

## **"Beneath the Miracle: Inequality and Economic Development in China"**

In the past twenty years, millions have been lifted out of poverty, and prosperity has spread throughout many parts of China. But, argues Dr. Joseph Wang, there is a downside to this pattern.

China has raced to attract foreign direct investment (FDI) at all costs, and output is privileged over all other factors. This leads to money wasted and increasing levels of inequality, especially between urban and rural Chinese and between different regions. Moreover, it has encouraged corruption which deprives the state of trillions of yuan in evaded tax. Experts estimate that so-called "grey" income accounts for an astounding 30 percent of GDP in China.

The Central government is concerned about the situation, recognizing that the income of the top 10 percent of the richest Chinese is already 23 times that of the bottom 10 percent, as opposed to 7 times a decade earlier. Peasants are losing faith in the possibility of improving their standard of living; protests over unjust treatment increase every year thus threatening the social stability which constitutes the basis of the government's legitimacy.

Narrowing such a gap requires new choices of the kind Taiwan, South Korea and Japan have made successfully. These are difficult for China given its huge population and the fact that, 70 percent of China's economy is dedicated to exports which is tied to low salaries for workers and to cheaply priced goods.

Despite the undeniable difficulty of re-distributing wealth, thus increasing the purchasing power of all Chinese, Dr. Wong is convinced that it is a political imperative for the current Chinese leaders to make these new choices now.

In his view conditions are ripe as China's wealth enables it to maintain economic growth while ensuring greater equality. It is a choice only China can make. Hu Jintao and Wen Jiabao want their legacy to be political reform and that reform depends on how China deals with the problem of inequality.



**Upscale Chinese women stroll past a beggar in Shanghai. The Communist Party has said it wants to reduce the growing inequalities in income which have arisen as China develops.**