Economic and Accounting Interpretative Approach on Income Disparity: Evidence from China

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Abstract
In this paper, we analyse the current China urban and rural income disparity. Our analysis demonstrates that the Economic and Policy reforms instituted by the Chinese government over the past decade or so have had two primary aims: Firstly, to maintain political stability at all costs and secondly to transform China into a modern industrial state. To ensure political stability, it has eschewed the current Russian model for a unique Chinese model where state-owned enterprises co-exist with market driven businesses. This all began in 1978, after two disastrous near revolutions where the hard-line Marxist-Socialists had to concede that all was not well for the future of China, in a modern world. Beginning with the rural sector, where the pool of greatest poverty existed and improving in that sector firstly, allowed the market-oriented to greatly improve their incomes, thus changing the disparities between urban and rural economics. The period of 1985 to 2005 was a period of almost exponential growth, and the raising of millions out of poverty was only part of the positive results, but the greatest social negative was that inequality became worse, as is found in most Capitalist societies. There seems to be an initial jump in the incomes of rural China to jump out of poverty, but the effects have slowed, and it is now up to government agencies to aid the remaining impoverished to escape the traps of poverty through education and relocation incentives for industry, domestic and foreign. This does not mean throwing money at the problem, it means preventing destitution, as destitution adds to crime and other anti-social events and greatly increases instability, the anti-thesis of current Chinese policy.

Perhaps the question ought to be a rethink of agricultural policies, to generate corporate farming, as opposed to collective farming, all in order to reduce rural poverty and make rural businesses into a proper and profitable sector of employment.

Keywords: Poverty, Income disparity, Capitalism, Chinese policy, Urban and rural economic reforms

1. Introduction
Since 1978 China has reformed itself into the half-socialist half-capitalist economy of today, as well as generating a fundamental economic shift from a rural agrarian economy to a fully functioning industrial economy based upon its vast and cheap labour supply, and all of this under the tutelage of Deng Xiao Ping, head of state and head of the Communist Party of the People’s Republic of China. The results have been spectacular as the real Gross Domestic Product (GDP) increased an average of 9 percent per annum and the per capita income grew some fourfold. This effectively reduced that part of the population living below the local equivalent of a poverty line by almost two-thirds, from 200 million to about 70 million during the period from 1978 to 1996. This improvement has also raised the level of bank savings by more than 70 times, from 21 billion in 1978 to 1,520 billion Yuan in 1993 and 11,955 billion Yuan in 2004.

Although the People’s Republic of China (PRC) has an established Marxist-Socialist Constitution, these last few years have led to wide differences in available and disposable incomes within the population of that country, and within various regions of the country as well, in effect it has become the very antithesis of a Socialist-Communist country. Other situations not common under the previous regime have now arisen - unemployment, individual risk taking yielding great rewards, individualism expressed not only in business but in other areas, but not in areas of fundamental political activity. Also the cross subsidisation of various regions and industries have now disappeared and the ‘shared prosperity’ and ‘shared poverty’ of the past, has been replaced by almost Dickens-like descriptions of the industries of China.