Vol. 4

INEQUALITY AND COMMON PROSPERITY: ISSUES, MEANING, IMPLICATIONS, AND SOLUTIONS

A study of common prosperity concept for local governments in the Belt and Road region to achieve common goals

Inequality and Common Prosperity: Issues, Meaning, Implications, and Solutions

A study of the common prosperity concept for local governments in the Belt and Road region to achieve common goals

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United Cities and Local Governments Asia Pacific (UCLG ASPAC)
Belt and Road Local Cooperation

The Report has used official data released by central, regional and local governments, and additional information gathered by the UCLG ASPAC research team from other reliable sources. It is important to acknowledge that data varies according to definition and sources. The reports try to highlight the common prosperity concept taken by the local governments, especially by the countries implementing projects of the Belt and Road Initiative.

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About UCLG ASPAC

UCLG ASPAC is the largest regional section of the United Cities and Local Governments (UCLG), a worldwide association and the only local government organisation recognised by the United Nations. UCLG was established on 01 January 2004 and is headquartered in Barcelona, Spain.

UCLG ASPAC was established in Taipei on 14 April 2004. UCLG ASPAC is the key knowledge management hub on local government issues in the Asia-Pacific region. Its scope of work includes advocacy, capacity building, policy and research, programme and projects, and decentralised cooperation. The Asia and Pacific region has linkages to more than 7,000 local governments. It represents well over 3.76 billion people, making up more than half of the world's population, and incorporates economically fast-developing countries such as China, India, and Indonesia.

UCLG ASPAC members are mostly individual city and local governments and their associations. UCLG ASPAC Secretariat is hosted by the Capital City Government of Jakarta, Indonesia.

About BRLC

UCLG ASPAC Committee on the Belt and Road Local Cooperation (BRLC) was inaugurated at Thematic Session on People-to-People Connectivity at the first Belt and Road Forum for International Cooperation in Beijing. BRLC is founded, within the framework of UCLG ASPAC, by Hangzhou Municipal Government and the Chinese People's Association for Friendship with Foreign Countries (CPAFFC) with the Secretariat located permanently in Hangzhou.

With the mission of Openness, Cooperation, Sharing and Win Win, BRLC, based on the UCLG ASPAC, is committed to integrating the Belt and Road Initiative into exchange and cooperation among local governments with various practical exchange and cooperative programmes and activities; to building a cooperation platform to share experience and resources for mutual benefits and win-win outcomes in the fields of economic development, culture and education, urban governance, rural development and internet economy, thus achieving "people-to-people bonds" and "state-to-state relations." Meanwhile, BRLC will form a work pattern which is dominated by the Committee and participated by social forces so as to utilise social resources and integrate forces from all parties to jointly conduct international exchange and cooperation.

BRLC warmly welcomes members of UCLG ASPAC and other regions of UCLG, cities along the Belt and Road route, Hangzhou's sister cities and other related cities or organisations.

Foreword

Cities and local governments worldwide have been facing an extraordinary time, especially in the post-COVID 19 pandemics. The Pandemic has spread with alarming speed, infected millions, and brought economic activity to a near stand-still as the country imposed tight restrictions on the movement of the people. Various methods and alternatives to build a strong come back and recovery from the Pandemic have created diversity in what the cities will do for the next step, including the economic recovery, social cohesion, and political stability. However, the social gaps and economic inequality still seem quite high.

Asia and the Pacific's cities are heavily affected by the Pandemic. It is worsened by the massively public spending to mitigate pandemic suffering, but also due to deeper structural economic issues. COVID-19 has exposed a pandemic of inequality in a region with the world's most dynamic economies and half of the global poor. Recorded, nearly half of total income goes to just 10 per cent of people while the poorest 10 per cent get just 0.2 per cent in the region. This failure to grow together meant that the Pandemic worsened the circumstances of those left behind. Estimates suggest that more than 820 million informal workers and over 70 million children in low-income households have been denied access to adequate income and education since the outbreak. Even more worryingly, this will leave long-term scars on economic productivity and learning, harming the future earning potential of those already marginalised.

In order to mitigate the impact of social and economic inequality, President Xi Jinping of China introduced the concept of "Common Prosperity" in 2020. Common prosperity was described as a means to "properly deal with the relationship between efficiency and fairness." In China, the idea of common prosperity was first mentioned by founding father Mao Zedong in the 1950s when China was a significantly poorer country. But the phrase was repeatedly mentioned by former leader Deng Xiaoping in the 1980s when China's private sector began to emerge in some regions, creating disparity. Deng said that allowing some people and regions to become rich first would speed up growth and help achieve the ultimate goal of common prosperity. In 1985, Deng was quoted as having said that "we will fail if our policies lead to rich-poor polarisation, and we will be on an evil path if some new bourgeoisie is created [due to the wealth disparity]."

Further, President Xi Jinping's rhetoric on common prosperity has surged this year – evidence of the Communist Party's commitment to closing the country's wealth gap. *"We can allow some people to get rich first and then guide and help others to get rich together ... We can support wealthy entrepreneurs who work hard, operate legally, and have taken risks to start businesses ... but we must also do our best to establish a 'scientific' public policy system that allows for fairer income distribution,"* Xi said, according to a statement released after a meeting of the Communist Party's Central Committee for Financial and Economic Affairs in mid-August 2020. Since then, observers have studied Xi's speeches for clues on China's common prosperity's implications for politics, business, and society.

Common prosperity has emerged as one of the most important concepts guiding China's policymaking over the last half year. The phrase emerged at a meeting chaired by President Xi Jinping in August 2021 alongside bold commitments to reduce income inequality and promote people-centered development. This concept is also being implemented in a few provinces and cities in China. The common prosperity in the cities and local governments is a new way to reduce the inequality gap, particularly for socio-economic sectors. Hence, the Local Government Associations also played a crucial role in establishing connections between cities for mutual benefit. United Cities and Local Governments Asia Pacific (UCLG ASPAC) has consistently improved the knowledge engagement among local governments and enabled collaboration between local governments to leverage the collective knowledge and resources of LGs in the Asia Pacific. To augment information and knowledge transfer among the member cities by showcasing the good practices in attaining the global agenda for cities and local governments.

UCLG ASPAC and Belt and Road Local Cooperation (BRLC) conducted the research report on the common prosperity concept. The content of the Report reflects (i) social inequality, (ii) An overview of common prosperity, (iii) Governing in the midst of common prosperity, and, lastly, (iv) Enabling the conditions, recommendations, and best practices.

I hope this Report will help us in depth-understanding the common prosperity concept in consider to be implemented in the cities and local governments in the Belt and Road region to address common issues of concern with collective knowledge and available resources.

Dr Bernadia Irawati Tjandradewi
Secretary-General
UCLG ASPAC

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I. Social Equality and Social Inequality: Concepts

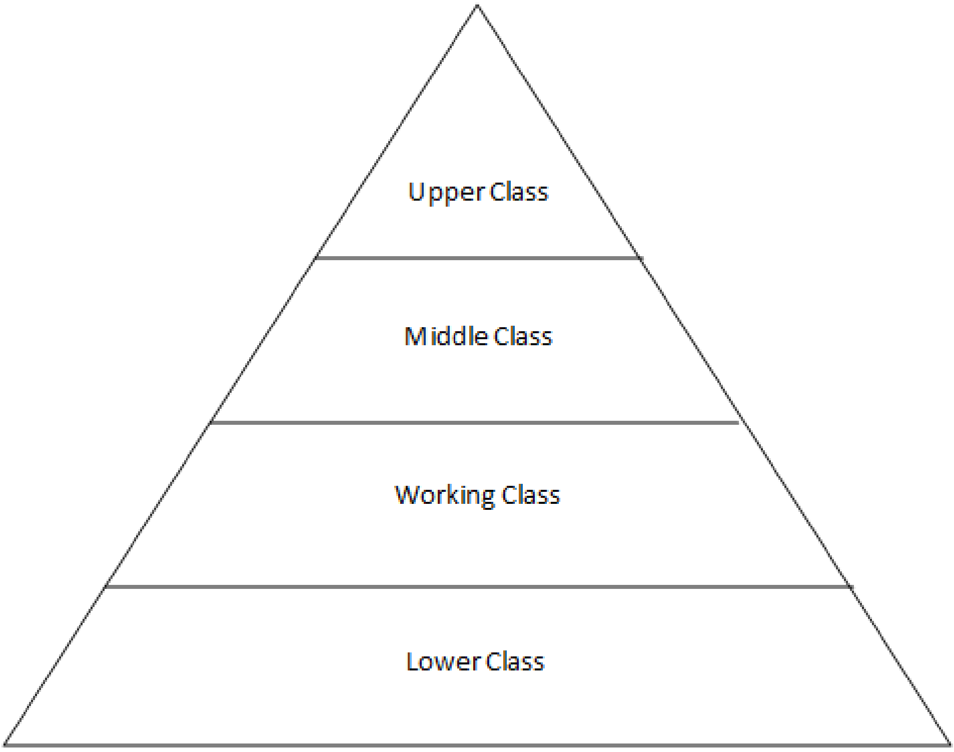
For the past century, the call for social equality has risen to power and is even convicted as well as echoed, by the global community at large, to have the uttermost significance towards societal welfare. But perhaps the catalyst for the emergence in the importance of social equality was the ever so presence of its binary counterpart, social inequality. Here, the report follows Schaefer's (2013, p.178) definition of social inequality, to which he stipulated social inequality as a condition where "members of society have differing amounts of wealth, prestige, or power." For many, inequality amongst individuals and groups within a given demography is largely indebted to a set of attributions ascribed by the surrounding environment, be it the availability of resources or even functionality, to place someone into certain boxes or roles of somewhat unequal footing in the community. And the very set of attributions is then perpetuated by institutions and norms that govern social relations – often referred to as stratification (Davis and Moore, 1945).

> **"Over the course of our civilization, we have witnessed a sequence of deep-rooted transformations, perpetrated by an array of factors (e.g., industrialization, urbanisation, etc.), that had enabled our world to transgress from one form of stratification to another."**

Over the course of our civilization, we have witnessed a sequence of deep-rooted transformations, perpetrated by an array of factors (e.g., industrialization, urbanisation, etc.), that had enabled our world to transgress from one form of stratification to another. In recent years, our society is predominantly premised on a societal arrangement commonly known as the class system.

Rossides (1997) in an effort to understand the structure of the American society at that time, came up with a model to describe the class system of the United States that encompasses the upper class, the upper-middle class, the lower-middle class, the working class, and the lower class. In this model, the upper-class is depicted as the uttermost special breed of individuals sitting at the top of the 'pyramid'. It characterizes merely one to two per cent of the entire population that accumulates ridiculous amount of wealth and substantial power. Stepping down a ladder from the upper-class, one will immediately face the upper-middle class. The upper-middle class is a sub-set of the population that occupies approximately 10 to 15 percent of the entire demographic. The individuals are usually affluent professionals such as doctors and lawyers. On the opposite side of the spectrum exists the lower-middle class, occupying almost 35% of the society. This class is often associated with the less affluent professionals (e.g., nurses). And the rest belongs to the working class, or otherwise characterized by individuals working blue collar jobs.

Figure 1. Social Stratification (not proportional)



Unlike other forms of stratification, the boundaries separating members of the social class are not as distinguished and clear-cut as the others. Moreover, members of the class are allowed to move up and down classes by virtue of achieved status – albeit the actual movements are, more often than not, restricted by influences beyond the control of the individuals, such as race and ethnicity. Nevertheless, this form of stratification does bear resemblances akin to that of other forms of stratification (i.e., castes, estate, etc.): most of them equally suffer from 'unjust' distribution of resources, primarily from income and wealth (Schaefer, 2013).

II. The Growth of Inequality in China: A Brief Timeline

In the early 1940s, the Chinese economy was in ruins: economic volatility, unequal allocation of resources, and political unrest seemed to be running rampant and were even considered to be the common theme throughout this period (Butt and Sajid, 2018). Needless to say, China was a struggling country that lagged in sound economic development. In 1949, Mao Zedong took reign and sought to get rid of all the impediments to collective progress and development.

