https://doi.org/10.18778/8220-793-4.05

Gabriel Hasík

University of Economics, Prague

Income inequality in today's China

Abstract
This chapter is focused on the problem of income inequalities in contemporary China which is one of the biggest developmental challenges for this country. First this part of the analysis includes general overview on studied problem putting emphasis on instrument for measuring income inequalities, and general drivers of this phenomenon. Second part is concentered on the nature of this problem in China since the late 1970s, when country has faced a period of rapid economic development. Chapter also points out attempts taken by the Chinese government to reduce income inequalities.

Keywords: *China, income inequalities, Gini coefficient, Lorenz curve*

1. Introduction

Income inequality is today generally seen as a part of every democratic society operating in a market economy. Some economists see its causes in the different abilities of individuals. Others consider this phenomenon to be a consequence of discrimination against certain groups of the population. Debraj Ray defines general economic inequality as a basic disparity that allows individuals to make a material choice (Ray 1998, p. 218), while another individuals denies the choice. This inequality is closely intertwined with the concepts of length of life, personal abilities, political freedoms and others. The concept of income inequality represents the degree of disproportion in the distribution of national income among households in a particular economy (Todaro 2012, p. 219). Household income is defined by the OECD as a household disposable income for a certain year after deducting income tax and social contributions. It consists of income, self-employment, and income from capital and government transfers.

The question remains the ideal rate of income inequality, which is influenced by various factors and to which the economic community is not in agreement. For example, Nobel Prize-winning economist Robert Lucas considers the tendency to address the issue of distribution of current production as bad (Lucas 2004). Effects arising from such work are considered to be virtually nil, compared to the potential for increased production, which it considers unlimited. The opposite view is the economists Anthony Atkinson or Thomas Piketty. Atkinson, for nearly half a century has promoted the issue of inequality as the basis of his approach to economics, which he considered to be social and moral science (Atkinson 2015, p. 7).

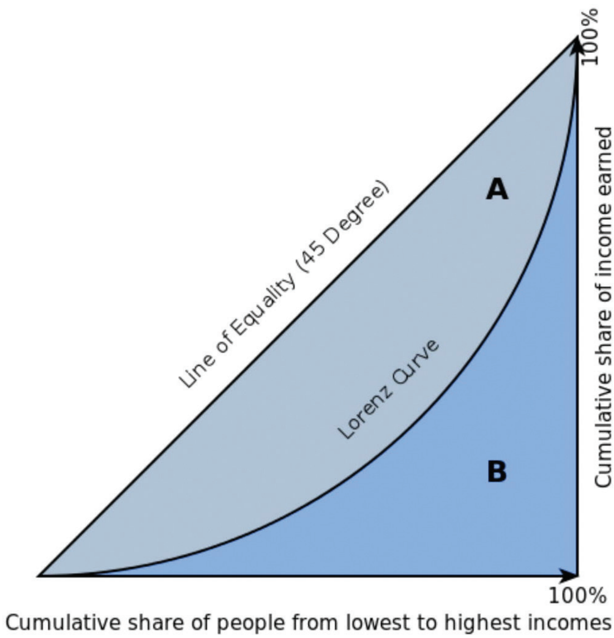
When examining inequality, it is possible to follow different indicators. In addition to income, economists focus on household consumption or wealth distribution. Revenue can be difficult to measure, and especially in poor countries, household consumption is a better indicator. Domestic households consume most of their own production rather than make a profit of it. Consumption is also a more stable indicator because it does not fluctuate as much as income (ibid.). However, the most commonly used and better identifiable indicator in most countries is income, and therefore the most commonly used to measure the socio-economic differentiation of the country's population.

2. Income inequalities in general

Among the tools used to measure income inequality, I will only mention those most commonly used and relevant to the rest of the work. A common instrument for measuring income inequality is the Gini coefficient, named after Italian Corrado Gini, who first formulated it in 1912. The Gini coefficient represents on a scale from 0 to 1 the inequality of income distribution within a particular unit, 0 being an absolutely equal distribution; 1 absolutely unequal distribution. In countries with high income inequality, the Gini coefficient ranges between 0.50 and 0.70, while in countries with a relatively low income inequality level, it is between 0.20 and 0.35 (Todaro 2012, pp. 220–221).

