

# China Economist

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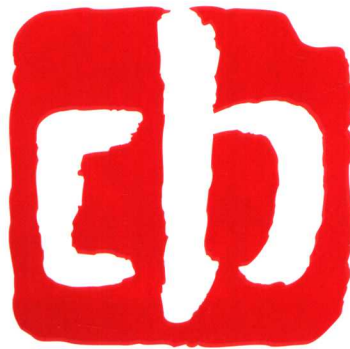
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# China's economic development in the face of new challenges and missions

The last two decades have witnessed the finest period of development in modern Chinese history in terms of speed, balance and stability. However, owing to the nation's unique process of industrialization, new conflicts and problems have emerged.

To date, it has taken two or three centuries for mankind to industrialize more than sixty countries and regions with a combined population of 1.2 billion, which constitutes 20% of the world's total. China, a unified country with a population of 1.3 billion, or 22% of the world's total, will take less than a century to realize her transformation from a traditional society to an industrialized one, which is unprecedented in human history. The implications of China's industrialization are that global industrialized society will double within merely a few decades, bringing about radical changes in the whole domain of global industrialization. Therefore, it is natural that the various difficulties, contradictions and problems which have been experienced elsewhere or which are likely to occur in the process of industrialization will become all the more concentrated and prominent in the case of China.

In fact, China's achievement itself may cause new problems. For instance, in just twenty years there has been a great improvement in the living standards of over a billion people, a large proportion of whom have already attained a standard of living similar to that of most average citizens of developed or moderately developed countries. If this proportion represents 10% of China's total population, that is 130 million people; and if 20%, it exceeds 260 million people. This achievement is unparalleled, but has also highlighted the gap between those who have experienced a big improvement in terms of their lives and the far greater number of people whose living standards have yet to reach a satisfactory level. In addition, tens of millions of people still live in poverty. Therefore, disparities in income and living standards will pose a new chal-

lenge to China's economic and social development.

The challenges are indeed serious, but sufficient material foundations and the necessary conditions have been provided to meet them as a result of the policy of reform and opening up. We are now capable of accomplishing what we failed to do in the past; in other words, this new stage of development places us in a position to reach higher goals. For instance, when the economy was developing at a low level our immediate goal was to eliminate poverty; efficiency therefore took priority while equity came second. When the economy is highly developed, however, more emphasis should be given to social equity. In other words, when the economic development level is low, resources must be allocated for economic development while social development is placed on the sidelines or even temporarily put on hold. When the economy is at a higher stage of development, we must balance the distribution of resources to all areas of social development, with a view to achieving overall economic, social, political and cultural development.

In short, development is a continual process of breaking the equilibrium and forming a new one. The emergence of and solutions to problems and conflicts are integral to the path of development, as comprehensive and coordinated development is possible only when the economy has developed to a certain level and there exists a relatively sound material foundation for overall social progress. Today, the realization of a more equitable and balanced development is no longer simply a wish or a far-fetched goal, but a feasible objective which can and must be achieved.

*Prof. Jin Bei (金碚)*

May 8, 2006

Prof. Jin Bei is the Deputy Director General of CASS' Institute of Industrial Economics and the President of China Business.

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## Jason的紫色午茶时间

### —飞利浦HD7502咖啡壶与 HD2623烤面包机

下午茶时间到了，Jason又成了公司里最受欢迎的人，因为他的office从来不少咖啡和可口的点心，连CEO都喜欢在这个时候找个理由留在他的办公室一起享受片刻美味。

对于咖啡，Jason的品位自然不低，今天他新带了包夏威夷的科纳咖啡，先在飞利浦HD7502咖啡壶的永久性过滤网上倒了不少，加水通上电源，从第一滴咖啡滴入底下的亚罗曼玻璃壶那一刻起，Jason的office就成了公司管理层聚会的“会场”。在这里他们毫不拘束，Alex拿来了藏在茶水间冰箱里的小羊角面包，熟练地打开咖啡机边上的飞利浦HD2623烤面包机，翻开内置面包加热架，搁上有些冰冰的面包，调到第2档火候。六、七个人谈笑风生地等待着面包微微地膨胀，根本无需解冻，不多久就已经很热了。