Seeing the chaos that has been plaguing China for years, Mao seeks to pick up the pieces and patch China's economy back together. For Mao, a consolidation of the economic system is key to amassing the well-needed social equality for the masses and unlocking societal development as well as welfare. He further deems that a centralized system of governing the economy is imperative and that the agricultural sector and industrialization are pivotal to his plans of putting China on the map. He began to revolutionize the entire system and kickstarted a series of agrarian and industrial reforms.

The first ever five-year plan (1953-1957) was launched that encompasses a bunch of stimulants to raise the number of crop yields and the extraction (and manufacture) of natural resources, such as coal, iron, and steel. At the end of 1957, China saw a striking increase in almost, if not, all of the targeted outputs. Steel production reached a whopping 16.56 million tonnes compared to the targeted 4.1 million tonnes or 2.18 times the combined production from 1900 to 1948 of 7.6 million tonnes (China.org.cn, n.d.). Coal production experienced a 98% increase from 1952, with a jaw-dropping amount of 131 million tonnes compared to 63 million tonnes in 1952 (China.org.cn, n.d.). Whilst at the same time, grain production and cotton output surpass the targets set by the Plan, with 195 billion kilograms and 32.8 million dan, respectively (China.org.cn, n.d.)

The first plan would later be succeeded by the Great Leap Forward (1958-1962), or otherwise known as the second five-year plan. Amongst other things, the plan was set out to intensify the previous plan by strengthening and further boosting the industry, agriculture, handicrafts, transportation, and commerce. Being the central tenets of the plan, much are expected to come out of the industry and the agricultural sector. Fortunately, both sectors delivered and even surpassed the expectation of the plan. In this sense, 'the gross value of agricultural products increased by 35 percent; steel production in 1962 was between 10.6 million tons or 12 million tons; investment in capital construction rose to 40 percent from 35 percent in the First Five-Year Plan period; the investment in capital construction was doubled; and the average income of workers and farmers increased by up to 30 percent' (China.org.cn, n.d., p.n.d.).

Soon after, the Great Cultural Revolution was incorporated to reify the spirit of the Chinese revolution. Mao Zedong wishes to rectify the Chinese Communist Party and to manifest a less elitist system of education, healthcare, and culture via policy changes (Lieberthal, 2021). It brought about the desperately needed cultural overhaul which contributed to the surging of life expectancy and literacy (Butt and Sajid, 2018). Altogether, this had resulted in (i) a staggering increase in the average life expectancy, amounting to 64 years, which was substantially higher than the average of low-income countries at the time, 51 years, and surpasses that of middle-income countries, 61 years; (ii) and a net increase in primary school enrolment (93%) that is comparable to that of industrialised countries (94%) (World Bank, 1983)

Overall, the deep-seated changes made possible by Mao Zedong had led to the superior growth of the economy, with the extent of growth averaging in 6.3% for almost 30 years; the alleviation of a sizeable number of people out of the realm of impoverishment; and an apparent reduction in income inequality amongst the Chinese citizens (Dunford, 2022; Whyte, 2012; World Bank, 1983). However, these monumental achievements are not always filled with sunshines and rainbows. While the citizens of China are somewhat of an equal footing, it does not mean that all citizens desire the changes undertaken by Mao, nor that the country is, in absolute term, prosperous – some believe that although the country showed consistent growth under Mao's rule, it is not up to par with China's actual potential, stagnating and even slowing down nearing the end of his regime (Eberstadt, 1980; Deng, 2000). On top of that, freedom of choice was always a concern under his rule, as jobs were assigned by the bureaucratic system rather than merit (Whyte, 2012). Mao's approach, although ground-breaking, may be insufficient to propel the Chinese economy into the best of heights and that the country needs to be on the lookout for a fresh set of approaches to deal with the sub-optimal level of growth.

Under the new command of Deng Xiaoping, the country had undergone several reforms. Several principles were used to underlie these reforms, amongst others, the liberalization of the economy, the re-introduction of incentive back into the economy, a greater emphasis on industrialization to meet the criterion of the emerging international system, the incorporation of foreign investments to allure greater financing for development, and privatization. Ultimately, these principles are directed to engage individual effort and eventually allow the economy to flourish at an unprecedented rate.

And these principles were first encapsulated under Deng's long-term economic plan of Four modernizations. This programme was specifically aimed to strengthen the four major sectors of the Chinese economy, which are: agriculture, industry, defence, science and technology (Naughton, 1993; Nathan, 2022).

Afterwards, the regime went ahead with efforts to substitute collective agriculture with an emboldened emphasis on the household-responsibility system. This is an agricultural system where land was divided into private plots. With this new policy in place, individuals were able to place a greater control of their land and give some of their yields to the government in return (Hunt, 2014).

At around the same time, the regime introduced another policy to the public at large, that is, the Open Door Policy. This is a policy that is aimed at providing opportunities for foreign investments to set up shops in China (Sung, 1992). Accompanying the opening of China's domestic economy to foreign entities, Deng produced another economic policy. This policy, also known as the Exclusive Economic Zone (EEZ), was, at first, experimental and located in four provinces of China (e.g., Shenzhen, Zhuhai, Xiamen, and Shantou) - and would later be fostered throughout the region. The EEZ substantiates the foregoing policy and propels its efforts to open the floodgate of foreign investment to enter and conduct transactions in China (Kau et al., 2016; Chen et al., 2003). It is also positioned as a real-life laboratory that seeks to engender innovative economic practices that can be rendered useful for the future liberation of the economy (Yeung et al., 2009).

The reform continues to embark and exert an even lesser control of the market. The contraction of the government's role, interventions, and the proliferation of small-scale privatization became the common theme at this time. During mid 1980s, the Chinese government lifted several policies that were traditionally known to hamper market forces, such as price controls and protectionist policies (see Longworth et al., 2003). Several regulations were also retracted and, if not, relaxed to allow even greater flexibility of the market. Decentralization was also becoming increasingly normalized (Brandt and Rawski, 2008). At this time, local governments are very much welcomed to find novel paths of governing and construct innovative policies they deem to be best suited to their jurisdictions (Brandt and Rawski, 2008). Subsequently, township and village enterprises - which are usually under the local government's control but enjoy a high share of private autonomy – blossomed and gained a substantial amount of market share, even at the expense of the SOEs.

The SOEs had also undergone a series of reforms to conform to the workings of private entities alike. Hay et al. (1994, cited in Mohan, 2004) identified a series of SOE reforms, which include releasing SOEs from the shackles of the state (i.e., greater autonomy), allowing greater competition between SOEs and private businesses, changing the profit-sharing mechanism between the SOEs and the state, and the incorporation of a contract-responsibility system.

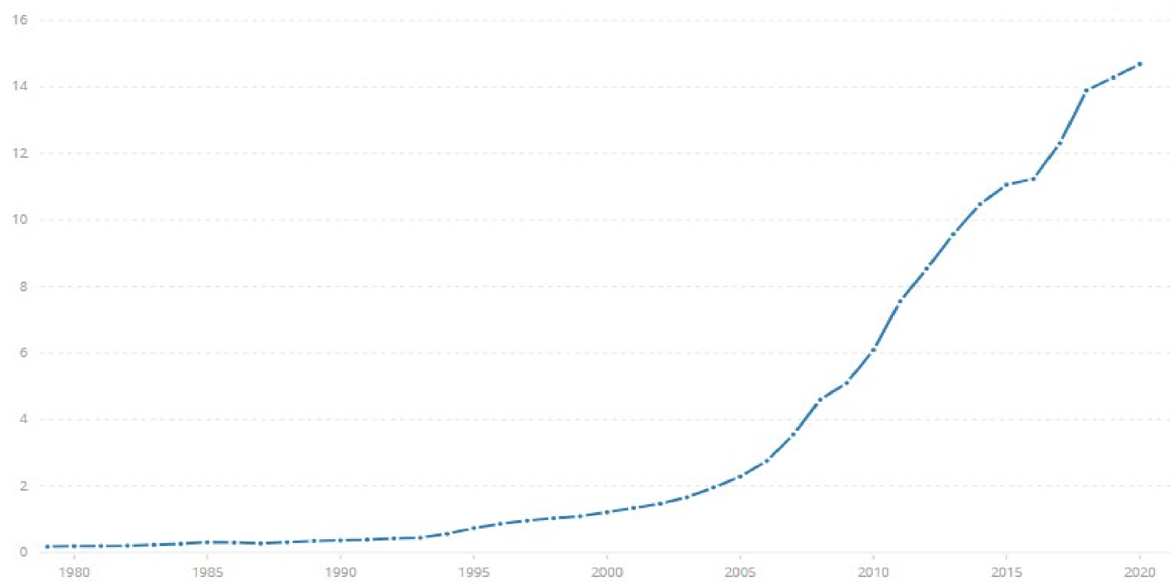
Small-scale privatization of the SOEs were also present and used to dissolve the no longer viable SOEs – although the state remains in control of the larger SOEs (Mohan, 2004).

The combination of measures and policies under Deng's regime had resulted in an uprooting shift within the system, yielding remarkable results along the way. According to Butt and Sajid (2018), the opening of the economy and the soaring increase in foreign investment have allowed the Chinese tax revenue to reach approximately 8.2 billion Yuan in 1997. In other words, the Chinese economy have multiplied sixteen-fold greater in comparison to 1979. Even after Deng had stepped down, his spirit, principles, and vision of the Chinese economy continue to live on.

After the passing of Deng Xiaoping, China continued to undergo reforms following the paths that Deng had envisioned in the past. Privatization began to accelerate even further from 1992 onwards, with large SOEs diluted and sold to private entities (Brandt and Rawski, 2008). In the late 1990s, private companies gained recognition from the government and constituted a sizeable portion of China's GDP. In the meantime, government role in the market continued to decline: the castration of government intervention in the market persists and, if not, heightened (i.e., tariffs, trade barriers, and regulations were, once again, reduced) (Naughton, 1993). And, in 2001, China joined the World Trade Organization (WTO).

As a result of these reforms, China's economic growth is undeniable and, undoubtedly, second to none. From 1978 to 2005, the Chinese economy grew at a staggering average of 9.6% per annum (Holz, 2008). Even more impressive is the size of China's economy. Its unparalleled growth in the past decades had led to it being the fourth biggest economy in 2005, surpassed only by the United States, Japan, and Germany (Holz, 2008). Between 2005 and 2020, China had experienced almost a seven-fold increase in GDP (current USD), up from 2.29 trillion USD to 14.72 trillion (World Bank, 2020). In 2020, the unprecedented growth that China undergone had transformed it into the second largest economy in the world, only behind the United States (Zhu and Orlik, 2022).

Figure 2. China's Economic Growth 1979-2020 (in Trillion USD)



Source: World Bank (2020)

Unfortunately, the desire to prioritize GDP seems to have blinded the Chinese government from placing equitable development at the forefront of its developmental pillars. Although immense growth had occurred, it did so at the cost of exponentially growing inequalities in both income and wealth.