The Gini coefficient is based on the Lorenz curve, which is a deviation from total income equality. The corresponding curve shows the actual relationship between the percentage of the population and the proportion of total national income that a given percentage of the population receives over a certain period of time. The more the Lorenz curve is bent, and the more it moves away from the line of equality, the higher the inequality in the distribution of income in a given country (ibid.). We calculate the Gini coefficient as a percentage of the content of the area that forms the diagonal of the total income equality with the Lorenz curve and the entire area *A* lying below the line of equality.

Figure 1. Lorenz curve



Source: Macdonald 2017.

Inequality is an integral part of our society and there are many positive and negative reasons for its existence. At the level of a particular individual, it may be due to different skills, psychological properties and physical abilities. People also face different choices between work and leisure or willingness to risk and certainty. However, inequality is increasingly seen as a general social problem that has a negative impact on the development of the economy. The causes of these inequalities are a complex phenomenon and reflect economic and social changes.

Technological development is one of the biggest drivers of income inequality in OECD countries. Evidence from the big emerging markets are showing the trend of increasing income inequality between highly qualified workers and low-skilled workers, although they are experiencing a large increase in highly educated people to reduce inequality (IMF 2015). Another reason for income inequality is the increasing globalization and the liberalization of trade and financial flows. Trade has been and still is the driving force behind economic growth in many countries. Its main benefits are competitive environment and increased efficiency. However, increasing international trade and large financial flows between countries, partly made possible by the development of information technology, are often referred to as one of the catalysts of income inequality. In developed countries, in the context of liberalization, the demand for unskilled labor is declining, and companies can offer high salaries to skilled workers who are in short supply on the labor market due to offshoring and job savings. The positive effect of growing international trade could be to reduce income inequality in developing countries by shifting production and increasing the demand for a large number of less skilled labor. Deregulation and globalization in the area of finance can create an environment for effective international allocation of capital and risk sharing across borders. On the other hand, the increase in portfolio and foreign direct investment, in China in particular in the 1990s, has proved to be a factor increasing income inequality in developed and emerging economies. One possible explanation is the concentration of foreign capital in technologically advanced industries such as telecommunications, pharmaceuticals, electronics and generally the hi-tech industry, pushing the demand and wages of skilled workers up. Another cause from the global point of view can be changes in the labor market. These changes mainly concern higher labor market flexibility that allows human resources to move into more efficient and, above all, more profitable firms. Greater flexibility also creates an unstable environment for workers. Income inequality in this case can be hampered by the strong position of unions and various chambers or unions associating the same professions. If the negotiating position of these institutions is weak and their influence low, there is an increase in income inequality (Perkins, Radelet & Lindauer 2001, p. 177).

Income inequality varies across countries, and the country's history and political experience are undeniable in its forming. A clear example is South Africa, which is a country with one of the world's highest income inequality. According to the World Bank, the Gini coefficient in South Africa was 0.63 in 2014. The causes of local inequality can be classified as demographic, or politically motivated. Between 1948 and 1991, the apartheid government deprived all blacks and other non-white South Africans, property rights to land, on the basis of race and ethnicity, access to quality education and residence in larger urban areas. Today, this historical heritage is reflected in the high income inequality of South Africa (ibid.).

Other causes of income inequality may stem from geographical differences in the country. As a result, there are differences between urban and rural areas. Economic differences between cities and the country have always existed across history. The process of massive urbanization has begun to deepen these differences. In China, the number of cities and their population has grown considerably since 1978. Gradual liberalization and globalization have primarily been reflected in the transformation and development of urban areas, while the rural status has remained almost unchanged. The majority of government expenditures and investments in most developing countries have long been moving towards urban areas, particularly in the relatively rich modern manufacturing and commercial sectors. Generally speaking, the most poor are unevenly located in rural areas. For example, about two-thirds of the poor earn their living from their own agricultural production or as very low-income farmers (Todaro 2012, p. 250).

