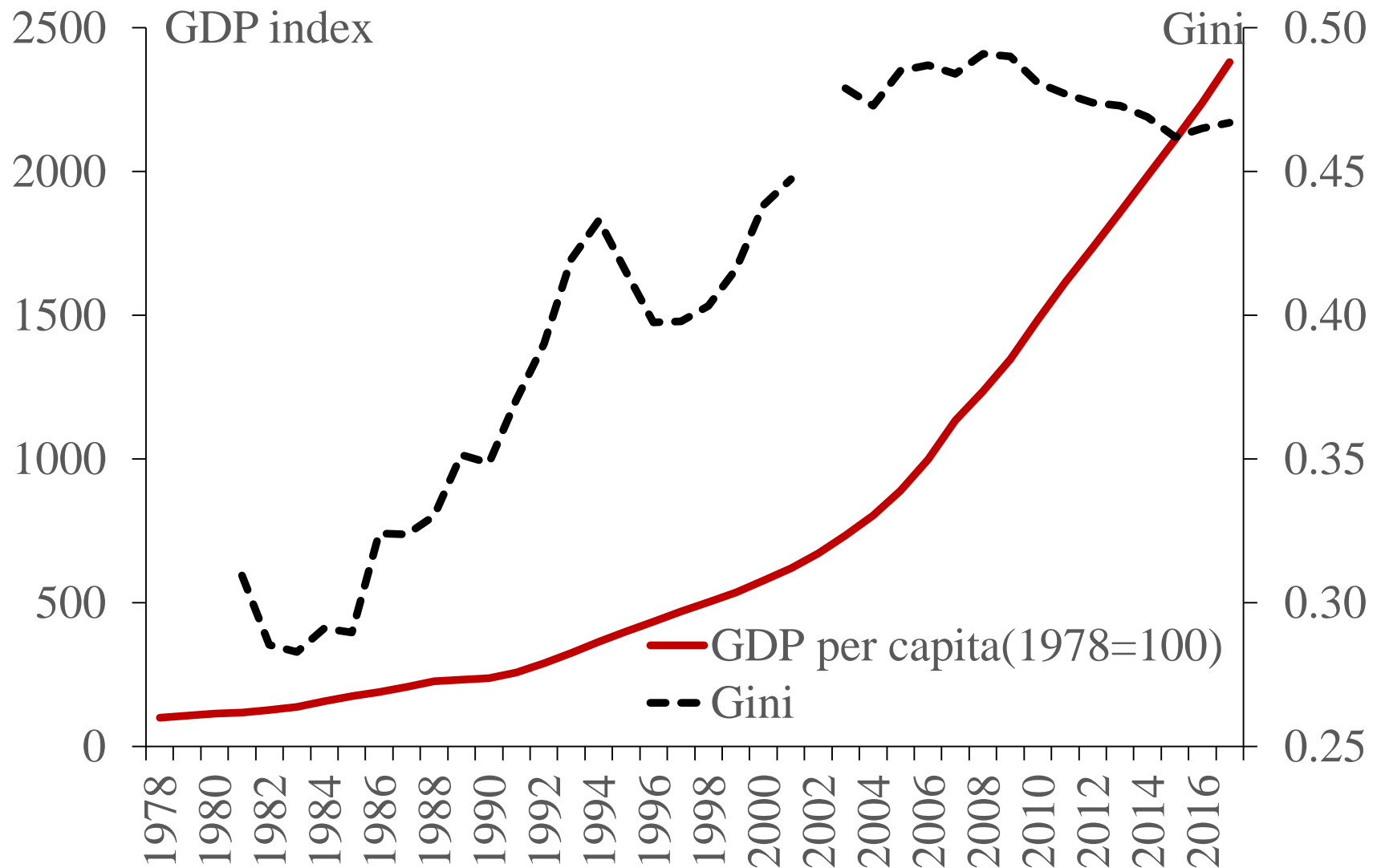


An Introduction to Chinese Economy: growth and inequality

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Two facts about Chinese Economy



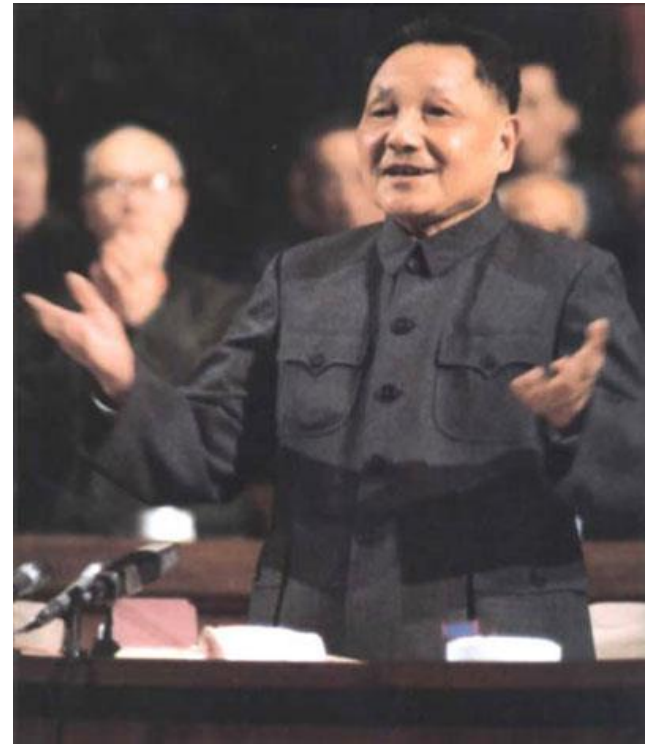
Outline

- Reform
- Growth
- Structure (change)
- Inequality

Reform

Dec 1978: Deng's era began

- **Economic reform initiated**
- **Chinese Communist Party 11th Congress 3rd Plenary Session**
 - Engaging Deng's practical policy, leading to a new principal goal of "Four Modernizations" (农业, 工业, 科技, 军队) ;
- **Deng's basic theories on reform**
 - “务实主义” (Pragmatism)
 - “摸着石头过河” (cross the river by feeling the stones), leading to a reform without clear blueprint at a gradual pace;

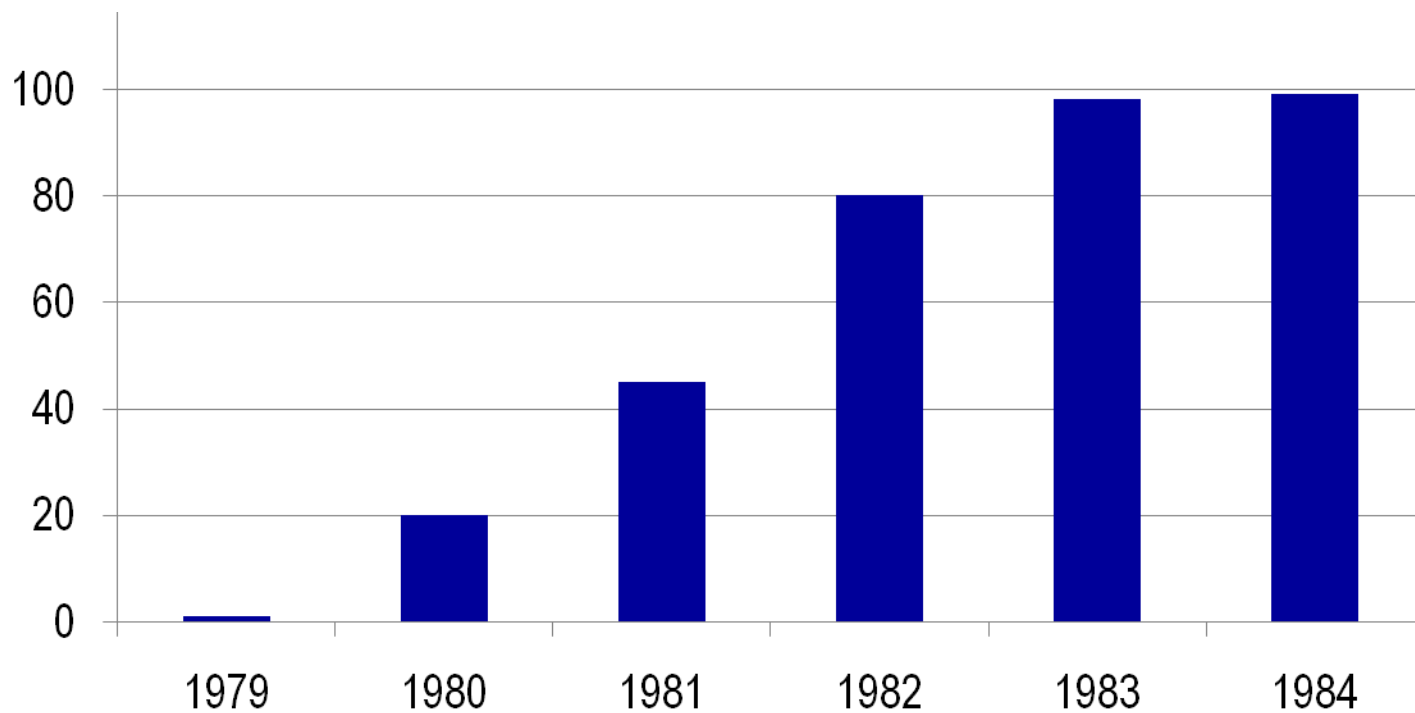


1979-1983: Rural reform to free farmers

- Old system under collective economy with no individual property rights and responsibilities, leading to
 - Little incentives for individual efforts;
 - Poor mechanisms for misallocation of resources
- Breakthrough rural changes: from collective economy to “The household contract responsibility system (HCRS)”, a **bottom-up** approach
 - Grain growth (78-84): 280 to 470 million tons; and income up by 17%;



The rapid transitions to the HCRS



Lin (1992)

1997-2002: the 3rd Generation of Leadership beginning with Jiang ZM

1980s reform

Zhao Ziyang: cautious, consensual decision-making

Introduce markets where feasible; focus on agriculture and industry

Dual-track strategy

Particularistic contracts with powerful incentives

Competition created by entry; no privatization

Decentralize authority and resources

Inflationary economy with shortages

“Reform without losers”

1990s reform

Zhu Rongji: Rapid, personalized decision-making

Strengthen institutions of market economy; focus on finance and regulation

Market unification, unite dual tracks

Uniform rules: “level playing field”

State-sector downsizing; beginnings of privatization

Recentralize resources, macroeconomic control

Price stability, goods in surplus

Reform with losers

Important issues during the transition

- At the beginning of 1980s
 - The household contract responsibility system
 - Development of private sector in urban
- Dual-tracks prices
- Socialist market-economic system, 1992 by Deng's South Tour Speeches
- Later 1990s, restructure on SOE, marketization on housing, health care
- WTO entrance, 2002
- 4-trillion stimulation packages, 2008
-

Growth

Changes in Shenzhen

A small fishing village, 40yrs ago



A developed city filled with skyscrapers, today





90年代前

- Pudong, Shanghai
before 1990s



90年代初

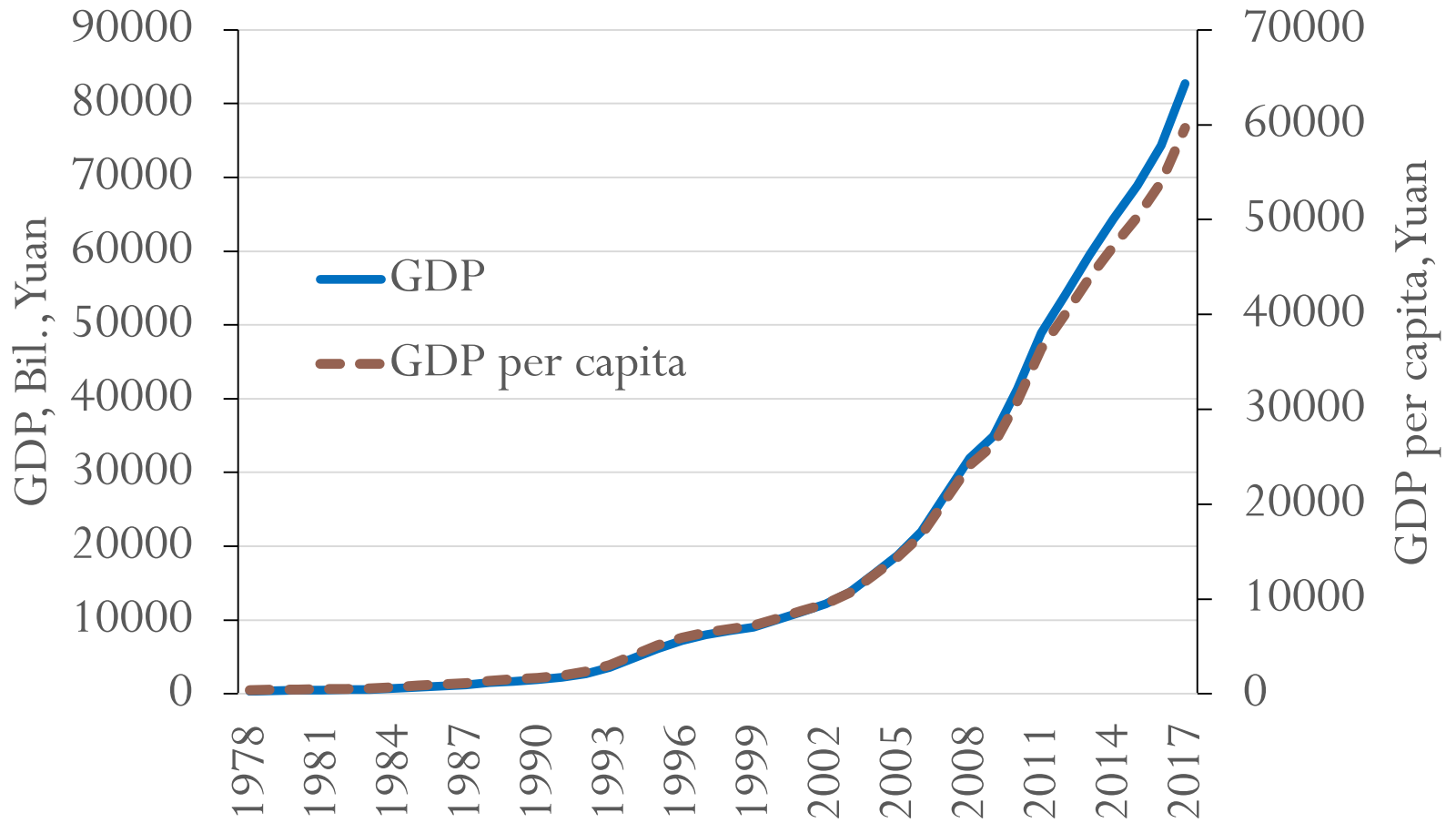
- Pudong, Shanghai
at the beginning of 1990s



