

INEQUALITY IN CHINA: A CASE STUDY

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CONTENTS

List of abbreviations and acronyms	3
Introduction	5
China's impressive progress in reducing poverty	6
A remarkable decline in absolute poverty over the past 30 years	6
From enabling participation to direct redistribution	8
Reducing poverty and addressing inequality are not the same	9
Rising inequalities in outcomes and opportunities	10
Income inequality	10
<i>Overall inequality</i>	10
<i>Income inequality by types of employment and region</i>	11
<i>Inequality in household expenditure and consumption</i>	12
Asset inequality	13
Inequality in human capital	14
Gender inequality	14
Multiple dimensions of inequalities	15
Impacts of inequalities on children's well-being	16
Absolute poverty: closely linked to family size and income levels	16
Nutrition and survival: closely linked to income levels	17
Education quality: increasingly linked to family background	20
Water, sanitation and medical services: closely linked to income levels	21
Multiple deprivation and social exclusion: a focus on gender	21
Multiple deprivation of children due to inherited factors	22
Root causes of inequalities	23
Impacts of economic structures	23
Impacts of economic policies	23
Impacts of social policies	24
Impacts of traditional ideas	25
Addressing inequalities in opportunities as well as outcomes	26
Progress made to date	26
Policy recommendations	27
References	29

LIST OF TABLES

Table 1 Poverty and inequality in China 1981~2008	7
Table 2 Illiterate population aged 15 and over by gender, 2002~2011	15
Table 3 Average household size by income quintile, 2010	16
Table 4 Anemia prevalence (%) in rural children under five, in months after birth	18
Table 5 Mortality rate of children under five by gender in surveillance areas (‰)	22
Table 6 Number of beds in health Institutions per 1,000 people, by region (1990~2011)	25

LIST OF FIGURES

Figure 1 Income growth by deciles, 2002~2007 (in RMB yuan)	10
Figure 2 Global trends in per capita GDP growth and Gini coefficients, 1980s~early 2000s	11
Figure 3 Per capita urban household disposable income and per capita rural household net income (in RMB yuan)	12
Figure 4 Household consumption by rural and urban areas (in RMB yuan)	13
Figure 5 Percentage of underweight children under five, rural and urban areas, 1990~2010	17
Figure 6 Stunting rate of children under five, rural and urban areas (%)	18
Figure 7 Under-five mortality rate (‰)	19
Figure 8 Type of school attended by students from different family backgrounds	20

LIST OF ABBREVIATIONS AND ACRONYMS

ACFTU	All-China Federation of Trade Unions
CFPS	China Family Panel Studies
CHIP	Chinese Household Income Project
CHNS	China Health and Nutrition Survey
ECD	early childhood development
MLD	Mean Log Deviation index
PPP	purchasing power parity
RMB	renminbi, currency of China (of which the primary unit is Yuan)



INTRODUCTION

Over the past 30 years, China has substantially reduced the number of people living in absolute poverty. Moreover, during the past 10 years, the country has gradually introduced social protection measures that target the poor and aim to prevent those who have already escaped poverty from dropping below the poverty line in the future. However, over time rising inequalities in multiple forms have increasingly become a threat to social harmony, the prospect of further growth, and the well-being of future generations. As China embarks on another period of reform, it must narrow the gap in income and wealth to pave the way for sustainable economic growth and social development. This can only be done by addressing the root causes of inequality in opportunity and outcomes, such as market distortions, abuse of public resources or power, and unequal access to good-quality public services.

The first section of the Report examines the Chinese approach to development over the past 30 years, at the beginning of which absolute poverty was very common. This report argues that both the results and the means of poverty alleviation in China are significant. The second section summarises the emerging issue of various inequalities in China, which include inequality in income, household expenditures, wealth and human capital, also by region and gender. The following two sections examine the impacts of various inequalities on the well-being of children, and the root causes of inequalities respectively. Whilst absolute poverty is still a big issue in China, particularly in remote areas, addressing inequality has gradually become a more important item on the national development agenda. China has made some progress in tackling the immediate causes for rising inequality. In the final section, this report suggests that China should expand the development strategy by addressing the root causes of unequal opportunity as well as unequal outcomes.

CHINA'S IMPRESSIVE PROGRESS IN REDUCING POVERTY

A REMARKABLE DECLINE IN ABSOLUTE POVERTY OVER THE PAST 30 YEARS

Since the economic reforms launched in 1978, there has been a remarkable decline of absolute poverty in China (see Table 1). The poverty headcount ratio fell drastically from 84.02% in 1981 to 13.06% in 2008. The poverty gap also fell from 39.26% in 1981 to 3.24% in 2008.



Based on World Bank data on the poverty rate in China (see Table 1), more than 500 million Chinese people have been lifted out of poverty over a period of 20 years. In 1990, the Chinese population was 1.134 billion (NBS, 2011: Table 3-5), of which 60.18% lived below the international poverty line (\$1.25 per day at 2005 prices, purchasing power parity (PPP)); that's to say, there were about 700 million poor people in China. By 2011, however, the number of poor people had reduced to about 130 million. According to the official income poverty line (equivalent to \$1.8 per day), there were 128 million poor people in rural areas and less than 4 million poor people in urban areas.

However, these 130 million poor people account for a sizeable proportion (about 10%) of the population; most of them live in remote or hard to reach areas, particularly in western China. Many more people are "almost poor" – that is, they live just above the poverty line and are vulnerable to risks and shocks that could push them back under it once again (World Bank, 2009: 23–29; World Bank and Development Research Center, 2012).

TABLE 1 POVERTY AND INEQUALITY IN CHINA 1981~2005

Survey year	Poverty line (\$1.25 a day, PPP)	Headcount (%)	Poverty gap (%)	Watts index	Gini index	MLD index
2008	38	13.06	3.24	--	46.9	--
2005	38	16.25	4.03	0.05	42.48	0.3229
2002	38	28.36	8.66	0.1162	42.59	0.306
1999	38	35.63	11.09	0.1506	39.23	0.2543
1996	38	36.37	10.73	0.1435	35.7	0.2089
1993	38	53.69	17.65	0.2448	35.5	0.2058
1990	38	60.18	20.72	0.2893	32.43	0.171
1987	38	54.03	18.51	0.2649	29.85	0.1502
1984	38	69.43	25.56	0.3666	27.69	0.1263
1981	38	84.02	39.26	0.6073	29.11	0.1386

Note: PPP indicates that the poverty line used reflects 'purchasing power parity' dollars; that is, values have been adjusted to take account of relative costs not only the formal exchange rate. The Watts index is a distribution-sensitive measure of poverty, reflecting both the share of the population living in poverty and the extent to which the incomes of people in poverty fall beneath the poverty line (higher values indicate worse poverty). The Gini index reflects inequality in the whole income distribution, taking a value of 1 for complete inequality and 0 for complete equality. In the table Gini values have been adjusted for the spatial cost of living differences. Like the Gini, the MLD (mean log deviation) index takes a value of 0 when all individuals have the same income, and higher values indicate greater inequality.

Data source: PovcalNet, the online tool for poverty measurement developed by the Development Research Group of the World Bank, at <http://econ.worldbank.org/povcalnet>.

FROM ENABLING PARTICIPATION TO DIRECT REDISTRIBUTION

In the early stage after China introduced the reform and opening-up policy, the Chinese government put greater emphasis on tackling widespread poverty than on narrowing inequality. In fact, widening inequality was not considered to be a problem until the late 1990s (Gong, 2003). Poverty alleviation strategies focused on creating jobs rather than providing social benefits. Most government funds for poverty alleviation were directed to “work for relief” schemes to help improve physical infrastructure and develop the human capital of poor households. To encourage job-seeking, control of

labour mobility via the household registration system (or hukou) was gradually loosened to allow rural labourers to find jobs in urban areas (see box). In the early reform years, the social safety net established during the central planning era, which relied heavily on employer provision in cities and cooperative provision in the countryside, was weakened in China. For example, the rural cooperative pension system and healthcare basically collapsed. Urban employers stopped providing some of the social services that they used to offer at “work units” (Li and Piachaud, 2004).

THE HUKOU SYSTEM

Hukou, the household registration system, was introduced in 1958 to divide the population into rural (agricultural) and urban (non-agricultural) residents, as well as into local residents and migrants, largely according to a person's place of birth.

The hukou status of parents is usually transferred to their children. The purpose of this system was to

control population mobility, particularly movement between rural and urban areas. Restrictions on migrant workers coming to cities to take up jobs were lifted in the early 2000s. However, even today, the rights to urban welfare and access to some services are still dependent on a person's hukou status.

More recently, greater efforts have been made to introduce various social benefit programmes, which were particularly helpful for low income groups. For the poorest urban populations, a Minimum Living Standard Guarantee System was introduced in 2003, which was later extended to rural populations. In rural areas, the Rural Cooperative Healthcare System, which had collapsed many years ago, was re-introduced in 2002 under a new name, the New Rural Cooperative Medical Care System. The state has contributed money to this new system as a form of redistribution and an incentive to increase uptake. In urban areas, a similar scheme was introduced in 2006 for local residents without employment. In the education sector, free and compulsory education was re-introduced in cities and rural areas. In 2010, the Chinese government started to make further reforms to the social housing system: these included a low rental scheme for people on welfare

benefits; a subsidised social housing scheme offering rent rates that undercut market prices for people temporarily in need (including migrant workers and new graduates); and a subsidised home ownership scheme for middle and lower-income groups. More recently, a social pension system was introduced for older people in rural and urban areas without employment.

After ten years of major policy developments the current social protection system offers nine years of free compulsory education for all children, universal coverage of basic healthcare and basic pensions, and a comprehensive social assistance system based on minimum living standard schemes. More than 70 million people have benefited from the social assistance system. Obviously, such a system is a basic protection floor, which is particularly relevant for the poor.