Differences between urban and rural areas are a reflection of so-called spatial inequality and may be a major contributor to overall inequality in many developing countries. The difference between cities and the country most strongly reflects the inequality of opportunities, especially in access to health care, education and jobs. In many developing countries, for example, there is a much higher proportion of secondary and tertiary educated people in cities. This also applies to China, which is still struggling with gender inequality in access to higher education than basic education. In urban areas, this inequality has been greatly reduced since 1980. In rural areas, girls in high school and older age are still facing major obstacles in enrolling in school (Zhang 2012, pp. 23–25).

Access to healthcare is dependent on where you live. The rate of child mortality in Asia remains much higher in rural regions than in cities. Progress has been made in reducing 80% mortality among children under five years in East Asia between 1990 and 2015, and similar success has been achieved in the Latin American and Caribbean countries (You, Hug & Ejdemyr 2015, p. 3). The inequality of opportunities itself affects income inequality. Especially in China and India, inequality of opportunity strongly translates into income inequality, which is reflected in faster growth of income in cities than in rural areas (Keeley 2015, p. 38).

Direct policy factors with an impact on income inequality include government transfers and the way wealth is redistributed to the state. Governmentalities are mainly related to inequality of opportunities. By investing in education, social programs or the healthcare sector, the state can mitigate inequality. In developing countries, however, redistribution systems are mostly underdeveloped (ibid.). Governments in developed countries historically mitigated inequality primarily through progressive taxation and social transfers (IMF 2015).

3. Inequalities in China

Since the late 1970s, China has experienced a period of rapid economic development. GDP growth accompanied by increased disposable income and living standards did not go away without significant changes in income inequality. A number of studies show that the rate of income inequality is linked to economic growth. Before starting the process of modernizing the economy, China's external economic policy could be described as isolationist. The government severely restricted trade, foreign investment, and inflow of knowhow, so the potential of the Chinese economy remained largely untapped. It could be said that Mao Zedong's socialist economic policy has hampered the development of the economy while trying to achieve self-sufficiency. Only economic reforms that began in 1978 by Deng Xiaoping enabled the development of the Chinese economy.

Party leadership underwent economic reforms in the late 1970s when neighboring countries such as Hong Kong, Singapore, Japan and Taiwan were in a period of significant economic growth, while the Chinese economy failed. China's leadership has become increasingly aware of the need to transform the existing economic model. In addition to the increasing economic inefficiency compared to the achievements of some of the surrounding countries, continued poverty and technological backwardness contributed to this. In 1978, the Fourth Modernization Program was adopted at the 3rd Plenary Session of the 11th Functional Period of the Central Communist Party Leadership. This program first appeared in January 1963, when it was presented by Prime Minister Zhou Enlai in Shanghai. The Zhou's program has already included reforms of four key areas – agriculture, industry, science and technology and defense (Horalek 2013, pp. 10–24).

An open door policy has been essential for the development of the Chinese economy. In 1980, four cities on the southeast coast were designated as "Special Economic Zones" (SEZ). These zones were legally exempted from regional subordination and created a special economic, social and legal environment to attract foreign investors. The main benefits for foreign investors were low costs, minimal legal regulation of production, state incentives and significant tax relief (ibid.). The cities that first received SEZ status were Shenzhen, Shantou, and Zhuhai in Guangdong Province and Xiamen in Fujian province. SEZ has become the engine of the Chinese economy in the spirit of Deng Xiaoping's idea of "letting some people and regions get rich first." Guangdong Province itself became known as the "one step ahead of reform in China" region. Especially cities from so-called the Perth River Delta area, headed by Shenzhen, showed an annual rate of GDP growth of around 40% in the 1980s (Cartiere 2013, pp. 86–87). The geographic proximity of Hong Kong and Macau has allowed the region to establish an export-oriented economic system, thus becoming the region with the largest share of exports and the main entry door for world trade and investment in China (National development and reform commission 2008, p. 2). In addition to the Chinese gateway for foreign investors, SEZs have become some form of incubators where market economy mechanisms are being tested, but in many cases also democratization laws, which, after successful testing, can spread further to other provinces (Horalek 2013, pp. 16–17).

