

Chinese Rural and Urban Income Inequality Re-Examined by Income Polarization

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The purpose of this article is to contribute to the analysis of Chinese rural and urban income inequality by focusing more specifically on income polarization, which captures both alienation (i.e. heterogeneity between income groups) and identification (i.e. homogeneity within income groups). In fact, the effect of changes in income distribution on social cohesion and political stability can be better understood by considering income polarization rather than income inequality. The phenomenon of polarization can be defined as “the extent to which a population is clustered around a small number of distant poles” (Esteban, 2002: 10) and is “closely linked to the generation of tensions, to the possibilities of articulated rebellion and revolt, and to the existence of social unrest in general” (Esteban and Ray, 1994: 820). In the Chinese context, there have been very few empirical analyses of income polarization. Zhang and Kanbur (2001) showed that income polarization indices do not provide significantly different evidence compared to inequality indices. However, their study highlighted a strong spatial polarization between rural and urban areas and also between coastal and inland provinces. More recently, Araar (2008) provided evidence of income polarization in China. However, the chief focus of Araar’s paper is methodological rather than contextual. As argued by Chen and Zhang (2009), the analysis of income polarization should become a new focus of interest in the literature on inequality in China.

The empirical investigations conducted as part of this research are based on the China Health and Nutrition Survey data from 1989 to 2006. To address China’s polarization issues, the most recent methods are used –mainly kernel densities, the Duclos-Esteban-Ray index and its decompositions by groups (rural and urban) and by income sources.

Six main results can be drawn from the various investigations conducted as part of this study. First, two phases can be identified in the evolution of income inequality and polarization: (i) a period of stagnation between 1989 and 1997 and (ii) a period of increase from 1997 to 2006. It is important to note that the rise in polarization is more moderate than the increase of inequality. In fact, the increase in the alienation component is attenuated by the relative stability of the identification component. Nonetheless, the level of polarization in 2006 is high and comparable to the level prevailing in highly-polarized countries such as Russia and Mexico (Duclos et al., 2004). Second, the increase in polarization conceals dramatic shifts in the income distribution, as indicated by kernel densities. More precisely, the income distribution moved from a leptokurtic and unimodal shape in 1989 to a more platykurtic and multimodal shape in 2006. This provides evidence of the emergence of middle and upper income classes in both rural and urban areas. Third, the share of the between-group (rural-urban) component in overall polarization is higher than the share of the between-group component in overall inequality. This indicates a significant degree of rural-urban polarization, as emphasized by Zhang and Kanbur (2001). Fourth, even if the level of income polarization is higher in rural areas, the increase in polarization is far more

conspicuous in urban areas, suggesting that the risk of social tensions is more pregnant in Chinese cities. Fifth, the analysis of the sources of income polarization in rural areas shows that the increase in polarization is closely linked to non agricultural opportunities issued from Township and Village Enterprises (TVEs). Sixth, in urban areas, the emergence of identified groups in middle and upper income classes, characterizing the rise in polarization, can be explained by two phenomena: (i) the sharp decline in subsidies, which were a depolarizing income component, and (ii) the liberalization of the urban labor market and state enterprises, resulting in inequalities in access to employment and wage disparities.