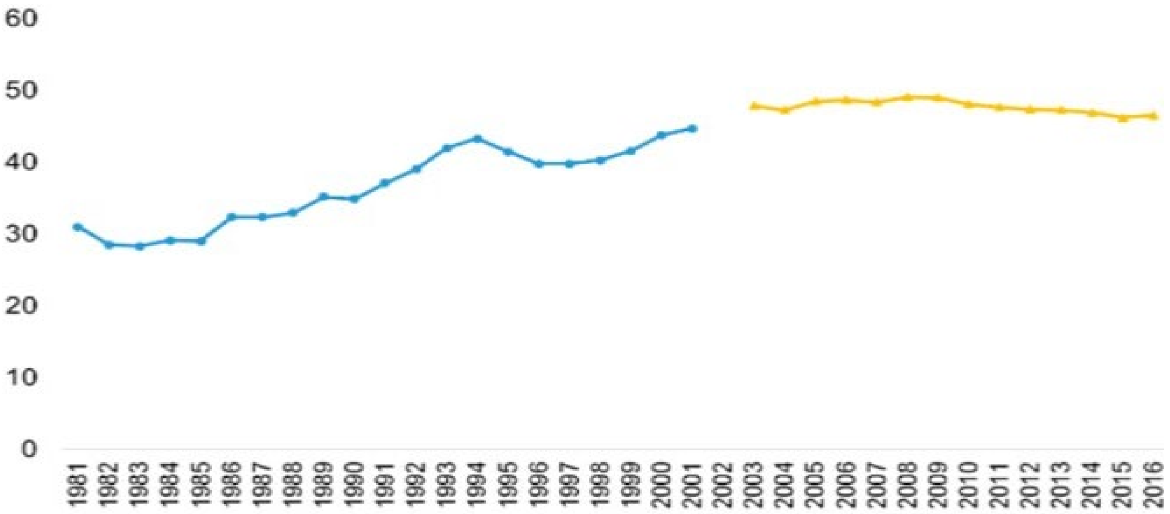
In 2021, China's GNI per capita (Atlas method) reached US$ 11,890, which falls exactly within the bounds of upper-middle income country category but remains under the average of East Asia and Pacific countries (World Bank, 2021a). Compared to other countries that China has surpassed in terms of its economic size, the country is still behind The United States (US$ 70,430), Germany (US$ 51,040), and Japan (US$ 42,620) by a significant margin (World Bank, 2021b). Regardless, upon a closer look, the number does not reflect an economically blossoming country. Rather, it merely reflects a society with a significant gap in income equality.

Many scholars, such as Xie and Zhu (2014), found that ever since the 1980s (or the beginning of economic liberalization), income inequality, measured by the Gini coefficient, has been on the rise - at a rate that is thought to be higher than that of the United States. A study conducted by Ravallion and Chen (2007) reaffirmed the foregoing findings. The literature unveils that China had indeed undergone a whopping increase in income inequality from 0.31 in 1980 to 0.447 in 2001. From 2001 and onwards, income inequality continued to accelerate and peaked in 2008 with 0.491 in Gini coefficient (Jain-Chandra et al., 2018). Albeit recent observations have shown a small decline in income inequality since 2008. In 2016, income inequality stood at an appalling 0.465 (Zhuang and Li, 2016) - if paired with the average of EU countries, China's Gini Coefficient is 58% higher than that of EU (Han et al., 2016).

It is worth noting that a 0 in Gini coefficient marks a perfect equality, a 1 denotes a perfect inequality, any number between 0.4 and 0.5 represent a huge income gap, and anything that surpasses the value of 0.5 reads a severe income gap.

In this case, the rise in income inequality is galvanized by the accumulation of greater income share within the top 20 percent; whilst the rest of the population are losing their fair share of the pie (Jain-Chandra et al., 2018). The authors noted that the share of the top 10 percent of the demography expanded significantly from 26 percent in 1980 to 41.7 percent in 2008. Afterwards, the scholars observed that the trivial decline in the Gini coefficient was propelled by the shrinking of the top 20 percent's income share and followed by a slight elevation within the middle section of the income distribution. At present, the country's proportion of the middle-income group only accounts for about 30 percent of the total population and 600 million Chinese citizens fall under the category of low-income group earning less than 1,000 Yuan per month (Dunford, 2022).

Figure 3. China's Income Inequality (Gini Coefficient) 1981-2016



Source: Jain-Chandra et al. (2018)

As for wealth inequality, China is no better off, if not, worse. A fairly recent study by Li and Wan (2015) finds that wealth distribution amongst the Chinese has become increasingly unequal and doubles that of the pre-liberalization era. Between 1988 to 2012, the wealth Gini coefficient increased from 0.34 to 0.73. Although recent observation has indicated a slight decrease in wealth inequality, marked by the reduction in wealth Gini coefficient from 0.72 in 2013 to 0.70 in 2020, it is highly plausible that the COVID-19 pandemic will hamper the downward trend and bring back the vicious rise of wealth inequality (Dunford, 2022).

Truth be told, one ought to not omit the jaw-dropping economic growth that the Chinese had managed to secure throughout its reformation era. Especially when the reformation brings about an increase in average income per capita and pull many citizens from absolute poverty. However, in doing so, the developmental path taken by Deng actually re-introduced stratification back into the society, which, in turn, perpetuates and even boosts economic inequality into an all-time high (Holmqvist, 2021).

The economic approach undertaken under Deng's regime emphasised a greater value upon private means of production. This, via differential access to resources, shapes the overarching form of social relations under the regime to be highly dependent on the controllers of production modes. As a result, it enables entrepreneurs and businesspeople alike to take control, accumulate huge profits, and dictate those without resource access to work in conditions aligned with the wishes of the owners. Altogether, it forms the perfect concoction of a pay gap. And this gap will only widen as the economy grows, simply because the workers' income will never equal that of the owners even if it continues to increase. The particular pattern of inequality in China goes to show that the unequitable accumulation of wealth at the upper-tail, that is, indeed, currently filled with private entrepreneurs, severely affects the people at the lower-tail. But what exactly had the Chinese government done to aggravate the state of economy into such a state of inequality?

III. The Price of Inequality: Causes, Determinants, and Impacts of Social Inequality in China

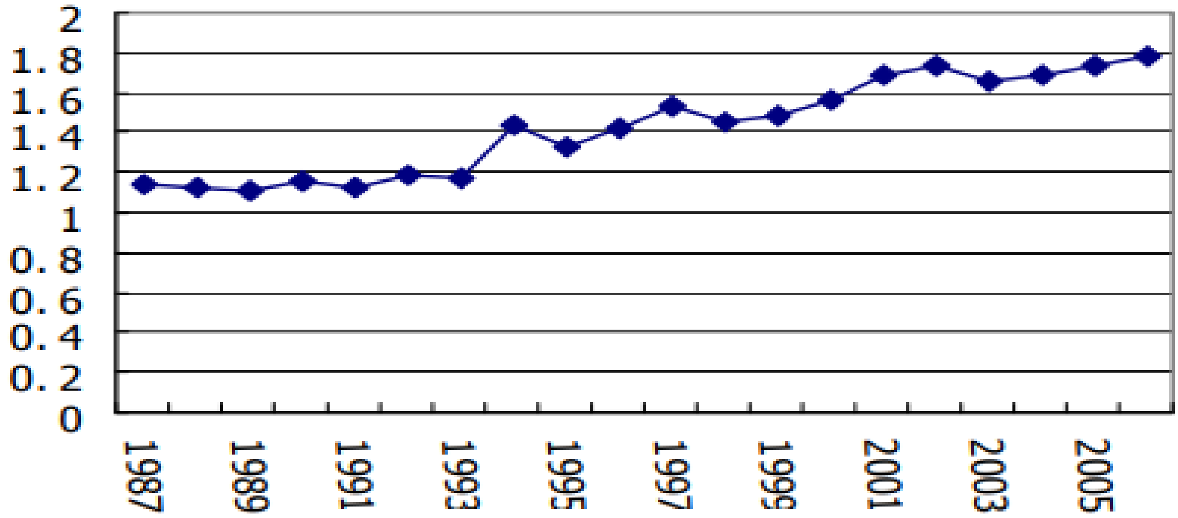
Over the course of decades, scholars have weighed in on the various causes underpinning both income and wealth inequality in China. This piece of intellectual query will try to synthesise the causes, elaborate on the determinants, and substantiate the impacts that can potentially arise from these sources of inequality.

There is an array of factors that underlie both income and wealth inequality. But out of the gazillions of factors, this report had managed to narrow it down to merely several that we deem of substantial importance. Amongst a multitude of factors and determinants, this report identifies the former to be constituted of skills premium, rural-urban inequality, regional inequality, and wealth distribution (Zhuang and Li, 2016; Jain-Chandra et al., 2018). While the latter is reckoned to be highly affected by housing prices (Li and Wan, 2015; Li and Fan, 2020). It is worth noting that these factors may be intertwined and overlap with one another. For this reason, this report will merge these factors under one single banner encompassing both forms of inequalities.

a. Skill Premium

Past literature has found that skill premium is a major contributor to wage inequality, and subsequently, income inequality. And this converging finding seems to be reflected in various parts of the globe. (2014), for instance, denote that several countries have indeed been experiencing a significant rise in wage inequality due to soaring skill premium. For the most part, this is because the supply of skilled labours is insufficient to meet the demand of the market, resulting in high-skilled labours to be paid higher than their counterparts - and a widening of wage distribution amongst them.

Figure 4. China's Trend of Skill Premium, 1987-2006



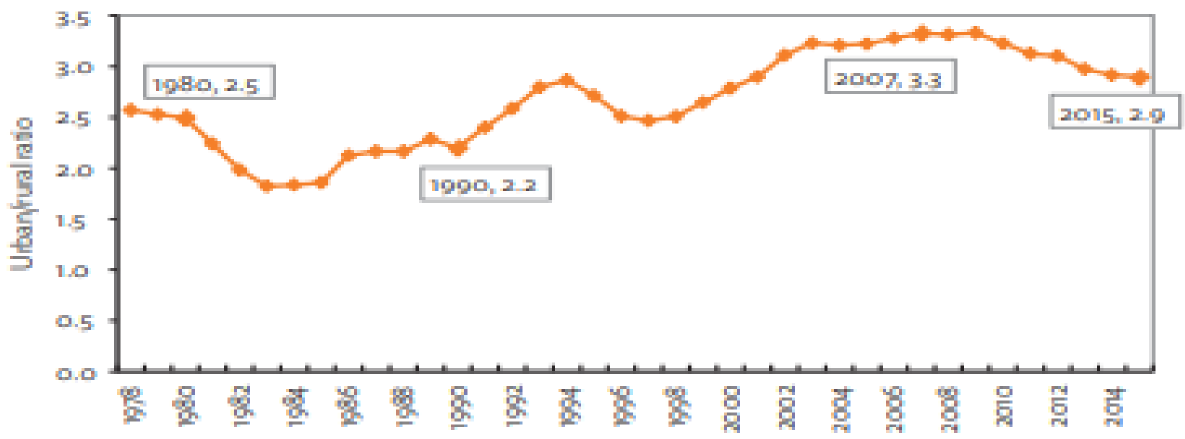
Source: Liu (2009)

China is no exception. From the late 1980s to 2000s, Liu (2009) saw that skill premium for the general population had experienced a steady path upwards. Substantiating the foregoing, Zhou and Song (2016) recorded that graduates from senior high school, technical school, and college in 1998 earned 4 percent, 7 percent, and 14 percent more than those with lower levels of education. By 2009, these numbers have skyrocketed to 18 percent, 32 percent, and 61 percent, respectively (Meng et al., 2013). At roughly the same period, the ADB (2012) finds that 26.5% share of China's income inequality can be attributed to skill premium. Immediately, one can infer that skill premium is a hefty contributor to China's income inequality and education plays a pivotal role in distributing equitable income amongst citizens. Apart from education, scholars have also posited that Foreign Direct Investment (FDI), market openness, and discrimination exert, to some extent, greater skill premium amongst labours in China (see Li et al., 2019; Liu and Zhou, 2008).

b. Urban-Rural, Within-rural, and Intra-urban Inequality

Disparities in urban and rural incomes have also been highlighted as one of the most significant factors in affecting income inequality in China over the past decades (Xue, 1997; Xie and Zhou, 2014). Amongst other things, location of residence, education, non-labour income and rural-urban migration has been highlighted as the prime determinants affecting fluctuations in the rural-urban gap – the latter variable is responsible for the decrease in ratio, while the rest are known to induce the opposite effect (see Sicular et al., 2007; Liu, 2005; Chen et al., 2018; Yang, 1999). Further, the fluctuations caused by the determinants are reflected in China's ratio of urban-rural per capita household disposable income from 1978 to 2015 (see Figure 5). In 1978, the ratio of urban-rural per capita household disposable income is at 2.5. But after a series of agricultural reforms were introduced, the ratio was reduced to 1.8 in 1983 (Jain-Chandra et al., 2018). But it seems that effect of reforms was only felt momentarily, as the ratio has gradually gone upwards in trend and peaked at 3.3 in 2007 (Zhuang and Li, 2016). However, the ratio has declined slightly in recent years (Zhou and Song, 2016). In 2017, the ratio stands at a comfortable 2.7; which is still staggering by any measure (Jain-Chandra et al., 2018).

