

# Inclusive Growth toward a Harmonious Society in the People's Republic of China: Policy Implications

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This paper examines the policy implications of adopting a development strategy anchored on inclusive growth for the People's Republic of China (PRC). In response to rising inequality, more and more developing Asian countries are embracing inclusive growth, with its focus on creating economic opportunities and ensuring equal access to them, as the goal of development policy. Inclusive growth provides an effective means to create a harmonious society in the PRC. The paper argues that an inclusive growth strategy for the PRC requires continued reforms to keep growth high and sustainable, carefully designed redistributive policy to promote equal access to opportunities, and good governance and strong institutions to ensure economic and social justice and an even playing field.

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## I. INTRODUCTION

The remarkable economic growth of developing Asia, including the People's Republic of China (PRC), during the last two decades has been accompanied by rapidly rising income and nonincome inequalities. Concern is growing that the inequalities are leading to increasing political and social tensions in some countries and pose significant risks to the sustainability of Asia's growth. Reducing inequalities is a major development challenge facing developing Asia today. In response to this challenge, more and more Asian countries are adopting inclusive growth, with its focus on creating economic opportunities and ensuring equal access to them, as the goal of development policy.

This paper examines the policy implications of adopting a development strategy anchored on inclusive growth for developing Asia and for the PRC. Section II analyzes why developing Asia is embracing inclusive growth. Section III discusses the concept of inclusive growth as a development strategy and its policy ingredients. Section IV examines what inclusive growth implies for the PRC's policy choice in its march toward a harmonious society.

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## II. WHY IS DEVELOPING ASIA EMBRACING INCLUSIVE GROWTH?

Developing Asia has experienced rapid economic growth during the last two decades. For the region as a whole, per capita gross domestic product (GDP) at 2000 constant prices increased from \$424 to \$1,030 between 1990 and 2005, growing at an annual rate of 6 percent. This pace has few parallels in history. Across the region, growth was most pronounced in East Asia, at over 9 percent, and was driven largely by the PRC. Southeast Asia grew at an annual rate of 3.2 percent despite interruptions caused by the 1997 financial crisis. South Asia grew at 3.8 percent annually; although low, this growth nevertheless represents a significant improvement from the past, in particular, in view of the more recent acceleration in growth in several countries, including India and Pakistan. The rapid growth has led to a dramatic reduction in the level of extreme poverty in many countries. According to Ali and Zhuang (2007), the number of people living below the \$1-a-day poverty line in developing Asia declined from 950 million in 1990 to about 600 million in 2005 (Table 1).

Despite rapid growth and reduction in extreme poverty, developing Asia still faces daunting challenges in the years ahead. In 2005, its average per capita GDP at 2000 constant dollar terms was less than 3 percent that of Japan and that of the United States, suggesting that the region has a long way to go in catching up with the income level of the developed world. Moreover, about 18 percent of its population still lives in extreme poverty, on less than \$1 a day.

An emerging challenge for developing Asia is rapidly rising inequalities, leading to an increasing concern that the benefits of Asia's spectacular growth are not being equally shared. According to a recent Asian Development Bank (ADB) study, 15 out of 22 developing Asian countries<sup>1</sup> experienced increasing income inequality between 1990 and 2005 (ADB 2007b). In the early 1990s, only four of the 22 had a Gini coefficient exceeding 0.4. At the beginning of this century, seven countries' Gini coefficient exceeded 0.4, including Cambodia, PRC, Malaysia, Nepal, Philippines, Sri Lanka, and Thailand. A manifestation of the challenge posed by the rising inequalities is the large number of people (1.74 billion in 2005) living on less than \$2 a day (Table 1). In other words, more than half of developing Asia's population still live in very poor conditions, are vulnerable to shocks, and may easily slip into extreme poverty.

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<sup>1</sup>The study includes only Asian countries for which data are available.