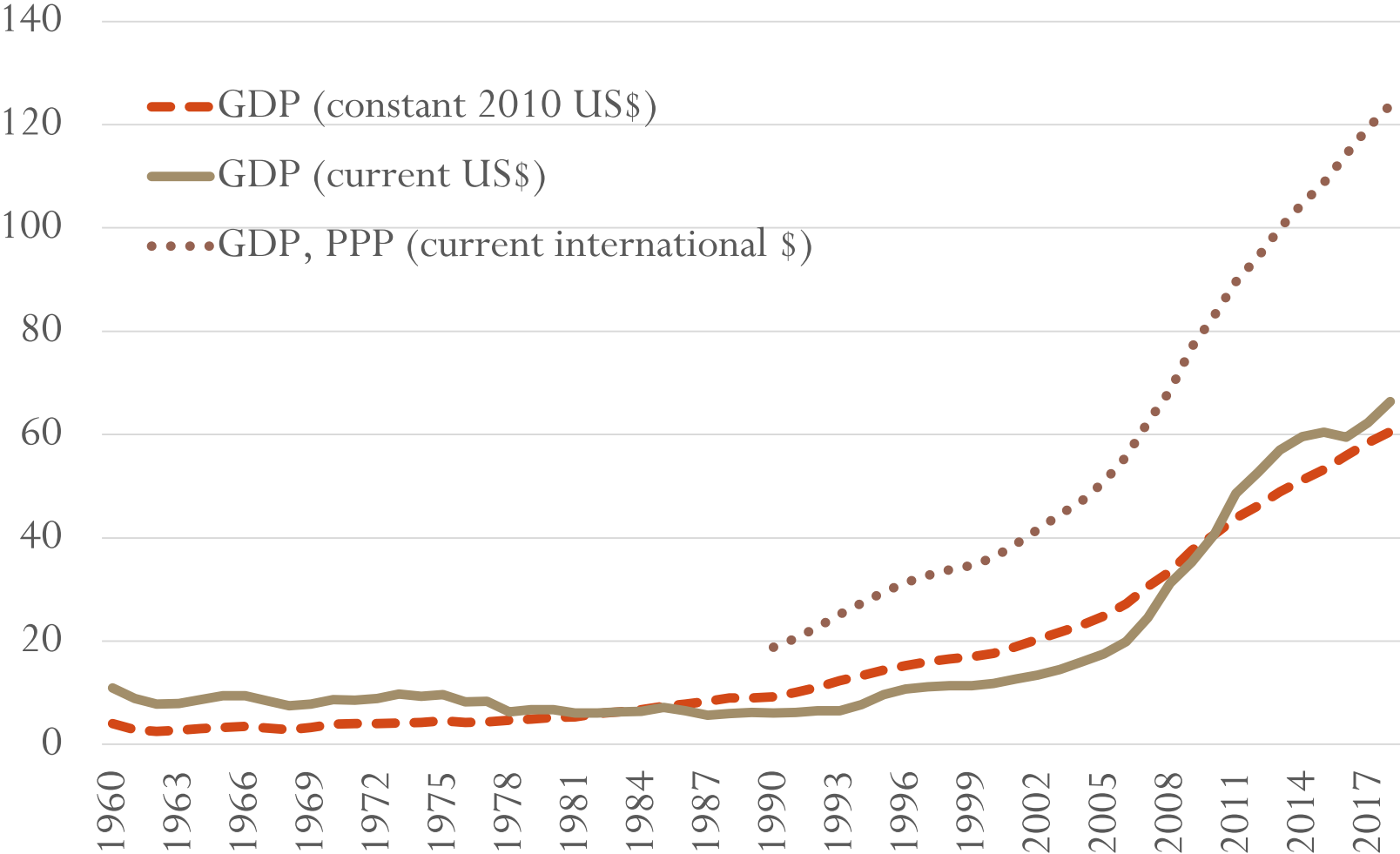
2009年

- Pudong, Shanghai
2009

GDP and GDP per capita

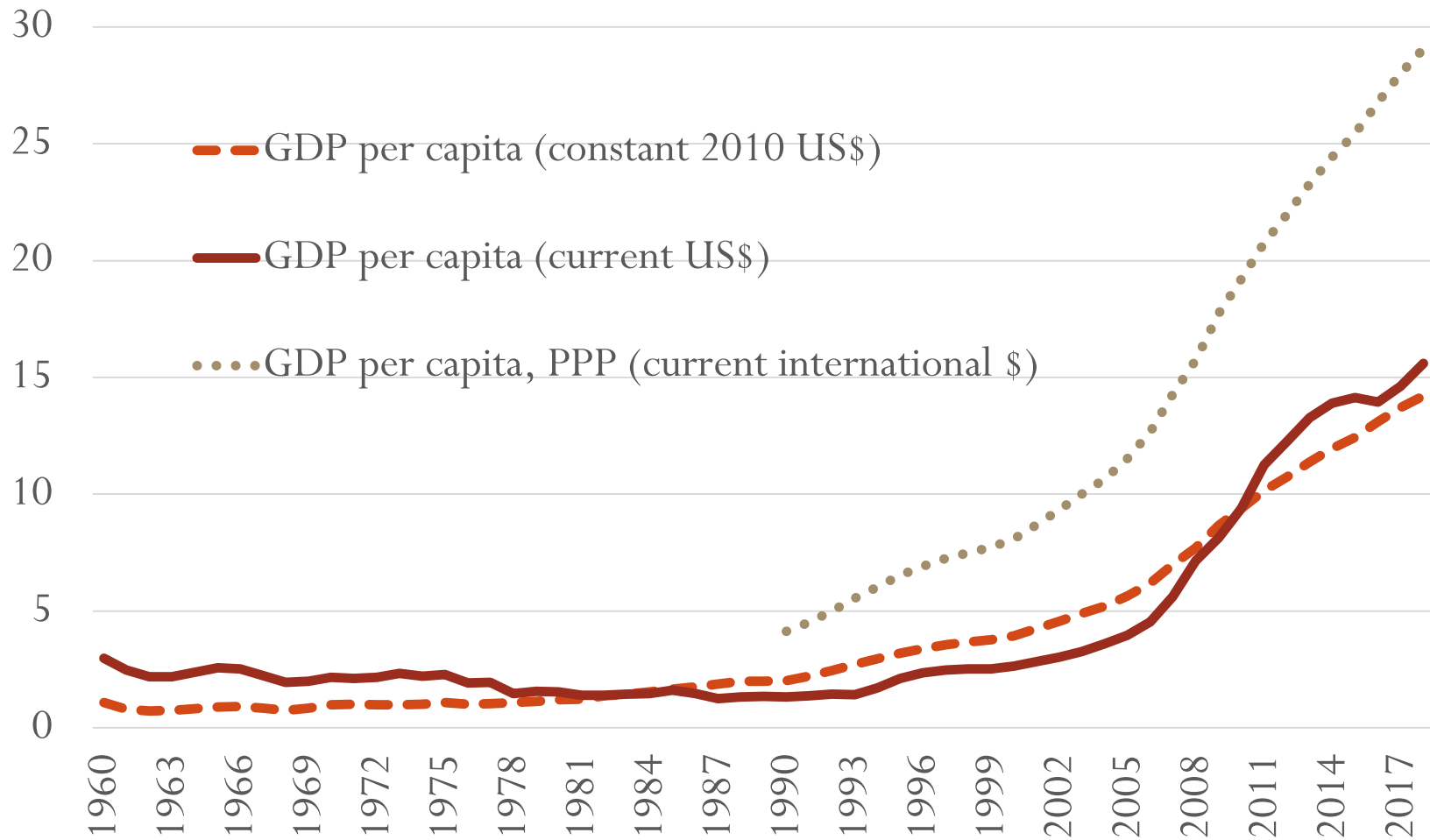


China's relative GDP to US



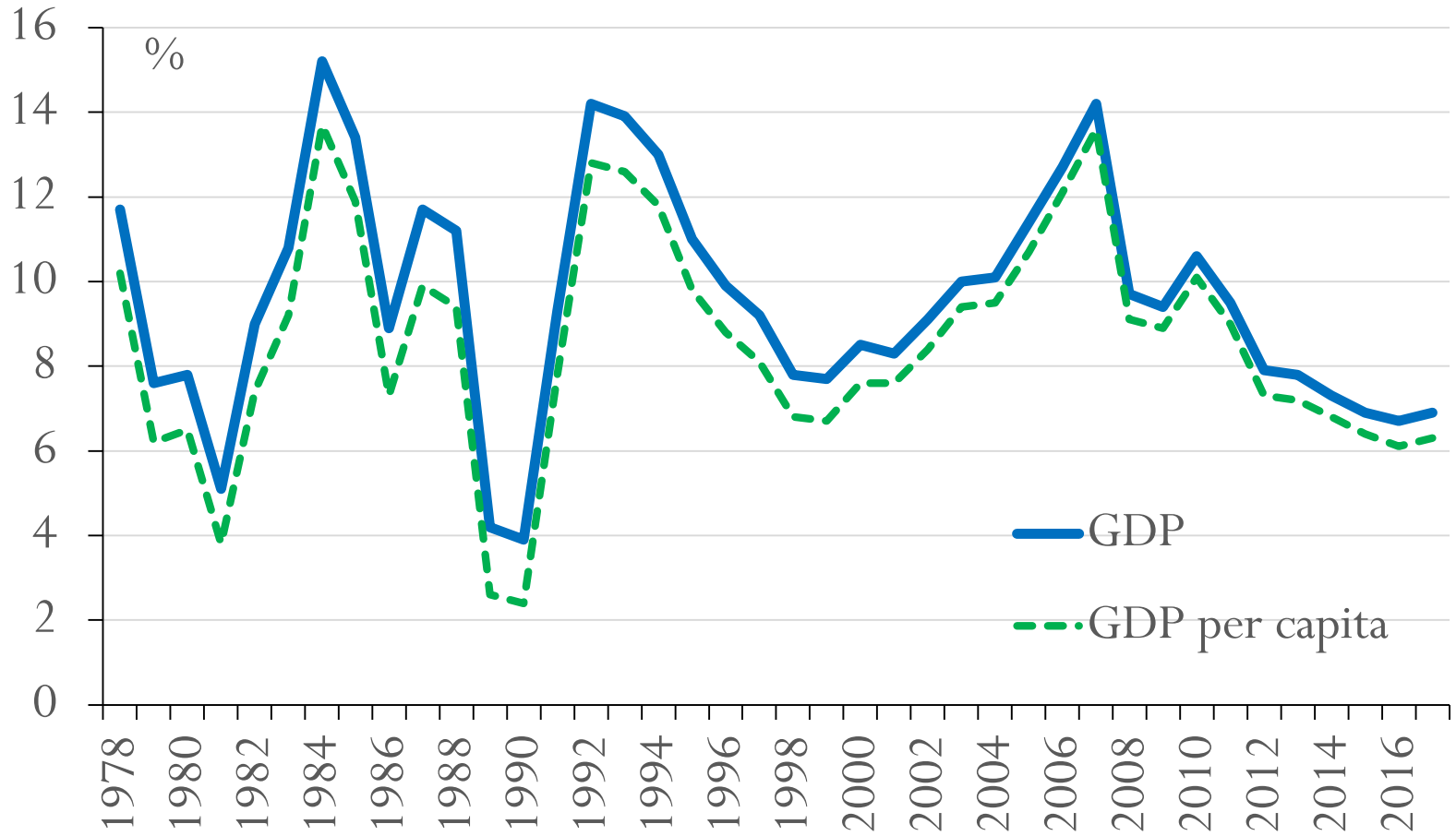
● Source: World Databank (World Bank).

China's relative GDP per capita to US

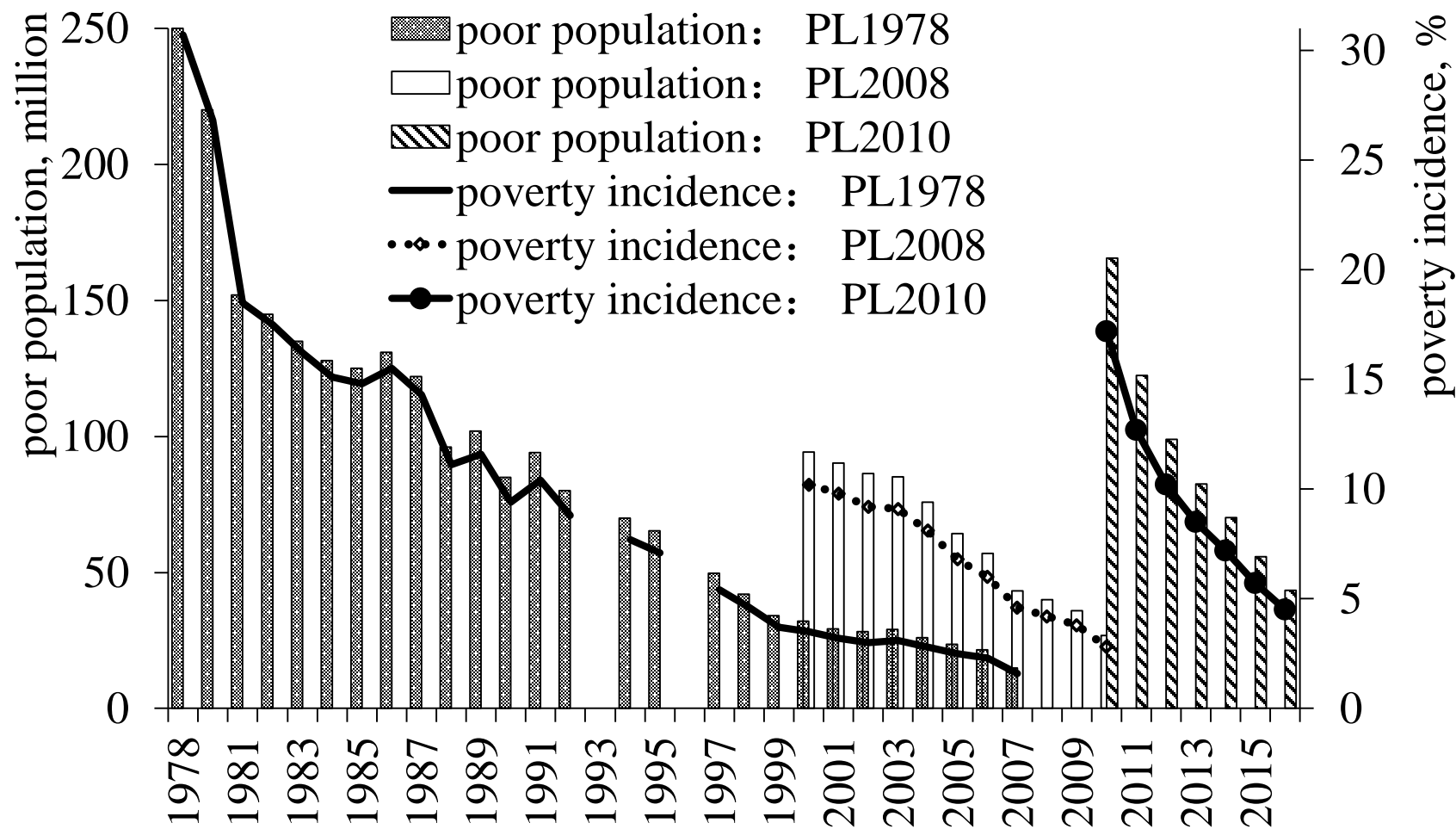


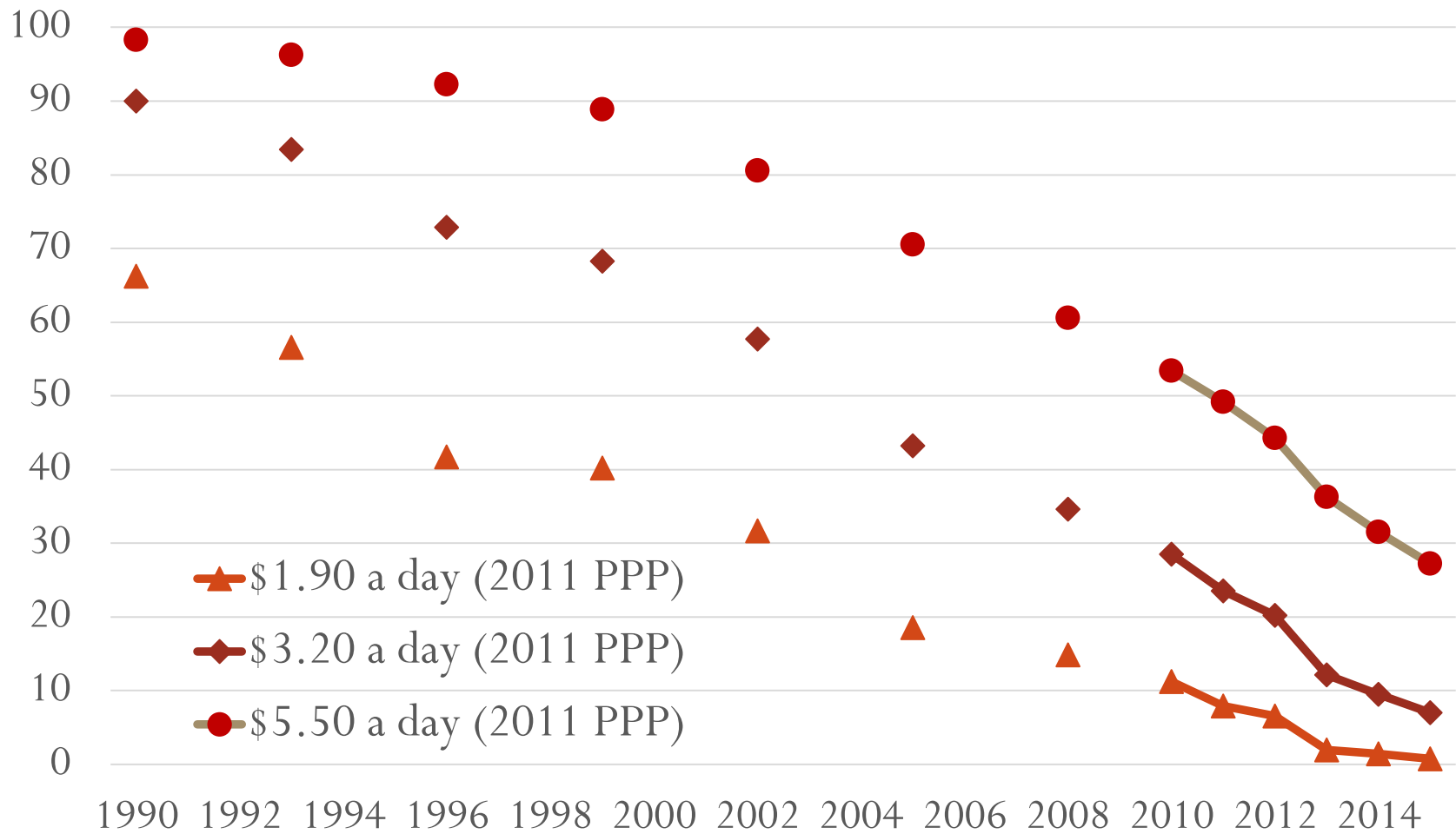
■ Source: World Databank (World Bank).