Figure 5. The Ratio of Urban–Rural per Capita Household Disposable Income

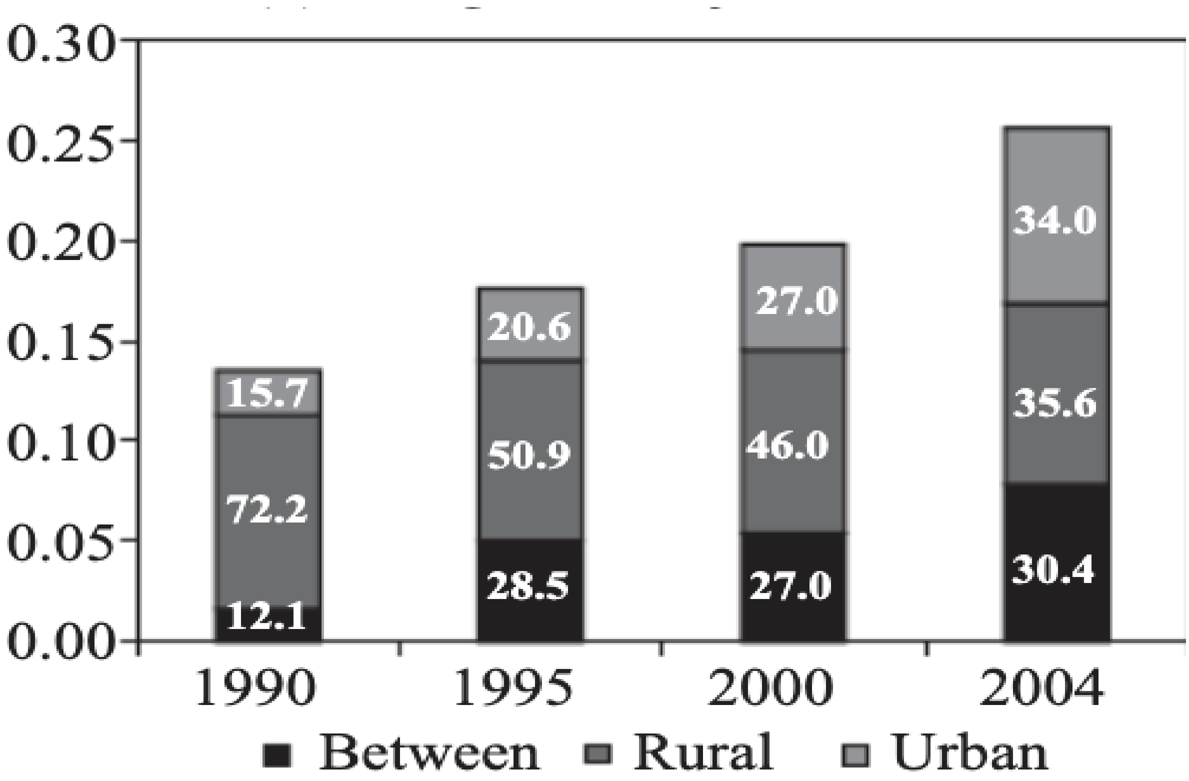


Source: Zhuang and Li (2016)

Within-rural inequality accounts for a sizable share of income inequality in China. Lee (2000) has noted that there has been a transition of factors contributing inequality in China, with intra-rural inequality replacing that of the urban-rural income variance between 1982 to 1994. Lin et al. (2010) posited a similar finding to the previous account from Lee (2000), highlighting that within-rural inequality contributes to 72 percent and 51 percent in 1990 and 1995, respectively. Although consistently decreasing in contribution, this trend of intra-rural inequality dominating the scene of inequality continues up until 2004, with a total contribution of 35.6 percent – compared to 30.4 percent (between) and 34 percent (urban), respectively.

The sporadic growth of rural industrialization and the tertiary sector have been deemed as the two most important factors affecting the rise in income inequality in rural areas (Benjamin et al., 2005). Zhuang et al. (2019) even found that the combination of both factors accounted for an approximately 90% of total rural income divergence – the former contribution is 58% while the latter contributes a total of 30%. On top of that, the same authors render both employment and financial development essential, although to a lesser extent, in determining the extent of within-rural income inequality.

Figure 6. The Decomposition of Income Inequality by and Between Urban and Rural Areas (Theil decomposition)



Source: Lin et al. (2010)

In 2008, Zhuang and Li (2016) revealed that within-rural inequality is no longer the primary determinant of inequality. In fact, it was replaced by intra-urban inequality – although the contribution of intra-rural inequality remains sizeable. The authors further identified several factors affecting the decline in within-rural inequality. Among other factors, large migration from rural to urban areas and recent government interventions help propel rural income and induce a positive effect in reducing rural inequality.

As briefly aforementioned on previous paragraphs, intra-urban inequality is prevalent and is now becoming the primary driving force of income inequality of this scale. For years, within-urban inequality has been looming, increasing consistently in its contribution year per year. In 1990, within-urban variance accounts for a mere 12.1 percent of the total inequality share. But then it begun increasing uncontrollably as it reached 20.6 percent in 1995, 27.0 in 2000, 34.0 percent in 2004, and finally 36.5 in 2008 (Lin et al., 2010; Zhuang and Li, 2016). For many scholars, this increase in within-urban inequality bears close association with rural-urban migration (Chen et al., 2018). In this sense, the movement from rural to urban areas has accelerated the number of populations in urban areas, inducing a crowding-out effect within urban market labour.

Altogether, the three forms of inequality contribute to the overall share of income inequality almost equally, with intra-urban inequality leading the charge and followed by urban-rural as well as within-rural inequalities in second and third place, respectively.

c. Regional Inequality

Income inequality is and has always been dependent on spatial and geographical scales (Khan and Siddique, 2021; Gezici and Hewings, 2007). Gbohoui et al. (2019), for one, posit that rising income inequality bears close affinity to the level of regional inequality within a given country. The same authors outline that the gulf of average income received across regions drives income inequality upwards by widening national income disparities.

In China, regional inequality has long been deemed as one of the most substantial factors affecting the level of income inequality (Hao and Wei, 2010). In this report, regional inequality is divided into two scales, provincial and regional – while explanation on inequalities between and within rural and urban areas are provided in the previous sub-section. A particular attention will be given to the transformation patterns of both scales and will be discussed at length below.

Provincial Inequality

Within-province inequality has always been considered as one prominent factor driving China's provincial inequality. Using the nation's 1982 statistical data, Tsui (1993) assessed the extent of regional inequality in China. He finds that the contribution of intra-provincial inequality in 1982 is remarkably high and can be easily considered as an important source of China's overall regional inequality. Using Gross Value of Industrial and Agricultural Outputs (GVIAO) to measure the said inequality, Tsui (1993) revealed that intra-provincial inequality constitutes 74% of provincial regional inequality compared to 26% that of inter-provincial inequality. The author further contended that the magnitude of intra-provincial income variance will be expected to continue in the future. And it seems that his prophecy is true; as Lin et al. (2010) provided similar if not heightened compositions of intra-provincial inequality for 1990, 1995, 2000, and 2004.

Without incorporating adjustments in the cost of living, Lin et al. (2010) unveiled that within-province inequality is ravaging across all the aforementioned years, manifesting a generally consistent increase in the contribution of said inequality. In 1990, within-province disparities reached 77.9. In 1995, the previous level of contribution is followed by a slight decline, culminating in a total percentage contribution of 73.9. Five years later, intra-provincial income disparities begun increasing again with a percentage of 76.8. In 2004, it had reached a total contribution of 78.9 percent. These findings are being echoed by Cheong and Wu (2012), but slightly differ in the percentage of contributions and the period of data studied (1997-2007). Regardless, Cheong and Wu posited that the humongous contribution of within-province income disparity continues even until 2007.

On the contrary, inter-provincial inequality contributions per the years studied by the scholars are merely considered inconsequential, amounting to 26 percent (1982), 22.1 percent (1990), 26.1 percent (1995), and 23.2 percent (2000), 21.1 percent, respectively.

It is worth noting that the characteristics between each of the province is not linear nor possess a clear resemblance to one another. Cheong and Wu (2012, p.200) suggested that provinces in central and western zones should focus more on:

> *"inter-county inequality, while the provinces in the eastern zone should concentrate on both inter-county and intercity inequalities. The provinces in the north-eastern zone should focus on intercity inequality. The provinces of Fujian, Jiangsu, Henan, Guizhou and Qinghai should pay special attention to inequality between city and county subgroups."*

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Subsequently, this highlights the role of localities in amending provincial regional inequality whilst, at the same time, making it imperative for local governments to come up with context-specific policies to battle against inequalities at their specific spatial scales.

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Against this backdrop, various scholars (e.g., Cheong et al., 2021) have suggested several reasons for the unequitable growth of the economy within provinces in China. Amongst them, FDI stood out from the rest. In this sense, FDI is perceived as a double-edged sword: if directed at poor and underdeveloped provinces, FDI posits a positive relationship with provincial income equality, and vice versa (Cheong et al., 2021). Whilst the effect of international trade is inconsequential to regional income inequality. On top of that, Cheong et al. (2021) unveils that the increase in inequality is rooted not from the mere development in the tertiary or secondary industry sectors, but from the unequitable distribution of the said sectors.

Regional Inequality

Against a larger spatial scale, China's regional inequality fares similarly if compared to the trends and patterns of its close cousin: provincial regional inequality. In this sense, intra-regional income disparities are deemed much more significant when placed alongside inter-regional inequality. Using merely nominal income, Lin et al. (2010) assessed regional income disparities across and within regions in China. In the study, these scholars found that within-region income variance predominates throughout the four specified years of study, amassing a total contribution of 90.9 percent, 89.8 percent, 91.8 percent, and 89.8 percent in 1990, 1995, 2000, 2004, respectively.

In greater depth, the study differentiates China's regions into three: the coastal region (otherwise referred to as the eastern region), the central region, and the western region. Amongst the three regions, the coastal region is considered the highest contributor to intra-regional income inequality, possessing a total contribution of 48.4, 51.3, 50.l, and 51.5 percent in 1990, 1995, 2000, and 2004, respectively. Following the coastal region with a relatively huge gap, the central region contributes about 29.0, 27.6, 29.2, and 26.5 percent share of intra-regional inequality under the same base years. This leaves the western region at the third place with 13.5, 10.9, 12.5, and 11.8 percent.

The determinants for regional inequality are more or less akin to that of the provincial regional inequality (see above).

d. Wealth Inequality

Wealth distribution is usually more unequal than income distribution, and this is particularly true in China. A fairly recent study by Li and Wan (2015) find that wealth distribution amongst the Chinese has become increasingly unequal and doubles that of the pre-liberalization era. Between 1988 to 2012 alone, the wealth Gini coefficient increased from 0.34 to 0.73. The soaring wealth inequality has been considered a major contributor to the rising income inequality via unproportionate increases in capital gains, further widening the income gap distribution amongst the affluent and the least fortunate. Out of all sources of wealth inequalities, Li and Wan (2015) denoted that housing assets (and their subsequent increase in price) constitute a major component of overall wealth inequality.

During Deng's era, China has undergone various reforms, including that of housing distribution system. In this era, the housing system experienced a rather monumental transformation, from a highly centralised housing allocation system to a predominantly market-oriented mechanism (Sicular, 2013). For Li and Fan (2020), this process alone has induced a deep-seated change in the housing stratification and subsequently widened the extent of wealth inequality. This is because private property, particularly housing, yields additional sources of income for households through interest earnings, rents, and even capital gains.

Accompanied by the skyrocketing increase in housing prices in past years, this has attracted wealthy buyers to seize this moment as an investment opportunity, thereby further increasing the price for housing – a single purchase of housing limits the availability of housing for others (Li and Fan, 2020). While this is beneficial for the affluent, as it induces greater earnings, it leaves the less affluent, especially those without housing ownership, at a massive disadvantage. In this sense, the least unfortunate now suffers from the inability to purchase housing and consequently the inability to reap benefits from growing housing-related assets. Meanwhile, in 2013, Sicular reports that asset income contributed to almost 10 percent of national income inequality in 2002, and 13-19 percent in 2007.