REDUCING POVERTY AND ADDRESSING INEQUALITY ARE NOT THE SAME

Chinese experience suggests that rapid economic growth, combined with an incremental extension of social protection system, has helped to lift vast numbers of people out of poverty. At the same time, however, fast economic growth does not benefit members in the society equally, even when it creates jobs. In fact, as we will examine below, it has increased inequality in the short term. China's experience suggests that post-market redistribution can help improve the worst poverty, but it is not as effective

an approach towards poverty reduction as enabling people to find jobs.

Looking ahead, there will be increasing challenges in China to reduce the remaining chronic poverty in a changing context of widening inequality. In other words, China will face two problems in the new agenda of shared development. It will need to address not only the chronic poverty problem but also the emerging inequality issue.

RISING INEQUALITIES IN OUTCOMES AND OPPORTUNITIES

INCOME INEQUALITY

China's economic reforms have led to higher national income. According to the World Development Indicators published by the World Bank, gross domestic product (GDP) per capita increased from \$524 in 1978 to \$4,433 in 2010.¹ Annual household expenditure was ten times higher in 2011 (\$932) than in 1978 (\$90).² But economic growth and income distribution are very uneven, which has caused the greater in inequality.

OVERALL INEQUALITY

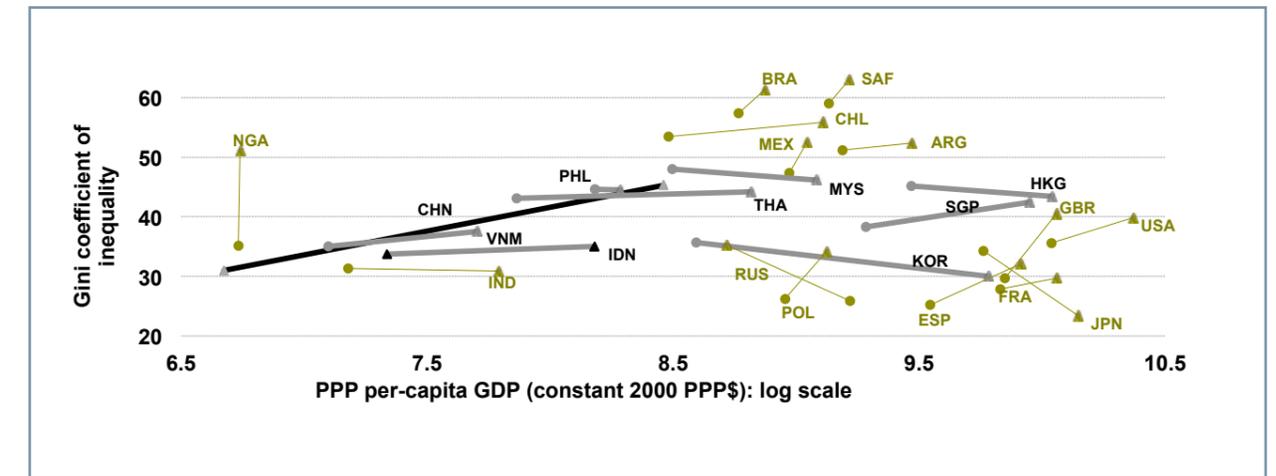
Li et al (2011b) suggest that the Gini index³ in China may have increased to 0.48 in 2007 from 0.35 in 1990. Income growth has, on average, increased faster for

people from higher income deciles than for those in lower deciles (see Figure 1). Although the overall trend of growth has been contained since 2007, there has been little change in the pattern of inequality (Li, 2012). Social disparities are mirrored by large gaps between the richest and poorest citizens, with mean incomes of the richest decile some 25 times higher than those of the poorest decile (Li, 2012). Furthermore, high-income households are under-represented in the dataset, and many sources of income may not be reported, including those from bribery and corruption (Wang and Shi, 2010). It is estimated that the richest 10% of the population could be earning more than 50 times the average income of the lowest 10% (Wang, 2010).

As a report from the World Bank and Development Research Center (2012) points out, although income inequality in China is well below that in other developing countries (particularly in Latin America), few have seen

the rapid and continuing increase in inequality that China has witnessed since the mid-1980s. This sustained increase in income inequality places China well above other Asian countries (see Figure 2).

FIGURE 2 GLOBAL TRENDS IN PER CAPITA GDP GROWTH AND GINI COEFFICIENTS, 1980s–EARLY 2000s



Source: World Bank (2005), cited in World Bank and DRC (2012).

INCOME INEQUALITY BY TYPES OF EMPLOYMENT AND REGION

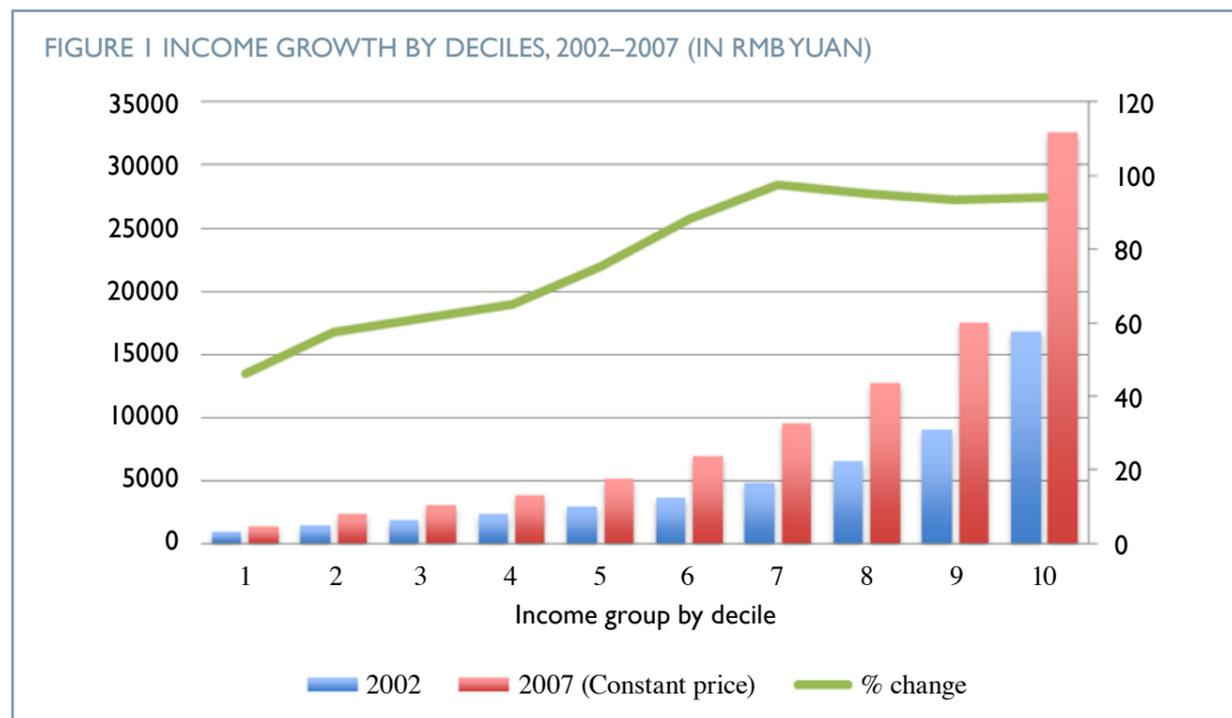
The income inequality is evident by types of employment. One of the most notable determinants is the type of ownership of the company involved. As Yue et al (2010) show, monopoly industries are dominated by state-owned enterprises. As a result, employees in these enterprises on the whole earn more than employees in other sectors. It is estimated that more than 50% of the wage gap between monopoly industries and competitive industries is not justified, and can only be explained by the monopoly status or the state-dominated nature of these companies.

workers could be as high as 60 million, which accounts for 20% of the urban labour force in China. Generally, such agencies have fewer responsibilities associated with labour contracts and dispatched workers are often paid less than contracted employees for the same work. When no longer needed, they are easily "returned" to the agency without severance pay. According to a pilot survey in one province, the average pay of contract workers is at least 30% more than that of dispatch workers.

Another determinant of income level is the nature of the labour contract. There are two kinds of employee in many organisations and enterprises, in both the public and the private sectors. Contracted employees sign contracts and work with the same employers; dispatched labourers sign contracts with an agency and are then dispatched to organisations and enterprises who need workers. According to the All-China Federation of Trade Unions (ACFTU, 2011), the total number of dispatched

Income inequality is also evident by geographical region. Rural-urban income differences and regional (inter-provincial) inequalities are together estimated to account for two-thirds of overall income inequality (Li, 2012). As shown in Figure 3, since the 1980s, rural households have earned much less than urban households on average, and their incomes increase at a much slower rate.