Chinese Real GDP Growth Rate



Poverty reduction in rural China





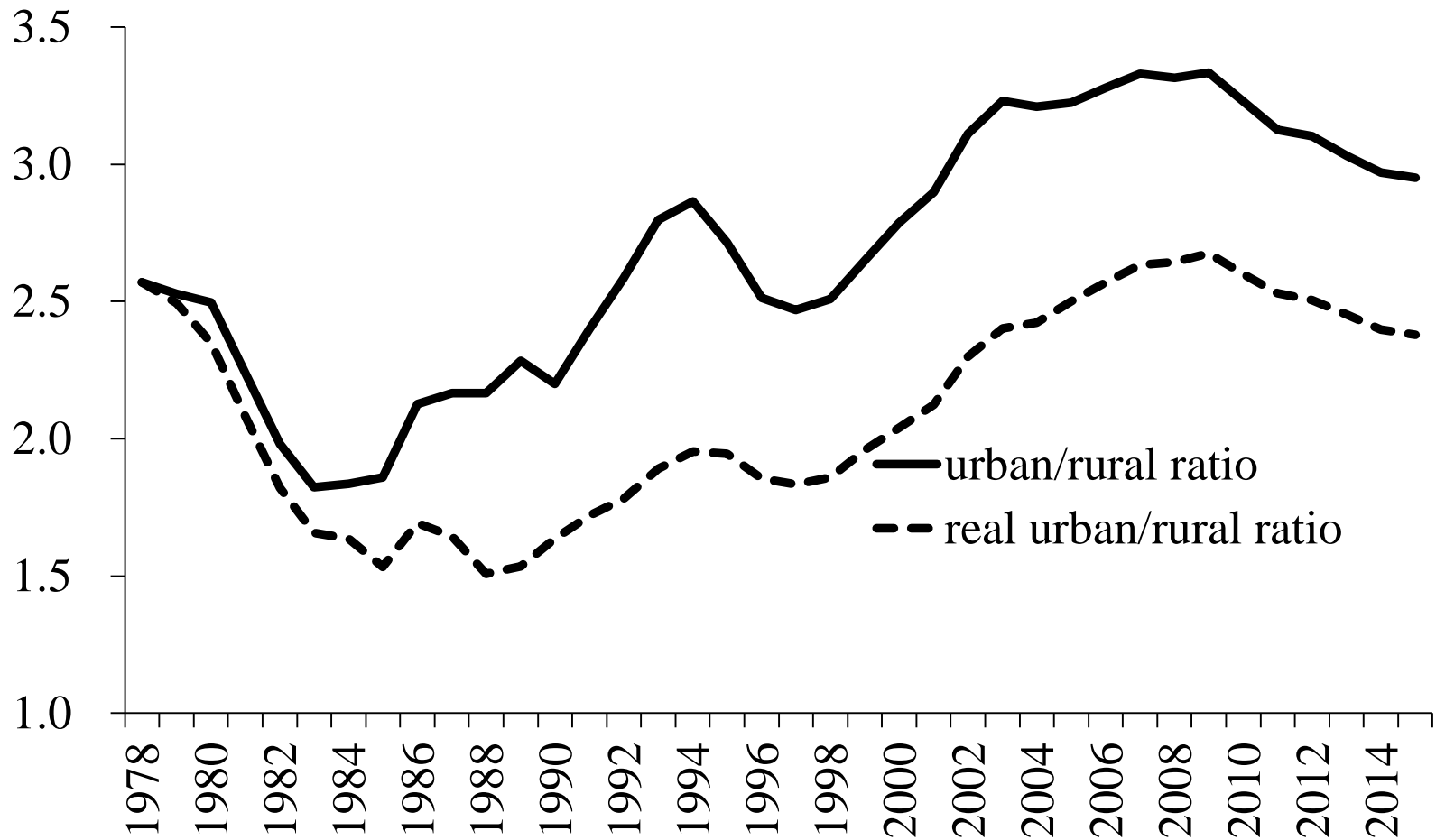
Structure

- Urban-rural division and urbanization
- Industrial structure
- Aggregate demand structure
- Ownership
- Population
- Openness

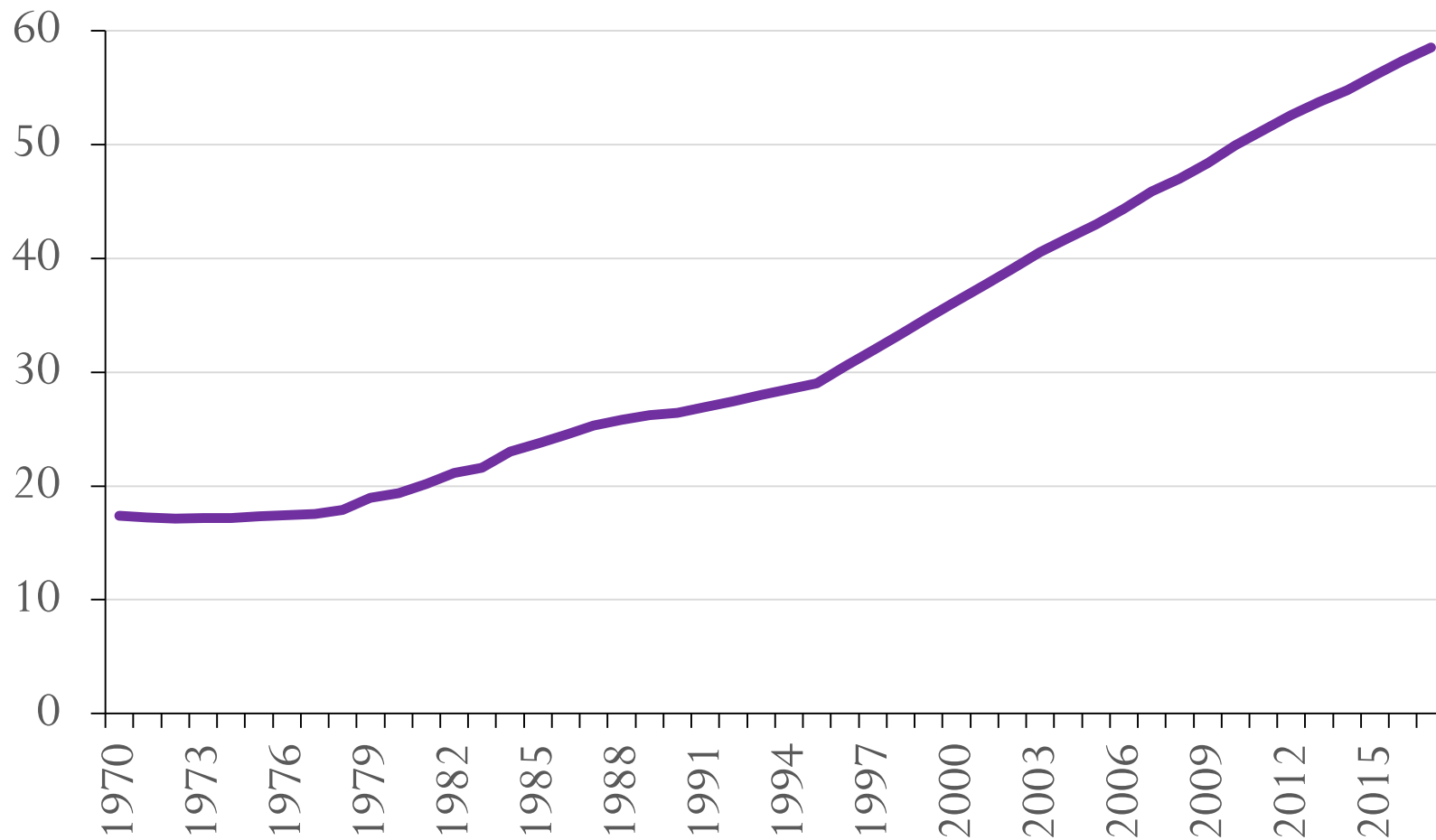
Urban-rural division and urbanization

- Household registration system (Hukou)
 - Sourced from the planned economy for the purpose of industrialization
- Urban-rural division in job opportunity, social security, and so on
- Large urban-rural income ratio
 - Changes according to the urban-rural development policies
- Urbanization
 - Migration (rural people → urban area) and urbanization of communities (rural area → urban area)
 - Declined proportion of rural population
 - Declined proportion of agriculture employment

Urban-rural income ratio

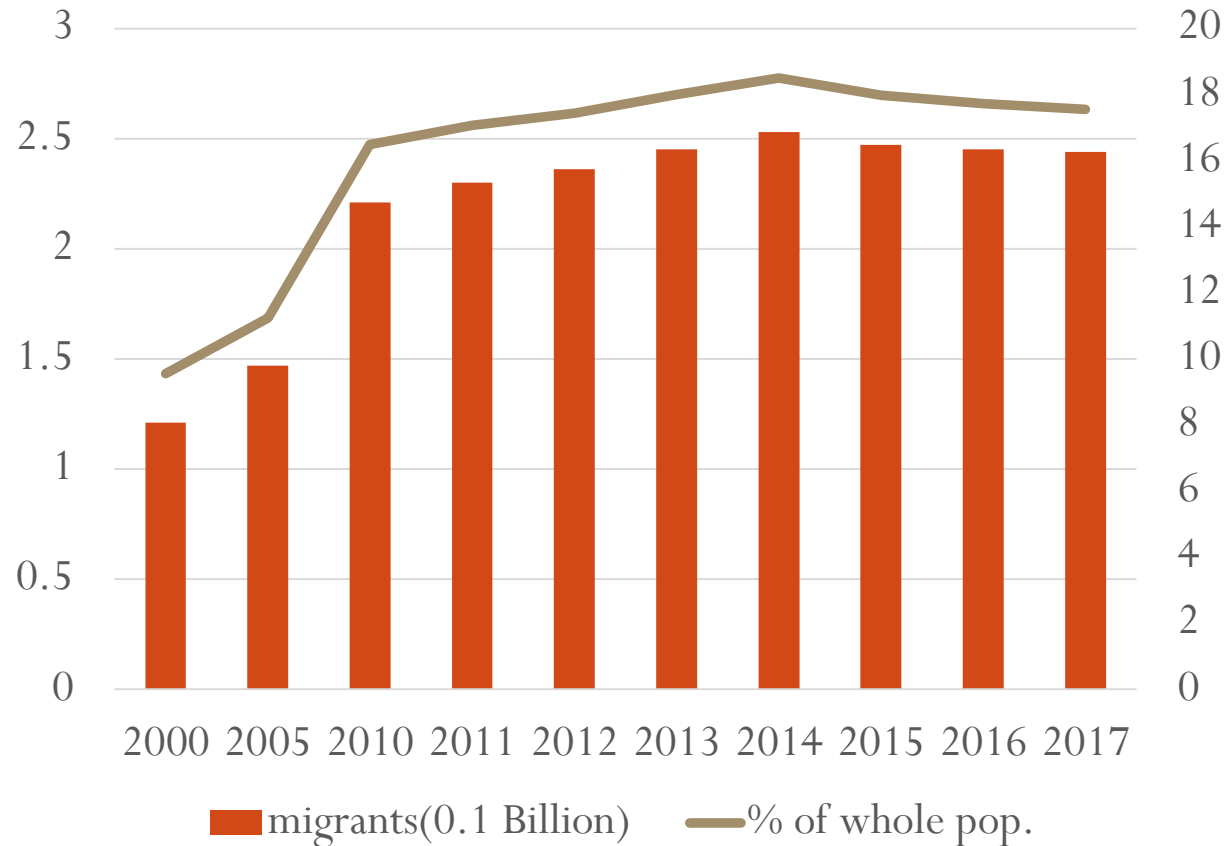


Urbanization (%)