These sources of inequalities are ripe of detrimental economic impacts. Qin et al. (2009), for instance, find that significant changes in income inequality carry negative effects on macro-economic stability as they cause consumption and then investment to undulate. Similarly, Ren and Chao (2018) note that the existence of a broad income gap amongst groups will influence economic growth in terms of the foundation, operation and the outcome, thereby, restricting the quality of economic growth. Further, Choo (n.d.) highlighted that income inequality will also hamper poverty alleviation efforts, stifle social cohesion as well as stability, and will undoubtedly purport adverse effects to the environment. Therefore, immediate actions must be taken by both governments at the national and local levels as to reduce the extent of economic inequality and eventually prevent the aforementioned impacts from occurring.

2. An Overview of Common Prosperity

I. Throwback: The History of Common Prosperity and Its Meaning in The Past

a. The History of Common Prosperity and Its Meaning under Mao

The first mention of 'common prosperity' was derived in a headline published by the *People's Daily* in late 1953 as part of a series in the paper titled "Promoting the General Line to the Peasants". Within the series, it highlights 'what' developmental path the Chinese society ought to undertake in the near future by narrowing down the options to two possible paths towards prosperity, one was capitalism, and the other was socialism. The article continues to go on by underlining the possible drawbacks of capitalism whilst, at the same time, shedding light on the merits of socialism (Bandurski, 2021).

Not long after, another article was published, titled 'The Path of Socialism is the Path to Common Prosperity'. This article largely substantiates how common prosperity under socialism should be manifested (Dunford, 2022). At roughly the same time, preparations for the first ever five-year national plan were underway. The focus of the first five-year plan, modelled after the planned economy of the Soviet Union, was two-pronged: it seeks to intensify industrialization-related activities while concurrently aims to transform the agricultural sector (Bandurski, 2021). And it wishes to do so by first enabling the collectivization of economic activities. At this point, it was clear that this conception of common prosperity will only be feasible under a setting where collective ownership prevails. The rationale for the said collectivisation of activities largely lies in the belief that when economic production activities are held by the common, exploitation of people by the people will be abolished and never to be seen again. In this sense, common prosperity meant that resources were held in common (Bandurski, 2021).

b. The History of Common Prosperity and Its Meaning under Deng Xiaoping

The above conception, however, began to shift in the late 1970s when Deng Xiaoping came to power and exerted a new framework of economic development (Bandurski, 2021). This strategy, known as the reform and opening, came about in 1978 when the Third Plenary Session of the 11th Central Committee brought about a novel way to view the notion of common prosperity. In this strategy, the path towards common prosperity was modified, placing a greater emphasis on letting a few people to get rich first as a means of enriching all (Dunford, 2022).

Propelling the strategy of reform and opening was Deng's idea that common prosperity could be reached by allowing certain regions and people to get rich first and only then help others who were left behind with the newly gained wealth. Or in his words:

"Our policy is to let some people and some regions get rich first, in order to drive and help the backward regions, and it is an obligation for the advanced regions to help the backward regions."

II. The Importance of Common Prosperity: Why was it important and why is it more important than ever?

Under Mao, common prosperity can be easily interpreted as rising from the ashes of market fundamentalism. The particular belief for the need of revival can be derived from the perceived ruins of the society, where injustices were seen to be running rampant in every corner of society. During the 1940s, economic inequality and absolute poverty are the main themes of the Chinese society. Grew concerned of the situation faced by the everyday Chinese citizens, Mao began to introduce changes when he took power. Common prosperity became the ultimate goal of his regime, with social equality constituting the core of the concept. Under his lead, the regime tries to eradicate any forms of social injustice or inequality via collectivization of the agriculture and tries to fortify industrialization to its fullest extent. In doing so, the Chinese government becomes very centralized and controlled almost every important aspect of the economy.

For the next years to come, people were pulled out of poverty and gradually became more prosperous. However, it is apparent that the Chinese economy is restrained from its truest economic potential. When Deng Xiaoping took power, it was clear for him that the economy must be fostered, even if it comes at the cost of the highly upholded and even deemed sacred concept of equity. During his time, common prosperity took a major turn in urgency. Egalitarian society remains at the core of Deng's version of common prosperity, although the means to achieve such ideals have changed. From thereon, trickle-down economics became central to common prosperity. While economic growth under (and post-)reform has been nothing but impressive, equality deteriorated quickly. This gave way to the redefinition of the concept under Xi Jinping.

Now, common prosperity has been, from time to time, seen as an economic campaign to reify the socialist roots of China. However, the current concept of common prosperity is not as strict nor constraining as its first predecessor. Rather, it tries to curb the upper-tail of the pyramid and strengthen those sitting at the bottommost of the food chain. In other words, it tries to lessen the gap between the affluent and the least fortunate and widen the income distribution at the middle. In greater depth, it tries to provide a vision and strategy for China's development over the next decades by targeting various inequalities as priorities to overcome, primarily income inequalities among social groups, urban-rural inequalities, and regional disparities—all of which are major challenges to China's goal of entering the ranks of middle-income nations while navigating a slowdown in macroeconomic growth (escaping the "middle-income trap").

III. Paving Novel Paths Toward Common Prosperity

At present, common prosperity is not equal to the notion of equality. Rather, the current concept of common prosperity is now concerned with the distribution of rewards according to the quality and quantity of labour contributions. Further, it seeks to emulate a path of shared development that caters and contributes to a sound economic development with due consideration to fairness. In doing so, Dunford (2022, p.38) believes that it needs to:

"...advance socialist modernization, upgrade, innovate and escape the model of the recent past in which it imported high-end intermediate and capital goods and exported low end assembled products … investment in skills and in indigenous science, technology and innovation is essential."

3. Governing in the Midst of Common Prosperity

I. The Role of National and Sub-national Governments in Combating Inequality

In the past ten years, economic inequality in China have been perceived to be declining. However, this does not mean that the Chinese government should stop producing pro-equality policies nor does the government should curb its role in the economy. On the contrary, both the national and local governments must continue and even fortify any effort to reduce economic inequality.

Governments throughout the world have been known to possess numerous functions in relation to their domestic economy. Amongst these functions are the provision of legal and social frameworks, the delivery of public goods and services, maintaining healthy competition between economic entities, redistribution of income, correction of externalities, and stabilization of the economy.

Redistribution of income is one of the many sought-after features of government necessary for inequality alleviation. According to Starfield and Birn (2007), income redistribution can be viewed as a concoction of progressive taxation, cash transfers, wage policies, and other efforts directed to lessen the gulf between the lower income groups and the upper-tail of the social strata. The mechanism of income redistribution varies from one country to another. Generally, the central government lays the groundwork, pre-conditions, and nation-wide coverage for equality, while local governments are responsible for providing greater contextuality to tackle the issue of economic inequality. In greater depth, Kaijie (2003) posits that there are three roles of equalizing efforts bestowed upon local governments by the national government, this includes experimental, incubators of innovation, and enforcement roles of the local government.

Local government acts as a playing field where policies are tested and carried out to combat an array of issues, particularly that of inequality (Wu, 2022). This said playing field embodies a looping cycle of learning for both local and central government where a central government issued mandates are administered, monitored, and, at certain stages, are evaluated according to the prevailing priorities of the governing entity. In this sense, experience from each of the localities are weighed in as a factor of consideration for the central government to partake in future endeavours - this determines whether a policy should be continued, terminated, or modified according to the findings in the field. In the long-run, the looping cycle of learning will bolster better policy designs and implementation mechanisms for both central and local governments.

Local governments are also recognized for their role as an enforcer of the central government's mandates. Once a central government has conceived a new institution – institution here refers to norms, regulations, and entities, local governments are obligated to carry out the wishes of the institution and deliver the desired outcomes following the implementation of said wishes. Further, the local government is entitled to not only consider the implementation design given by the central government, but also to take into account aspects of localities within its jurisdiction. This ensures the overall efficacy of a given initiative compared to a distant central government implementing the policy by itself (Andrew and Goldsmith, 1998).

In the last couple of decades, local governments have been perceived as the incubators of innovation (de Vries et al., 2016). Proximity to citizens have engendered and shortened of communication between a governing body and the citizens, allowing a fruitful discussion amongst them to take place – along with better observation of the field and changes in the surrounding environment. Being at the forefront of public services, local governments are usually the first to be made aware of any issues emerging within their jurisdictions and the first to deal with societal issues. But with the growingly complex and wicked societal issues, local governments are forced to find novel ways to deliver a cure to these multifaceted issues currently occurring at the local level (Pratama, 2019).

In China, efforts to alleviate economic inequality have been gradually becoming decentralised (see Yu et al., 2016). Through a series of reforms, devolution of tasks and responsibilities from the central to local governments are now becoming a common theme throughout the country, with local governments now responsible for the provision of basic health and education needs in their respective localities (Dollar, 2007). In respect to the above roles of local governments, decentralization and devolution of duties to local governments will be conferred into the heightening of the three said roles of local governments – if not properly navigated, an increase in local government's burden would reign harm upon development at the local level.

The consistent trend of decentralization over the years have reshaped the relationship between the central and local government. However, this does not mean that the central government is void of the aforementioned duties. On the contrary, concerns about income distribution in China have been increasing and are apparent in central government's development plans – although the said concerns are primarily attempted to pull citizens out of absolute poverty with inequality reduction being the by-product of these efforts. In the Twelfth Five Year Plan (2011-2015), the central government reified its commitments to lessen the widening of income gap and eventually form an equitable pattern of income distribution. Again, in the Thirteenth Five Year Plan (2016-2020), the central government had solidified its intention to eradicate poverty, and by proxy inequality, via the alleviation of rural poverty by 2020. Apart from the commitments stated in the five-year plans, the Chinese government also introduced the 35 Point Plan in 2013. Similarly, this plan stresses the need to distribute income equally across urban and rural areas and recognize the masses living under the poverty line. Accordingly, numerous policies and reforms have been undertaken under these plans, and other plans alike, to achieve the above pre-determined goals.

II. Past Interventions

This subsection of the chapter describes the strategies, policies, and mechanisms introduced by both the central and local governments in the past to combat income inequality in China.

a. Regional Development Policies

Since the late 1990s, concerns over regional inequality have become increasingly apparent and voiced equally across Chinese leaders. During this period, the remarkable economic development in the coastal region is not equally proportioned by economic growth in the west and central regions of China, leading to the rapidly widening regional disparity between the eastern (coastal), the central region, and the western region. In response, the Chinese government came up with the Great Western Development (GWD) in 2000, targeting 12 provinces, several autonomous regions in the central, and western parts of China. The program includes improvement and investment of infrastructures, preferential policies for foreign investment, taxation rates, land use rights, fiscal transfers to the said regions, ecological protection, and even the provision of basic public services such as education, health, and social welfare (Jain-Chandra et al., 2018). The GWD, which is still in place, have reduced fiscal disparities and the overall regional inequality between coastal and western regions since the mid-2000s (Li et al., 2014; Wang and Herd, 2013).

In 2000s, the Chinese government set in motion a series of reforms to the agricultural sector. These changes were aimed to reinvigorate rural economy and reduce the income gulf between rural and urban areas. Among these changes, various subsidies, the deletion of agricultural tax, and the betterment of public services and social protection were pivotal to the reforms. Albeit scholars (Shi et al., 2013) have highlighted the positive impact generated by the reforms, Luo and Sicular (2011) found that the impacts are rather small. For these scholars, this is because the agricultural sector was never the key issue to begin with – although it is perceived to be effective in curbing nation-wide rural-urban income gaps.

In 2003, the Chinese government introduced another specific program tailored to reducing regional inequality known as the North-East Revival Strategy, and, at later years, followed up the plan with the Rise of Central China Program (Zhou and Song, 2016). The said programs entail the disbursement of state funds via investments in infrastructure, energy, environment, and resource projects to further aid the west and central regions to keep pace with the coastal region.