另一边，咖啡已经煮好了，浓郁的气息充满了整间office，亚罗曼玻璃壶非常适合倾倒，醇美甘甜的味道让Jason连着喝了两杯还觉得不过瘾。虽然二十五分钟的午茶时间很快就要过去了，但Jason却没有让秘书来收拾残局，他喜欢这种小小聚会后自己动手收拾干净的感觉，咖啡壶的可分离式过滤格清洗起来很方便，防滴漏装置也很有效，不粘底保温板上没有留下一滴咖啡，而烤面包机的分离式底盘，也让再多的面包屑也照样无处藏身。只要一分钟，office又如原先那样一尘不染。同事们各自回自己的位置，只有咖啡的香气还萦绕未散。

Jason对自己选择飞利浦这两样紫色宝贝感到很满意，也对自己当初选择这间公司感到由衷的得意，因为融洽的气氛是用钱也买不来的，Jason不由得对公司的未来也多了几分信心。

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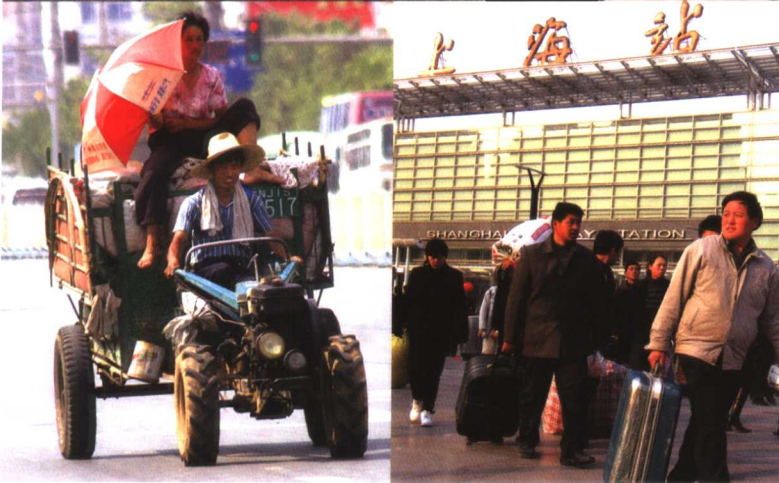
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**020 Early Warning against Growing Income Disparity**

Su Hainan (苏海南)  
Liu Junsheng (刘军胜)

Along with the increasingly thorough economic restructuring which has been carried out since the policy of reform and opening up was adopted at the end of 1978, China has revamped her income distribution system and changed her resident income distribution relationship.



**028 The Interaction between Income Distribution and Economic Growth**

Liu Lin (刘霖)  
Qin Wanshun (秦宛顺)

Along with a rapid growth in Chinese economy, the income gap continues to widen and polarization is becoming increasingly serious. At the moment people cannot help but wonder whether a causal relationship exists between economic growth and the income gap.

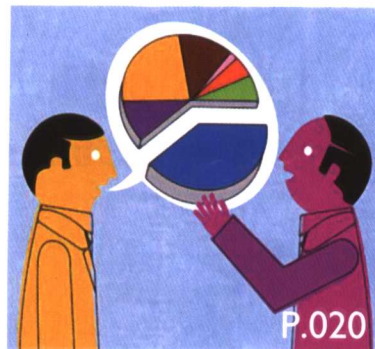
▣ P.028

Trends

**012 It Is Time to Emphasize Social Fairness**

Liu Guoguang (刘国光)

Social fairness is a vital issue in the building of a congenial socialist society. If social fairness is lacking, the building of such a society will be out of the question. In order to attach due importance to social fairness, the relationship between economic efficiency and social fairness must be properly handled.





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«BusinessWeek» (2004)  
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«China Money - a Euromoney publication» (2004)  
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Best M&A House - India  
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«Euroweek - Celebration of Excellence 2004» (2004)  
Top Banks by Team Players' Institution - Bonds, Aamir Rahim  
Top Banks by Team Players' Institution - Equities, Kenneth Poon, Willy Liu  
Top Banks by Team Players' Institution - Syndicated Loans, Mohsin Nathani  
Top Banks by Team Players' Institution - Asian Syndicate, Kirsty MacTaggart  
«FinanceAsia» (June 2004)  
Best Foreign Commercial Bank - Hong Kong, Korea, Singapore, Pakistan, Philippines, Taiwan & Thailand  
«Fortune» (March 2004)  
No.12 The World's Most Admired Companies  
«Global Finance» (June 2004)  
Best Investment Bank  
«Greenwich Associates» (2004)  
Greenwich Survey No.1 in Customer Relationship Management in Asia