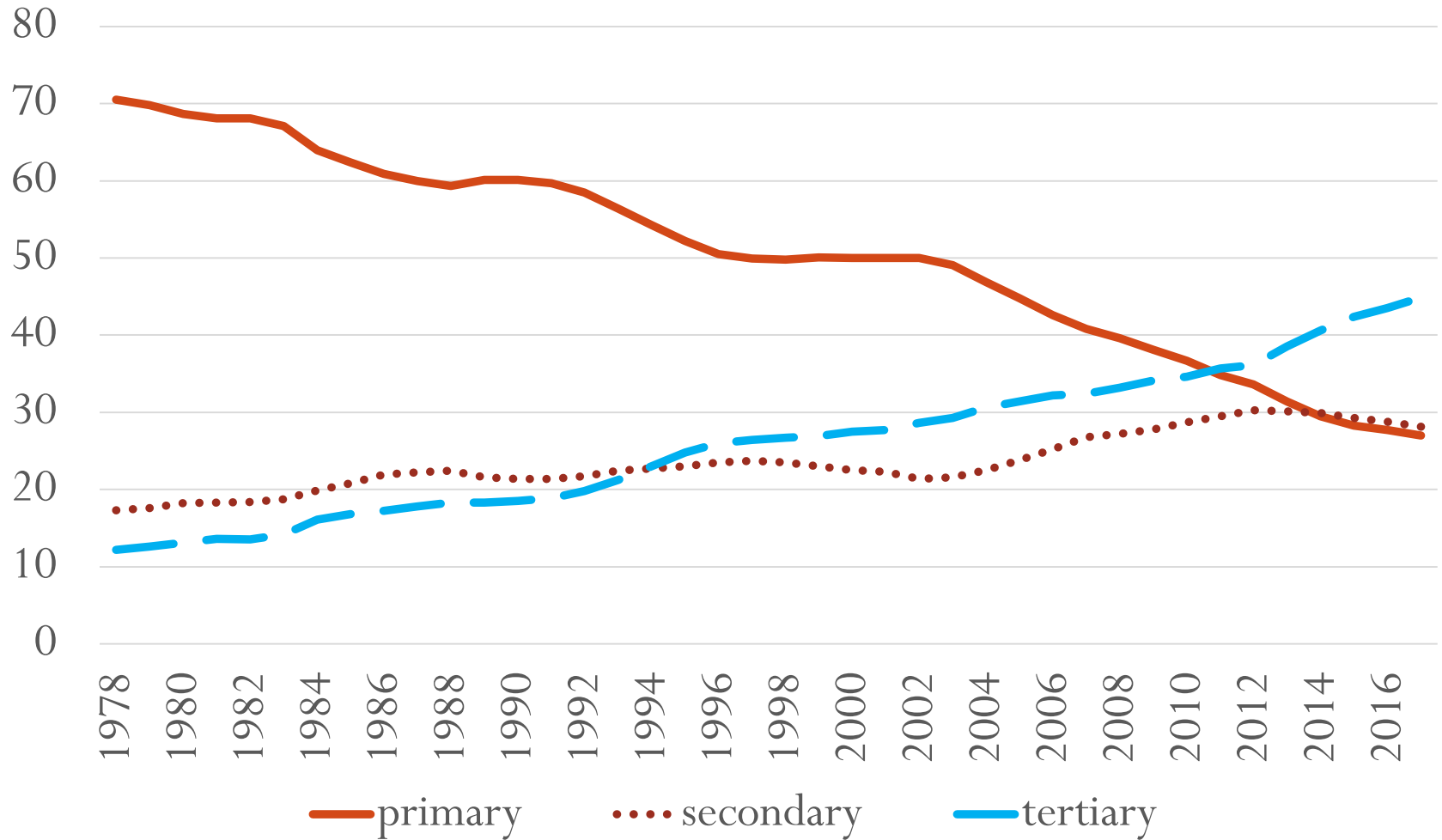


Guest worker and challenges on development

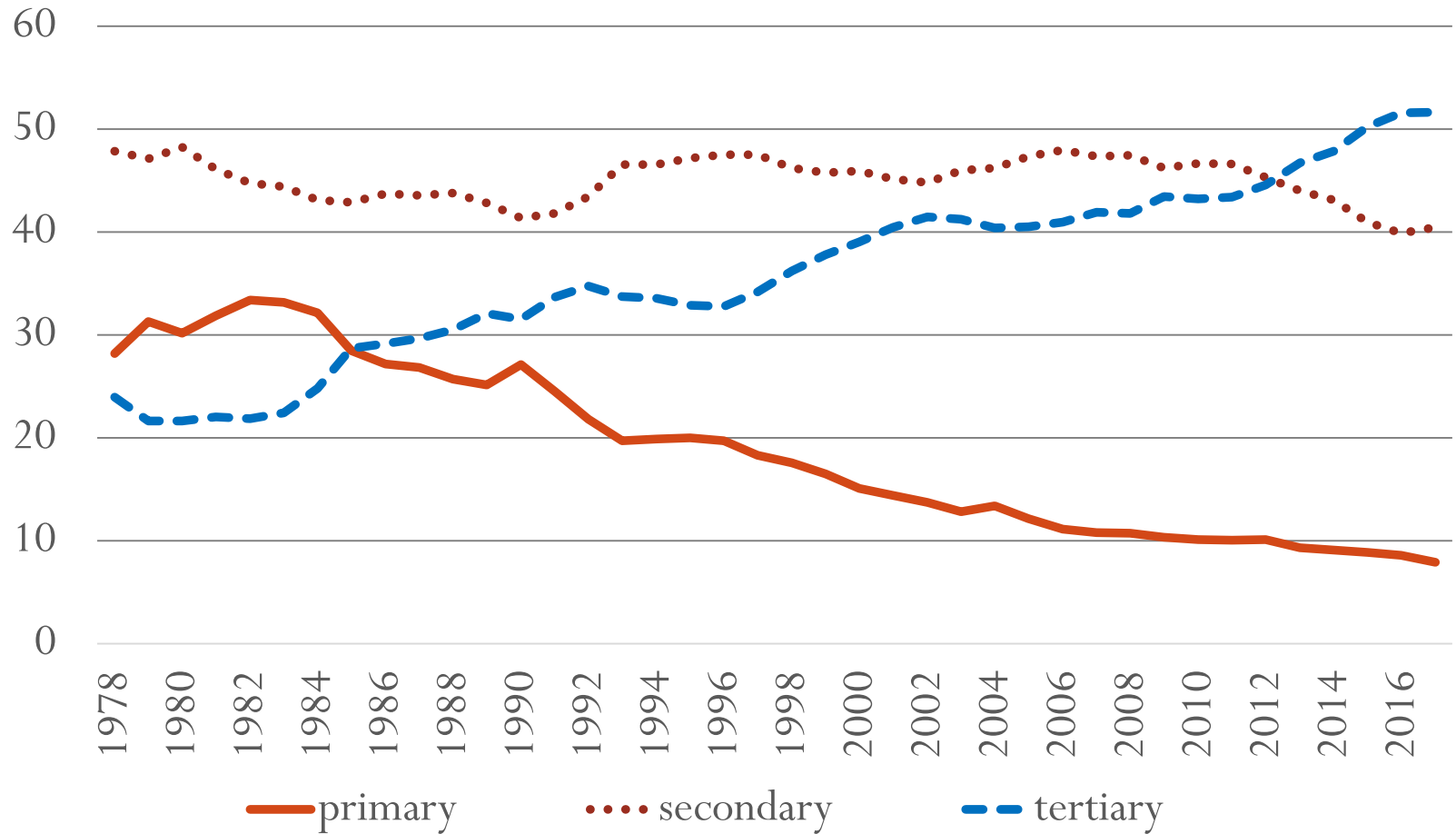
- Leaving the farm: large scale migration and urbanization
- left behind Children in Rural China
- Property right reform on land



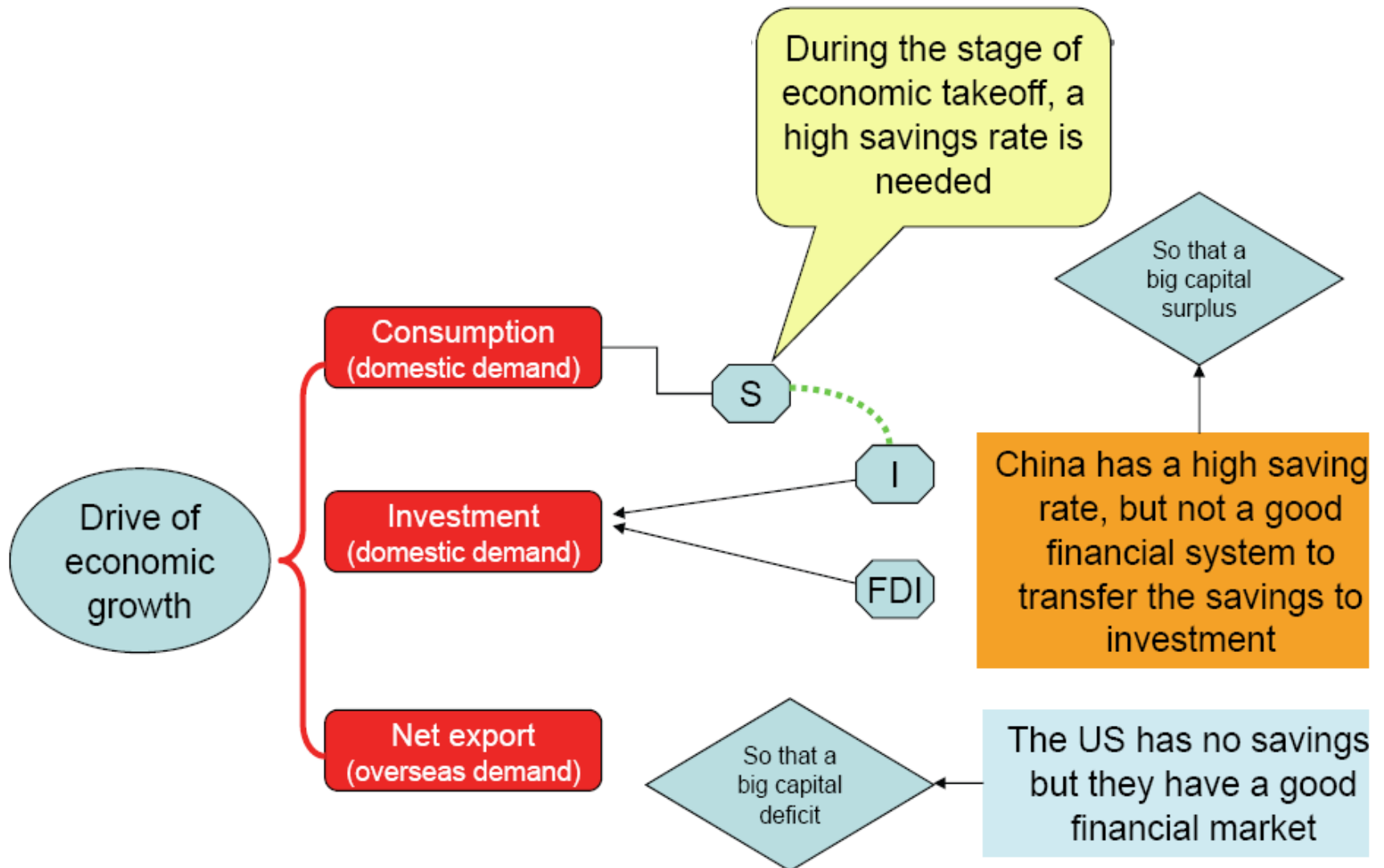
Industrial structure: employment, %



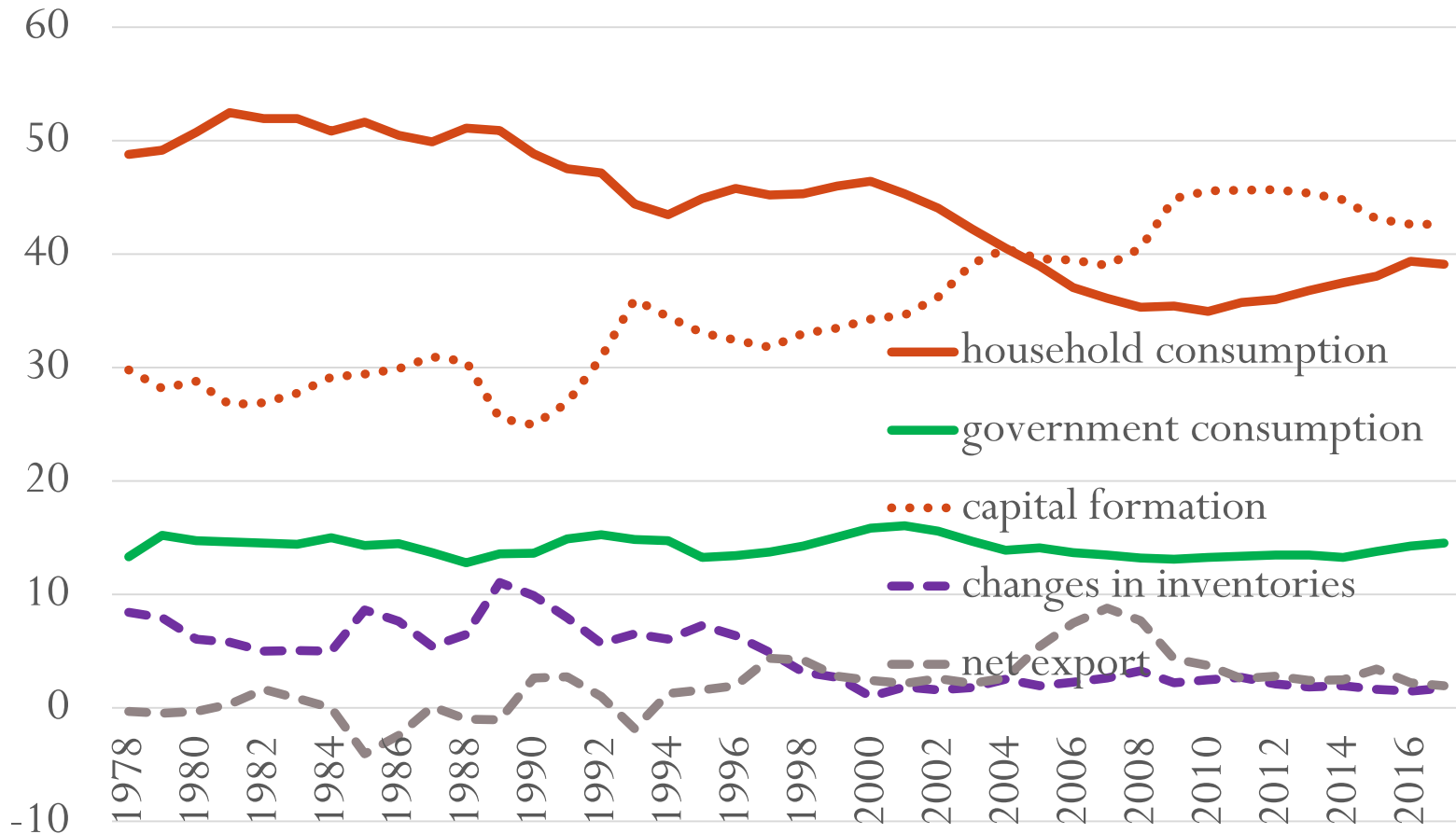
Industrial structure: GDP composition, %



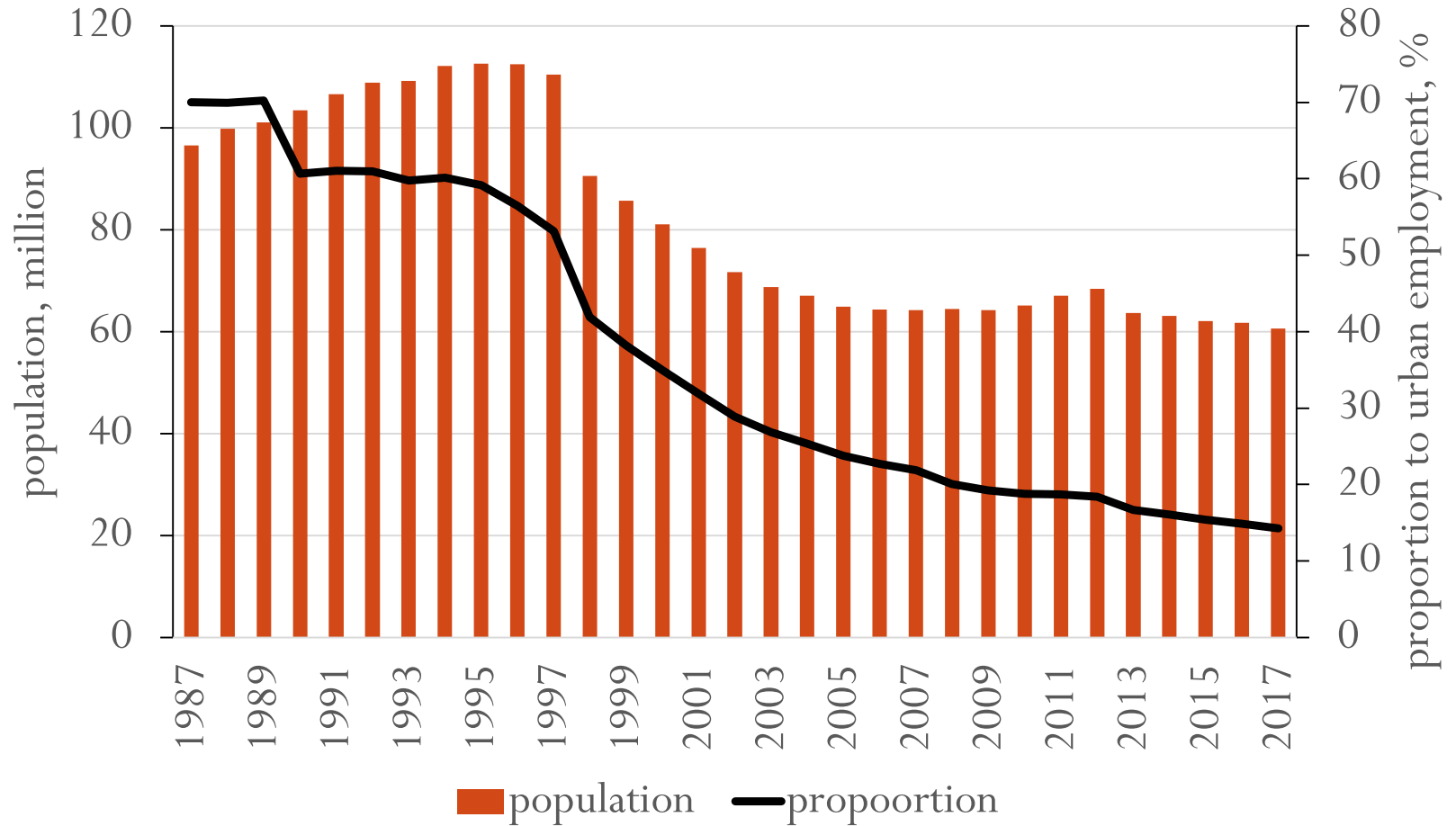
Understand the aggregate demand structure