Growing urban-rural and regional inequality, however,

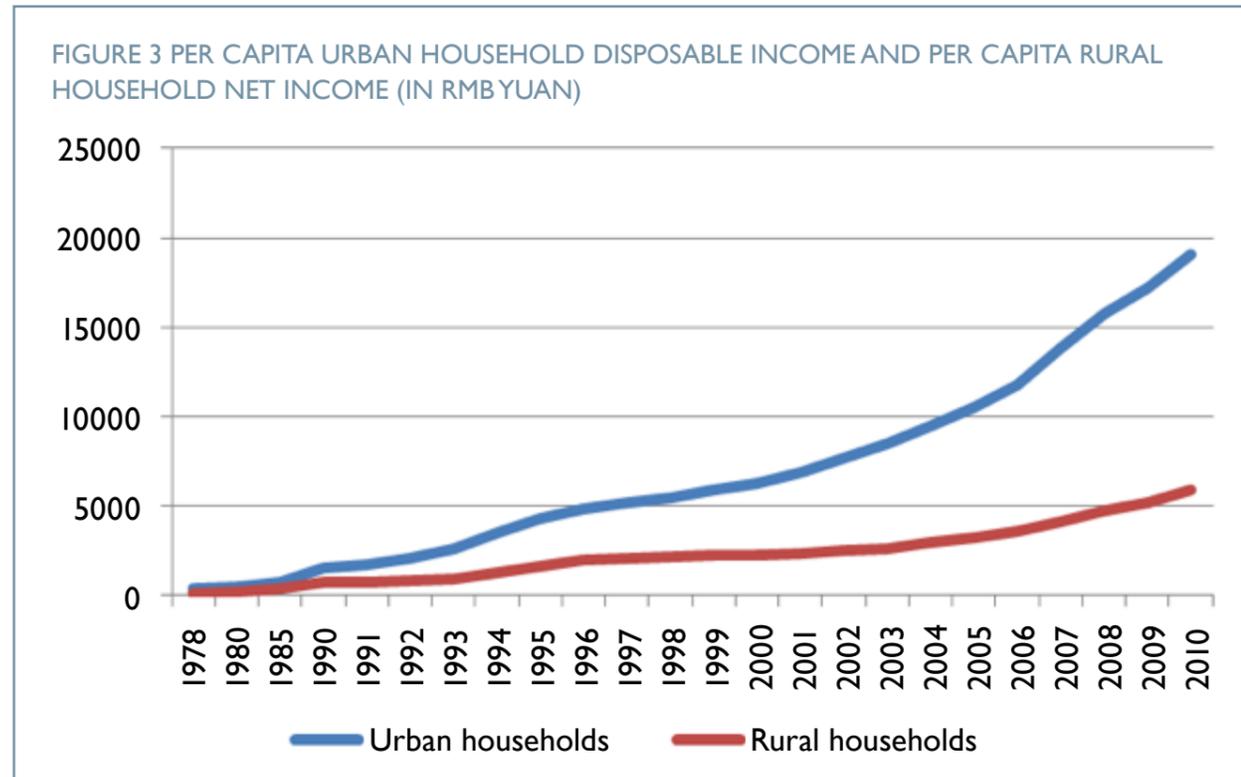


Note: Includes all provinces and autonomous regions covered by the Chinese Household Income Project (CHIP) surveys.

¹ PPP (current US\$)
² Constant 2000 US\$.
³ Due to data availability, this report mainly uses the index without adjustments for spatial cost of living differences.

may have been contained or even reversed over the past few years. According to data from the National Bureau of Statistics (NBS, 2011:Table 10-2), the ratio of per capita urban household disposable income to per capita rural household net income was 2.20 in 1990, and had increased to 3.33 in 2009; however, it has declined for two consecutive years since 2010. By the end of 2011, it was 3.13 – close to the 2002 level. As Li et al (2012) suggest, regional disparities have also

recently experienced a similar reverse in the general trend. The unweighted Gini index for per capita GDP per province at current prices had increased from 0.276 in 1990 to 0.357 in 2003, but has been decreasing, to 0.264 in 2010 – lower than that in the 1990s. Based on both per capita household consumption expenditures and per capita household incomes among provinces, the changes in regional inequality are almost the same.



Data source: National Bureau of Statistics (2011) China Statistical Yearbook, Table 10-2.

INEQUALITY IN HOUSEHOLD EXPENDITURE AND CONSUMPTION

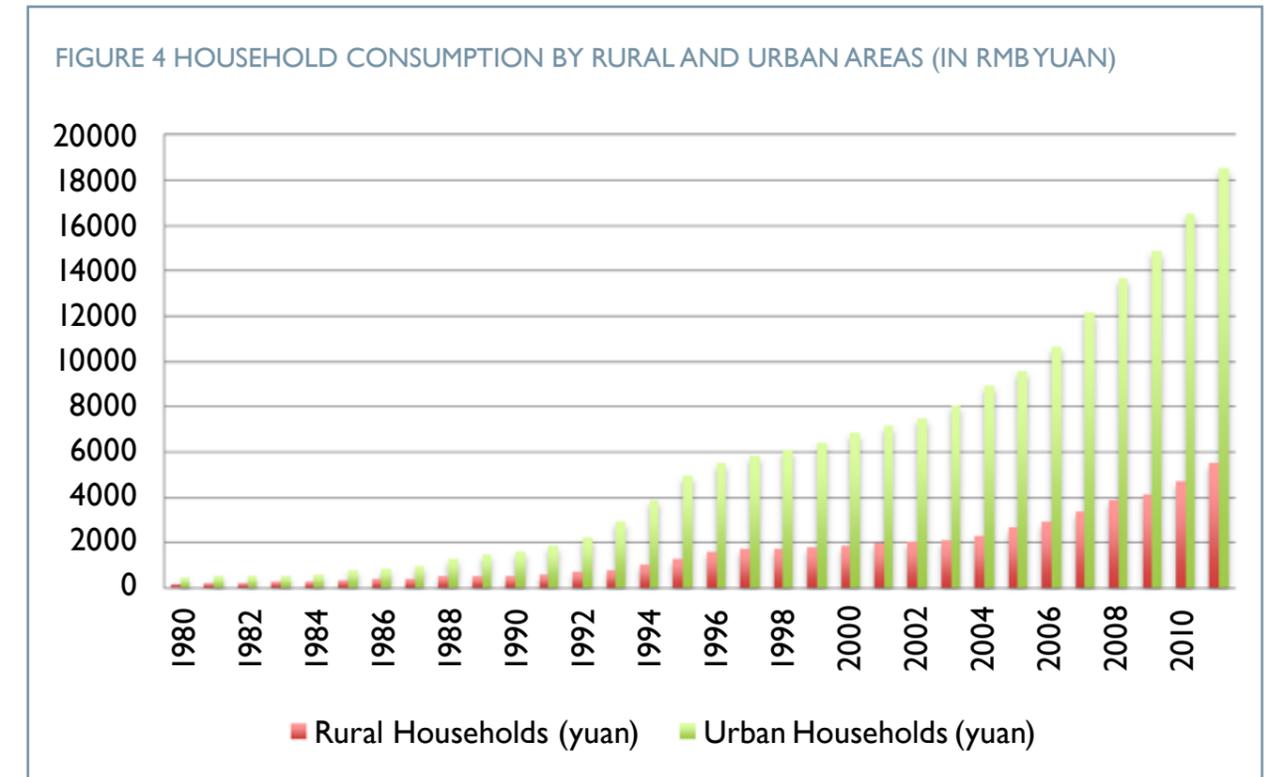
Income inequality is also evident in household expenditure. In the past few decades, but most notably in the past ten years, China has seen the emergence of a growing high-income class with strong consumption power. According to the Chinese Family Dynamics report based on the China Family Panel Studies (CFPS) survey in 2009, the average consumption of the highest quintile was 15 times that of the lowest quintile (Liu and Li, 2010: p18).

If we examine urban areas only, according to a McKinsey report (Atsmon, et al., 2012) based on surveys with 60,000 people in Chinese cities, 6% of the urban population (14 million people) earned between \$16,000 and \$34,000 (between RMB106,000 yuan and RMB 229,000 yuan). The household income of 2% urban people (4.24 million) exceeds \$34,000.

However, these high earners represent just a small proportion of the population. The vast majority of people, despite recent improvements in their living standard, are still struggling to make ends meet (Atsmon et al, 2012). People at middle income levels also face higher household expenditures. As shown in Figure 3 & 4, the average expenditure of a household increased faster than household income. This is partially because consumer prices have increased rapidly. In addition, the average household now needs to spend on public

services that used to be provided for free during the planning era, such as housing, healthcare and education. Thus, growing incomes do not mean that there is less pressure in covering living costs.

When the rural sector is included in the picture, the gap in household consumption patterns is much bigger. Figure 4 also shows the growing gap in rural and urban consumption over the past 30 years.



Data Source: Table: "Household Consumption", China Yearly Macro-Economics Statistics (National), China Data Online.

ASSET INEQUALITY

Apart from income and consumption, asset inequality is also significant. According to Sato et al (2011), housing accounted for 60% of household wealth and for almost two-thirds of wealth inequality among households. Housing wealth among urban households increased from 4.5 times that of rural households in 2002 to 7.2 times just five years later. This gap is significantly wider than the urban-rural income gap. Moreover, the 2011 China Private Wealth Study (China Merchants Bank-Bain & Company, 2011) found that the wealth of high-net-worth individuals accounted for a greater share of the nation's wealth, rising to 24% in 2010, up from 23% in 2008. Household wealth is also distributed unequally across the country. By 2010, more than 50% of

China's high-net-worth individuals lived in just five places: Guangdong, Shanghai, Beijing, Zhejiang and Jiangsu.

The inequality in household housing assets is partially a result of marketisation and uncontrolled speculation in the housing market in the past decade. As housing became marketised in urban China, housing prices in many cities soared. The wealth level of urban households increased dramatically in contrast to the static housing sector in rural areas. For those that are well off in this situation, rocketing house prices have become a valuable means of wealth accumulation; but for others, it has made housing unaffordable. State policies to prevent speculation on the

housing market and to increase the supply of affordable housing from 2010 may help to improve affordability. However, these policies have also faced strong criticism from local governments, developers and existing homeowners, as a greater supply of affordable housing is considered to be unfriendly to the private housing market. Local governments were reluctant to allocate valuable land to social housing for free, and private developers and home-owners were unhappy to see house prices lowered.

INEQUALITY IN HUMAN CAPITAL

When considering inequalities based on years of education and life expectancy, the gap by region has narrowed over time. Unequal access to education is most notable between rural and urban areas. On the whole, Liu and Li's study (2010, p132), based on data from the China Health and Nutrition Survey (CHNS), suggests that in 2009, people with rural household registration (hukou) received seven years of education, while the equivalent for people with urban household registration was 10.8 years. This gap is, however, smaller for younger people (15~19, where the difference is 0.4 years) than for older people (for those aged 20~29, the gap is 2.5 years; for those aged 30~39, it is 4.3 years; for those aged 40~49, 3.1 years; for those aged 50~59, 3.2 years; and for those aged 60+, it is 4.5 years). These differences by age group suggest an overall improvement over time. However, the greater difference for the 30~39 age group reflects the fact that they attended school in the 1980s to 1990s, a time when the education system was reformed and the opportunity costs for rural people sending their children to school became higher, leading to higher drop-out rates.

