a professional but is offered to help teach for the organisation in the future.

Personal Reactions

Following watching the documentary, I compared my similarly intense experience of being in a tennis academy to Ma Hu's baseball academy. The difference is that I was committing out of choice, whereas the boys in the video had little to no alternative for a bright future. When I decided to ultimately stop, at the age of 13, I still had a backbone of a relatively affluent family and successes in the English educational system. Ma Hu was neither educationally successful, nor did he have a wealthy family to support him. Without the organisation it is likely his future would be as bleakly entrenched in poverty as his parents had been before him. Stemming from this, It made me think of the thousands (if not millions) of other children in a similar situation to the boys, but with no access to such organisations.

Conversations surrounding poverty, paired with powerful imagery of living conditions, were highlighted throughout. I was naive before watching in my understanding of how low living conditions could be in China. The boy is shown sharing a bed with his father in a rundown, two room house. On the contrary, the media is constantly praising China's immense economic rise. This can cause us to forget about those who are not in a position to profit from this success. Should China be worried about those who are left behind?

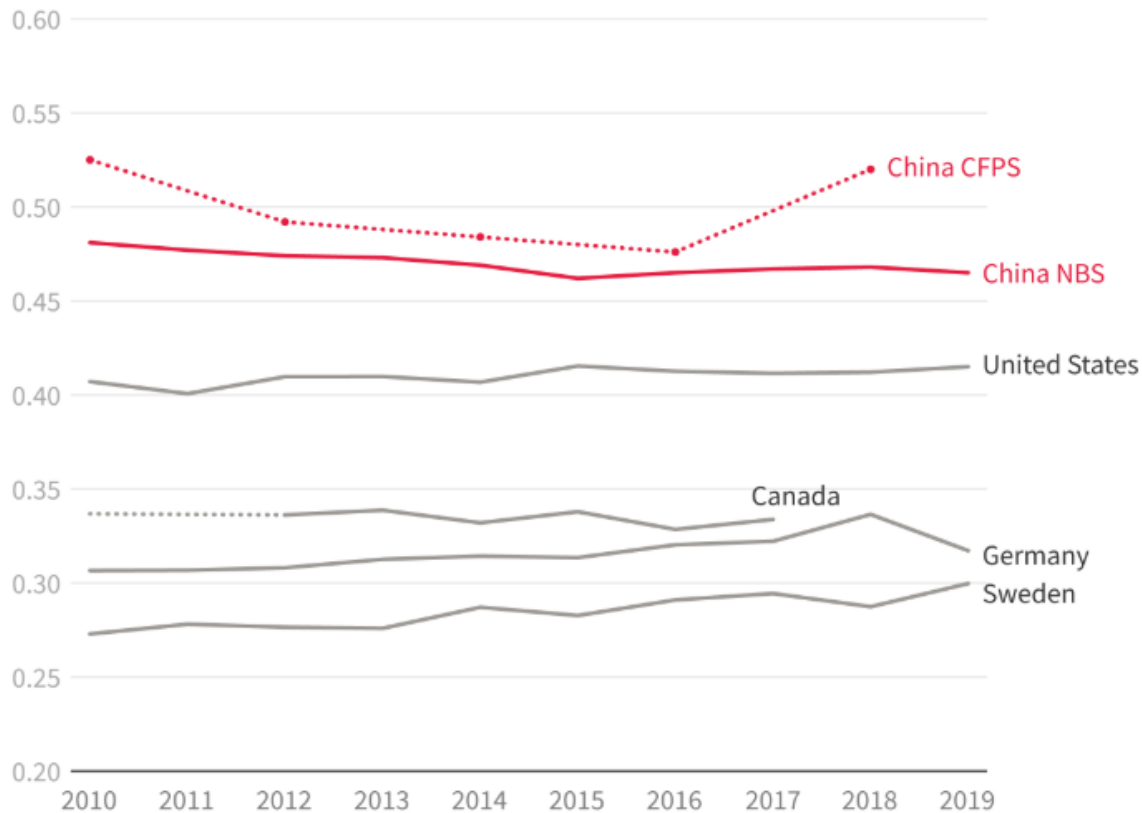
Evaluation of China's Inequality

It is important to first understand the levels of inequality in China today. Then we can discuss factors driving this inequality, paired with reasons why it may warrant attention from the government. Following this, I will outline areas in which China is addressing its inequality situation. Before finally I will answer whether China should be concerned about its inequality status today.