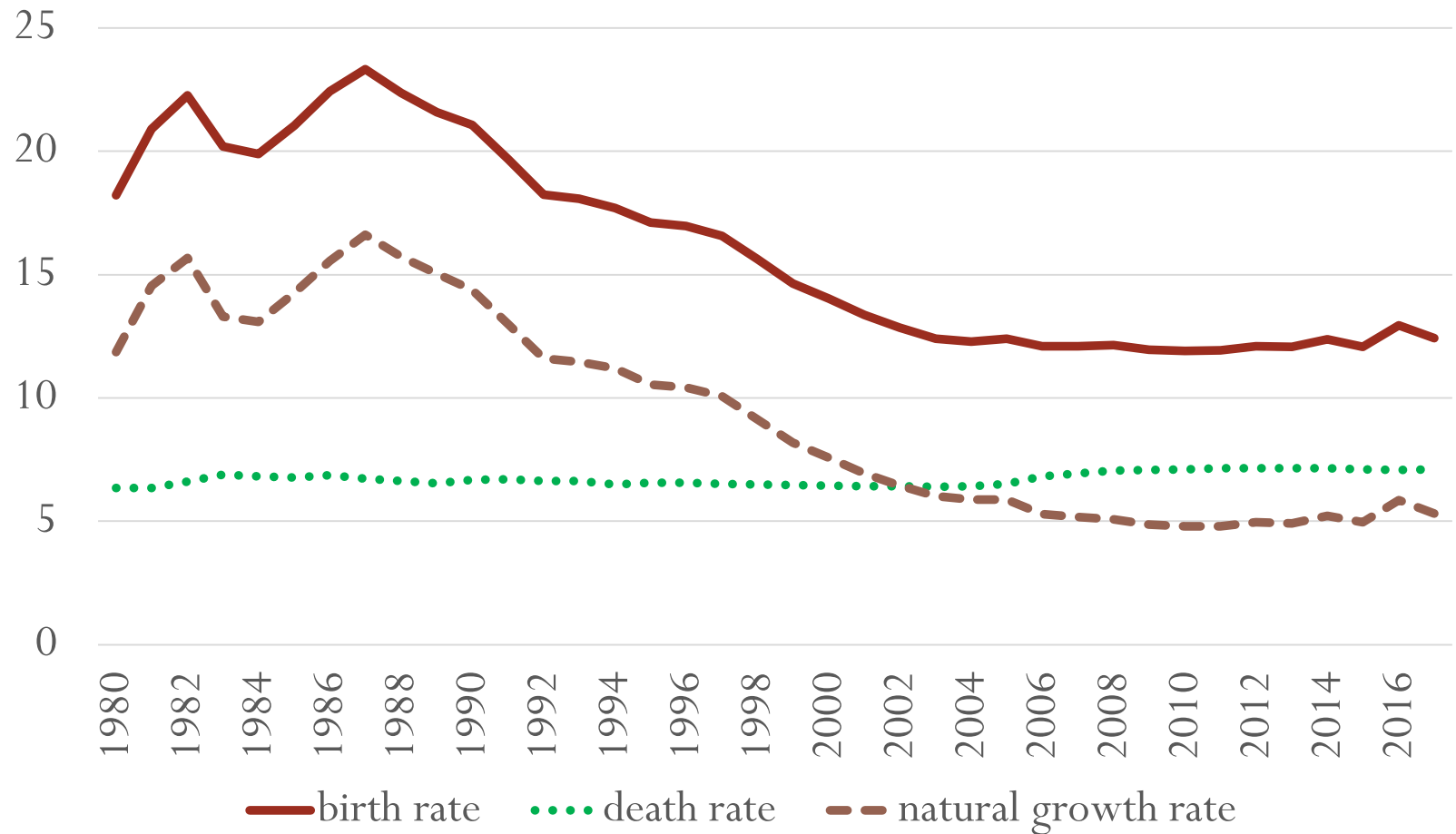
GDP composition, %



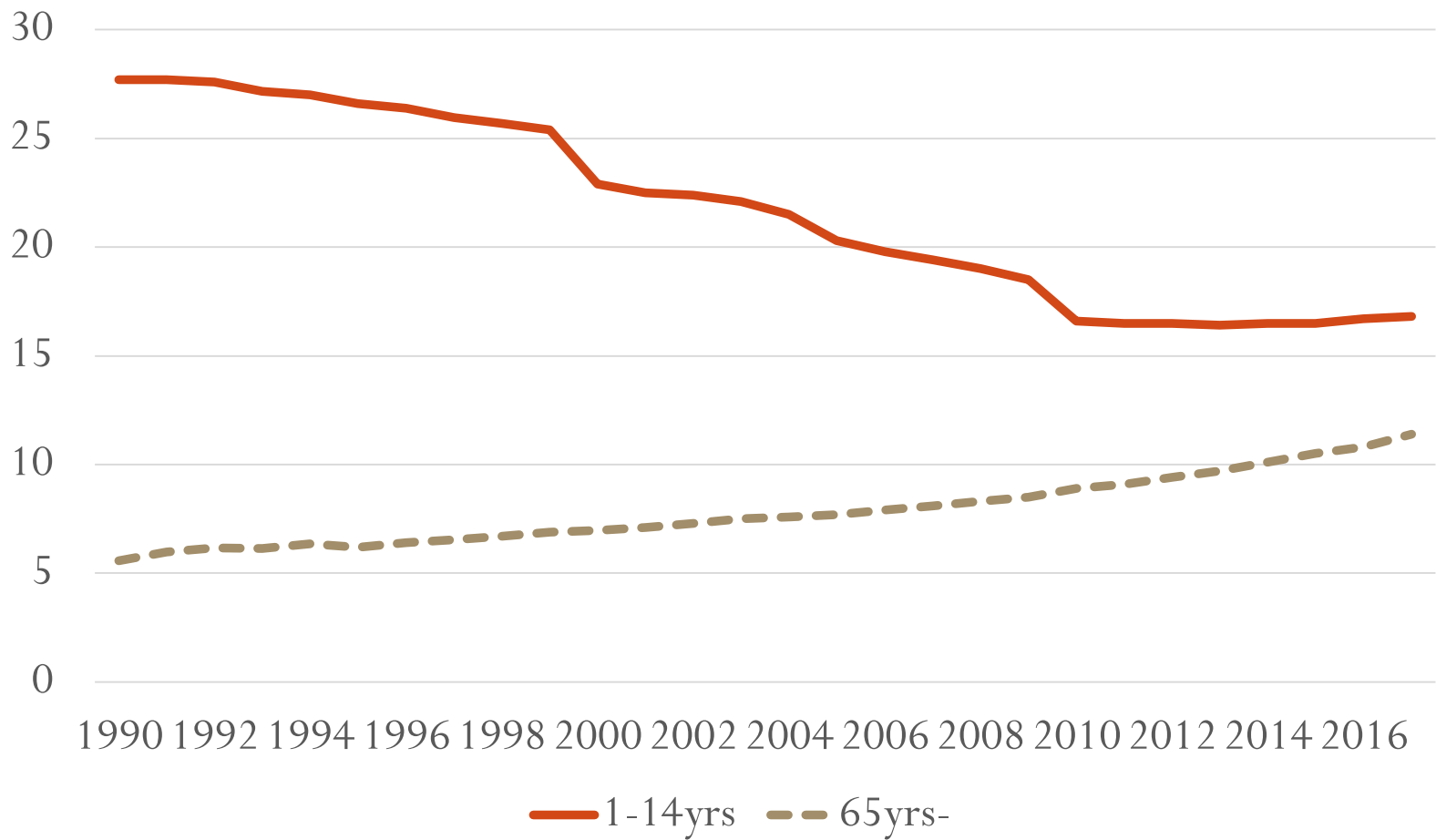
Employment in state-owned sector



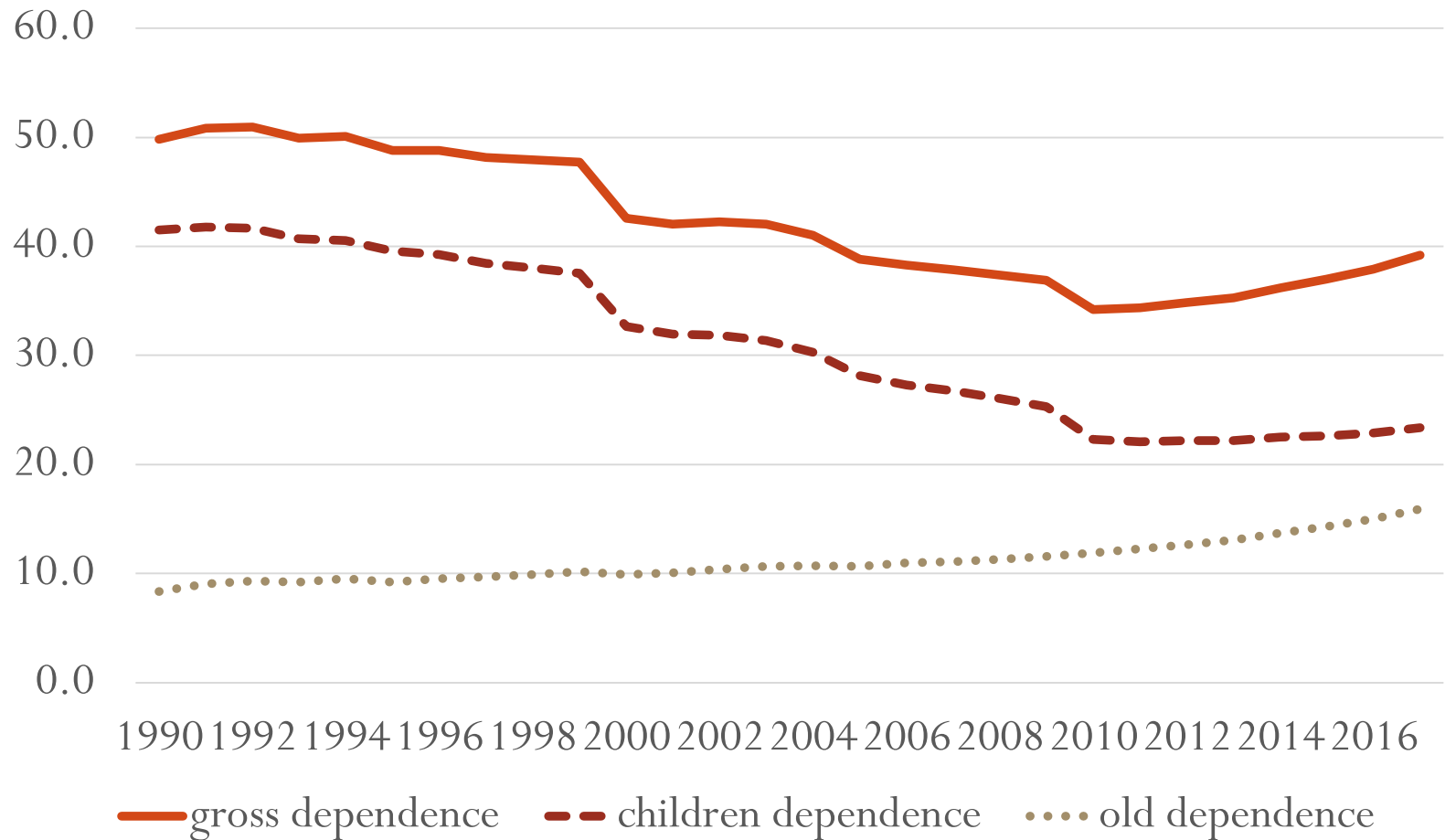
Population structure (potential labor supply), growth rate ‰



Population structure (potential labor supply), age structure %



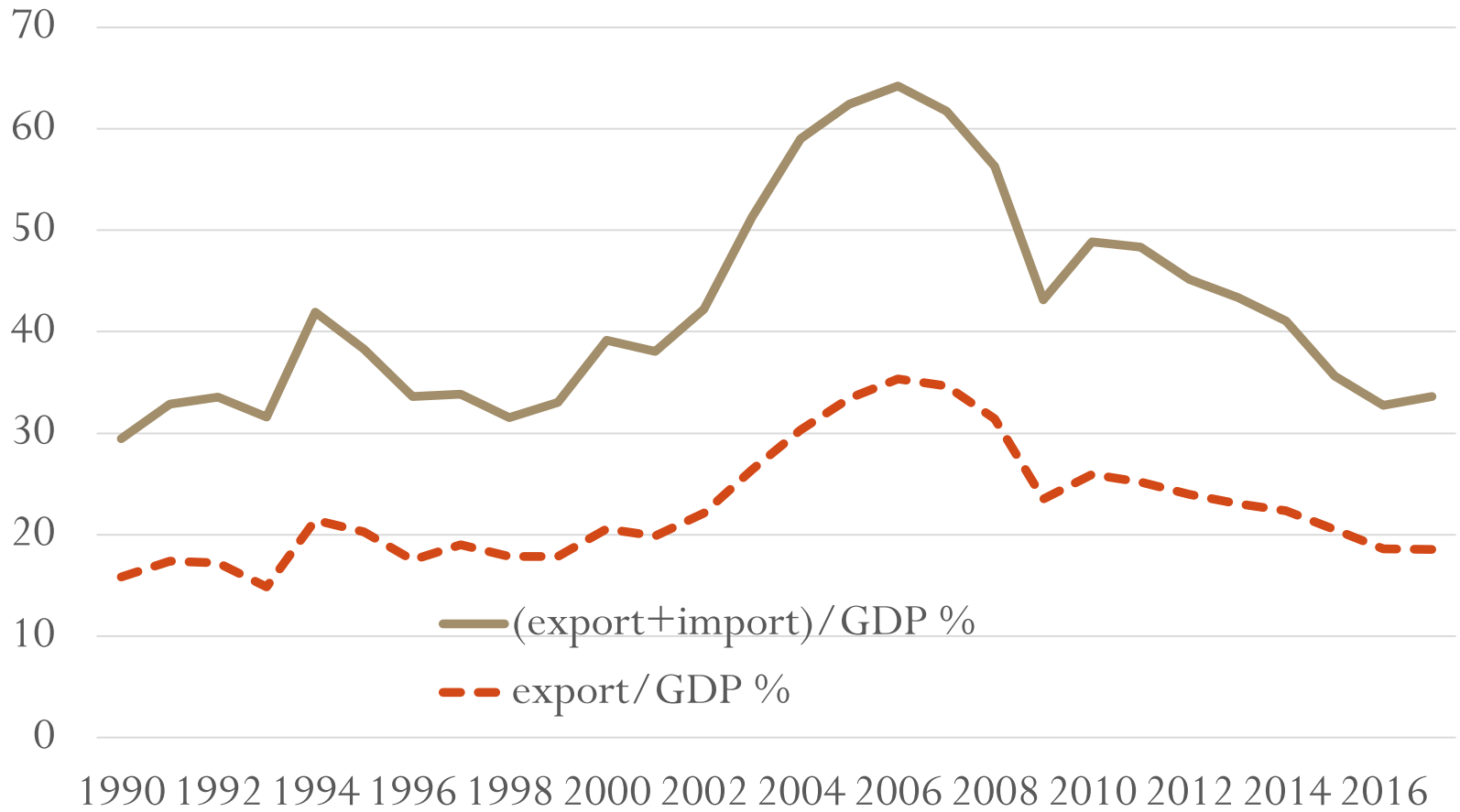
Population structure (potential labor supply), dependency %