The degree of openness of the economy is usually measured as the share of export and import in GDP. In case China's openness has increased considerably since 1978. The share of Chinese exports and imports in GDP grew from 8% to 35% between 1979 and 1993 (Sun & Dutta 1997, p. 843). Many studies show that the boom in exports has contributed significantly to China's economic growth over the last 35 years. Between 1978 and 2008, total Chinese exports showed a year-on-year increase of 18.1%. This boom has had a direct positive impact on economic growth, especially in the eastern and southeastern provinces of China. The main reason for this is SEZ, which has been established as one of the instruments of regional development and open door policy (Zhang & Felmingham 2002, p. 175).

Currently the most important social security system in China is the guarantee of a minimum standard of living known as dibao. According to Chinese statistics, in 2014, the system helped nearly 19 million citizens and 52 million rural citizens. Like most government policies, the dibao system is divided into two parts: urban and rural. The dibao program was launched in Shanghai in 1993 and subsequently developed into an official social security system for urban residents. Its aim was to ensure a minimum standard of living for workers who had been made redundant as a result of economic reforms. The introduction of the system at the age group was a longer process. The pilot project of the dibao program for the countryside was launched in 1992 in Shanxi province, and in 2007 the government issued provisions on the widespread extension of the dibao system to the Chinese countryside. The state aid allocation is decided on a family basis. If the family income is lower than the appropriate minimum standard of living, the family is eligible to receive support. The dibao program is based on financial support, besides receiving other beneficiaries such as free health insurance, housing support and support for compulsory schooling for children under the age of 18. The function of the dibao system is, among other things, to reduce income inequalities, maintain social stability and promote balanced development (Chen & Yang 2016, pp. 18–19).

While the rate of absolute poverty was reduced during the reform period, the rate of income inequality grew at the same time as the economy grew. Since the start of economic reforms by 1995, China has experienced one of the largest increases in income inequality compared to other world regions for which data are available. Major changes in the degree of inequality are usually associated with profound structural changes in asset distribution and returns. Even the transforming countries of Eastern Europe and the former Soviet Union, however, did not see such a significant increase in inequality as could be observed in this period in China. While the Gini coefficient reached 0.282 in 1981, it grew to 0.388 in 1995 (Yang 2012, pp. 306–310). In 2015, according to the National Bureau of Statistics of China (NBSC), the Gini coefficient was 0.462.

Although the Gini coefficient, reflecting the level of inequality in China, varies depending on the selected data sources or the statistical measurement methodology, it can be inferred from the existing studies that the Chinese income inequality has increased markedly since 1978 (Zhou & Song 2016, pp. 186–208). In 1981, China was still a relatively egalitarian company with a similar income distribution as Finland, the Netherlands, Poland and Romania. The course of Chinese economic reforms can be divided into different stages of time characterized by different effects on the level of inequality. Between 1981 and 1984, real average income grew by 12.6% per year. The increase in revenues was characterized by its relatively even distribution. The relatively even distribution of income over this period is evidenced by the development of the Gini coefficient, which increased only slightly from 0.288 to 0.297 (WB 1997, pp. 9–10).

By contrast, the period between 1984 and 1989 is characterized by a sharp increase in income inequality. At the end of 1988, the Chinese leadership planned to abolish the dual pricing system and switch to a pricing system based on market principles. Reports of planned price deregulation have sparked population fears of rising inflation. For this reason, people have begun to massively collect money from savings accounts. Banks responded by issuing more banknotes into circulation, which led to a rise in money supply and inflation. There has been a rise in consumer prices, especially consumer products such as food. The Gini coefficient between these flights recorded a leap from 0.297 to 0.349. In this period, total personal income stagnated with an annual increase of less than 1%. The average income of the top 10% of the richest grew by 2.8% per year, while the average income of 10% of the poorest people fell by 4.5% per year (ibid.). These changes partly reflect the growing disparities between rural and urban areas (Chai 2011, pp. 164–165). High inflation and rising consumer prices coupled with low or even negative earnings growth led to public political protests that were violently suppressed at Beijing's Tiananmen Square in June 1989.