Table 1. Income per Capita and Poverty Incidence in Asia

Economy	GDP per Capita, Constant 2000 \$		Average Annual Growth Rate	Headcount Ratio, \$1-a-day (percent)		Change	Headcount Ratio, \$2-a-day (percent)		Change
	1990	2005	(percent)	1990	2005		1990	2005	
PRC	392	1449	9.11	32.50	7.10	-25.40	71.50	29.40	-42.10
Mongolia	451	483	0.47	27.30	10.51	-16.79	69.94	42.37	-27.57
<b>East Asia</b>	<b>392</b>	<b>1447</b>	<b>9.10</b>	<b>32.50</b>	<b>7.10</b>	<b>-25.40</b>	<b>71.50</b>	<b>29.40</b>	<b>-42.10</b>
Bangladesh	283	433	2.86	34.40	36.04	1.64	85.70	81.70	-4.00
India	317	588	4.20	43.50	35.00	-8.50	86.50	79.80	-6.70
Nepal	176	234	1.93	45.70	26.02	-19.68	84.33	65.45	-18.88
Pakistan	461	596	1.72	47.76	10.24	-37.52	87.87	59.42	-28.45
Sri Lanka	577	1002	3.74	3.82	2.04	-1.78	40.58	32.85	-7.73
<b>South Asia</b>	<b>330</b>	<b>573</b>	<b>3.75</b>	<b>42.40</b>	<b>31.90</b>	<b>-10.50</b>	<b>85.80</b>	<b>76.90</b>	<b>-8.90</b>
Cambodia	--	402		32.50	12.67	-19.83	76.30	54.52	-21.78
Indonesia	612	942	2.91	20.51	7.43	-13.08	70.92	50.31	-20.61
Lao PDR	228	396	3.75	52.74	21.35	-31.39	89.60	67.68	-21.92
Malaysia	2547	4437	3.77	0.09	0.00	-0.09	23.38	9.77	-13.61
Philippines	914	1129	1.42	20.20	10.86	-9.34	55.48	40.29	-15.19
Thailand	1452	2441	3.52	10.16	0.00	-10.16	43.05	16.17	-26.88
Viet Nam	227	538	5.93	50.66	6.48	-44.18	87.00	39.73	-47.27
<b>Southeast Asia</b>	<b>784</b>	<b>1256</b>	<b>3.19</b>	<b>23.80</b>	<b>7.20</b>	<b>-16.60</b>	<b>65.60</b>	<b>43.20</b>	<b>-22.40</b>
<b>Asia</b>									
<b>All Regions</b>	<b>424</b>	<b>1030</b>	<b>6.10</b>	<b>34.60</b>	<b>18.00</b>	<b>-16.60</b>	<b>75.00</b>	<b>51.90</b>	<b>-23.10</b>
<b>Number of Poor</b>				<b>945</b>	<b>604</b>		<b>2,046</b>	<b>1,740</b>	
<b>All Regions (million)</b>									

-- means not available.

GDP = gross domestic product; Lao PDR = Lao People's Democratic Republic; PRC = People's Republic of China.

Note: Headcount ratio is poverty headcount ratio at either \$1 or \$2 a day (percent of population). Totals for regional groupings include only the economies listed.

Source: Ali and Zhuang (2007).

Persistent and growing inequalities in access to social services such as education and health, exacerbated by income inequalities, are also a significant concern for developing Asia. It is widely believed that even though the Asia and Pacific region is on track to meet the Millennium Development Goal (MDG) target of reducing by half the proportion of people living on less than \$1 a day, the region is unlikely to meet the MDG targets of reducing nonincome poverty (ESCAP et al. 2006). In many countries, primary-school-age children from households of the poorest quintile are almost three times more likely to be out of school than those from the richest quintile (Ali 2007). Similarly, child mortality rates for the poorest quintiles are 2–3 times higher than those for the richest quintiles. Even in the PRC, with its spectacular economic growth, rising disparities in health outcomes between urban and rural populations have triggered a slowdown of improvements in health in the last two decades (Tandon and Zhuang 2007).

The rising inequalities, if left unchecked, could leave a considerable share of developing Asia's population in poverty even by 2020. According to Ali and Zhuang (2007), with a benchmark growth rate (the average of the annual growth rates of GDP per capita between 2002 and 2006) and a pro-rich distribution assumption (consumption of the top 40 percent of the distribution growing 5 percentage points higher than the mean growth), the poverty incidence at \$1 a day for developing Asia would fall from 18.0 percent in 2005 to 4.9 percent in 2020; at the \$2-a-day poverty line, poverty incidence would only fall from 51.9 percent in 2005 to 29.3 percent in 2020. Combining a low-growth scenario (40 percent lower than the benchmark rate) with the pro-rich distribution would leave 391 million of developing Asia's people under the \$1-a-day poverty line and 1,567 million under the \$2-a-day poverty line in 2020. The persistence of inequality and rising gaps in income and consumption between the rich and poor would make reforms more difficult; trigger social tensions; and pose a clear and present danger to social and political stability and, therefore, to the very sustainability of the growth process itself (Table 2).