As for life expectancy, the gap by province had also been declining from 1990 to 2010. According to NBS (2012, Table 3-7), life expectancy from 1990 through 2000 to 2010 in Shanghai was consistently the highest, and in Tibet, the lowest. The gap between the two places, however, was declining, from 15.26 years in 1990 to 13.77 years in 2000 and 12.09 years in 2010. Similarly, even though rural-urban income disparities continue to grow, disparities in selected health indicators—particularly the maternal mortality ratio—have declined since the 1990s (NWCCW et al, 2010: Figure 2.13).

However, the trends in the selected education and health

indicators mentioned do not reveal the full picture of gaps in the quality of education and the quality of healthcare. As we shall discuss later, quality of essential services is closely correlated with income levels and family backgrounds.

GENDER INEQUALITY

The nature of gender inequality in China has changed. Three surveys on the situation of Chinese women carried out in 1990, 2000 and 2010 show that some traditional forms of inequality have disappeared, some persist, and some new types of inequality have developed. Increasingly, men are no longer the only decision-makers at home. Instead, aggregate data show that women's influence in the household and on the well-being of children has increased significantly. However, their influence in the workplace and in the political sphere has hardly increased. As discussed in Li (2012), women's status at work is strongly correlated with their educational level, but this is not the case for men. Another persistent gender inequality can be seen from the widening gap in annual incomes over the past 20 years. The ratio of female earnings to male earnings in urban areas has been decreasing rather than increasing: from 77.5% in 1990 to 70.1% in 1999 and 67.3% in 2010; it has also been decreasing in rural areas, from 78.9% in 1990 to 59.6% in 1999 and 56.0% in 2010.

Another empirical study (Li et al, 2011a), based on urban household survey data in 1995, 2002 and 2007, confirms that the gender wage gap has been widening over time, with the trend becoming stronger between 2002 and 2007. Between 1995 and 2002, less qualified and competitive sectors saw the most rapid increase in the gender wage gap; but between 2002 and 2007, even the sectors that are less competitive and require higher qualifications also saw a rapidly growing gender wage gap.

The national surveys also highlight the emergence of new types of inequalities in the reform years. First, women comprise the bulk of the workforce in the informal sector and are therefore not easily covered by the social protection system. Second, in cities, they suffered most as the state sector began to lay off workers (Ding et al, 2009). Third, in the countryside, the agricultural workforce is predominantly female, and men migrates to cities and towns – so that many women have to take on more work and responsibilities at home.

Although women have received more education on average over the past 20 years and the female illiteracy rate is falling, women still constitute the majority of the illiterate population (more than 70%). Table 2 shows the gap in illiteracy rates by gender.

TABLE 2 ILLITERATE POPULATION AGED 15 AND OVER BY GENDER, 2002–2011

Year	Gender structure of illiterate population aged 15 and above			Share of illiterate population in total population aged 15 and above		
	total	male	female	total	male	female
2002	100	27.8	72.2	11.63	6.43	16.92
2009	100	26.5	73.5	7.1	3.76	10.45
2011	100	26.5	73.5	5.21	2.73	7.77

Data sources: National Population Sample Survey on Population Changes, cited in *China Statistical Yearbook*, related years.

Poor education, as discussed by Li (2012), has constrained women's participation in the labour market. Although improving levels of education have enabled some women to take up similar positions at work as men, they often had to outperform men in terms of educational achievement in order to get similar jobs. This also means that women who are less educated are much more at risk to unemployment.

MULTIPLE DIMENSIONS OF INEQUALITIES

The sustained increase in income gaps has transformed China into a country of high income inequality by Asian

standard. There is a consensus (Li, 2012; World Bank and DRC, 2012) that while there may have been an evening out of income inequality in recent years, the trend remains to be confirmed. Moreover, income inequality is exacerbated by growing disparities in both household asset and access to quality public services. Besides the regional dimensions, gender is still a very important component of inequality in China. Generally, women are more likely to participate in the low-skill labour market and to live in poor households than men.

IMPACTS OF INEQUALITIES ON CHILDREN'S WELL-BEING

There have also been some major changes in children's well-being in China over the past 20 years, particularly regarding levels of poverty, nutrition, survival and education.

ABSOLUTE POVERTY: CLOSELY LINKED TO FAMILY SIZE AND INCOME LEVELS

According to the World Bank (2009: pp 62–64), the proportion of children in the poorer population is higher than that in the general population. As of 2003, among boys less than 16 years old, 16.3% lived in poverty and the proportion for girl was 17.3%. Among the poor, boys less than 16 accounted for 13.2%, and girls less than 16 accounted for 12.2%. Thus, compared with the

population as a whole, children are likely to be poorer or living in poorer households. Combined with share of total population (10.6% for boys less than 16 and 9.2% for girls less than 16), we get that boys are a quarter more likely to be living in poverty, and the probability for girls rises to a third⁴.

The rural–urban divide is once again clear if we look at child poverty. Table 3 shows the average household size in urban and rural China. It shows the negative correlation between household income and household size, and a higher average household size in rural areas than in urban areas in all income groups. This means that child poverty is more prevalent in rural areas than in cities.

TABLE 3 AVERAGE HOUSEHOLD SIZE BY INCOME QUINTILE, 2010

	Urban household size	Rural household size
Lowest quintile group	3.25	4.52
Second quintile group	3.02	4.25
Third quintile group	2.82	4.00
Fourth quintile group	2.70	3.71
Highest quintile group	2.56	3.30

Source: National Bureau of Statistics (NBS) (2011) China Statistical Yearbook, 2011, Tables 10-7 and 10-23.

The child poverty rate also varies by region. Lu and Wei (2002) reported that the average childhood poverty rate of coastal provinces was 2.45% in 1999, while rates in Beijing and Jiangsu were much lower. In interior provinces

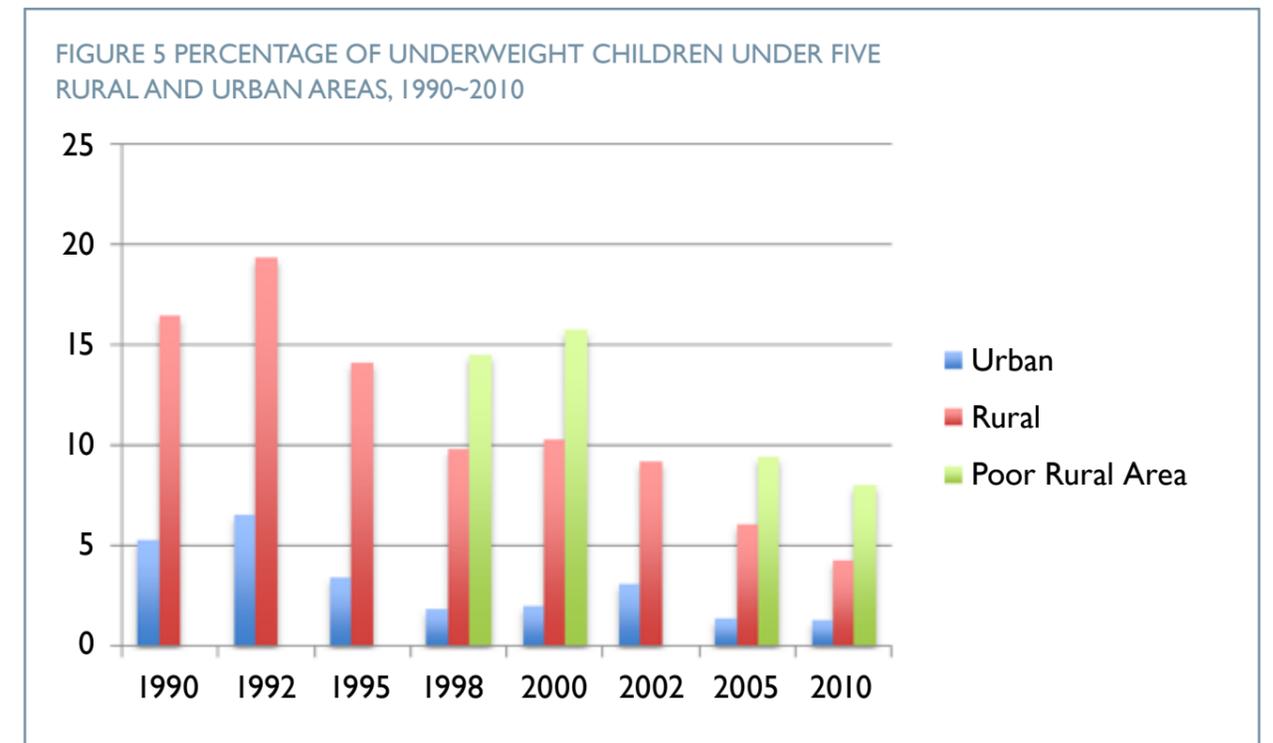
such as Henan and Gansu, however, childhood poverty rates were as much as 2.5 times higher than the coastal average. This is the consequence of the unbalanced development levels between coastal and inland areas.

NUTRITION AND SURVIVAL: CLOSELY LINKED TO INCOME LEVELS

Data from the China Health and Nutrition Survey (CHNS) over the past three decades show that there has been an overall improvement in child nutrition in rural and urban areas from the early 1990s to the late 2000s. However, the urban–rural gap persists, and rural children are still more likely to be underweight and suffer from stunting and anemia.