As previously mentioned, income inequality has been on the rise since the 'reform and opening up' period. The gini-coefficient is a well recognised measure for inequality, where a score of 0 represents a fairer society and the "tipping point" is often believed to be at the value of 0.4 for an unfair society (United Nations System Chief Executives Board for Coordination, 2017). As shown in the diagram below China is constantly estimated to be above the recommended 0.4

value, portraying a relatively unequal society (Mazzocco, 2017).

Inequality in China Is High and May Be Increasing According to Gini Coefficient Estimates



Data for the CFPS Gini Coefficient was only available for years 2010, 2012, 2014, 2016, 2018.

Data for Canada was not available for years 2011, 2018, 2019

Source: National Bureau of Statistics of China; Kanbur, Wang, and Zhang, "The Great Chinese Inequality Turnaround;" UNU-WIDER, World Income Inequality Database (WIID).

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The driver for this inequality can be seen in the faster growth in top earners' incomes compared to that of the lowest. Although, "Despite the widening inequality, however, both the middle class and even the poor also experienced remarkably rapid income growth" (Stanford Center on China's Economy and Institutions, 2024). From this it can be argued that even though income inequality is relatively high, those at the bottom of the income spectrum are still seeing growth substantial enough to not necessarily warrant concern. It is only when income growth begins to stagnate for the poor and middle classes, compared to a continually growing affluent class, should the Chinese government become truly anxious. This is because "excessive inequality can erode social cohesion" and "lead to political polarization" (IMF, n.d.). This is particularly important in the case of legitimacy for the Chinese Communist Party (CCP). Although China

doesn't operate in a democracy, it still "seeks the consent of the governed" (Gries, 2024). The CCP has been able to obtain such consent through its strong economic performance and increasing living standards. Although if such progress stagnates, then legitimacy may be challenged. Peter Gries further discusses this point: "When authoritarian elites claim rightful rule based upon economic performance, the public can use this 'language of legitimation' back against it if there is a recession" (Gries, 2024). Resultingly, it is in the interest of the CCP to monitor inequality to ensure legitimacy continues to be stable or else threats to its rule unveil.

An IMF paper argues that the "differences between rural and urban areas have been found to be a key driver of rising income inequality in China and the most important determinant of the level of inequality (Jain-Chandra et al., 2018). As a result of this, large influxes of unskilled migrant workers have moved from these rural areas to seek greater job opportunities in the city (module 2.4). Due to the Hukou system, when relocating to cities for these opportunities, migrants are excluded from various cultural, social, economic welfare designed for the urban natives (Hung, 2022). The Hukou system further allows such a divide to persist, by trapping future generation children into inheriting an inferior rural status. Such a partitioning seems to be counterintuitive for what Xi Jinping wants, he said in a speech addressing the nation: "It is our solemn commitment to lift all rural residents living below the current poverty line out of poverty" (Xi Jinping, 2017). To achieve this, a reform of the Hukuo system or at least better job opportunities for rural natives would be necessary.

China hasn't been entirely silent or avoidant in the face of its stretched inequality. In the same 2018 new year speech Xi Jinping claimed "3.4 million people have moved into new and warm homes, and the goal of upgrading 6 million housing units in run-down areas has been realized" (Xi Jinping, 2017). This seems to be a significant step forwards, although it doesn't necessarily resolve the problem in the long run. Although housing in these deprived areas are being improved, it doesn't solve problems of employment opportunities. Attempts to improve inequality through the abolishment of the agriculture tax in 2005 seems to me as a better approach conducted by the CCP (Wang, 2018). This increases incomes for agricultural workers in rural areas. Despite various policies and attempts to reduce the inequality gap, inequality still persists at high levels in China today.

Conclusion

All nations should be concerned with its levels of inequality if they are wanting to enhance citizens' welfare (Satz and White, 2021). China is no exception. Low and middle class earners are still seeing reasonable growth in their incomes, suggesting that these inequality figures may not be as of much concern to China. Yet, this should be carefully monitored by the CCP. If income growth begins to slow for lower earners, political legitimacy could be challenged. Despite inequality not posing immediate dangers to China, in the future it could and this is significant in itself to warrant concern. From this, I believe China should always be concerned

about its levels of inequality and should act preemptively, with enforcements of additional inequality alleviation policies. Examples of such policies could include: A reform in the Hukou system, better infrastructure for rural citizens travelling to the cities for work, and direct subsidies for businesses to operate profitably in rural areas. All policies mentioned help tackle employment issues and the rural-urban divide, as I believe these are the largest driving factors for China's inequality today.

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