In response to the challenge posed by rising inequalities, more and more countries in developing Asia are adopting inclusive growth as the goal of development policy. India, which had poverty reduction as the central focus of its development strategy during the last 50 years, has recently switched to a new strategy focusing on two objectives: raising economic growth and making growth more inclusive (Planning Commission of India 2006). Inclusive growth as a development concept has also been embraced by partners of developing countries, including bilateral and multilateral aid agencies, international organizations, nongovernment organizations, and civil society. For example, a panel of eminent persons commissioned by ADB to provide insights on the region's future and on how it will affect the future role of ADB called on the institution to expand its strategic role from poverty reduction to inclusive growth (ADB 2007a).

Table 2. Poverty Incidence and Magnitude of Poor in Developing Countries,  
Projected Levels in 2005 and 2020

Economy	Headcount Ratio (percent)									
	\$1-a-Day					\$2-a-Day				
	2020					2020				
	2005	Benchmark Growth		Low Growth		2005	Benchmark Growth		Low Growth	
Neutral Distribution		Pro-Rich Distribution	Neutral Distribution	Pro-Rich Distribution	Neutral Distribution		Pro-Rich Distribution	Neutral Distribution	Pro-Rich Distribution	
PRC	7.1	0.0	0.0	0.0	0.0	29.4	2.6	7.9	12.1	16.7
Mongolia	10.5	0.0	0.9	2.2	5.1	42.4	15.3	19.3	24.3	28.2
<b>East Asia</b>	<b>7.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>29.4</b>	<b>2.6</b>	<b>7.9</b>	<b>12.1</b>	<b>16.8</b>
Bangladesh	36.0	10.4	17.4	19.4	25.7	81.7	59.3	59.5	69.7	70.5
India	35.0	4.3	9.7	13.2	21.0	79.8	47.5	49.2	62.5	63.8
Nepal	26.0	25.0	33.2	25.5	33.6	65.5	65.0	64.0	65.4	64.4
Pakistan	10.2	0.0	0.6	2.2	4.1	59.4	29.4	34.3	41.6	44.3
Sri Lanka	2.0	0.0	0.0	0.0	0.1	32.9	17.5	18.3	23.6	25.5
<b>South Asia</b>	<b>31.9</b>	<b>4.8</b>	<b>9.8</b>	<b>12.7</b>	<b>19.6</b>	<b>76.9</b>	<b>46.7</b>	<b>48.6</b>	<b>60.5</b>	<b>61.9</b>
Cambodia	12.7	0.0	0.5	1.5	2.2	54.5	13.2	19.1	28.3	32.5
Indonesia	7.4	0.0	0.2	0.0	5.0	50.3	26.6	31.8	36.2	39.9
Lao PDR	21.4	9.0	16.0	13.5	19.2	67.7	50.9	52.1	57.9	57.9
Malaysia	0.0	0.0	0.0	0.0	0.0	9.8	2.2	7.9	4.9	10.7
Philippines	10.9	2.5	11.1	5.5	13.7	40.3	27.3	32.1	32.3	36.3
Thailand	0.0	0.0	0.0	0.0	0.0	16.2	0.6	7.9	5.9	12.9
Viet Nam	6.5	0.0	0.0	0.0	1.4	39.7	11.2	16.0	20.8	25.3
<b>Southeast Asia</b>	<b>7.2</b>	<b>0.6</b>	<b>2.3</b>	<b>1.2</b>	<b>5.2</b>	<b>43.2</b>	<b>19.7</b>	<b>25.0</b>	<b>27.8</b>	<b>32.1</b>
<b>Total regions</b>	<b>18.0</b>	<b>2.3</b>	<b>4.9</b>	<b>6.1</b>	<b>9.9</b>	<b>51.9</b>	<b>25.7</b>	<b>29.3</b>	<b>36.8</b>	<b>39.8</b>
<b>Poor population (million)</b>	<b>604.0</b>	<b>91.9</b>	<b>195.0</b>	<b>240.3</b>	<b>391.0</b>	<b>1,740.0</b>	<b>1,012.7</b>	<b>1,154.0</b>	<b>1,450.2</b>	<b>1,567.0</b>

Lao PDR = Lao People's Democratic Republic; PRC = People's Republic of China.

Note: Headcount ratio is poverty headcount ratio at either \$1 or \$2 a day (percent of population). Totals for regional groupings include only the economies listed.