Figure 5 shows progress made in reducing the rate of underweight children under five in urban and rural areas and the remaining gap between the two. The national

rate of underweight (low weight-for-age) children under five was 13.7% in 1990, breaking down to 5.3% in urban areas and 16.5% in rural areas. Between 1990 and 2010, the prevalence of underweight children under five decreased significantly to 3.6% nationally, breaking down to 1.3% in urban areas and 4.3% in rural areas. In poor rural areas, however, the rate was much higher than the rural average, at 8% in 2010 – almost twice the rural average and six times the urban average (CHNS, relevant years).



Data source: CHNS, relevant years.

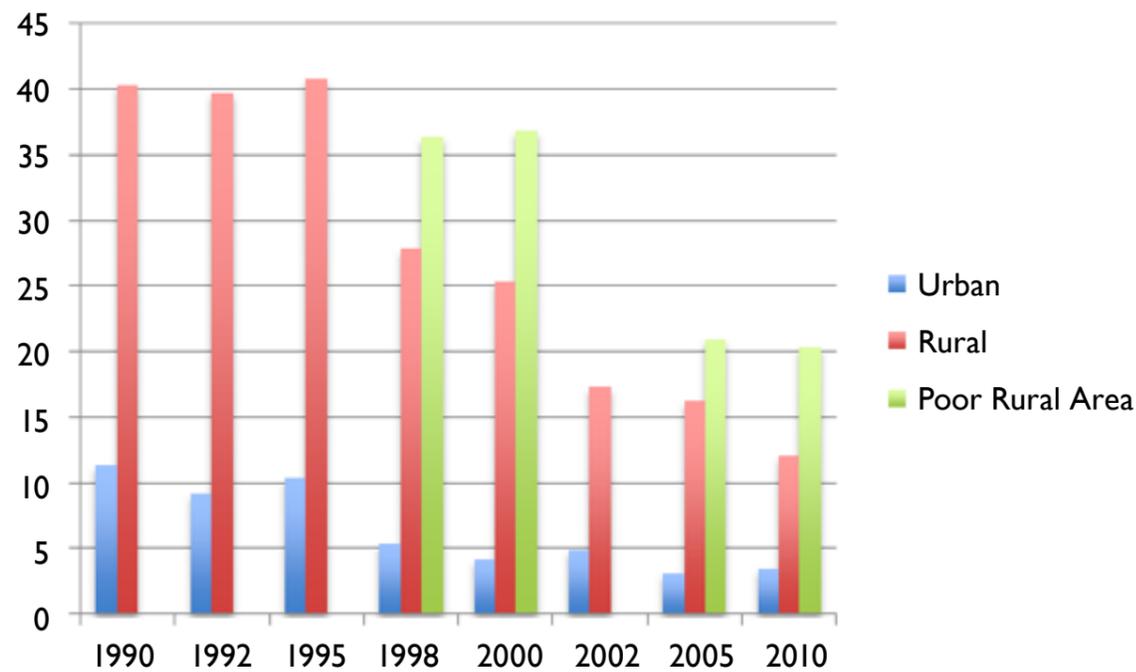
Meanwhile, Figure 6 shows that the prevalence of stunting (low height-for-age) also decreased significantly, from 33.1% in 1990 to 9.9% in 2010. Stunting among urban children decreased from 11.4% in 1990 to 3.4% in 2010 and from 40.3% to 12.1% among rural children.

In poor rural areas⁵, however, the prevalence of stunting remains high, around 20.3% in 2010 – more than twice the national average and almost six times the urban average (CHNS 1991, 2011).

⁴ The excess chance for boys living in poverty was 24.5% ((13.2–10.6)/10.6–1=24.5), and the corresponding chance for girls was 32.6% ((12.2–9.2)/9.2–1=32.6).

⁵ Poor rural areas refer to those nationally defined poor counties. There are nearly 600 poor counties in 2012 and the list changes as circumstances change.

FIGURE 6 STUNTING RATE OF CHILDREN UNDER FIVE, RURAL AND URBAN AREAS (%)



Data source: CHNS, relevant years.

Similarly, Table 4 shows that anemia rates among children in poor rural areas remained high from 2005 to 2010, especially for infants aged 0–12 months, with anaemia rates of over 40% in poor rural counties in 2009.

TABLE 4 ANEMIA PREVALENCE (%) AMONG RURAL CHILDREN UNDER FIVE, IN MONTHS AFTER BIRTH

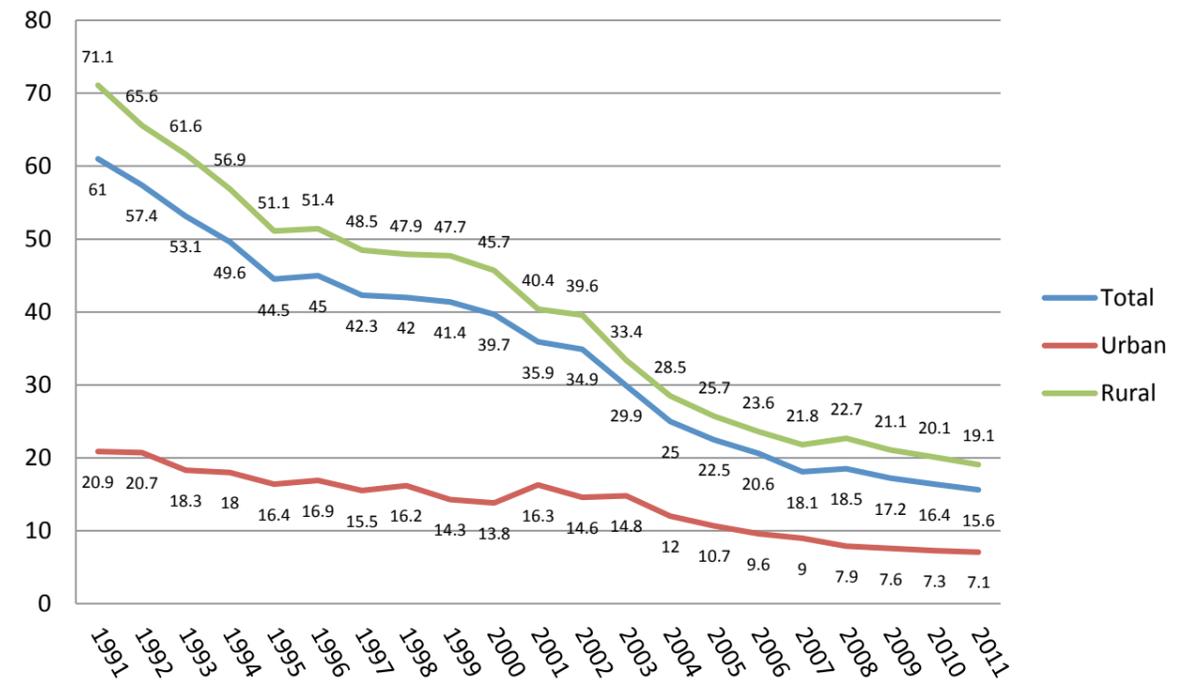
MONTHS	RURAL				POOR RURAL			
	2005	2008	2009	2010	2005	2008	2009	2010
0-5	31.4	31.6	28.6	20.8	40.3	30.1	41.2	21.6
6-11	40.3	34	33.5	28.2	34.6	32.2	42.3	31.9
12-23	26.9	24.7	22.8	20.5	25.7	22.1	32.1	20.5
24-35	15.8	19.1	13.3	9	19.1	14.4	18.3	9.6
36-48	13.6	11.4	10.3	7.2	14.6	11	14.6	7.6
48-60	12	11.5	7.7	5.7	14	9.7	10.9	7.9
TOTAL	21.1	19.8	16.7	13.3	21.6	19.9	22	14.2

Data source: CHNS.

The mortality rate for children under five, frequently used as an indicator for child survival, has also decreased substantially in China over the past three decades (see Figure 7). At the national level, the rate has fallen dramatically from 61.0‰ in 1991 to 15.6‰ in 2011. In urban areas, it has fallen from 20.9‰ in 1991 to 7.1‰ in 2011, while in rural areas it has fallen from 71.1‰ to 19.1‰ over the same period. There has also been

a significant reduction in the infant mortality rate in all parts of China (Western, Middle and Eastern). However, serious inequalities remain: the under-five mortality rate of the Western regions is 2.7 times higher than that of the Eastern regions in 2007, and compared with large cities, the rate was 5 times higher in poor rural counties (UN, 2008).

FIGURE 7 UNDER-FIVE MORTALITY RATE (‰)



Note: Under-five mortality rate refers to the number of children per 1,000 live births that die before reaching the age of five
Data Source: World DataBank, 2012, Millennium Development Goals, http://databank.worldbank.org/Data/Views/VariableSelection/SelectVariables.aspx?source=Millennium%20Development%20Goals#S_I