«Insto - Fixed Income and Credit Research Poll - Australia» (June 2004)  
Best research and analysis on corporations awarded to Brad Scott  
Best research coverage of Australian government and semi-government bonds awarded to Stephen Halmarick Most accurate predictions of rating actions for Brad Scott.  
«Korea Stock Exchange (KSE)» (2004)  
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**084 Seven Issues Directly Affecting Farmers' Interests**

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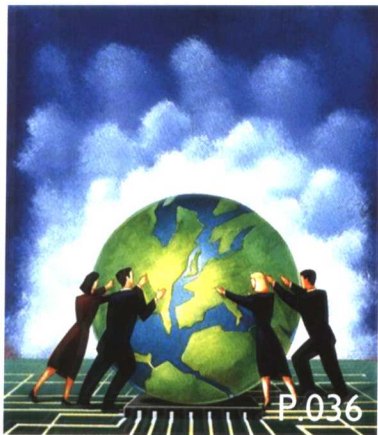
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# It Is Time to Emphasize Social Fairness

Liu Guoguang<sup>1</sup> (刘国光)

**Editorial note:** “Giving priority to efficiency while taking fairness into account” has been the keynote of party and government documents regarding social distribution for many years and lasted until the Third Plenary Session of the Sixteenth Central Committee in October, 2003. In September 2004, the expression “Giving priority to efficiency” did not appear in documents from the Fourth Plenary Session. In October 2005, it was officially replaced by “more emphasis upon social fairness so that the whole population can enjoy the accomplishments of reform and development” in the ‘Proposals of the Chinese Communist Party Central Committee with regard to the Formulation of the Eleventh Five Year Plan for the National Economy and Social Development’ passed on the Fifth Plenary Session. What are the implications of this change and how do the two sayings differ from each another? This article by Mr. Liu Guoguang, an economics expert, will help to guide readers through this issue.

Social fairness is a vital issue in the building of a congenial socialist society. If social fairness is lacking, the building of such a society will be out of the question. In order to attach due importance to social fairness, the relationship between economic efficiency and social fairness must be properly handled.

## I. Rediscovering the relationship between “efficiency” and “fairness”

The concepts of “fairness” and “efficiency” are, theoretically speaking, a unity of two opposites. Common sense tells us that the more

equitable income distribution is, the lower the people’s enthusiasm and efficiency becomes and that a reasonable income gap, provided the distribution procedures and regulations are fair, can help to increase efficiency. On the other hand, the “cake” cannot be made bigger in the absence of improved efficiency, thus

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making it difficult to maintain sustainable fairness and resolve a growing number of social contradictions. However, if fairness is ignored, the income gap will further widen - particularly in regard to unfair distribution rules - and this could lead to lower efficiency and even affect social stability. This is why efficiency and fairness are both contradictory and unified and why it is never easy to handle the relationship between the two. In order to alleviate class contradictions, Western developed countries have incorporated socialist elements and are pursuing social security and welfare measures, to the point that some of these countries have implemented such measures to a much better degree than China, a socialist country, has yet to accomplish. Of course, it is unreasonable to make a sweeping comparison given the peculiarity of historical factors.

Absolute egalitarianism held sway in pre-reform China. The distribution system whereby "everybody eats from the same pot" seriously marred efficiency. Since market-oriented reform came under way in this nation some 20 years ago, we have consistently emphasized efficiency. "Let some people get rich first" has become the call of the day and the income gap is growing wider, which has served to activate the rural and urban economy. Lately, the nation has adopted the policy of

"giving priority to efficiency while taking fairness into account".

The Party has always advocated social fairness and justice. Why should fairness be placed behind efficiency in the distribution policy of a country led by the Communist Party? This has a great deal to do with the fact that an extensive period of economic underdevelopment has made it difficult to improve the lot of the people quickly and to resolve numerous social contradictions. It also has much to do with the profound changes and development trends in the domestic and international situation from the 1990s to the early 21st century which have provided tremendous opportunities and challenges for China. These circumstances are prompting us to continue forging ahead and to do our utmost to increase the nation's wealth and overall strength.