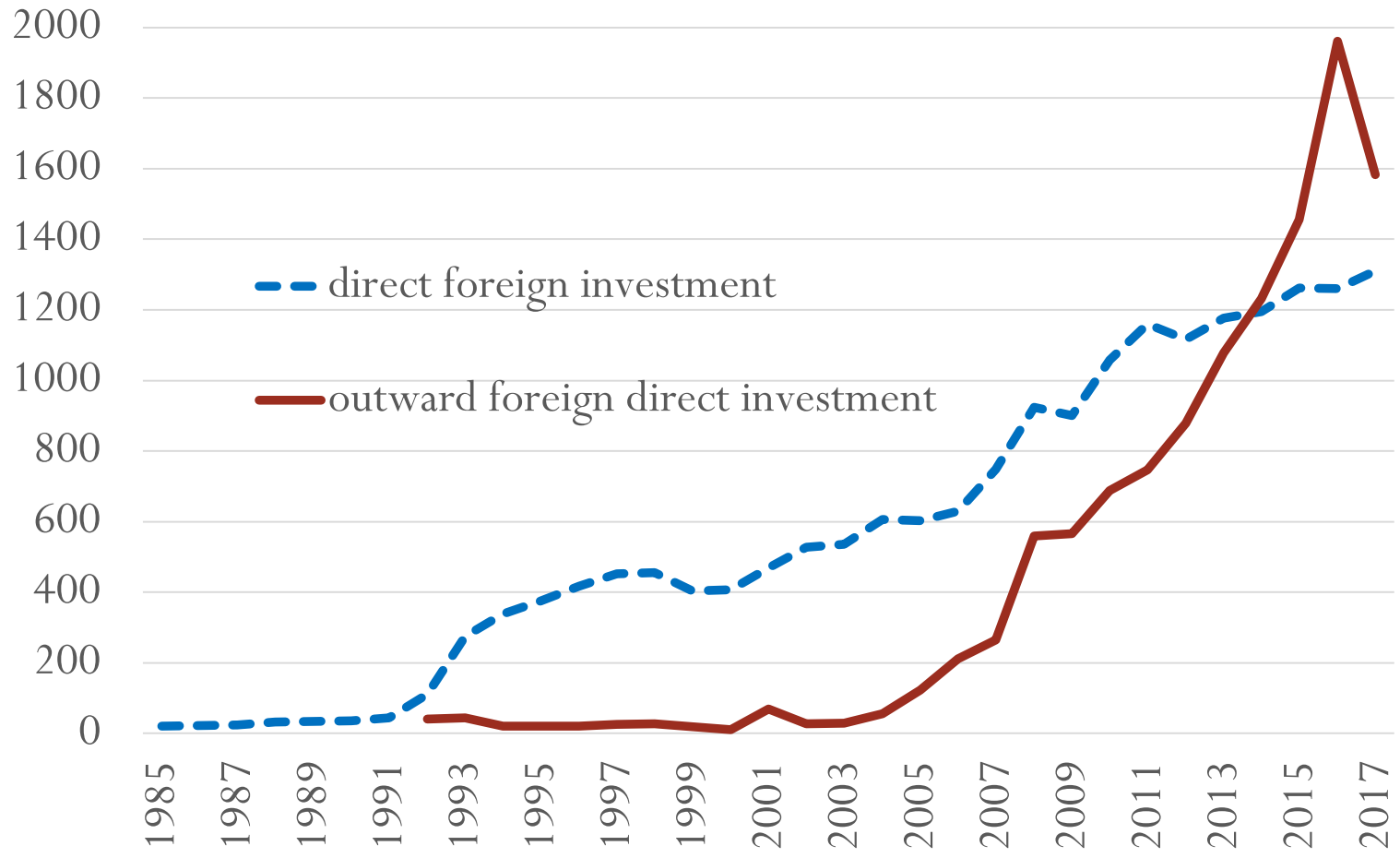


Openness– Reform of Trade System

- Before 1978, foreign trade was under strict state control
 - – state trading system
 - – high tariff rate
 - – numerous non tariff barriers
- Reform before WTO accession
 - – liberalizing the state trading system
 - – eliminating trade barriers
- After WTO accession
 - – tariff reduction

Openness





Inequality

retreat from an equal society

- Income and wealth distributions are very unequal
- Inequality increased dramatically
- Gini coefficient of income hovers (0.46-0.48) since 2008
- Housing value contributes 64% of the wealth inequality

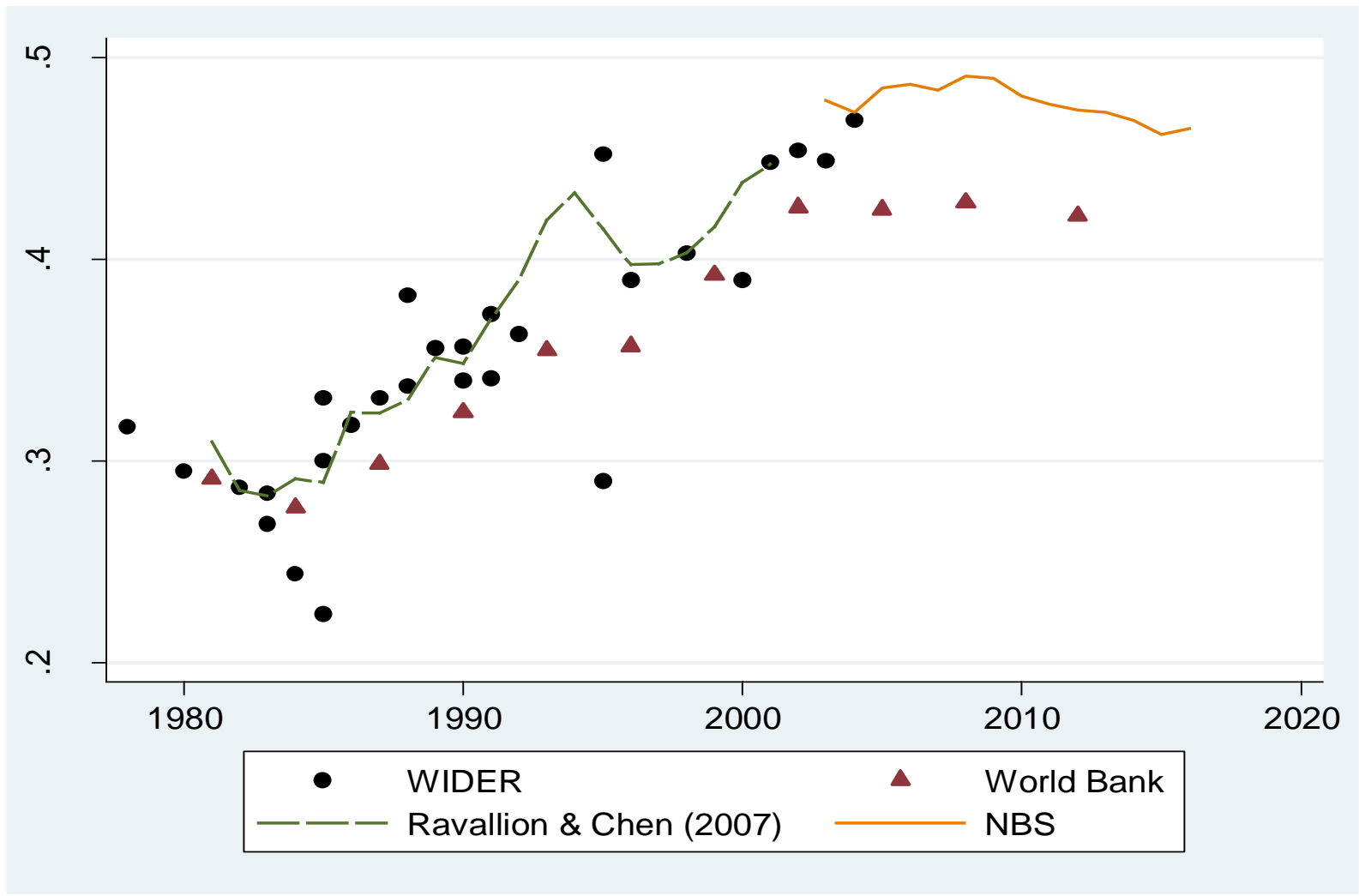
- Egalitarianism in the era of planned economy

Income Gini at the end of 1970s

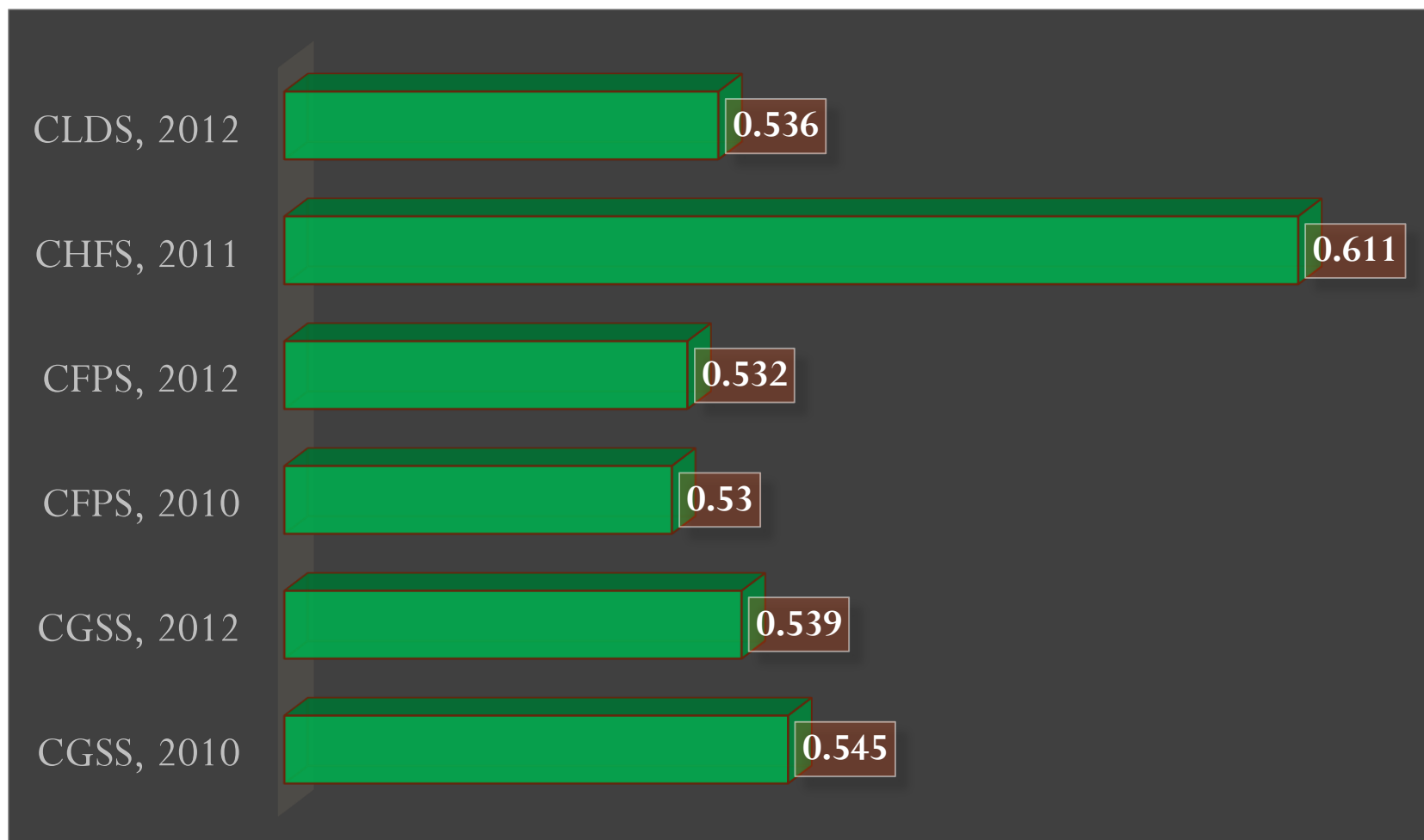
| Urban | Rural | National | Source |
|--------------|--------------|------------|--------------------------|
| 0.16 (1980) | 0.31 (1979) | 0.33(1979) | World Bank, 1983 |
| 0.185 (1980) | 0.237 (1978) | | Li Chengrui, 1986 |
| 0.16 (1978) | 0.212 (1978) | | Ren and Chen, 1996 |
| 0.165 (1978) | 0.222 (1978) | | Irma Adelman et al. 1987 |

Gini for some Asian countries

| Country | Indian (1975/76) | Bangladesh (1985/86) | Indonesia (1976) | Thailand (1975/76) | Philippines (1985) | Korean (1971) |
|----------|---------------------|-------------------------|---------------------|-----------------------|-----------------------|------------------|
| Rural | 0.34 | 0.36 | 0.40 | 0.39 | 0.37 | 0.325 |
| Urban | | 0.37 | | | | |
| national | 0.42 | 0.37 | | 0.47 | 0.43 | 0.36 |