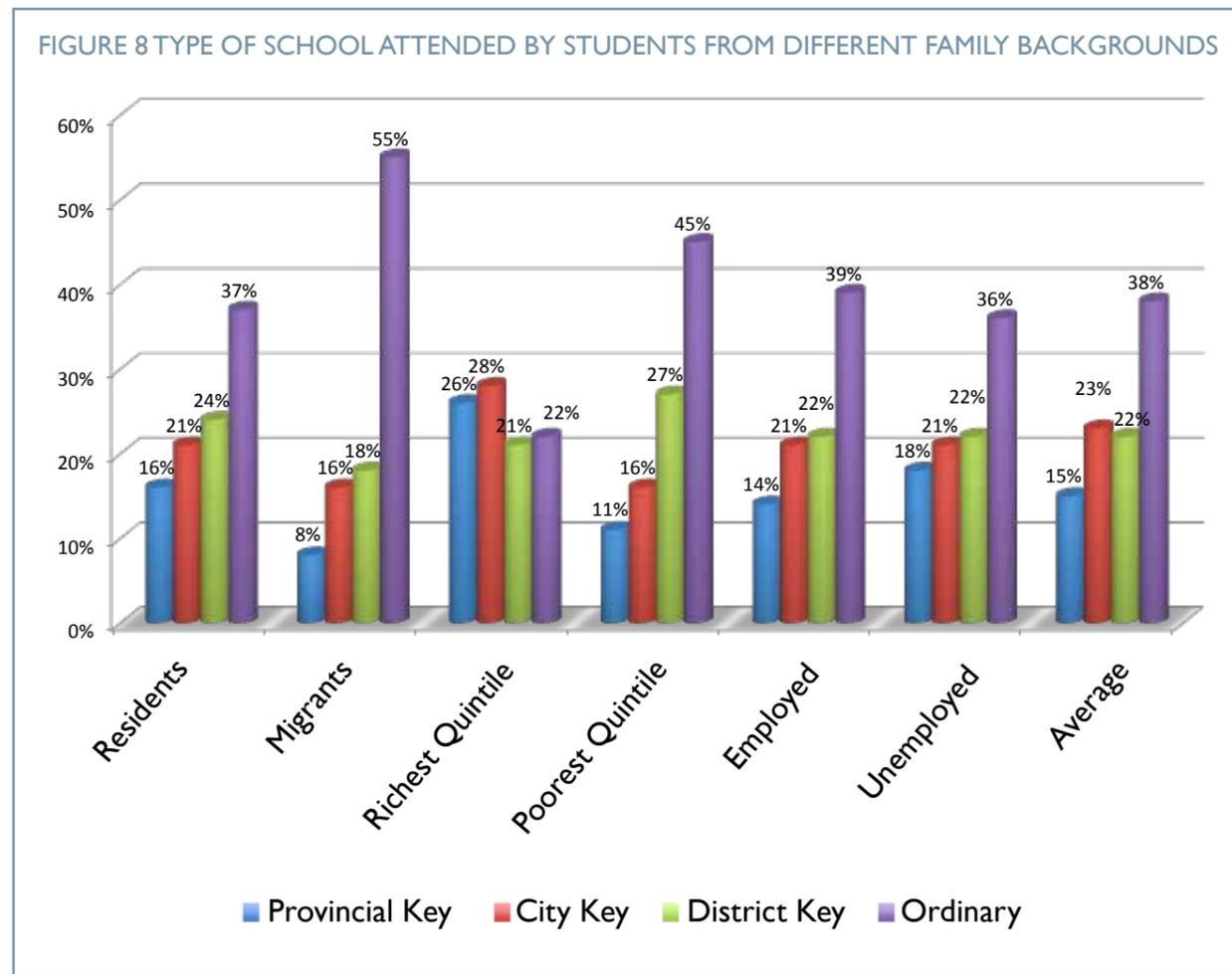
If we examine the relationship between under-five mortality rate by province-level administrative unit, there is a negative correlation with the level of economic development (NWCCW et al, 2010). With a few exceptions, provinces with lower GDP per capita have a higher child mortality rate, and vice versa (Rudan et al, 2010). Shanghai and Beijing, for instance, have the highest GDP per capita and the lowest under-five mortality rates. However, China has made impressive

progress according to economic as well as health indicators between 1990 and 2008, such that the per capita GDP of the poorest provinces and regions in 2008 is close to that of the richest back in 1990. Similarly, under-five mortality rates of the poorest provinces in 2008 are similar to those of the wealthiest provinces in 1990 (NWCCW et al, 2010), suggesting that there are considerable potentials for the poorest provinces and regions to make further improvements.

EDUCATION QUALITY: INCREASINGLY LINKED TO FAMILY BACKGROUND

Educational inequalities, particularly according to region, are evident in terms of access and quality. As Qian and Smyth (2008) note, regional differences may vary by education level. The higher the level of education, the greater the degree of inequality. This is partly due to the increasing cost of receiving more schooling. Also, there are large disparities in education funding, school facilities, teacher qualifications and school achievements across provinces and between rural and urban areas. Qian and Smyth (2008) found that differences between coastal and inland provinces in educational attainment were not as large as inequalities within provinces, which is an indicator of the strength of urban–rural disparities within an area. A survey in poor rural areas (Yi, et al., 2012) found that the drop-out rates for grade 1, grade 2 and grade 3 students in junior high schools were 5.7%, 9.0% and 10% respectively between September 2009 and January 2010. That is to say, more than 25%

of students cannot complete their junior high schooling in poor rural areas. Besides the informal fee payment system in schools, the rapid increase in wages has also tempted young people to drop out of school to work. In terms of education quality, as Wang and Wu (2008) argues, ordinary education in China has gradually changed from a meritocratic competition system to a largely private competition system in which students' level of achievement is determined by wealth, power and guanxi (private connections). Figure 8 shows the outcome in terms of unequal enrolment of students from different family backgrounds. In urban areas, disparities between higher quality 'key' schools and lower quality 'ordinary' schools are evident in the differential enrolment rates of local, migrant, and poorer children. The increased importance of private connections and "selection fees" to get children into elite urban public schools reinforces existing social disparities.



Data Source: The chart was originally produced by Wang and Wu (2008) and was cited by World Bank and DRC (2012). The authors of this report has redrawn the chart.

Inequalities in educational attainment and school quality are reinforced by the household registration or hukou system. This presents particular challenges for migrant workers and their families who have limited access to social services outside their home province. The resultant effect is that migrant families have to pay prohibitive fees to give their children an education in urban areas and even then, their children can only attend regular schools, not higher quality 'key schools'. In higher education, children from rural backgrounds have been increasingly excluded from good quality universities in China. While the proportion of college students from rural areas has increased over the past 20 years, the rural–urban gap continues to exist. According to the Department of Students at the Ministry of Education (cited in Tian, 2011), the proportion of new entrants from rural areas accounted for just over 40% of total new college enrolment in 1989, increasing to more than 50% in 2005. However, the share of college entrants or students from rural areas in the top 100 universities has declined. Case studies in Beijing indicate that the current share of students from a rural background in Tsinghua University decreased from 21.7% in 1990 to 17.6% in 2000; in Peking University, it fell from 18.8% in 1991 to 16.3% in 1999; and in Beijing Normal University, it fell from 28% in 1990 to 22.3% in 2002 (Sun, 2009; Pan, 2009). Outside Beijing, a survey in Hebei province in 2005 and case studies also show the same trend (Tian, 2011).

WATER, SANITATION AND MEDICAL SERVICES: CLOSELY LINKED TO INCOME LEVELS

There is still unequal access to safe water and sanitation, affecting children at home and at school too; access is correlated with income levels. In five selected provinces for safe water projects, Shang and Wang (2011: p 218) found that the proportion of children without safe water in poor households was 33.47%, while the proportion in non-poor households was 14.56%. A survey on water and sanitation conditions of primary and junior high

schools in rural areas suggests that the quality of water and sanitation in different regions is closely linked to its economic development. In 2008, more than 16% of schools nationally were without a water supply system, two-thirds of schools lacked hand-washing facilities, and three-quarters of schools had no sanitation facilities. While in the Western region, the situation was even worse (more than a quarter of schools had no water supply system, three-quarters lacked hand-washing facilities and four-fifths had no sanitation) (CDC, 2010). There are also clear differences in the choice of healthcare provider among the richest, poorest and middle quintiles of the population (NWCCW et al, 2010). The richest quintile tends to favour provincial and city-level health facilities, which offer the most comprehensive care. In China, community-level clinics offer cheaper and lower-quality healthcare. These services are more likely to be used by the poorest people than the middle or upper income groups. Many people from the lowest quintile cannot afford to use health services at all.

MULTIPLE DEPRIVATION AND SOCIAL EXCLUSION: A FOCUS ON GENDER

Different factors combine to cause multiple deprivations for certain groups. Taking rural children, and rural girls in particular as an example, the gender gap in schooling years has decreased over time, but it still varies considerably by area (rural versus urban). In terms of years of schooling, there has been nearly no significant gender discrimination against girls in urban areas, whereas girls in rural areas still face discrimination. This is particularly the case for girls in remote and poor rural areas (Zhang et al, 2012), where schools are more likely to be closed for cost-saving purposes (Li and Piachaud, 2004). Moreover, rural children would be more likely to go to ordinary schools and ordinary universities.

As Cao et al (1997) argue, under-utilisation of health services by the poor has contributed to the higher mortality rate of children under five in poor areas. Moreover, there are also clear gender dynamics in the choice of healthcare provider. Girls from poor households are much less likely to be taken to see a doctor when they become ill (see Table 5). Much depends on where a girl is born.

TABLE 5 MORTALITY RATE OF CHILDREN UNDER FIVE BY GENDER IN SURVEILLANCE AREAS(‰)

	All surveillance areas		Poor surveillance areas	
	Male	Female	Male	Female
1991	47.85	46.25	79.10	79.74
1992	42.96	42.11	78.96	81.29
1993	40.86	41.35	75.95	85.70
1994	37.05	36.96	73.57	77.22
1995	33.32	32.57	71.20	74.01

Data Source: National Surveillance Data, cited in Cao et al (1997).

Using surveillance data from 1997–2000 to analyse differences in the causes of death of children under five in rural areas, Kang et al. (2002) found that when they examined the place of death, whether the child was sent to hospital before death, and the level of diagnosis, there were significant differences between boys and girls. Boys were more likely to die in hospital, more likely to be sent to hospital for treatment before they died, and more likely to be treated within 24 hours. On average, boys also received a higher level of treatment than girls. Boys' deaths were more likely to be due to unavoidable causes such as cancers, whereas girls' deaths were more likely to be due to avoidable causes such as respiratory diseases. The findings showed that parents were more willing to treat boys when they became ill. As the study concluded, girls had more harsh survival conditions than boys in these rural areas, reflecting the joint effects of male preference and rural poverty.