During his 1992 tour of south China, Deng Xiaoping urged us to be "more emancipated in our thoughts, more courageous in reform and opening up to the outside world, and quicker in our development steps and on no account to allow our opportunities to

slip through our fingers". He also emphasized: "development is the cardinal principle and the key to solving all of China's problems." In this way, the focus was placed upon increasing the nation's aggregate wealth and overall strength and efficiency became the number one issue. On the other hand, remnants of egalitarianism from the era of the central planning system remained a major factor in restricting the increase of efficiency. In order to improve efficiency and increase aggregate wealth as quickly as possible, we have got to further our efforts to "smash egalitarianism, widen the income gap to a reasonable degree and to persist in encouraging some areas and some people to get rich sooner than others by honest labour and by lawful means". This line cap-





tures perfectly the spirit of “giving priority to efficiency while taking fairness into account”, which was put forward at the Third Plenary Session of the 14th Party Central Committee in light of the nation’s actual conditions and development needs. It is only proper for economic theoreticians to expound upon and disseminate this distribution policy.

Economic development has catalyzed a gradual change in the nation’s social structure. This has given rise to different voices that represent different interests. Some are taking advantage of the discrepancy between the “priority” given to efficiency and the “attention” given to fairness, and are consciously or unconsciously belittling social fairness and justice while merely justifying the process of acquiring wealth. Of course, this is not in accordance with the spirit of reform, particularly at a time when the central authorities are repeatedly emphasizing that “those who have become rich first should help those who will become rich later” and that we should “be careful to prevent polarization”. The authorities have absolutely no intention of neglecting social fairness.

In my 2003 thesis “Be Mindful of the Issue of Income Distribution”, I pointed out that ‘giving priority to efficiency while taking fairness into account’ is a guideline for income distribution during a given period of time; it is by no means an unalter-

able rule governing the entire historical period of the market economy. The argument of many people that this guideline is an unchangeable rule for the market economy does not tally with the historical facts. Even a few countries with mature market economies do not view it in this way. In the thesis I also stated that there is still room

ciency and social fairness at the top of our agenda. In my thesis, I expressed my belief that the Gini index for present-day China is rising along an inverted U-curve and that the continuous widening of the income gap cannot be reversed overnight; I also suggested in a subtle way that Deng’s prediction might be a little too optimistic. In my opinion,

## **O**nly after the Gini index takes a downturn in 2010, when per-capita income reaches 1,500 dollars, will China be able to tackle this problem

for discussion regarding the accuracy and timing of this expression.

As the issues of aggregated development and economic efficiency are gradually being resolved, social fairness is becoming a more prominent issue. We have got to remember that in 1992, Deng had already made a forward-looking prediction upon the income gap problem. According to Deng, this problem would become more prominent at the end of the 20th century when the nation would have reached a moderately well-off level.

However, at the turn of the century we failed to act upon Deng Xiaoping’s instruction to place the issues of addressing the income gap problem and readjusting the relationship between economic effi-

only after the Gini index takes a downturn in 2010, when per-capita income reaches 1,500 dollars, will China be able to tackle this problem and accomplish the transition from “giving priority to efficiency while bringing fairness into account” to “giving equal weight to efficiency and fairness” or “optimizing the combination of efficiency and fairness”. Furthermore, because the income gap as it is today has not grown to a point at which Chinese society has reached the limits of endurance, there is no immediate need to change the wording.

Having reconsidered, I believe now that the question of whether or not the income gap will grow to an unbearable level is less important

than the issue of rectifying the relationship between efficiency and fairness and paying more attention to social equity. It is highly probable that an income gap of unbearable proportions will be associated with polarization. The present situation provides no reason whatsoever for us to say that polarization is already a reality - which would signify the failure of the reform initiated by Deng - nor can we say it has stretched our tolerance beyond its limits. The Gini index is rising. If we fail to take steps, we risk it approaching levels of polarization and the limits of our endurance. Therefore we must attach further importance to the issue of social fairness right now, so that we can proceed to readjustment of the relationship between efficiency and fairness and increasing the weight of social equity. The first step in reducing the absolute value of the Gini index is to diminish gradually the widening margin of the income gap. Therefore it is high time now for the slogan of "giving priority to efficiency while taking fairness into account" to begin fading out, while making room for the principle of "giving equal weight to fairness and efficiency" or "optimizing the combination of fairness and efficiency".