Regional-specific projects have also been incurred to deal with urban-rural inequalities in China. In 2014, China revealed an urbanization plan that, among other things, seeks to facilitate approximately 100 million additional rural residents to settle in urban areas by 2020 (Jain-Chandra et al., 2018). Additionally, the Human Rights Action Plan 2016 called for the reform of the household registration system, allowing a unified urban-rural household registration system to emerge (Jain-Chandra et al., 2018).

b. Income Tax Reform

Due to the expansion of the private sector, the government of China realized that solely relying on public-sector wages will no longer be sufficient to fuel the economy. As a result, China introduced an individual income taxation in 1980. At its earliest years of inception, the threshold for taxation was unbelievably high that almost none of the Chinese citizens were eligible to pay income taxes (Zhou and Song, 2016). In the following years, however, changes have been made to capture greater tax base for income taxation. Between 2005 to 2011, for instance, the government had made several changes in the minimum threshold for personal income tax, raising the minimum threshold from 800 yuan per month in 2005 to 3,500 yuan per month in 2011 – up until 2017, the threshold remains unchanged.

In the past, the Chinese government had introduced an individual income taxation and, in the following years, had undergone several changes to further tailor the said tax to the budgetary needs of the government. The efficacy of the reform, however, has been deemed inept to deal with income inequality. While Piketty and Qian (2009) had reported somewhat of an improvement in tax revenues, other scholars however (e.g., Knight, 2014; Zhuang and Li, 2016), have unveiled that the redistributive effect of tax reform is limited and exceptionally low on urban income inequality. Perceived in this light, Knight (2014) even suggested to add other forms of taxes to help current income taxation form to deal with income inequality.

c. Labour Market Policies

Minimum wage regulations are not entirely foreign to the Chinese government. On the contrary, it had existed for over than 30 years. However, its use has only intensified in later years and only recently it was considered central in dealing with income inequality.

In 2004, the government of China introduced a law that stipulates the instillment of minimum wages to State-owned enterprises, private corporations, and self-employed businesses, making minimum wages compulsory for these entities. Under this law, local governments are also required to renew the minimum wage standards bi-annually, resulting in a consistent increase of minimum wages across regions (Fang and Lin, 2013). By 2015, the average ratio of minimum wage to average wage had increased by 31.2 percent and 51.2 percent in both non-private and private sectors, respectively (Jain-Chandra et al., 2018).

In the past, the role of minimum wage regulation has always been questioned. But recent improvements in regulation have shown otherwise. For instance, Lin and Yun (2016) have revealed that changes in minimum wage regulation and standards are substantial in reducing the total income gap at the lower-tail of China's income distribution, especially after 2004.

d. Poverty Reduction Policies

Poverty alleviation policies contribute to the lessening of gaps between income strata by acquitting those at the lower tail of income distribution and subsequently widening the portion of those at the middle of income distribution. In doing so, the Chinese government primarily relies on granting universal access to education and making education from pre-school to high school mandatory for children in China. In this sense, a series of policies have been adopted to propel access and universality of education in China, such as destroying financial barriers to education (e.g., fees) for vulnerable children. Despite improvements in access equality, factors such as urban-rural divides, social stratification, and gender gaps continue to stifle China's efforts to the betterment of education. In addressing the aforementioned issues, Knight et al. (2009) called for increasing nation-wide education expenditures to provide children with material and other forms of difficulties with the resources necessary to level the playing field for all students.

e. Social Security

Policies aimed to provide greater security in living standards come in different forms and mechanisms. The minimum living standard program, also known as the Dibao System, is a program that was pioneered in Shanghai in 1993 to reduce wage gaps amongst Chinese workers. Once emerged as a pilot project, the system continued to grow until now. In 2003, the number of beneficiaries had reached a remarkable 22.5 million in mere 10 years of its implementation (Zhou and Song, 2016). By 2016, the program covered 45.8 million rural residents and 14.9 million urbanites (Zhou and Song, 2016). The role of the Dibao system, however, is regarded to be limited in reducing income inequality, although it is notably significant in alleviating poverty (Jain-Chandra et al., 2018).

Aside from the implementation of the Dibao system, the Chinese government had also introduced the New Rural Cooperative Medicare in 2003. As of 2018, the initiative had covered almost 98% of rural inhabitants in China. Unfortunately, the benefits reaped from the program has been modest at best, while concerns about its cost-effectiveness has been on the rise (Wu et al., 2018).

Unfortunately, the benefits reaped from the program has been modest at best, while concerns about its cost-effectiveness has been on the rise (Wu et al., 2018).

Apart from administering the mandates from the national government, local governments have introduced a wide variety of social security policies and mechanisms to ensure that the gulf between the affluent and the least fortunate is declining substantially. For instance:

'The municipality of Shanghai and the province of Guangdong issued comprehensive laws and regulations on social relief and social assistance: the Shanghai Social Assistance Measures were issued by the Shanghai municipal government, and the Guangdong Social Assistance Ordinance was promulgated by the Guangdong People's Congress. Furthermore, local governments have actively conducted surveys of their areas and have reported good feedback on the local management of the minimum living standard scheme in urban areas. Some local governments have set up top-down social assistance networks and institutional comprehensive assistance models, including social assistance centres in districts and counties, social assistance bureaux at the street level, and the appointment of social assistance co-ordinators on residents committees, and so on. For example, the municipality of Shanghai and the province of Guangdong formed a common way to construct a comprehensive assistance model based on the fundamental needs of the people enjoying the security and on the current financial capacity of governments, and which emphasises the realisation of the siweiyiti (people's livelihood, medical services, education and housing assistance)' (Kaijie, 2003, p.5).

III. Forward-looking: Outlook and the Glimpse of Expectations the Governing Authorities Now Carry Under Common Prosperity

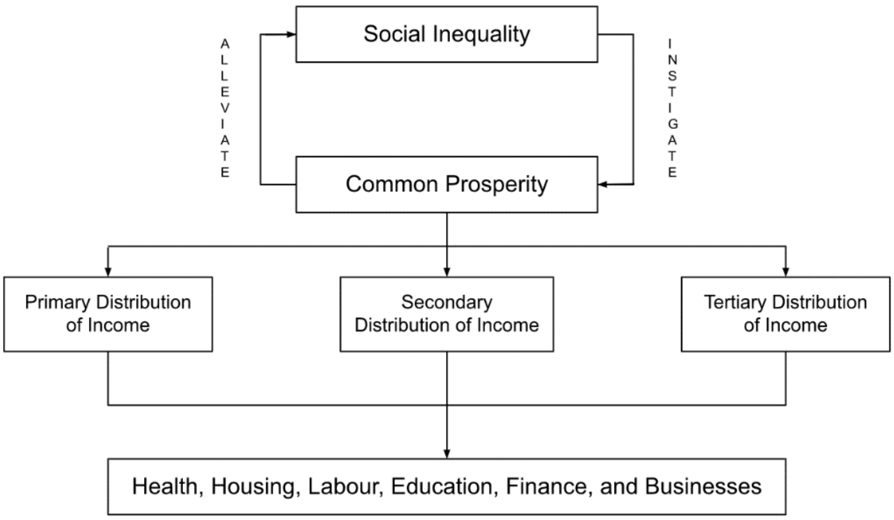
a. The Framework of Common Prosperity under Xi Jinping

The re-emergence of Common Prosperity in Chinese development principles has signalled an upcoming ripple of change in the future. Current common prosperity, according to Xi Jinping's own elaboration (cited in Wu, 2022), encompasses four pivotal aspects (or objectives), such as: (1) reducing income inequalities; (2) equalizing public services; (3) actualizing common prosperity in spiritual life; and (4) promoting rural development. Wu further notes that there exists somewhat of a roadmap in achieving the ideals of common prosperity: by 2025, it is expected that income inequality is to be reduced, albeit the extent of reduction remains unclear;

by 2035, significant development of common prosperity ought to be achieved, focusing specifically on equalizing basic public services; and finally, by 2050, common prosperity is fully fledged, with income variance across the country being reduced to a substantial degree.

Further, these objectives, particularly that of reducing income inequalities, are centred on four general paths of policy action, such as increasing the size of middle-income groups, raise the basic incomes of low-income groups, adjust high incomes, and ban as well as police illegitimate incomes (Dunford, 2022; Wu, 2022). The four paths of policy actions are then expounded into a three-tier income distribution and tax system.

Figure 7. The Framework of Current Common Prosperity



Source: Author's own rendition of common prosperity

The first stage of the three-tier income distribution and tax system involves an increase in both wage shares and property income (e.g., equity transfer and dividends). This includes the increase in the overall wages of labour, increased property income from rural assets and collective land used for commercial purposes (e.g., construction), a reasonable surge in capital market income, the betterment of environment for the urban self-employed, and, of course, employee stock ownership (Dunford, 2022).

The second stage of the three-tier system is the tax and social security system. Taxes will be modified and are expected to tap into several streams of income as to induce a greater strain on income outliers. Amongst others, taxation will be bestowed upon property, inheritance, high-income groups and even capital gains (Dunford, 2022). The SOEs will also abound with changes following the previous direction, with restrictions and alterations on executive salaries being expected to occur in the near future (Dunford, 2022). On the other hand, modifications in social security are primarily concerned with rendering an equitable access to public services along with the rectification of the quantity and quality of these services (e.g., schooling, elder care, and health) via the use of ICTs. Atop of the previous, universal social protection will be strengthened, as it is expected that a universal social protection will narrow the gap between primary distribution of the affluent and the least unfortunate.

The third and last tier of the system is an improvement of mechanisms and preferential policies that will encourage or, by coercion, force high-income groups and even enterprises to provide a return in the forms of gifts and donations. Albeit the concept might seem entirely foreign to the Chinese government, tertiary distribution has long been discussed under various platforms, forums, and government documents dating back to at least the 1990s (Dunford, 2022). It is only in recent years that the concept has picked up traction and stressed as one of the few effective tools to be utilised to render income inequality obsolete amongst Chinese citizens. Tertiary distribution, according to Dunford (2022), can be constituted of government-recognized charity, social assistance organizations, and government projects to aid those who are vulnerable and on the verge of poverty.

b. Challenges Ahead

While common prosperity is clearly beneficial for the Chinese citizens, there exists a multitude of challenges and dilemmas that may hamper the overall administration of common prosperity. Among other things, macroeconomic dilemma, fiscal, institutional, and administrative challenges are of particular concern.

i. Macroeconomic Dilemma

China is currently at a crossroads of an economic dilemma. By continuing its current path, the Chinese government will be expected to recover from the slowing down of the economy and bolster economic growth via economic incentive, yet risks jeopardizing further inequality across the board. On the other hand, should it choose to deepen income distribution across income groups, the Chinese government will only generate greater effects of income redistribution and put further deterioration of its economy at stake – to which the latter seems to be the obvious choice for the regime.

Xi Jinping's path towards promoting common prosperity largely entails the use of centralized economic development (e.g., SOE-driven economic growth) that fosters an equitable growth of the economy. Implementing this approach would cause a tremendous retreat in private sector contributions upon the economy that, if fails, will solely induce menace towards the society. In this sense, a reduction in market fundamentalism will most likely diminish any forms of private contributions on the economy that would strain the ability of the Chinese government to finance policy initiatives. In greater depth, this would exert a substantial pressure on the funding of any common prosperity related policies and programs in the near future.

ii. Fiscal Challenge

With the slowing down of the economy, the Chinese government is faced with a tumultuous economic pressure. While the central government is certainly affected by the said pressure, local governments will be the most affected party of out of all. In this sense, the already constrained fiscal resources is being preyed over by numerous local governments that have been plagued by financial struggles in and of itself.

iii. Institutional Challenge

Common prosperity in this era is rather a revolutionary concept that ought to overhaul fundamental institutional settings of the Chinese government. And without any budgetary reforms and support, achieving such a deep-seated change within the workings of the government would be impossibly daring for the government itself.

iv. Administrative Challenge

The reduction of local government salaries in mid-2021 has left a gaping scar for local government officials. Albeit indeed the central government may curb a certain number of expenditures for the whole government, it reduces the motivation for local government officials to do more for its country (see Niskanen, 1971). This could be detrimental for the overall implementation of common prosperity as local governments and their respective officials are pivotal for the efficacy of common prosperity itself.

c. Changes in The Concept of Common Prosperity, Challenges, and The Government's Role

Common prosperity opens up the floodgate to an entirely novel policies to be assembled in the future and the re-strengthening of existing policies. Overall, this can easily be interpreted as the piling of both central and local governments responsibilities and duties. In this light, common prosperity compels the central government to carry out a multitude of mountainous tasks, such as positing deep-seated changes to the already solidified workings of the Chinese government itself.