Between 1990 and 1995, revenue growth was recovering. Revenues increased by 7.1% per year, with a significant increase in inequality in their distribution. During this period, the Gini coefficient increased from 0.339 to 0.388. In spite of the increase in income inequality, the benefits of income growth and low-income groups also felt beneficial. Income of the bottom decile grew by an average of 1.7% a year. The highest increase was recorded between 1994 and 1995 when the average wage of the bottom 10% increased by 9.7% and the average wage of the top 10% by 12.1% (WB 1997, pp.9–10).

China's overall income inequality is largely due to income disparities between urban and rural areas, or coastal and inland provinces. The Theil index's decomposition analysis has shown that the difference in income between urban and rural areas is increasingly significant in China's overall income inequality. Specifically, this difference contributed 37%, 41% and 46% to total inequalities in 1988, 1995 and 2002 (Shi 2016).

Throughout the reform period, it has had a significant impact on the development of the inequality of implementation of concrete reform actions and policies. The reason for the relatively even distribution of income between rural and urban areas in the first half of the 1980s was to support the agricultural sector. It included the introduction of the so-called Household Responsibility System. This system consisted of some de-collectivization and the introduction of partial private ownership. Agricultural land was made available to families, while ownership continued to be cooperative. The result was an increase in agricultural production and a growing income of farmers. In the first half of the 1980s, the reforms did not even touch the urban areas. Due to the above-mentioned reforms in rural areas, the Gini coefficient values have been below their minimum in this period. The lowest figure in 1984 was also recorded in the urban / rural revenue ratio, which was around 1.8 (Luo & Zhu 2006, p. 3).

Since the mid-1980s, the focus of economic reforms has shifted from rural to urban areas, and openness has become a key development strategy. The main focus of the reform efforts has been to become SEZ-based cities on the southeastern coast, which, thanks to the exclusive benefits of their geographical location and friendly environment for foreign investors, have benefited from this openness. The government's strategy has led to the massive development of these pro-export-oriented areas. To illustrate between 1999 and 2005, the Chinese central government invested in coastal areas more than in the rest of China (Wroblowský & Yin 2016, pp. 59–64). In less than two decades, China has also become the largest recipient of foreign direct investment among developing countries in a virtually closed economy since the end of the 1970s (Fan, Kanabur & Zhang 2011, p. 51). The ratio of urban to rural revenue grew by nearly 50% from the late 1980s to 2004, from 2.2 times to 3.2 times (Luo & Zhu 2006, p. 1). Currently, according to the NSBC, it is around 2.7 times. The divergent focus of reforms and their impacts on inequalities between urban and rural areas or coasts and inland provinces play a major role in changes in overall income inequality.

It is clear from the above that changes in income of rural households played a significant role in the development of total income inequality and were inversely proportional to changes in total income inequality. At the end of the 1990s, concerns about the backwardness of rural incomes were boosted by their slow growth. In 2002, Hu Jintao's fourth-generation representative was replaced by Jiang Zemin's Communist Party. Hu Jintao assumed the leadership of a country struggling, among other things, with large internal economic inequalities stemming from previous economic reforms that centered on economic growth. In the leadership of the Communist Party, there was still a concession that economic reforms should continue. Changes in leadership, however, followed an increased emphasis on the sectors and sections of the population that had been delayed in previous reforms. The changes were mainly rural, and a new development policy was under the auspices of "building a new socialist countryside." Within this framework, agricultural taxes and fees were abolished, subsidies for agricultural production and public investment in rural infrastructure began to be provided, the dibao minimum guaranteed living standard for rural areas was extended. The new co-operative health system has also been developed and extended access to 9-year free education (Li & Sicular 2014, pp. 1–41). Prior to joining the new rural development policy, a significant regressive tax burden was characteristic for rural areas, while urban areas benefited considerably from the public finance system in the form of various aids and investments (Khan & Riskin 2001). Following the introduction of reforms in the rural sector, the average tax rate dropped to 2.8% in 2002 from 5.3% in 1995 and after the abolition of agricultural taxes, the tax burden on farmers fell to 0.3%. Nonetheless, taxes have retained a regressive character (Li & Sicular 2014, p. 23).