Gender dynamics not only determine a girl's healthy development, but also determine the parental skills of mothers, which in turn affects their children's development. For example, Mangyo (2008) used CHNS data from 1989 to 1993 to analyse the impact of the introduction of in-yard water facilities on child health. The study found that if the mother in a household was better educated with at least a secondary school degree, an in-yard water source would improve the children's height and weight, but not body mass index (BMI). If the mother was not so well educated, however, providing an in-yard water source did not improve these health indicators. This reflects strong gender inequalities in child health, compounded by the fact that rural women are generally the least educated group in China.

Women's lack of education as well as primary responsibility for household care and farm work can also affect their ability to provide maternal care, with negative consequences for their children's health. Urban male migration has resulted in women having to take up increasing responsibilities both at home and in their fields, leaving them with much less time to look after and educate their children (Jia et al, 2010). In addition, there is some evidence that mothers under severe pressure are more prone to become bad tempered and physically or verbally abuse their children. This can enhance the children's risk of depression (He et al, 2012). Interestingly, the same study also found that maternal care or a lack thereof was correlated with literacy levels.

MULTIPLE DEPRIVATION OF CHILDREN DUE TO INHERITED FACTORS

As a chronic and remaining problem, poverty has a major impact on access to essential services. As an emerging problem, inequality has much more influence on access to social services of good quality. As a traditional problem, gender still has influence on multiple dimensions of child wellbeing, in particular those children in poor regions and households. In a sense, the influence of gender depends on the factor of poverty.

Many children are disadvantaged often before they've even been born. This is due to poverty, gender and inequality, things that they can have no power over. It is necessary therefore to weaken the link between child wellbeing and each of these three factors.

ROOT CAUSES OF INEQUALITIES

The inequalities discussed in this report can all be traced to three dimensions of unbalanced growth: across regions, provinces and counties; across rural and urban areas; and across households, such that incomes at the top of the distribution have grown faster than those in the middle and/or bottom. In particular, income growth has tended to be highest for people who have received the best education. However, on closer examination, the root causes of this unbalanced growth lie in structural transformation associated with economic growth and policies as well as traditional or cultural factors.

IMPACTS OF ECONOMIC STRUCTURES

It is widely recognised (Yu and Chen, 2011: pp16-17; World Bank and DRC, 2012: p 300; Li, 2012) that growing inequalities in income and consumption are partially attributed to the level of development or "Kuznets effect" – the result of labour moving from the low productivity and labour-intensive agricultural sector to the higher productivity and relatively more capital-intensive manufacturing sector.

Another factor behind the growing inequality in many developing economies is international competition or globalisation (OECD, 2011). At one extreme, China has begun to recruit top professionals from the international market on extremely high pay. However, rises in the wages of low-skilled workers have been contained to ensure international competitiveness.

Although important, economic structures alone cannot explain the growing inequality in China over the past 20 years; economic and social policies have also played an important role.

IMPACTS OF ECONOMIC POLICIES

As Yu and Chen (2011) identified, four major economic policy factors have exacerbated inequality in China. First, **undervalued land and capital have limited job creation**. Labour has been placed in a disadvantaged position as a result of low-interest financial capital, low-

compensation land from rural areas, and low-price natural resources from Central and Western regions. In these circumstances, industry is likely to replace labour with capital when labour costs increase, hence limiting job creation and wage increases – thereby restricting one of the key pathways for the poorest households to participate in economic growth and the creation of wealth.

Second, the state-owned economy controls the lion's share of social surplus and savings, but **profits are not allocated adequately** to public finance. Relative to the private sector, state-owned enterprises consume a large proportion of capital, raw materials and intermediate inputs to produce relatively smaller shares of gross output and value added (World Bank and DRC, 2012: p 25). Moreover, state-owned enterprises only submit 10% of their profits on average to public finances.

Third, the structure of government revenues, in particular **tax incomes**, is neither suitable for income redistribution nor does it incentivise labour. As Gao (2010) notes, around 70% of tax revenues in China come from indirect taxes (such as sales tax, value added tax and consumption tax), and employers pay more than 90% of tax revenues. However, unlike income tax, these indirect taxes are regressive in nature. As a result, it is very difficult for the government to use taxation to respond to income inequality. Moreover, the World Bank and DRC (2012, pp 359–360) note that the "tax wedge"⁶ on labour is higher in China than in most OECD countries.

The individual income tax rate varies according to different sources of income and different tax systems, which makes it difficult to tell whether the overall effect is progressive or regressive. And to date, China has neither property tax nor taxation on capital gains. These factors mean that the government has no effective policy tools to reduce wealth inequality (Gao, 2010).

Fourth, as Yan and Cheng (2010) argue, the **current system of intergovernmental transfer** also reinforces inequalities. From the beginning of the economic

⁶ The tax wedge is calculated as (total labour cost-net take home pay)/total labour cost.

reform to 1994 when the taxation system was formally decentralised, the Chinese taxation system was a fiscal contract responsibility system, which meant that the central government was responsible for approving local budgets and local government were responsible for its own revenues and spending. The problem with this system was that it quickly exposed the weakness of unequal economic development between coastal and inland regions. Inland regions could not obtain enough revenues to fund the same level of services as their coastal counterparts.

In 1994, the tax sharing system was introduced. The purpose was to overcome the problem of increased regional inequality. The central and local government would share tax revenues and responsibilities. Apart from the local government's revenues, which are collected and administered locally, the central government would collect revenues from local governments and re-allocate them according to different local needs. The aim was to use central government funds to even out regional disparities. However, the baseline for taxation and the tax refund rate was set according to the pre-reform taxation records, and consequently, those who had earned more before were rewarded further. Moreover, the top-down allocation of earmarked grants in China is based on the principle of conditionality. The majority of central government grants are provided on condition that the local government provides matching funding. Coastal areas have much more resources to meet these conditions or match government funding, whereas poorer areas cannot generally afford to do so. This means richer areas receive even more grants from central government while poorer areas become even poorer (Yan and Cheng, 2010).

IMPACTS OF SOCIAL POLICIES

In theory, if citizens had access to affordable and decent quality social services and social protection, the impact of income and wealth inequalities on the poor would be less severe. However, the reality is that as the marketisation reforms took place, income and wealth inequality widened, and accessibility and affordability of social services also deteriorated. Social services have become increasingly fee-based, and many protections apply differently between rural and urban populations, and between local and migrant populations. As the World Bank and DRC (2012) observed, several social policy factors have caused these unintended changes.

First, some inequalities are the result of unintended consequences of marketisation of essential services and

past failures to deal appropriately with the public goods nature of investments in human development. Market-oriented reform, together with a deterioration of public ethics, public institutions, and public administration, has resulted in significant leakages of public expenditure. There is also a widespread lack of accountability on the part of government over its duty to deliver public services. The marketisation of public hospitals is a good illustration of this. Since the late 1980s, public hospitals in China have had full financial autonomy. The more profits individual hospitals make, the higher the bonus their employees receive. Under such a performance-based pay system, public hospitals and doctors tend to provide unnecessary services to patients. The marketisation reform in social services changed the original public service providers into private or semi-private institutions that aim to maximise their profits. As a result, social services such as education and healthcare have become less affordable, leaving large numbers of people either excluded from the system completely or receiving poor-quality services.

Second, some inequalities are the direct product of existing policies that institutionalise inequality of opportunity in essential services or fail to provide an effective framework for addressing inequalities. The former includes the hukou system, which reinforces disparities by imposing high costs of education, healthcare, and housing for migrant households in particular. Migrant workers are also less able to access lucrative employment opportunities in the public sector and state-owned enterprises, and face greater challenges than local workers in accessing decent work opportunities. The hukou system also comes into play in the national social insurance system. Rural and rural-to-urban migrant populations do not have the same entitlement and access to urban social insurance schemes as urban local residents. The differential treatment of rural to urban migrants via the hukou system has been widely criticised, but its persistence reflects the difficulties of reforming the system either financially or in terms of meeting the particular needs of a mobile population. Migrant workers cannot easily transfer their social insurance contributions to another city in a different province when they have to move (Li and Piachaud, 2006).

The inter-governmental fiscal system is another example of a policy that fails to provide an effective framework for addressing inequalities. As Zheng (2010) shows, as sub-provincial governments continue to be decentralised, the fiscal capacity of provincial government is also weakened. For example, in the context of education provision,

where the lower levels of local government are expected to play a greater role in funding schools, there is greater inequality between these local regions. Also, under the current inter-government fiscal system, large numbers of rural schools were closed down in the early 2000s for the purpose of enhancing educational efficiency, making education much less accessible in remote rural areas. At the same time, because educational resources are much more concentrated in urban schools, as some cities open their schools to migrant workers' children, many migrant workers bring their children to cities. This is an improvement in the sense that migrants now don't have to separate from their children. However, it also means that rural schools may attract even fewer students and thus less funding. This makes education for those children that are left behind even less accessible, and likely to deteriorate even further in quality. Moreover, the national university exam system requires students to take the exam in their place of origin, and the content of exams varies by province. This means that individual students who migrate out of their home province have to return to their hometown to prepare for the exam. This causes

serious financial and emotional stress for migrant families and their children (An, et al., 2011).

A similar story can be found in healthcare. At the end of 2011, there were 6.24 hospital beds per 1,000 people in cities compared with 2.80 beds per 1,000 people in rural areas. If we only examine health centres, in rural areas, there were only 1.16 beds per 1000 people for rural population in rural townships (see Table 6). Moreover, rural areas have a much lower population density and less geographically concentrated services. As a result, it is much more difficult for a person from the countryside to reach a hospital. This is particularly acute in remote rural areas. Apart from having fewer hospital beds available, rural areas also suffer a shortage of qualified professionals who tend to migrate to cities, often leaving rural hospitals with semi-qualified or even unqualified staff (Eggleston et al, 2008). As a result, when there is a serious illness, farmers have to travel long distances to get the services needed or wait for doctors to come from the county hospital, often on an irregular basis (Pei and Bloom, 2011).