Laying down the nationwide groundwork for policy formulation and implementation has always been the responsibility of the national government. Supposedly, then, the incorporation of the three-tier system of tax and income distributions into the national framework merely adds to the already piling list of responsibilities of the central government, right? Wrong. The magnitude of the responsibility bestowed upon the central government this time is simply humongous and cannot be equated with the same old routine of the government (e.g., the central government must consider whether the shift towards common prosperity is feasible given the current performance of the Chinese economy along with the risk of policy failure). The current conception of common prosperity possesses the propensity to overhaul years of reforms dating back to the 1990s and would be a daring task for any government to finish.

Once finished, the central government is faced with the responsibility of introducing and strengthening measures as well as frameworks of policy adherent to common prosperity. Apart from paving the way for formulation and implementation of policies to take place, the central government is responsible for the design and development of measures relevant to common prosperity, regardless of the governing entity tasked with administering the measures. The search for existing domestic mechanisms deemed fitting for common prosperity, the discovery of novel approaches of inequality, and the effort to streamlining these existing mechanisms under common prosperity, are considered to be pivotal pieces for the central government to chip in.

Additionally, the central government is obligated to administer some of the measures conceived concurrently with local governments. In recent years, the nexus between the central government and local governments have administratively transitioned into a local-government-heavy relationship (e.g., decentralization). As such, local governments are now responsible for a much larger share of implementation (and enjoy a greater degree of authority in planning) in the country. And being the forefront of public service delivery, the role of local government is more vocal than ever. Consequently, it is expected that the three roles (e.g., enforcement, innovation, and experiment) of the local government mentioned previously will be heightened; and with the addition of common prosperity, these roles will be pushed to a threshold.

However, the said threshold is not as pristine as it once was. Lately, local governments have been challenged by a decline in both fiscal and administrative abilities to carry out tasks and duties (Dollar, 2007). In addition, the said threshold is not shared equally across the board. Differences in localities, increases in citizens' demands, and soaring devolution of tasks and obligations are not paralleled by an equal level of local governments capability (e.g., financial and administrative capacities) to carry out these wishes. And this has long resulted in the differences in the extent of initiative utilized and levels of inequalities within and across the country. With that being said, the addition of common prosperity, which requires the utmost fiscal resources, possesses a high plausibility of inducing greater financial burden and potentially strain local governments from doing more. Subsequently, this could backfire as the burden it induced can be counterproductive to achieving an equally prosperous Chinese society.

In short, the ambition of the Chinese government to re-introduce the concept of common prosperity is without a doubt, benefitting for the citizens. However, the incorporation of common prosperity should be carried out with caution. Simply because existing challenges could hamper the overall performance and even place the Chinese economy in turmoil.

4. Enabling Conditions, Recommendations, and Best Practices

The previous chapters have identified the issues, gaps, and future direction of common prosperity. This chapter will try to expound on the said aspects by detailing the enabling conditions, recommendations, as well as, if applicable, best practices relevant to the implementation of common prosperity in the future.

I. Enabling Condition

The introduction of common prosperity into the current framework of government ought to be met with significant changes in every level of government. This is because the current notion of common prosperity is known for its ambition to widen the span of income distribution at the middle via a multitude of far-reaching policies, mechanisms, and regulations that will undoubtedly undercut the current workings of the government. While it is feasible, this conception of common prosperity requires a hefty amount of input, such as fiscal resources and administrative prowess (e.g., sufficient government authority). Therefore, it is only logical for governments to secure a huge reservoir of financial resources and surge the extent of administrative capabilities prior to incorporating the potential changes. Once the two pre-conditions of success have been fulfilled, only then the implementation of common prosperity will be effective.

II. Recommendation

a. Skill Premium

Economic growth in the past decade has given way to a high skill premium in China: citizens that fail to keep up with current occupation demands are sadly left with gaping wage differences compared to their skilled counterparts. Government interventions are, therefore, necessary to curb the level of income divergence induced by differences in ability. In this regard, Cao (2018) offers two interrelated paths towards skill upgrading, which are: (1) industrial agglomeration and (2) education.

Industrial agglomeration is known to have a significant impact on skill premium. However, the effect of industrial agglomeration varies from one type of industry to another. For Cao (2018), manufacturing and inter-industry agglomeration seem to be the most suitable forms of agglomeration for skill premium. The author finds that for every increase in manufacturing agglomeration, skill premium decreases by 0.608% - this finding is also supported by Li and Zhu (2020). Similarly, although to a lesser extent, a 1% increase in inter-industry agglomeration bring forth a 0.36% decrease in skill premium. The author contends that such contributions lie within the nature of the industry along with the stage of its respective development, of which it signifies different effects on both labour supply and demand for different skill levels and premium.

China's manufacturing industry is characterised by its focus on the lower end of the global value chain (Cao, 2018). Therefore, the incorporation of manufacturing agglomeration merely affects the supply and demand of unskilled labour. In this sense, manufacturing agglomeration induce an inward flow of labour by drawing out unskilled labours from afar. On the other hand, manufacturing agglomeration affects the demand of labour via the expansion of industrial scale. If intensified, manufacturing agglomeration could impart a greater demand for unskilled labour that surpasses that of its supply growth, leading to the elevation of wages for unskilled labour and the lessening of wage gap amongst the skilled and unskilled labours.

If manufacturing agglomeration affects the supply and demand for unskilled labours, inter-industrial agglomeration will supposedly induce an increase in the supply of skilled labour. Given the strong complementarity between manufacturing and producer service industry, cooperative agglomeration development between the two imposes huge benefits for the labour market via knowledge and technology spill overs. For Cao (2018), these benefits are reflected in two ways. Firstly, the temporal proximity of the two sectors constitutes a conducive environment for knowledge exchange to flourish and supports the transgressions of unskilled labour in the manufacturing industry into skilled labour (Cao, 2018). Secondly, both industries can work side by side to accelerate 'industrial upgrading, enhance the value chain, improve labour productivity, thereby increasing the wage level of manufacturing [and] lower skill premium' (Cao, 2018, p.193).

Apart from agglomeration, education presents another gateway for apprehending the issue of skill premium. Education, or rather the absence of education, has long pertained as a gridlock for labour transformation. This is because education has become a rather formidable entry barrier when it comes to high-skilled jobs, inducing income convergence altogether. In 2009 alone, graduates from senior high school, technical school and college graduates earned 18 percent, 32 percent, and 61 percent more when compared to those with lower levels of education (Meng et al., 2013). It is therefore important to allocate some of the government's financial reserves to improve the quality and the equitable spread of education, primarily that of secondary and tertiary education. In doing so, the government will be able to unlock further transformation of labour, promote greater returns to education, and lessen the level of skill premium in China.

Notwithstanding the foregoing, discrimination of labour is also reported to be a major barrier to labour transformation. The long-standing restriction of rural-urban mobility, often referred to as the hukou system, has been known to hamper the movement of labour from rural to urban areas and instigate derogatory treatment to citizens without urban hukou – although some restrictions have been nullified in recent years, it has not been completely abolished. It is therefore imperative to further relax such restrictions and call for the stimulation of mobility of rural labours via government intervention (e.g., securing the societal benefits, such as health and education, for rural workers working in urban areas).

b. Promotion of Basic Services and Infrastructure

The promotion of basic services and infrastructure is known to have a strong negative effect on rural-urban, within-rural, and within-urban income divergences. Sadly, Jain-Chandra et al. (2018) noted that past public spending surrounding the delivery of basic services such as education, health, electricity, social protection, sanitation, and ICT infrastructures, lags other emerging economies. Substantiating the previous proposition, OECD (2006) observed that public expenditure on healthcare and education has fallen over throughout the 1990s and the 2000s, making China's public expenditure comparable to that of developing countries and almost below all OECD countries. This has led to the sub-optimal provision of public services, preventing accessibility and discouraging consumption of these services.

In line with the suggestion of Lee and Kind (2021), investment in infrastructure and public services is thereby a must to actualize an equitable society. Fortunately, greater provision of public services in recent years has been reflected in various areas, including that of rural areas. Shi et al. (2013) showed that the investment in the various forms of the common good does not go to waste. Instead, the authors found that the reduction of intra-rural and urban-rural inequalities have been associated with this very improvement in infrastructure and services. Albeit this is by no means a monumental feat, as both forms of inequalities remain at a relatively high level. Nevertheless, one can view this achievement as a good starting point toward better income distribution, where further progress lies ahead and the government's pursuit of a just society must continue to march forward.

Atop the stifling issue of inadequacy in the provision of public services, China is also faced with the uneven provision of public services in urban areas. The hukou system is a long-standing system that differentiates urbanites from rural residents. In the past, the said system stood between rural citizens and a dream of a better future: it denies access of rural citizens to enjoy the same life as their urban counterparts (Liu, 2005). Perceived in this light, the system determines the perks that citizens of rural and urban areas ought to enjoy, amongst other things, access to social security, health, and education. And it is often the case that citizens of rural areas are deprived and even robbed of their rights to these social entitlements, while urbanites get to reap the utmost benefit. Although some of the restrictions under the auspices of the Hukou system are withering away, few barriers cease to exist. If not addressed properly, this set of restrictions will pile on top of the wicked issues already possessed by China, especially when the influx of migrant is expected to continue in the next decades.

In response to this condition, Jain-Chandra et al. (2018) has proposed a way out from the shackles of discrimination; and that way is the liberalization of the residency system. Liberalizing the residency system allows for more migrants to contribute to and benefit from the social safety net and, in turn, reduces the overall disparities and strengthen the redistributive effect of fiscal policy. This solution has been deemed effective by various scholars, including Chen et al. (2018) and Sicular et al. (2007), in combating intra-urban and between-group income divergences.

c. Social Security

Social security can be described as the provision of support, services, and welfare services, either in kind or in cash, generally associated with income maintenance and other support programmes alike (Huang and Cai, 2021; Tang and Midgley, 2008). In China, the use of social security is embodied in the Dibao system. Dibao system is an unconditional cash transfer program that was introduced in 1993 with the main purpose of the system being to reduce the wage gaps amongst Chinese workers. Unfortunately, various scholars (e.g., Jain-Chandra et al., 2018) have come to doubt the efficacy of the said system: the role of the Dibao system is thought to be fairly limited in reducing income inequality – it is only useful insofar the goal of the government was to alleviate immediate poverty.

However, this does not mean that the use of social security mechanisms should be avoided at all costs. On the contrary, there are a lot of social security policies and mechanisms that can be applied to the Chinese context, and one of which being Conditional Cash Transfer (CCT). CCT combines financial assistance for targeted beneficiaries with a sequence of requirements of initiatives designed to strengthen their human capital. This initiative can be viewed as an extension of its close cousin, namely unconditional cash transfer, in the sense that it delivers more than a short-term solution to poverty and paves better protection from future adversaries to those beneficiaries (Merrien, 2013; Baird et al., 2018). The use of CCT can be useful and may even accrue fruitful benefits for education.

Using CCT within the confines of education, CCT could be one of the cures for (urban-rural) income inequality. In the past years, equality of access to education has been mildly increasing. However, issues of equal outcomes in education remain prominent (e.g., material deprivation and gender). Gibson and Asthana (2000), for instance, found that low household income affects educational performance: poor children are less likely to have additional resources to support educational attainment (e.g., laptops). Further, the lack of material resources is likely to increase the chance of students from a working-class background to resort to immediate gratification, negating the future benefits of deferred gratification completely. And these differences are most pronounced between urban and rural areas. The provision of CCT will potentially alleviate the above circumstances by inducing greater motivation for school attendance, exerting better educational performance, reducing the amount of out-of-pocket expenses on education, and increasing the overall budget to be utilized for other purposes.