Since the turn of the millennium, government policy has also focused on the lagging Western provinces. In 1999, the Central Government led by Jiang Zemin initiated the Western Development Program, which was further developed since 2000 under Hu Jintao's rule. The program focuses on the 12 Western Provinces of China and its stated goal is to reduce the gap between prosperous coastal provinces and the lagging rest of the country. The plan includes investments in infrastructure, favorable conditions for foreign investment, environmental protection and support for education, health care and social services. Its emphasis is mainly on investing in large infrastructure projects. In line with this plan, the government has increased fiscal spending and investment in Western regions. The Western Development Program is a multifaceted set of policy agendas and instruments that do not create a single agenda, but rather seek to bring together many different interests and needs. This allows various interpretations, especially at the local and provincial level. Since it is a long-term program, which is estimated to be in the order of fifty years, it is difficult to evaluate its results so far (Horalek 2013, p. 108).

The program has so far been successful in Sichuan Province. Prior to its inception, Chongqing was separated from Sichuan and promoted to a separate province with the status of the cities of Beijing, Shanghai and Tianjin. Chongqing has helped to develop the above-mentioned construction of the Three Southeast Dam. The planned goal was to make cities accessible along the Chang Jiang River. The biggest success of the program is the creation of the Megaregion of Chengdu-Chongqing, which is the center of a densely populated basin with 110 million inhabitants. The people of Sichuan had to migrate in the past for work in the provincial districts where they have been discriminated against. For their distinctive accent they were perceived as members of lower social classes and less hardworking workers. Due to the growing prosperity of their own region, they do not have to migrate for work now. The government has created the Chengdu Hi-tech Industrial Development Zone, which attracts foreign investors and leads to the successful development of technical colleges in the city (ibid., pp. 112–113).

After 2000, western regions kept pace with the rest of China, with their GDP at 17% of total Chinese GDP. Since 2007, their GDP growth has accelerated and reached 19% in 2011. However, according to recent developments, this was not a long-term trend, but rather a short-term effect caused by the global financial crisis and government financial incentives to major projects (Li & Sicular 2014, p. 32). Growth in poorer provinces was also driven by commodity price increases, which account for a higher share of their GDP than the national average. However, commodity prices declined again by 2016 (*The Economist* 2018).

China's progressive efforts under the Western Development Program came into conflict with the traditions and socio-cultural system of the Tibetans. More than two million Tibetans, about one-third, are Tibetan shepherds. Of many, however, shepherds only produce their markings, not the way of livelihood. In 2003, the Chinese government launched a program of resettlement of Chinese shepherds into newly built villages and towns. The pretext for resettlement is the protection of the environment. The official reason for this is the excessive loading of herds and the danger of erosion and desertification. The reason for this is a severe twist when we realize that Tibetan shepherds have lived a nomadic way of life for thousands of years.

According to Chinese Prime Minister Hu Jintao, "development is an essential solution to Tibetan problems." According to Tibetan exile organizations, there is a real reason to relinquish the great mineral wealth lying within the Tibetan Plateau; gold, copper, iron, lead, zinc. Tibet could serve as an inexhaustible mineral store to reduce the Chinese dependence on their imports. Mining on abandoned pastures would result in a much higher environmental burden than the effects of the pastoral life of the original Tibetan nomads (Horalek 2013, pp. 114–115). The problem of resettlement is, above all, its involuntariness. Although local residents receive substantial financial support for building homes from central and local governments, they do not have enough money to afford new housing. At the moment when they give up their livestock, the shepherds lose their only economic resource and with it their independence. Most shepherds are uneducated, often illiterate, and it is very difficult for them to find a new job. From the very development of Tibet, its indigenous peoples can benefit only very little.