TABLE 6 NUMBER OF BEDS IN HEALTH INSTITUTIONS PER 1,000 PEOPLE, BY REGION (1990–2011)

Year	Beds of health institutions per 1,000 population			Beds of hospitals and health centres per 1,000 population			Beds of township health centres per 1,000 rural population
	National	Urban	Rural	National	Urban	Rural	
1990	2.60	-	-	2.32	4.18	1.55	0.81
2010	3.56	5.94	2.60	3.27	-	-	1.12
2011	3.81	6.24	2.80	3.50	-	-	1.16

Data source: National Bureau of Statistics (NBS) *China Health Statistical Yearbook 2012*, Table 21-7; and *China Health Statistical Yearbook 2006*, Table 3.4.

IMPACTS OF TRADITIONAL IDEAS

From the ratio of boys to girls among newborn children in 2010 (NBS, 2011), we can see the preference for boys in China, particularly in rural areas. In cities, the ratio was over 116. In small towns and rural villages, the ratio was over 120.

One of the most important factors, if not the most important factor, for the higher illiteracy rate among women is that for many years, girls in rural areas were given less priority in receiving education; even where girls were in school, if the family faced financial constraints, girls would be the first to be pulled out of school (Li and Tsang, 2003; Klasen and Lamanna, 2009). There are also

further studies on the impact of the 'one child' policy on schooling between boys and girls. Lee (2012) analysed CHNS data and found that there was no evidence of unequal education outcomes in one-child households. However, in households with more than one child, girls were less well-educated than boys and were more likely to drop out of school.

Recent years have also seen the return of the male breadwinner model. As surveyed by Zuo and Bian (2001), both men and women consider the male breadwinner model to be fair as long as the men can supply the resources needed.

ADDRESSING INEQUALITIES IN OPPORTUNITIES AS WELL AS OUTCOMES

PROGRESS MADE TO DATE

As the China Development Research Foundation (CDRF) (2012: pp 3–7) notes, the Chinese government has made considerable efforts to improve inequalities since 2000, with some degree of success.

First, a series of regional development strategies have benefited the Western, Central and North-Eastern regions. They include the strategies of developing the West, the rise of Central China, and the strategy of reinvigorating the North-East provinces, which seems to have been effective. From 2006 to 2010, for example, the annual growth rate in these regions was 13.9%, 13.2% and 13.6% respectively. These rates were higher than that achieved by the eastern region (12.3%).

Second, rural poverty reduction projects have significantly narrowed the gap between the poorest counties and others, although within the poorest counties, the income gap between households has been widening. From 2002 to 2009, average household income in poor priority counties increased faster than the national rural average. As a result, the ratio of the former to the latter increased by 5 per cent. On the other hand, within the poor priority counties, the ratio of rural household incomes between the top and bottom quintiles increased from 4.6 in 2002 to 5.5 in 2009.

Third, the liberalised hukou system, together with a labour shortage, has contributed to a narrowing of the wage gap between migrant workers and local workers. Despite that, the hukou system continues to be an obstacle for migrants trying to settle down in cities. There have been fundamental changes in the way labour mobility is monitored. Rural workers can now come to cities to work and settle without fearing legal checks and possibly expulsion because of their migrant status. This, combined with the labour shortage due to demographic changes and rising income from farming, has contributed to the narrowing income both within the migrant workforce and between migrant workers and local hukou workers.

In 2001, the top decile of migrant workers earned 5.9 times that of the bottom decile. However, by 2010, the ratio had decreased to 3.8. Moreover, the wage gap between migrant workers and local hukou workers has fallen from 11% in 2001 to 5% in 2010.

Fourth, scaling up public investment in education and healthcare has expanded access to these essential services, particularly for disadvantaged groups such as girls and migrant children. In 2006, when the tuition fee was abolished in western rural areas, it was estimated (cited in Lai and Chen, 2012) that more than 200,000 students who had dropped out returned to schools.

At the turn of the 21st century, more than 300 million rural residents throughout China did not have access to safe drinking water. China earmarked a record RMB 18 billion yuan (\$ 2.1 billion) to improve rural drinking water supplies between 2001 and 2005. More than 800,000 new water processing facilities were installed. As a result, more than 14 million rural families in 27 provinces had gained access to safe drinking water from 2000 to 2004 (Mangyo, 2008). However, as people's living standard improved, people began to demand better-quality water. A new standard for safe drinking water was introduced in 2012.

Fifth, a social safety net has been established, including minimum living standard schemes to cover around 70 million people, and special grants to the poor as well as almost-poor households for education, medical care and housing. There were more than 45 million rural beneficiaries and 25 million urban beneficiaries in 2010, and the gap in minimum living standards between rural and urban areas has narrowed over time in many local areas. Creating this social floor has helped to contain the rise in income inequality and to improve access to essential services by poor households (World Bank, 2001).

Sixth, the half-finished reform agenda on the fiscal transfer system has helped to equalise fiscal capacities among

provinces and localities. As Liu (2011) demonstrates, the central fiscal transfer system has partially reduced income inequality; nevertheless, the local fiscal transfer system has expanded income inequalities because of its inherent bias towards wealthier areas as discussed earlier. Finally, the elimination of agricultural taxes and introduction of price subsidies for farmers have directly increased the incomes of rural households, although the influence of those changes on overall inequality is not significant.

As well as social policies that specifically target children, all policies that target the poorer regions, counties, villages and households have benefited children more than the general population because poverty affects children disproportionately.

POLICY RECOMMENDATIONS

The Chinese government has made important progress in tackling the immediate causes of rising inequalities. However, more significant progress could be achieved in addressing the root causes of inequality in a range of areas focusing on inequality of opportunities, which lies at the heart of the problem.

As most people's basic needs are now being met, the individual's other needs will begin to take precedence and dominate behaviour (Maslow, 1943). As a result, **China should shift its development priorities from fighting poverty to enabling all members of society to participate in and contribute to growth on an equal footing**, regardless of their individual circumstances or background. This is the essence of the inclusive growth strategy proposed by the Asian Development Bank (Ali, 2007) in its partnership with China and also the latest World Bank country partnership strategy with China. Public policy should be adapted to address the disadvantages facing certain groups, thereby ensuring an even playing field for all. Market and government failures that result in a lack of access or inadequate access to basic public goods and services will need to be addressed in a responsible and accountable manner (ADB, 2006).

In order to tackle the root causes of inequality of opportunities, **the Chinese government should adopt a strategy of promoting equal opportunities for all citizens to pursue a decent life**. This strategy should aim to achieve four objectives:

1. to improve market mechanisms to maximise economic opportunities
2. to promote equal access to economic opportunities, and establish models for lawful pursuit of those

opportunities

3. to consolidate the basic social floor for those who are not able to participate in and benefit from economic opportunities
4. to regulate high incomes through personal income tax and a tax on household assets

The following concrete measures could be taken to achieve these individual objectives. **In terms of maximising economic opportunity, both price distortions (eg, in land, natural resources, interest rates and exchange rates) and public sector monopoly should be reduced or even be eliminated.** The first measure could encourage more effective use of capital and labour, and the second could promote fair competition.

To promote equal access to economic opportunities, it is necessary to scale up early childhood development (ECD) and nutrition programmes, particularly in poor rural areas, which have some of the worst development indicators. As the World Bank and DRC (2012) argue, based on the experience of many countries, investing in ECD yields strong economic returns, including improving productivity; it is also the most cost-effective way to break the inter-generational transmission of poverty, and has the added benefit of strengthening social cohesion.

Equality of opportunities is also rooted in equal access to good-quality public services, including education and healthcare. Action is needed in two areas:

1. promoting "equality of quality" in compulsory education and extending affordable access to post-compulsory education by providing universal access to free senior secondary education
2. accelerating reforms in health sector finance to improve provider incentives, and rebuilding the primary care system as the basis of a coordinated healthcare system.

To achieve these aims, **public service providers should have the right incentives so that they can uphold professional ethics and deliver good-quality, timely services to the target populations**. It is also necessary to enhance the citizens' voice and participation in the delivery and monitoring of social services, and enhance the role of the non-state sector as service providers. In terms of equal access to decent jobs in the public sector, it is important to promote transparency in public sector recruitment to encourage equal access to sought-after jobs.

To ensure that equal opportunity leads to equal outcome, **it is crucial to enforce regulations on equal pay for the**

same work, particularly addressing inequalities between men and women, contract and dispatched workers, and migrant and local workers.

In terms of the social safety net for those who need it most, **there needs to be a consolidated social protection system to ensure that incentives to work are effective and to offer social protection for the poor or those who are unable to take up work.** To achieve this, the responsibilities of central and local government in the provision of public services need to be more clearly defined, and fiscal transfers from central government need to be increased to ensure the smooth provision of essential universal services.

Finally, **to reduce income and wealth inequality, regulations on individual income tax should be enforced, and taxes on household wealth should be introduced** (including inheritance taxes). As the study group of the China Taxation Society (2003) recommended, it is necessary to improve the capacity of individual income tax to narrow the income gap, to introduce taxation on property and rental income, and to use estimated housing value to calculate the tax rate on housing property. This

would require the government to improve its capacity to obtain information on household incomes and wealth, which would also help fight against corruption.

Alongside the need for a national strategy and actions to address inequalities, the international community must work together to govern the flow of capital and highly skilled professionals to help ensure that the process of globalisation is fairer and more sustainable. For example, international treaties should be consolidated and strictly enforced to limit tax havens.

As the biggest developing country in the world, China has made remarkable progress not only in reducing poverty but also in enabling broad sections of society to participate in economic life. As an upper middle-income country, China now needs to expand its development strategy to promote equal participation of all members of society in the country's economic and social development, ensuring equality of opportunities and outcomes. With strong political determination and commitment, China could be a role model for its peers and for the whole developing world.

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