



Katajanokanlaituri 6 B  
FIN-00160 Helsinki, Finland  
Tel (358-9) 61599210  
Fax (358-9) 61599333  
E-mail [wider@wider.unu.edu](mailto:wider@wider.unu.edu)  
Website [www.wider.unu.edu](http://www.wider.unu.edu)

## Embargo: Thursday 5 June 2008, 11:00 am

A new study on **'Inequality and Poverty in China'** directed by **Guanghua Wan** at the World Institute for Development Economics Research of the United Nations University (UNU-WIDER) will be launched and presented on Thursday 5 June 2008 **at the United Nations**, 3:00–5:30 pm; conference room 7, United Nations Headquarters, 1st Avenue, between 45th and 46th Streets, New York, NY 10017.

The director of the study Professor Guanghua Wan ([wan@wider.unu.edu](mailto:wan@wider.unu.edu)), and co-author Professor Terry Sicular ([sicular@uwo.ca](mailto:sicular@uwo.ca)), are available for advance interviews; please use the contacts below to schedule a time. Copies of the study and a Policy Brief (in English and Chinese) summarizing the research are available for journalists at the launch and in advance at: [www.wider.unu.edu](http://www.wider.unu.edu)

### Media Contacts:

Ara Kazandjian: +358-50-351-0325; [ara@wider.unu.edu](mailto:ara@wider.unu.edu)

Jin Zhang: 212-963-6387, [jin@ony.unu.edu](mailto:jin@ony.unu.edu)

## Urbanization: the only solution to China's inequality and poverty problems

New York, 5 June 2008. An innovative study released today by the Helsinki-based **World Institute for Development Economics Research of the United Nations University (UNU-WIDER)** finds that maintaining high economic growth alone is not enough if China is to address deep-rooted inequalities and sustainably eradicate extreme poverty. The study argues that China needs to embrace urbanization.

While growth in China has been hailed as a miracle and its impact on poverty is well-recognized, its growth-biased development experience has led to a fast rise in inequality along many dimensions, causing a series of economic, social, and political problems. In particular, lack of purchasing power by the poor and rural residents has contributed to sluggish domestic demand and low labor costs, which have contributed to the expansion of China's exports. China's huge trade imbalance and trade disputes are therefore intrinsically related to the issue

of inequality. Meanwhile, China's development strategists and policy makers have been confronted with a dilemma: should growth or inequality be prioritized in the design and execution of development policies?

Contrary to the advocacy of Dollar and Kraay of the World Bank, the research by UNU-WIDER reveals that growth alone is not sufficient for poverty reduction in China. In the second half of the 1990s, China seems to have suffered from rapidly rising inequality and stagnant income growth, leading to a slowdown in poverty reduction, and even to a reversal in the poverty trend. "If unprecedented growth in modern China is not enough to combat poverty, it is simply unrealistic to expect achievement of the Millennium Development Goals in any other country without emphasizing distribution issues," says Professor Wan.

Although inequality has been rising along some dimensions in China, regional inequality has been a pivotal component. The study reveals that globalization is among the most influential factors underlying regional inequality in China. Moreover, domestic capital is the largest and increasingly most important contributor to regional inequality. Uneven distributions of domestic capital, FDI, and trade account for almost 50 per cent of total regional inequality.

Professor Terry Sicular, a contributor to the study, states 'recent scenes from earthquake-damaged regions of China, largely poor, rural areas, highlight the gap in living standards between China's urban and rural residents'.

The urban-rural gap in China is large and has grown over time. According to Professor Wan, China could only cut its regional inequality by some 30 percent if the east-central-west disparities were eliminated. Alternatively, a drop by as much as 50 percent could be achieved by eliminating the urban-rural gap. Clearly, policies to address poverty and income disparities must target China's rural areas, especially in the poorer West and Center of the country.

In 1999 the Chinese government launched a policy program that is still ongoing of 'western development,' and more recently a policy program of 'building a new socialist countryside'. "Neither of these, however, is likely to work" says Professor Wan. The basic fact is that the rural sector takes up only about 10 percent of national GDP, though it accounts for over 60 percent of the national population.