Another significant influence on the nature of income inequalities is internal migration. The economic reforms that began in the 1980s are accompanied by an increase in labor demand in urban areas, leading to an unprecedented influx of migrants from rural areas to cities. Estimates of these migrant workers vary. According to the International Labor Organization (ILO), the number was 132 million in 2006, equivalent to 26% of the rural labor force and less than 47% of the total labor force of the cities (Li & Sicular 2014, pp. 1–41). In 2013, the number of migrants was close to 200 million (Weng 2008, pp. 3–4). The Chinese government regulates internal migration through the household registration system ("hukou"). The main discriminatory feature of the system is the registration of the rural population and the prohibition or disadvantage of their migration to cities. Migrant workers, due to the hukou system, face institutional discrimination. It is difficult for them to get better jobs and often work for low wages in an insecure environment, without contracts and any social security or work benefits. In the course of the 1990s, barriers to the movement of migrants within China have increased, but two major limitations remain. The first is the political and social rights of migrants. Migrants cannot take part in political life in a new place of residence, which weakens their relationship to this place, and their demands or criticism can be ignored. At the same time, they are excluded from various social programs, such as unemployment support, support for low-income groups, etc. The second constraint concerns the education of migrant children. Children are subject to higher education fees and excessive numbers of required documents at new registration points. In case they apply for a college, they represent a problem for the set quota of the number of students, and those interested in studying must return to their home provinces.

In recent years, the Chinese government has been trying to help disadvantaged rural workers through various steps, such as guaranteed minimum wages, the promotion of employment contracts with employers, or vocational training programs (ILO 2018). After 20 years, the real wage growth of less skilled workers, including rural workers in cities, grew by 15% in 2011 (Shi 2016, p. 87). According to some studies, migration of rural workers into cities contributes to the growth of rural incomes and helps to reduce income inequality. Without migrant workers in cities, income in rural areas would grow more slowly and income inequality between cities and the country would be greater. Migrant workers are sending part of their income back to rural areas, helping them to increase employment in the countryside, thereby reducing inequality (Li & Sicular 2014, p. 27).

Since the 1990s, urban income inequality has grown sharply. The impact on growth was mainly due to accelerated reforms of state-owned enterprises. The privatization of the majority of state-owned small and medium-sized companies began, which in 1997 followed a profound restructuring of large state-owned enterprises. Restructuring under the pressure of growing competition has led to higher wages for qualified or skilled workers and collective redundancies for others. This meant the end of full employment in the form of iron rice bowls and slow average wage growth. With the deepening of economic reforms, the rise in education, housing and health care prices, which were previously provided free of charge or significantly subsidized by the state, began to grow. Between 1996 and 1998, it is even possible to observe an increase in urban poverty (Luo & Zhu 2006, p. 3). Growth in urban revenues was restored after 2000 (Li & Sicular 2014, p. 17).

A fundamental change in revenue composition was housing deregulation. By mid-1990s, state dwellings in cities were provided for rent at very low prices or completely free of charge, while in rural areas people had to live mostly without the help of the state. This has contributed to greater disparities between cities and the countryside, taking into account that wages in cities were higher than wages in rural areas. The purchase of privately owned apartments and the growth in rents of state-owned flats led to rising differences in rental prices. The focus of this work is income inequality, not property inequalities. However, with housing privatization, another substantial component of the income of urban residents was created; rental income (ibid.). Deregulation itself has led to a substantial increase in inequality in urban areas. The richest 10% of the city's population of deregulation benefited most when they managed to get 60% of the privately-owned urban real estate by 1995 (Khan & Riskin 2016, p. 245). Generally speaking, disparities between urban and rural areas contribute to the fact that incomes other than income from employment accounted for 40% of all urban revenues in 2007, but only 15% of all rural incomes (Li & Sicular 2014, p. 11).

4. Conclusions

As mentioned above, the growing source of income inequality is the growing gap between rural and urban areas. A study by the OECD (2007) and Li & Sicular (2014, p. 11) suggest that the share of income differences between rural and urban areas in total income inequality has been overestimated in the past. As a reason, they point to the non-consideration of some factors that can influence real income gaps and narrow the gap between the two areas. These factors include the different living costs between cities and rural areas and migrant rural workers in urban areas. Both factors decrease the difference, while the difference between the income from real estate and other assets slightly increases the difference. Measuring the impact of these factors on income inequality is complex. However, even taking partial account of these factors, the gap between rural and urban areas remains considerable.