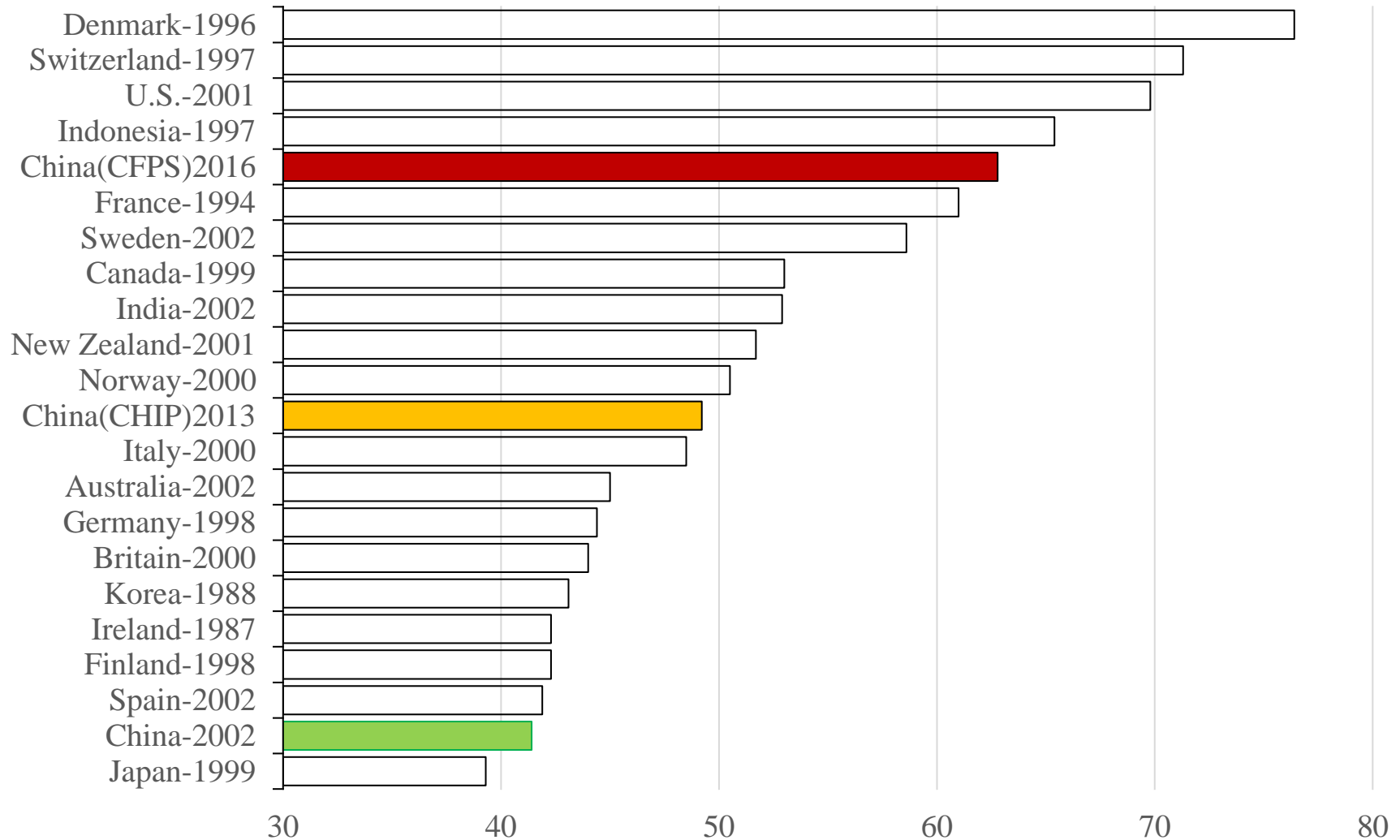


Other estimates on income Gini

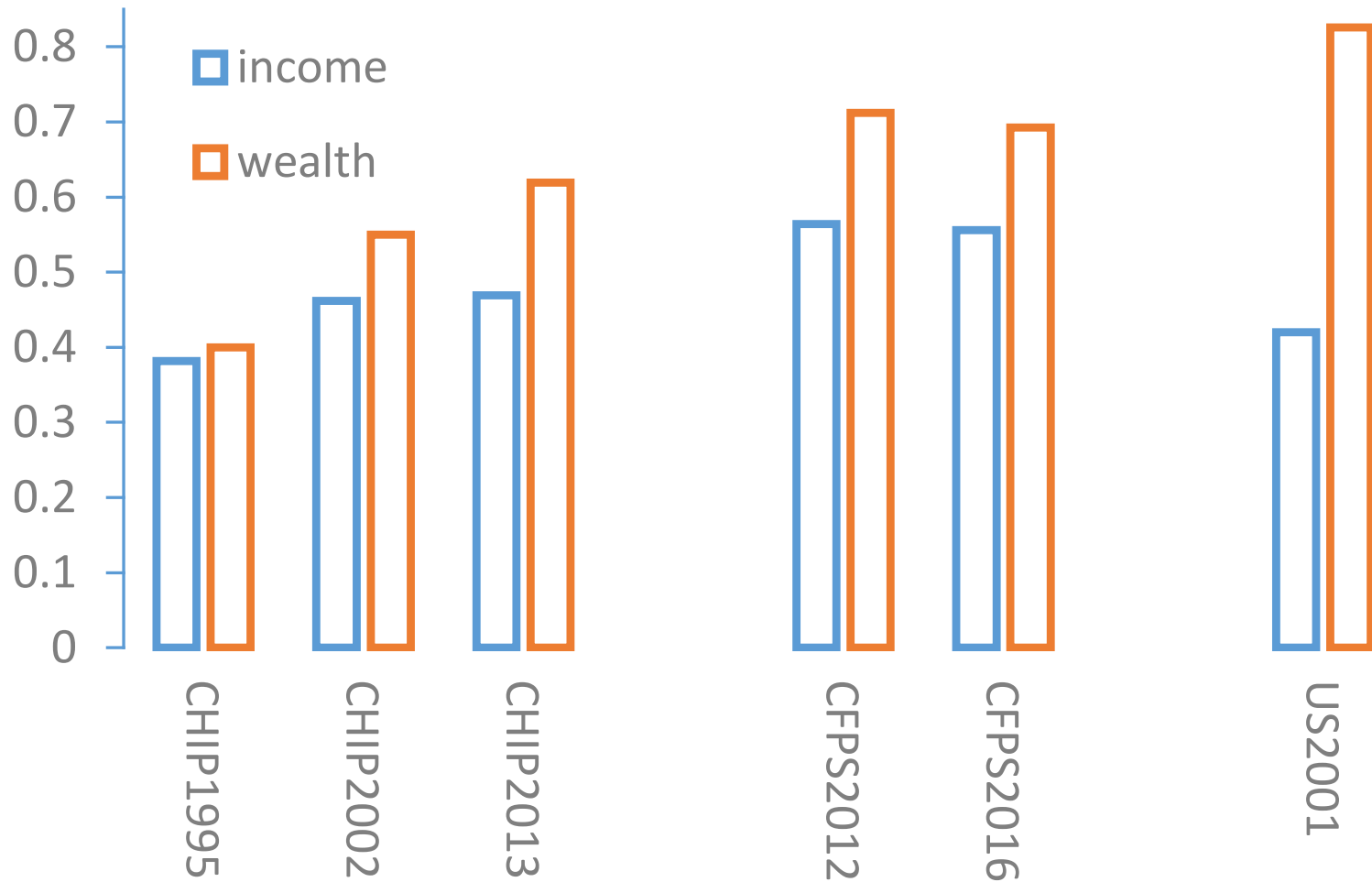


Source: Xie and Zhou, 2014

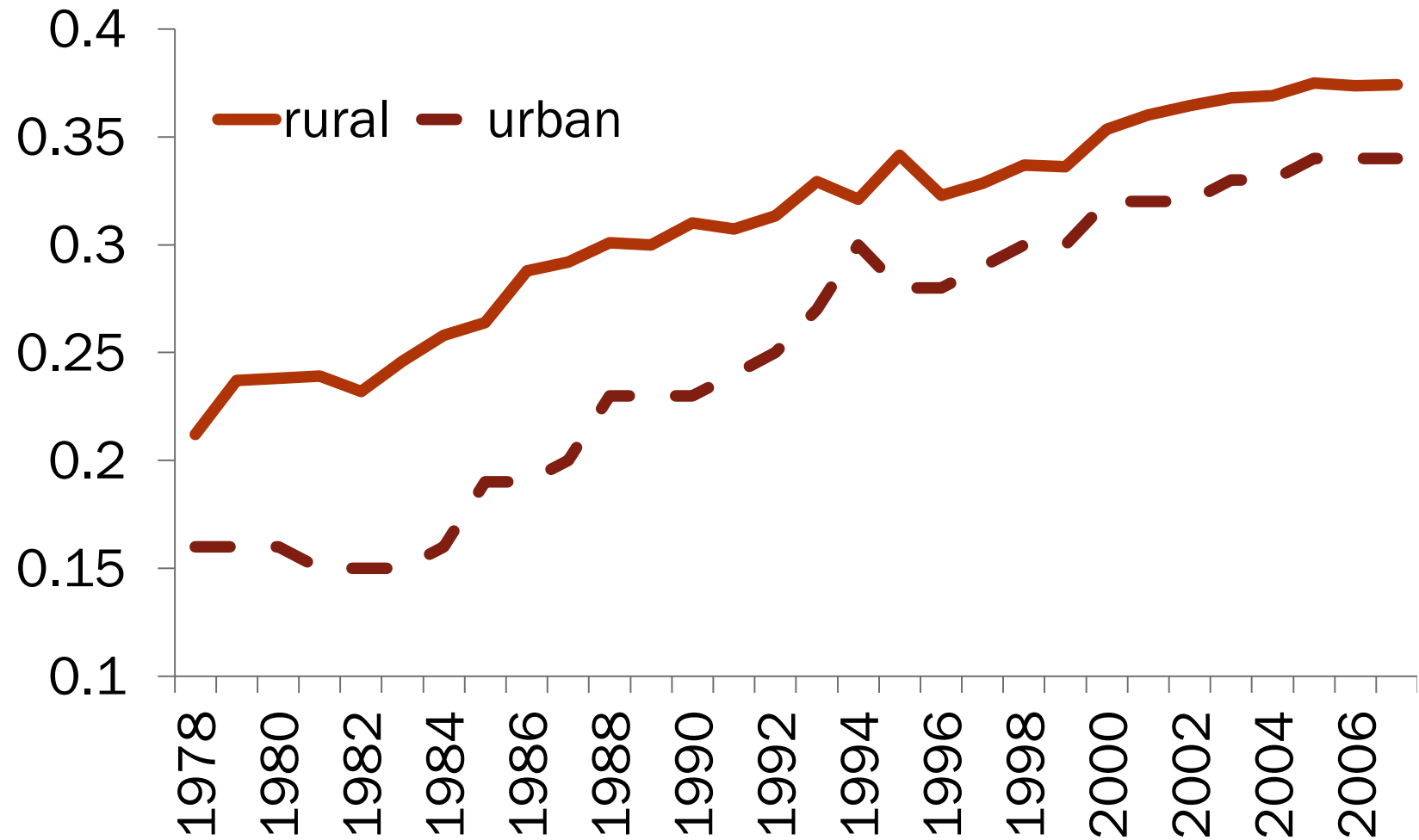
Share of wealth owned by the top 10%



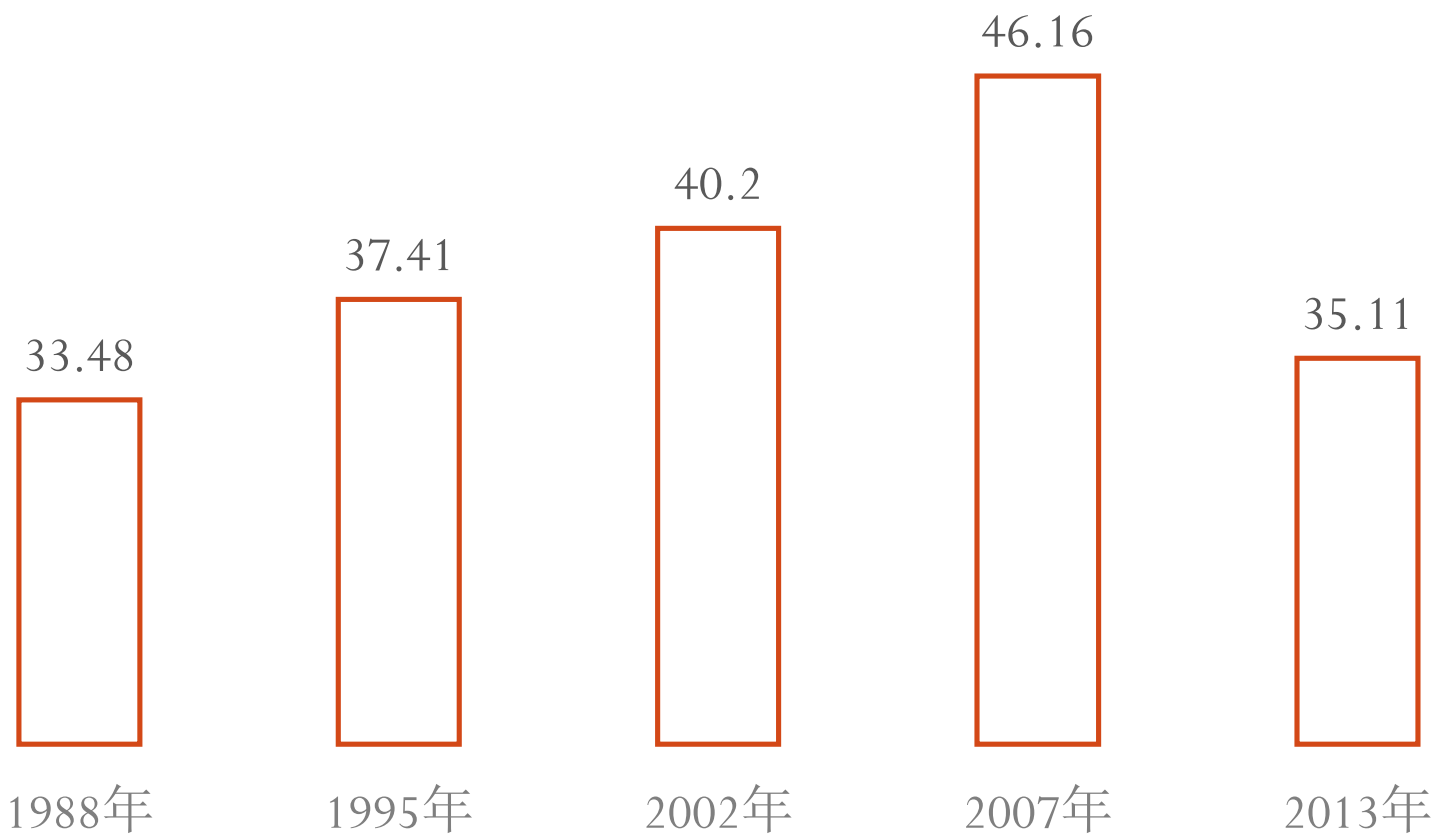
Income and wealth inequality (Gini) comparison



Inequality within urban and rural China



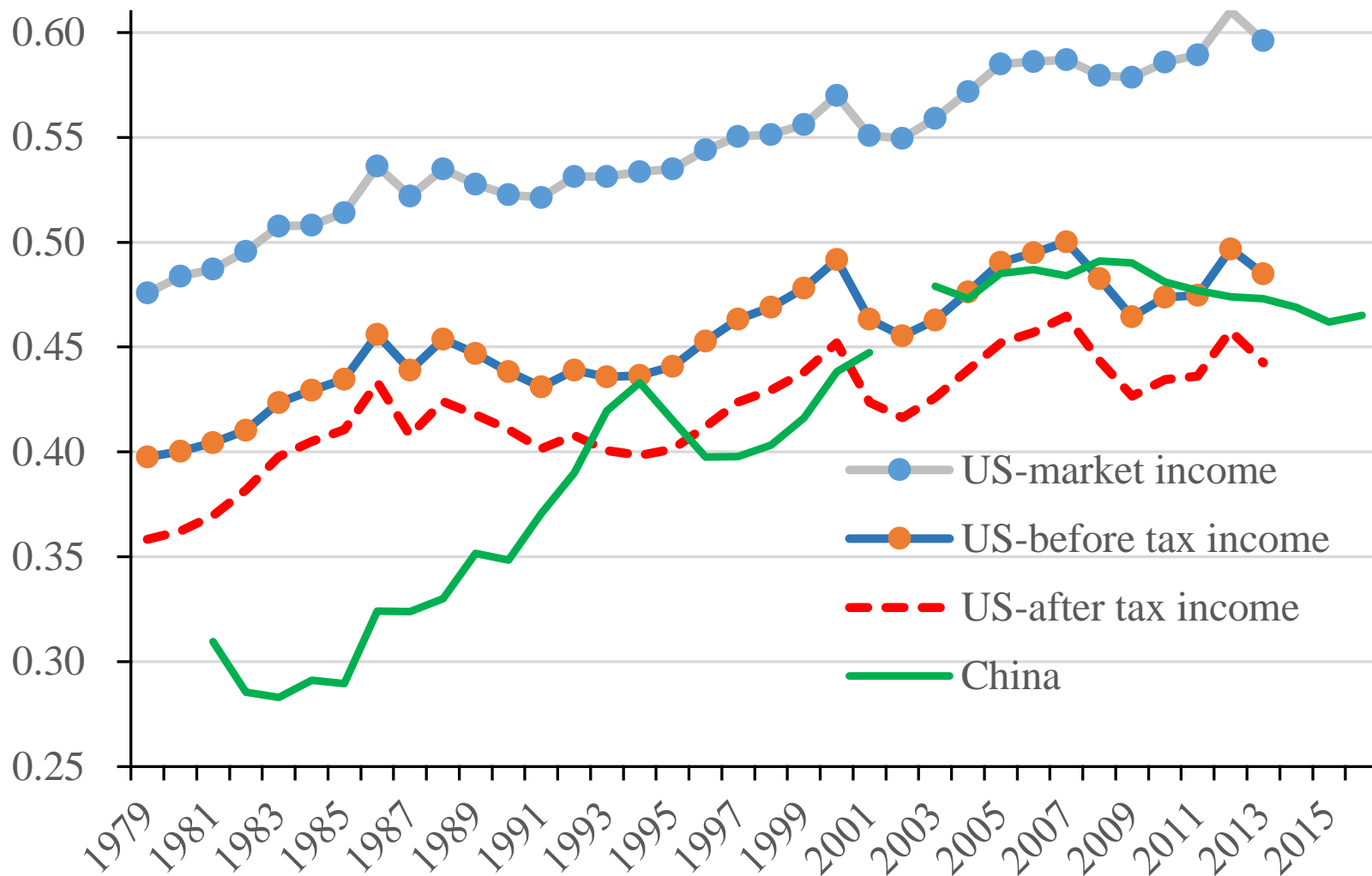
Contribution on national inequality by urban-rural inequality, Theil decomposition, %



Market vs. Redistribution?