Box 1. Best Practise: The Avancemos Conditional Cash Transfer (ACCT) Program

The Avancemos Conditional Cash Transfer (ACCT) program is one of the programs that answers to the above criteria and whose implementation is deemed successful. The ACCT program, first conceived in 2006 by the Costa Rican government, is a CCT program that focuses on families living way under the poverty line and suffering from heavy social vulnerability with youth between the ages of 12 and 25 (Romero, 2016).

In targeting its potential beneficiaries, the Costa Rican government utilizes a system known as the SIPO. It is a targeting tool that is utilized to identify, characterize, quality and select families eligible for the programs. Additionally, SIPO is supported by the Social Information Record to collect the socioeconomic information on families (Romero, 2016). Once eligible, selected families enrolled within the program must fulfil the predetermined educational co-responsibilities, namely school attendance and the completion of school year in secondary school, to maintain the stream of transfers they currently receive. Participating families ought to receive a fixed nominal of transfer with variations in the nominal of transfer according to the child's level of education: 22,500 colons per month will be assigned to seventh-, eighth-, and ninth-year students, while a 35,000 colons per month will be dedicated to students in the tenth, eleventh, and twelfth year.

As for the efficacy of the ACCT, Mata and Hernández (2015 cited in Romero, 2016) found that in 2007, a year after the program was initiated, between 10 % and 16 % of student beneficiaries of Avancemos stayed in the education system exclusively because of the transfer. On another occasion, Sauma (2008 cited in Romero, 2016) roughly estimated the effect that the program has on poverty. The author then revealed that the program was able to reduce poverty by 0.3 percentage points and extreme poverty by 0.2 percentage points. While the previous finding is merely a rough estimate, the ability of a program to induce a measurable effect only two years after its implementation is astounding, nonetheless.

d. Rural Development

Within-rural inequality accounts for a sizable share of income inequality in China, although the level of contribution has been declining almost consistently. In response to intra-rural inequality, China had introduced plans in the past dedicated to solving this issue.

In 2000s, the Chinese government set in motion a series of reforms to the agricultural sector. These changes were aimed to reinvigorate rural economy and reduce the income gulf between rural and urban areas. Among these changes, various subsidies, the deletion of agricultural tax, and the betterment of public services and social protection were pivotal to the reforms. Albeit scholars (e.g., Shi et al., 2013) have highlighted the positive impact generated by the reforms, Luo and Sicular (2011) found that the impacts are rather small. For these scholars, this is because the agricultural sector was never the key issue to begin with – although it is perceived to be effective in curbing nation-wide rural-urban income gaps.

Similar to the findings of Luo and Sicular (2011), Zhuang et al. (2019) revealed that, if anything, the issue of rural inequality lies within the inequitable yet sporadic development of rural industrialization and the service sectors. For Zhuang et al. (2019), the equitable development of rural industrialisation, the proliferation of the third sector in rural areas, rural employment, and coupled with the inclusion of financial services are four necessary variables needed to forge sustainable growth in rural areas. This means that resources from afar must be diverted to poor rural regions to promote rural industrialization and stimulate the development of the service sector. The inclusion of financial development is also perceived to be beneficial for rural inhabitants. Simply because it enables them to access financial resources and induce better personal livelihoods and the overall development of the rural economy.

e. Regional Development Policy

Within-province and intra-regional inequalities have always been considered as the prominent factors driving China's regional inequality. Amongst many reasons, various scholars (e.g., Cheong et al., 2021) have suggested the duality of FDI in determining the direction of within-region equality: if directed at poor and underdeveloped provinces, FDI posits a positive relationship with regional income equality, and vice versa. Whilst the effect of international trade is inconsequential to regional income inequality. On top of that, Cheong et al. (2021) unveils that the increase in inequality is rooted not from the mere development in the tertiary or secondary industry sectors, but from the unequitable distribution of the said sectors.

Thereby:

"the policymakers should not abandon globalization, industrialization, and development in secondary and tertiary industries, but instead, direct them toward disadvantaged regions and ensure that they benefit the poor, i.e., spread far into the poor regions within a particular province. First, FDI should be encouraged by the government, especially in poor regions. Second, more preferential administrative policies, tax incentives, and improved transportation infrastructure should be provided to the underdeveloped regions, to enable easier access and to attract more FDI" (Cheong et al., 2021, p.8).

f. Tax reform

In the past, the Chinese government had introduced an individual income taxation and, in the following years, had undergone several changes to further tailor the said tax to the budgetary needs of the government. The efficacy of the reform, however, has been deemed inept to deal with income inequality. While Piketty and Qian (2009) had reported somewhat of an improvement in tax revenues, other scholars however (e.g., Knight, 2014; Zhuang and Li, 2016), have unveiled that the redistributive effect of tax reform is limited and exceptionally low on urban income inequality. Perceived in this light, Knight (2014) even suggested to add other forms of taxes to help current income taxation form to deal with income inequality.

And it seems that Knight's (2014) wish has been answered by the Chinese government. Not too long ago, the Chinese government had announced that they are going to incur several additions and fundamental changes in the inner workings of the government to align itself with the current conception of common prosperity. In doing so, the government wishes to add other forms of taxes, which include wealth (e.g., inheritance and property) taxation. But the details of such changes were never really shared to the public, which begs the question: what is the best possible mechanism for wealth taxes in China?

Wealth is often seen as one of the elements behind the consistently soaring levels of economic inequality for the past decades. Simply because wealth tends to accumulate within the palms of high-income households. Subsequently, this gives rise to an elevation in income inequality as well as varying starting points in life (Piketty, 2014). And the previous statement is indeed true. A fairly recent study by Li and Wan (2015) find that wealth distribution amongst the Chinese has become increasingly unequal and doubles that of the pre-liberalization era. Between 1988 to 2012 alone, the wealth Gini coefficient increased from 0.34 to 0.73. For this reason, it is important to curb the growth of wealth via government interventions. Amongst different forms of intervention, however, taxation on wealth is perceived to have the most benefits with the least number of drawbacks: wealth taxation is thought to possess a progressive effect on wealth and is relatively favourable to economic growth than other forms of taxation (Norregaard, 2013).

Amongst other forms of taxation, Jain-Chandra et al. (2018) suggest that China adopt a recurrent market-value based property tax as the taxation model on property. Following Wulandari (2020), the estate tax model will be proposed as the basis for China's inheritance tax mechanism, as it suits the current Chinese economy - e.g., the priority to reduce grey income and the fairly restrained administrative capability due to the potential changes under common prosperity. In this sense, Wulandari contends that this model simplifies the calculation of payable tax and promotes better prevention of tax avoidance. And to further curb soaring wealth inequality, it is highly suggested that the tax schemes be set at a high threshold with progressive rates along with the imposition of gift tax as a fail-safe mechanism against tax avoidance (Wulandari, 2020).

5. Conclusion

For the past century, the call for social equality has risen to power and is even convicted as well as echoed, by the global community at large, to have the uttermost significance towards societal welfare. But perhaps the catalyst for the emergence in the importance of social equality was the ever so presence of its binary counterpart, social inequality.

Under the new command of Deng Xiaoping, the country had undergone several reforms. Several principles were used to underlie these reforms, amongst others, the liberalization of the economy, the re-introduction of incentive back into the economy, a greater emphasis on industrialization to meet the criterion of the emerging international system, the incorporation of foreign investments to allure greater financing for development, and privatization. Ultimately, these principles are directed to engage individual effort and eventually allow the economy to flourish at an unprecedented rate.

As a result of these reforms, China's economic growth is undeniable and, undoubtedly, second to none. From 1978 to 2005, the Chinese economy grew at a staggering average of 9.6% per annum (Holz, 2008). Even more impressive is the size of China's economy. Its unparalleled growth in the past decades had led to it being the fourth biggest economy in 2005, surpassed only by the United States, Japan, and Germany (Holz, 2008). Between 2005 and 2020, China had experienced almost a seven-fold increase in GDP (current USD), up from 2.29 trillion USD to 14.72 trillion (World Bank, 2020). In 2020, the unprecedented growth that China undergone had transformed it into the second largest economy in the world, only behind the United States (Zhu and Orlik, 2022).

Unfortunately, the desire to prioritize GDP seems to have blinded the Chinese government from placing equitable development at the forefront of its developmental pillars. Although immense growth had occurred, it did so at the cost of exponentially growing inequalities in both income and wealth.

Many scholars, such as Xie and Zhu (2014), found that ever since the 1980s (or the beginning of economic liberalization), income inequality, measured by the Gini coefficient, has been on the rise - the literature unveils that China had indeed undergone a whopping increase in income inequality from 0.31 in 1980 to 0.447 in 2001. From 2001 and onwards, income inequality continued to accelerate and peaked in 2008 with 0.491 in Gini coefficient (Jain-Chandra et al., 2018). Albeit recent observations have shown a small decline in income inequality since 2008. In 2016, income inequality stood at an appalling 0.465 (Zhuang and Li, 2016) - if paired with the average of EU countries, China's Gini Coefficient is 58% higher than that of EU (Han et al., 2016).

As for wealth inequality, China is no better off, if not, worse. A fairly recent study by Li and Wan (2015) finds that wealth distribution amongst the Chinese has become increasingly unequal and doubles that of the pre-liberalization era. Between 1988 to 2012, the wealth Gini coefficient increased from 0.34 to 0.73. Although recent observation has indicated a slight decrease in wealth inequality, marked by the reduction in wealth Gini coefficient from 0.72 in 2013 to 0.70 in 2020, it is highly plausible that the COVID-19 pandemic will hamper the downward trend and bring back the vicious rise of wealth inequality (Dunford, 2022).

There is an array of factors that underlie both income and wealth inequality. But out of the gazillions of factors, this report had managed to narrow it down to merely several that we deem of substantial importance. Amongst a multitude of factors and determinants, this report identifies the former to be constituted of skills premium, rural-urban inequality, regional inequality, and wealth distribution (Zhuang and Li, 2016; Jain-Chandra et al., 2018). While the latter is reckoned to be highly affected by housing prices (Li and Wan, 2015; Li and Fan, 2020). It is worth noting that these factors may be intertwined and overlap with one another. For this reason, this report will merge these factors under one single banner encompassing both forms of inequalities.

In dealing with the issue of economic inequality, the Chinese government had recently reinterpreted the conception of common prosperity. At present, common prosperity is not equal to the notion of equality. Rather, the current concept of common prosperity is now concerned with the distribution of rewards according to the quality and quantity of labour contributions. Further, it seeks to emulate a path of shared development that caters and contributes to a sound economic development with due consideration to fairness. In doing so, Dunford (2022, p.38) believes that it needs to:

"...advance socialist modernization, upgrade, innovate and escape the model of the recent past in which it imported high-end intermediate and capital goods and exported low end assembled products … investment in skills and in indigenous science, technology and innovation is essential.".

The re-emergence of Common Prosperity in Chinese development principles has signalled an upcoming ripple of change in the future. Current common prosperity, according to Xi Jinping's own elaboration (cited in Wu, 2022), encompasses four pivotal aspects (or objectives), such as: (1) reducing income inequalities; (2) equalizing public services; (3) actualizing common prosperity in spiritual life; and (4) promoting rural development. Wu further notes that there exists somewhat of a roadmap in achieving the ideals of common prosperity: by 2025, it is expected that income inequality is to be reduced, albeit the extent of reduction remains unclear; by 2035, significant development of common prosperity ought to be achieved, focusing specifically on equalizing basic public services; and finally, by 2050, common prosperity is fully fledged, with income variance across the country being reduced to a substantial degree.

It is only natural that the re-introduction of common prosperity will open the floodgate to an entirely novel policies and the re-strengthening of existing policies. Overall, this can also be easily interpreted as the piling of both central and local governments responsibilities and duties.

But of course, administering change at this magnitude requires tremendous resources. Therefore, it is only logical for governments to secure a huge reservoir of financial resources and surge the extent of administrative capabilities prior to incorporating the potential changes. Once the two pre-conditions of success have been fulfilled, only then the implementation of common prosperity will be effective.

Out of all the possible recommendations derived from the interplay between sources of inequality, policy gaps, and future direction of common prosperity, this report unravels that skill premium, regional development policies, rural development, promotion of basic infrastructure and services, tax reform, and social security bear the uttermost benefit for the implementation of common prosperity and, by extension, societal welfare.

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