In the short run, poverty and rising inequality can be alleviated in three ways. First, measures can be taken to establish and develop rural capital markets in order to promote investment within rural China. The gradual withdrawal of bank branches from rural China must be stopped or replaced by development (policy) banks. Policy support in the form of tax concessions and bank lending for investment in poor regions is needed. In particular, financial reforms are necessary in order to eliminate discrimination against small farmers and rural economic activities. While various government entities and financial institutions are experimenting with micro-credit schemes, such schemes must be adjusted to cater to capital formation.

Second, the government should promote foreign trade and investment in inland China. Policy biases that helped trade and FDI in coastal China, but that are now gradually being phased out, should be implemented elsewhere. Third, fiscal spending and fiscal transfers should be made progressive rather than regressive. Government transfers should be conditional, geared towards physical capital formation and education of the young. Public research and development (R&D) investment in agriculture must be increased to improve farming

productivity. Also, as the recent Sichuan earthquake has made painfully evident, special attention must be paid to the quality of schooling in poor areas. Successful implementation of these three policy recommendations could cut regional inequality by more than 50 per cent.

The inevitable and long-term solution to inequality and poverty problems in China, however, lies in urbanization. Rural residents should be allowed and encouraged to permanently settle in cities and towns. Abolishing the household registration system is a necessary but not really sufficient condition for tackling the urban–rural gap.

Some object to such a proposal because of fears that urban areas cannot absorb the huge ‘surplus’ rural population, which could be on the order of 550 million people and that, they believe, may greatly strain the urban infrastructure and generate large-scale unemployment in cities. “I beg to disagree,” responds Professor Wan.

The arithmetic is fairly straightforward. At present, an estimated 100–120 million unregistered migrants are already resident in cities and so effectively absorbed by the urban economy. Their dependents largely rely on remittances. Since migrants are almost all of working age (they typically leave children and the elderly behind mainly due to non-access to education, health, and other facilities), they represent some 100 million rural households or 400 million people. Among these 400 million people, some 100 million are laborers who would need to find employment in the cities. Even without jobs, however, these new migrants can still survive without direct financial support from the government and they would certainly have a better quality of life in the cities than if they had stayed behind. Most importantly, as long as they are treated equally as urban residents in public education, their children and thus the migrant families would have a much brighter future.

Is it realistic to expect that these 100 million extra laborers find jobs in the cities? The answer is yes, not least because the service sector in China is far from fully developed. Settling 400 million migrants permanently in urban China will stimulate the service sector, which is by its nature labor-intensive. Full development of the service sector to match the level of development in China would create jobs; but by how many is unknown. However the potential is huge, particularly considering that cities will double their current size after such an influx.

This leaves 150 million surplus population or less than 75 million surplus laborers in rural China. To settle these migrants over a period of 20 years would be possible with the creation of three to four million jobs each year.

The migration of 550 million rural residents implies doubling the current size of existing cities. This is a worst-case scenario: more likely is that new cities would emerge in inland areas, as suggested by some economists and strategists in China. The population of Shanghai net of migrants was almost 14 million in 2007. Under the worst-case scenario, simple extrapolation would increase this to 28 million around 2030. This is not so incredible. In relative terms it represents a mere 2.2 per cent of China’s population. And calls for a Shanghai of 50 million people are being voiced by leading economists from the city. They argue that many big cities around the world such as Tokyo, London, Sydney, New York and Mexico accommodate 10 percent or more of their national population. In fact, the current population of Shanghai, including migrants, has already reached 18.6 million in 2007.

# # #

**Guanghua Wan** is a Senior Research Fellow at WIDER. He previously taught at Sydney University and University of New England, and his research expertise includes poverty and inequality decomposition, applied econometric modeling, rural development and the Chinese economy. An honorary professor of several leading universities in China including Fudan University and Zhejiang University, Professor Wan has published several books and over 60 articles in referred international journals.