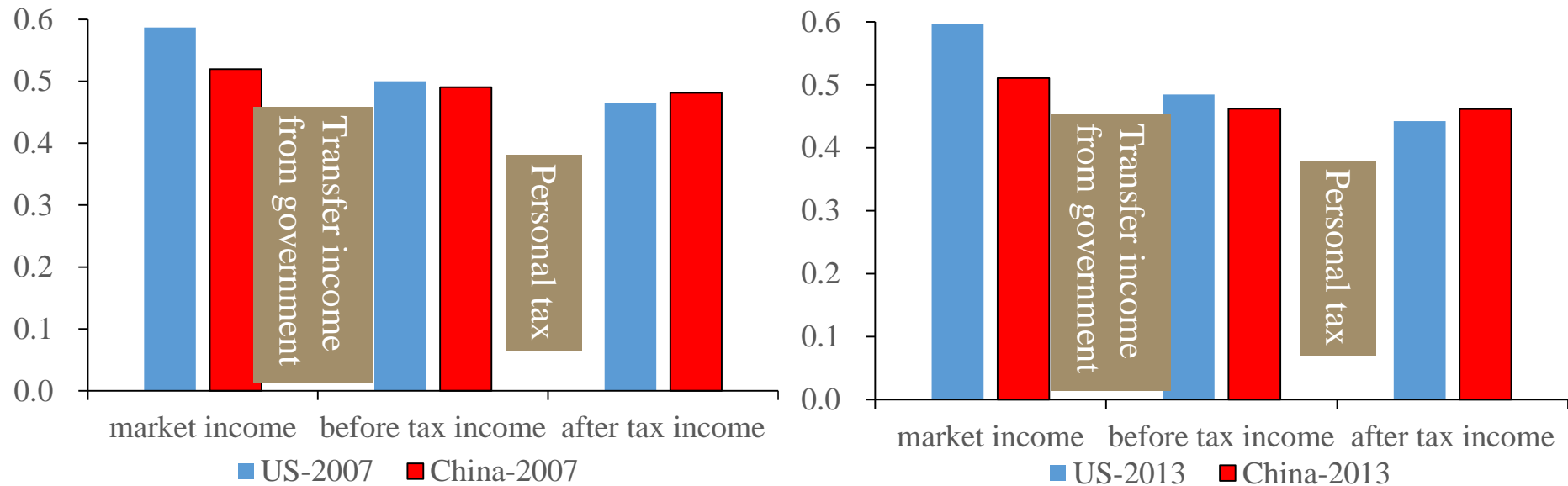
- Disposable income = market income + transferred income – personal taxes
 - Personal taxes: Gini is reduced by 0.01 in China, with an average of 0.03 in other countries
 - Transferred income: Gini is reduced by 0.03 in China, with an average of 0.16 in other countries
- However, “transferred income” and “personal taxes” can’t change the trend of inequality (U. S. data)
 - Observed reduction in Gini in China is probably caused by the implementations of transferred-income related programs recently
 - Once the rule of transferred income is established, it may not change the (increasing) trend of inequality

Market vs. Redistribution?



Inequality increased in both countries;
Redistributive effect of transferred income is higher than that of personal tax;
Neither of them (transfer income and personal tax) changes the trend of inequality

Market vs. Redistribution?

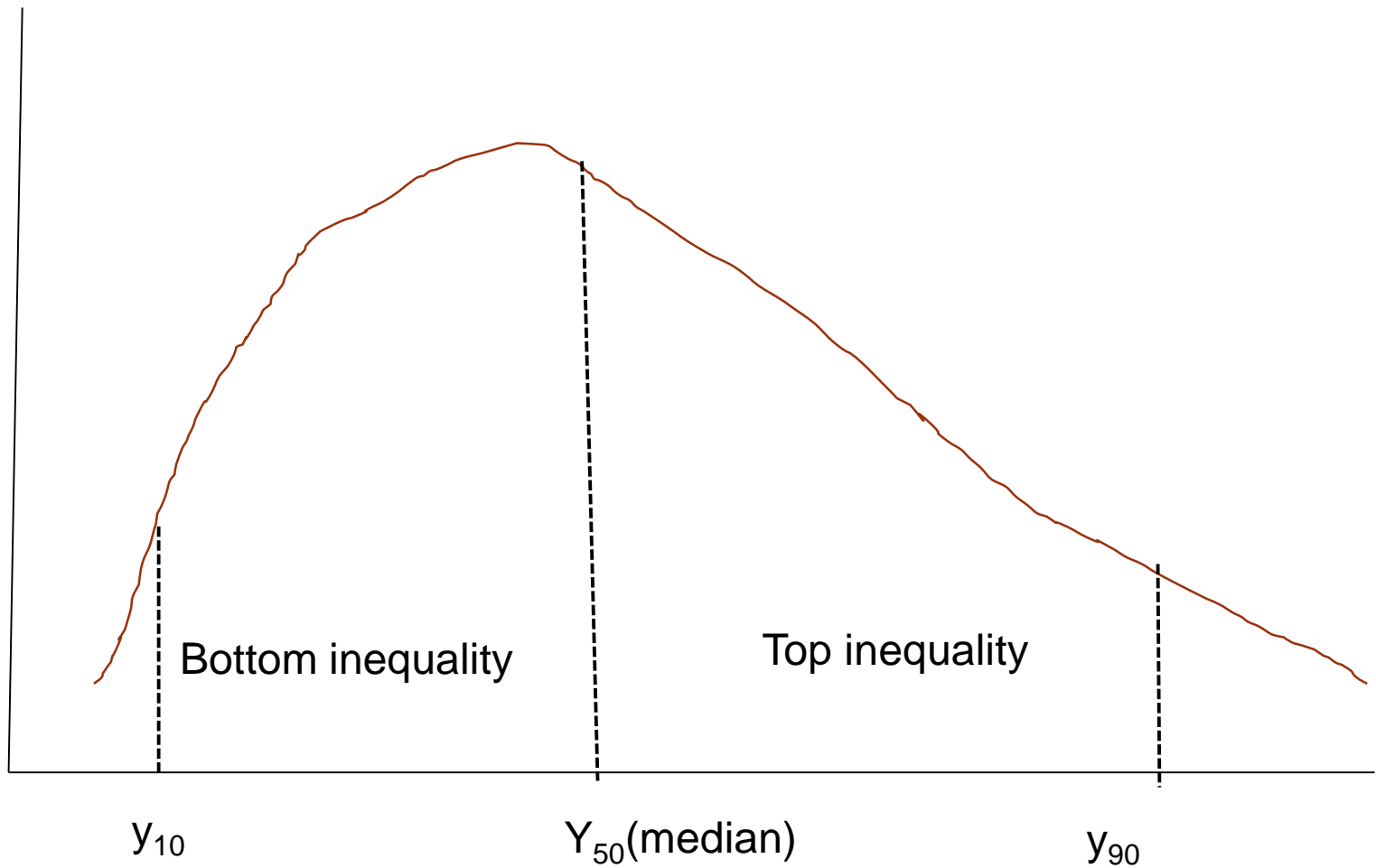


Inequality of market income: US > China

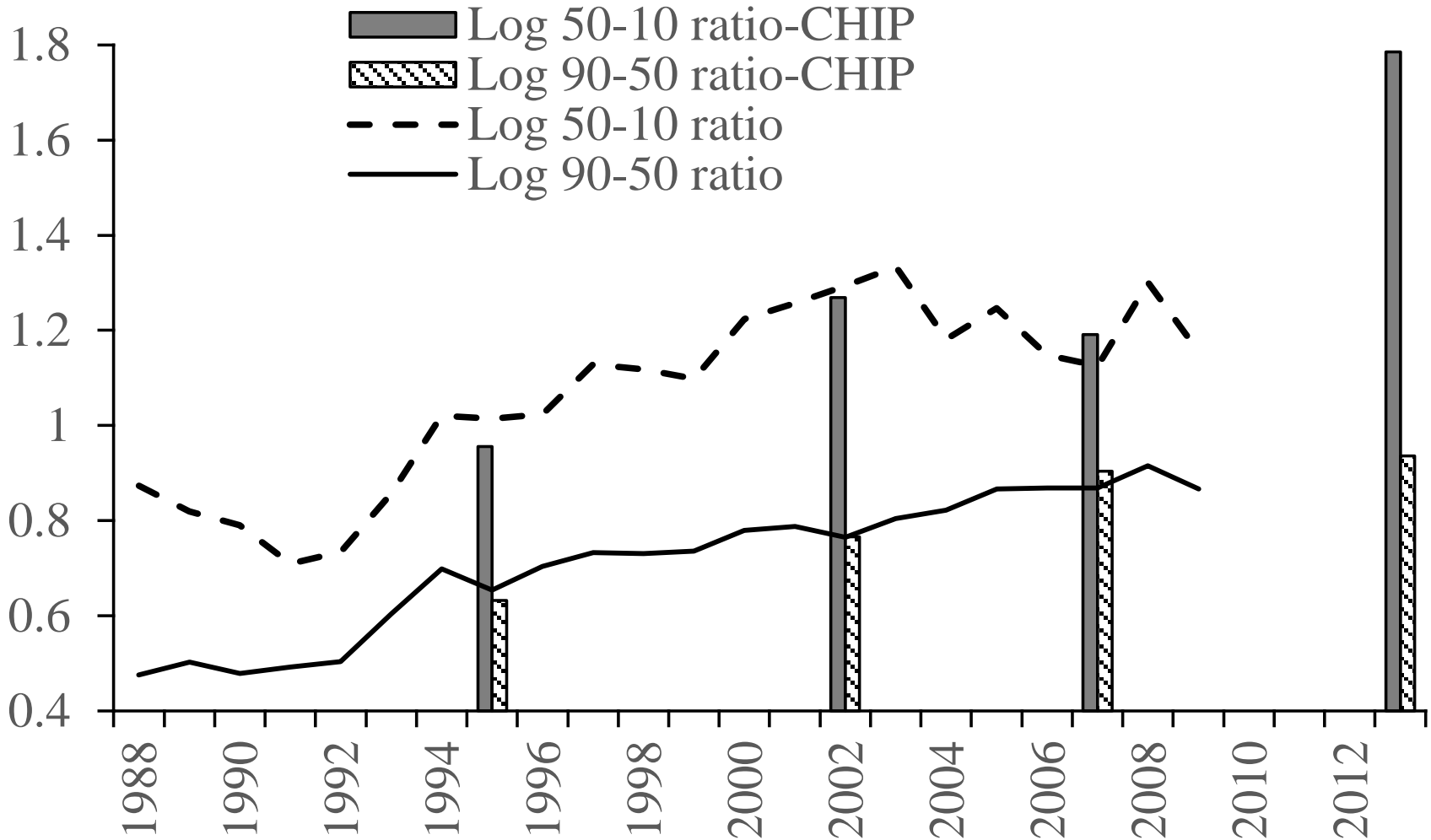
Redistributive effects of public transfer income and personal tax on income inequality are much lower in China

Inequality at bottom or top of the income distribution?

- Inequality in China was driven by both bottom inequality and top inequality
 - Whole inequality: $\log(\text{income at 90 percentile}) - \log(\text{income at 10 percentile})$
 - Top inequality: $\log(\text{income at 90 perc.}) - \log(\text{income at 50 perc.})$
 - Bottom inequality: $\log(\text{income at 50 perc.}) - \log(\text{income at 10 perc.})$
- Bottom inequality was usually much more severe than the top inequality in China

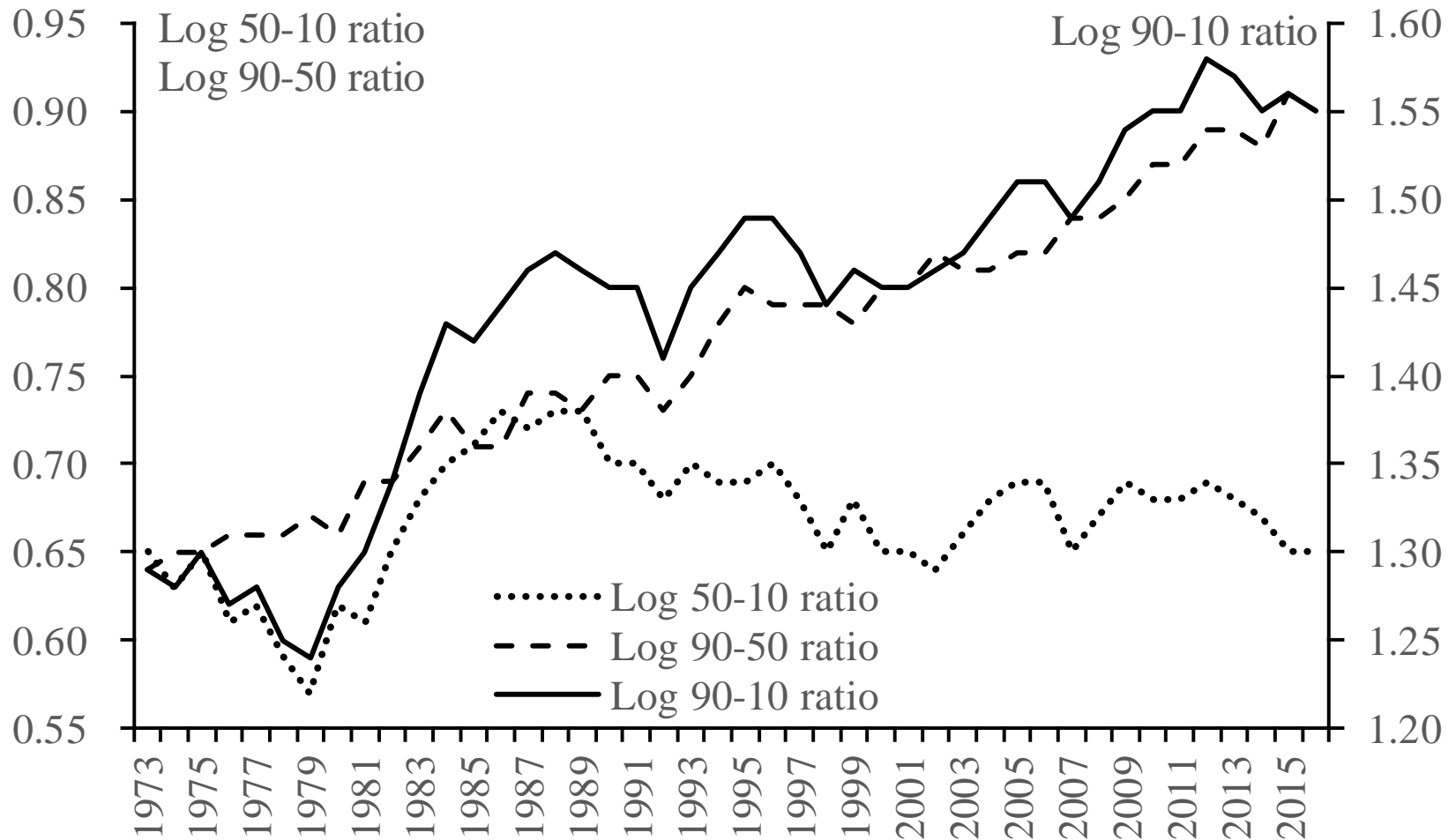


Inequality at bottom or top of the income distribution: China



China: Both the bottom inequality and top inequality increased persistently, and the bottom inequality was even higher than the top inequality

Inequality at bottom or top of the income distribution: US



US: top inequality increased and dominated the trend of whole inequality, while the bottom inequality kept rather stable

summary

- Marketed-oriented and gradually-advanced reform
- Persistent economic growth and poverty reduction
- Structural change
 - Urbanization
 - Decreasing in agriculture and increasing in tertiary sector
 - Privatization
 - Aging population
 - Open economy
- Inequality
 - High inequality in income and wealth
 - Urban-rural segregation

Thanks!