Acknowledgements

This article was written within the project IGA VŠE Prague No. F2/26/2017 „The Fourth Industrial Revolution in Selected Asian Countries"

Works cited

Atkinson, A. 2015, *Ekonomika nerovnosti*, Albatros Media, Brno.

Cartiere, C. 2013, *Unequal China: The Political Economy and Cultural Politics of Inequality*, Routledge, New York.

Chai, J.C.H. 2011, *An Economic History of Modern China*, Edward Elgar, Cheltenham.

Chen, J. & Yang, L. 2016, "Poverty and shame: interactional impacts on claimants of chinese dibao", *International Journal of Social Quality*, pp. 18–19.

The Economist 2018, Rich province, poor province, *Beijing*, viewed 15 September 2018, https://www.economist.com/china/2016/10/01/rich-province-poor-province

Fan, S., Kanabur, R. & Zhang, X. 2011, "China's regional disparities: experience and policy", *Review of Development Finance*, Vol. 1(1), January–March, pp. 47–56.

Heston, A., Sicular, T. & Brandt, L. 2008, *China's Great Economic Transformation*, Cambridge University Press, Cambridge.

Horálek, A. 2013, "Vybrané kapitoly z Geografie Číny", *Academia*, viewed 18 September 2018, https://bit.ly/2E1HFL5

IMF, 2015, *Causes and Consequences of Income Inequality: A Global Perspective*, viewed 17 September 2018, http://bit.ly/1IHeivf

Keeley, B. 2015, *Income Inequality: The Gap between Rich and Poor*, OECD Publishing, Paris, viewed 18 September 2018, http://dx.doi.org/10.1787/9789264246010-en

Lucas, R. 2004, *The Industrial Revolution: Past and Future*, viewed 17 September 2018, http://bit.ly/2BtlNKR
Luo, X. & Zhu, N. 2006, *Rising Income Inequality in China: A Race to the Top*, Policy Research Working Paper, p. 3.
Macdonald, B.D. 2017, "Demonstrating Lorenz curve distribution and increasing Gini coefficient with the iterating", *Research Gate*, viewed 20 September 2018, https://bit.ly/2r3n8RR
National Development and Reform Commission, 2008, *Outline of the Plan for the Reform and Development of the Pearl River Delta*, viewed 18 September 2018, http://on.china.cn/2F2fpMF
Perkins, D., Radelet, S. & Lindauer, D. 2001, *Economics of Development*, WW Norton & Company, New York.
Ray, D. 1998, *Development Economics*, Princeton University Press, Princeton.
Shi, L. 2016, "Recent changes in income inequality in China", *World Social Science Report*, viewed 19 September 2018, http://bit.ly/2EW59GR
Sun, H. & Dutta, D. 1997, "China's Economic Growth during 1984–93: a case of regional dualism", *Third World Quarterly*, Vol. 18, No. 5, pp. 843–864.
Todaro, M. 2012, *Economic Development*, Harlow, Pearson.
Wang, D. 2008, *Rural-Urban Migration and Policy Responses in China: Challenges and Options*, ILO Working Paper.
World Bank, 1997, *Sharing Rising Incomes: Disparities in China*, World Bank, Washington.
Wroblowský, T. & Yin, H. 2016, "Income inequalities in China: stylized facts vs. reality", *Perspectives in Science*, Vol. 7, March, pp. 59–64.
Yang, D. 2012, "Urban-biased policies and rising income inequality in China", *The American Economic Review*, pp. 306–310.
You, D., Hug, L. & Ejdemyr, S. 2015, "Levels & trends in child mortality", viewed 18 September 2018, https://uni.cf/2qeEmKV
Zhang, J. [et al.] 2012, "Gender inequality in education in China: a meta-regression analysis", *Contemporary Economic Policy, Western Economic Association International*, Vol. 32, No. 2, April, pp. 474–491.
Zhang, Q. & Felmingham, B. 2002, "The role of FDI, exports and spillover effects in the regional development of China", *Journal of Development Studies*, p. 175.
Zhou, Y. & Song, L. 2016, "Income inequality in China: causes and policy responses", *China Economic Journal*, pp. 186–208.