## **II. At present we should place more emphasis upon social fairness**

Why should we put more em-

phasis upon social fairness and be more mindful of this issue at this time?

After twenty or so years of reform and development, the economic aggregate volume and overall economic strength of our nation have greatly increased. We have twice doubled our GDP, and are in the process of doing so for a third time. Now that the living standards of Chinese citizens have largely reached a moderately well-off level, we possess the material basis and the capacity to accomplish the transition into a comprehensively well-off society and to redress gradually the long-standing disparity between the rich and the poor. In other words, the opportunity and conditions are ripe for us to put the issue raised by Deng Xiaoping high upon our agenda and to be more mindful of this issue of fairness.

The rapid widening of the income gap has become a major problem affecting social harmony and stability. In the last twenty or more years, the Gini index nearly doubled from 0.2-0.3 to 0.4-0.5. Some organizations and experts at home and abroad have pointed out that this has already surpassed the international alert line. Whether or not this prediction tallies with the reality in China, it is enough to put us on alert. What merits special attention is the fact that the published Gini index does not include the illegitimate and

unlawful incomes that give rise to public resentment. If this factor were taken into account, the Gini index would expand the 0.4-0.5 margin by 0.1 and boost the published Gini index by more than 20%. The impact of these irregular incomes upon the widening income gap cannot be overlooked. Some people assert that these incomes can be ignored because they are not counted within the scope of standard income policy. However, these illegitimate incomes that have such a huge impact upon income disparity should not be regarded as merely a matter of criminal law. Should they not be tackled as the foremost of all problems to be addressed in our nation's current income distribution policy?

It goes without saying that China's social structure has gradually become one of a privileged group possessing wealth, power and knowledge at one end and an underprivileged group consisting of poor farmers, migrant workers in cities and the urban unemployed or temporarily unemployed at the other. The privileged group is having a strong impact upon the formulation and implementation of public policies as well as upon public opinion. The underprivileged group does not have an organization to assert their interests and demands; apart from making repeated visits to government departments to voice their grievances, they find it hard to make



themselves heard in the mass media. This problem must be remedied. If left unchecked, it will only expand the social divide, to the detriment of the construction of a congruous society.

In what amounts to a major reform step that helps to improve citizen welfare and promote social equity, the functions of the government and the state budget are being shifted from economic construction to public services. This is because the beneficiaries of public services are mostly those with a low income, and benefits such as education and public health can help turn citizens into constructive members of society and provide various equal opportunities in employment and public life.

However, the shift that is taking place in governmental and financial functions is falling behind, held back by the fact that many local governments are focussing their energy and efforts upon economic development and image-enhancing construction projects. The World Health Organization once dubbed China “the country with the most unequally distributed public health resources” for the sole reason that we are emphasizing development at the neglect of developing public services. China, too, is ranked among the lowest in the world in terms of the percentage of education spending in the GDP, and particularly in the supply of compulsory education opportunities; lacking the means to

enter the labour market, many citizens are excluded from the modernization process.

It goes without saying that the situation is changing for the better, but in comparison with the level of resources invested into economic construction, the speed at which these improvements are being made leaves a great deal to be desired. Furthermore, some localities are encroaching upon the property and income rights of

residents under the pretext of economic development and reform. Violations which impinge upon people’s interests are rife in fields such as rural land requisition, resettling urban residents whose houses have been demolished to make room for urban development, arrears in farmer-worker wages and enterprise reforms. Such violations shed light upon the over-centralization of government power as well as the unjust behaviour and corruption of some officials. With the emphasis upon redressing the most outrageous violations of people’s interests and upon intensifying efforts to build an honest and clean government and to uproot corruption, the central authorities have stepped up their anti-corruption efforts and are relying upon reform to tackle the deep-rooted problems that are hotbeds of corruption, to speed up the transfer of government functions, to step up the construction of sound systems, and to tighten up supervision of and restrictions upon government power.

### III. Enhancing fairness does not mean a comeback of egalitarianism

Attaching more importance to social fairness in the relationship between efficiency and fairness is an issue of public concern. However, some people are concerned that placing so much emphasis upon so-