**Terry Sicular** is Professor at the Department of Economics, University of Western Ontario and a Senior Fellow at the Centre for International Governance Innovation, Waterloo, Ontario, Canada. She taught previously at Harvard and Stanford universities. She speaks Chinese and has extensive experience conducting research in China. Her expertise includes inequality, household income and employment, rural development, and market reforms in China. She has two books published, including a recent volume on inequality in China, as well as numerous articles and chapters in scholarly journals and books.

<p><b>For media inquiries</b></p> <p>Ara Kazandjian          Outreach and Media Coordinator          World Institute for Development          Economics Research of the United          Nations University (UNU-WIDER)          Katajanokanlaituri 6 B          00160 Helsinki, Finland          (t) +358-50-3510325  <a href="mailto:ara@wider.unu.edu">ara@wider.unu.edu</a>  <a href="http://www.wider.unu.edu">www.wider.unu.edu</a></p>	<p>Jin Zhang          United Nations University          Office at the United Nations, New York          2 UN Plaza, Room DC2-2060          New York, NY 10017          (t) 212-963-6387          (f) 212-371-9454  <a href="mailto:jin@ony.unu.edu">jin@ony.unu.edu</a>  <a href="http://www.ony.unu.edu">http://www.ony.unu.edu</a></p>
--	---

## **WIDER Publications on Inequality and Poverty in China**

*Income Inequality and Poverty in Transition China*, edited by Fang Cai and Guanghua Wan, published by Social Sciences Academic Press (China) in September 2006. In Chinese.

*Journal of Comparative Economics*, Volume 34, number 4 (2006). WIDER Symposium: Analysing the Socioeconomic Consequences of Rising Inequality in China, edited by Guanghua Wan and Xiaobo Zhang. Accessible via the science direct website.

*The Review of Income and Wealth*, Volume 53, number 1 (2007) comprised a special issue arising from UNU-WIDER's inequality and poverty in China research. It is available free online.

A special selection of papers in the *Review of Development Economics*, Volume 12, number 2 (on the theme of 'Poverty-Inequality-Growth: The Case of China') published in May 2008. These are available free online.

*Understanding Inequality and Poverty in China: Methods and Applications*, edited by Guanghua Wan, published by Palgrave Macmillan in February 2008.

*Inequality and Growth in Modern China*, edited by Guanghua Wan, published by Oxford University Press in March 2008.

The UNU Policy Brief 'Poverty Reduction in China: Is High Growth Enough?' published in English, and Chinese.

Details are available under publications of [www.wider.unu.edu](http://www.wider.unu.edu)

### **Selected endorsements on OUP and Palgrave Macmillan books**

The miraculous economic growth in China has, since the mid-1980s, been accompanied by rapidly rising inequality. This is slowing down poverty reduction and is tearing at China's social fabric. Understanding the causes and implications of this rising inequality is thus critical. This volume provides the most up to date and thorough empirical analyses of these crucial issues by leading China scholars. It should be required reading for China scholars as well as policy-makers trying to address this worrying rise in inequality.

—Stephan Klasen, Professor of Economics, University of Göttingen; Director, Courant Center 'Poverty, Equity, and Growth in Developing and Transition Countries'; Editor, *The Review of Income and Wealth*

The book gathers a fascinating collection of articles on various aspects of income inequality and poverty in China. This is applied economics at its best, with essential policy implications for the fastest growing economy in the world for the past quarter of a century.

—Jacques Silber, Bar-Ilan University, Israel; Founder and Former Editor-in-Chief of the *Journal of Economic Inequality*

This volume of high quality research resulting from UNU-WIDER provides an essential reference for scholars and students worldwide in their research and studies on growth and income inequality in modern China. The editor, Dr Guanghua Wan, is one of the world's most productive and authoritative experts on the Chinese economy.

— Shujie Yao, Professor of Economics and Chinese Sustainable Development, and Head of the School of Contemporary Chinese Studies, University of Nottingham and Special Chair Professor of Economics, Xi'an Jiaotong University