Source: Ali and Zhuang (2007).

### III. WHAT IS INCLUSIVE GROWTH: CONCEPTUAL ISSUES

Although inclusive growth as a development concept has attracted a great deal of attention among policymakers, policy and academic researchers, and partners of developing countries, as well as in discussions on development policies at international and regional forums, there is as yet no widely agreed definition for inclusive growth. To define inclusive growth, it is useful to look at causes of inequality.

The causes of inequality and of changes in equality can be various and varied across countries because of their different circumstances. Taking as an example the PRC, a country in the process of transition from a low-income to a middle-income and from a planned to a market economy, rapid social and economic transformation will inevitably lead to large changes in income distribution. A number of reasons can be presented to explain this.

First, economic liberalization often brings opportunities initially to areas with better infrastructure and market access and to people with greater ability to respond to market conditions, therefore making these areas and people richer faster than others.

Second, incomplete transition and remaining institutional rigidities restrict factors of production from moving freely across regions and industries, leading to increasing urban–rural income gaps, regional disparity, and interindustry earnings differentials.

Third, the increasing role of market forces in determining returns to productive factors will also widen income gaps between workers with high skills and those with low skills; and globalization, international trade, and capital flows tend to make such widening in income gaps more pronounced.

Fourth, incomplete transition, the remaining role of the state in resource allocation, and market imperfections leave a wide scope for rent seeking by people with special privileges, control over public resources, and access to exclusive information, making their earnings significantly higher than others.

Fifth, as a result of economic reforms and industrial restructuring, certain groups of people may become temporarily unemployed. Because of the lack of effective social safety nets, they risk falling into poverty.

Although different countries have different causes of inequality, from the policy-making perspective, it is useful to differentiate inequality due to differences in individual circumstances from that due to differences in individual efforts (Roemer 2006). An individual's circumstances (such as religious background, parental education, family wealth and power, gender, social relations, and geographic locations) are exogenous to and often outside the control of the individual, and the individual should not be held responsible for them. Inequalities due to differences in circumstances often reflect social exclusion arising from institutional weaknesses, market failures, or policy

deficiencies, and thus should be addressed through public policy interventions. On the other hand, an individual's efforts are under the individual's control, and he or she should be held responsible for them. Inequalities due to differences in efforts reflect and reinforce market-based incentives needed to foster innovation, entrepreneurship, and growth. Incentives should not be disregarded.

The differentiation of inequalities arising from efforts versus those arising from circumstances leads to an important distinction between "inequalities of outcomes" and "inequalities of opportunities" (World Bank 2006). Inequalities of opportunities are mostly due to differences in individual circumstances, while inequalities of outcomes such as incomes reflect some combination of differences in efforts and in circumstances. If policy interventions succeed in ensuring full equality of access to opportunities, inequalities in outcomes would then only reflect differences in efforts, and hence could be viewed as "good inequalities", which are inherent in any growth process (Chaudhuri and Ravallion 2007).

However, if all individuals exert the same level of effort while policy interventions cannot fully compensate for the disadvantages of circumstances, the resulting inequalities in outcomes are "bad inequalities." While the two extreme cases are useful for analytical purposes, in reality, inequalities in outcomes normally consist of both "good" (or desirable) and bad (or undesirable) inequalities. Equality in access to opportunities, which emphasizes eliminating circumstance-related bad inequalities so as to reduce inequalities in outcomes, is at the core of inclusiveness and at the heart of an inclusive growth strategy.

Although effort-related inequalities are "good", they can become bad if not properly managed (Chaudhuri and Ravallion 2007). This can happen if people who are rewarded by the market with considerable market/political power use some of the rewards to engage in rent-seeking activities and change the "rules of the game." For example, public investment and expenditure could be skewed to benefit the elite, or even the entire system of property and civil rights could be skewed in their favor (Bourguignon et al. 2006, Rajan and Zingales 2007). Thus, "good" inequalities also need to be managed and cannot be completely ignored by policies. At a minimum, the state has to guard against the possibility of policy capture by these individuals. Bad inequalities can drive out "good" ones. In particular, persistence of bad inequalities—as when certain groups are left behind as a result of their residing in a neglected region—can reduce the tolerance for even "good" inequalities. The result can be social unrest.

Based on these differentiations, Ali and Zhuang (2007) define inclusive growth as growth with equal access to opportunities. According to this definition, inclusive growth focuses both on creating opportunities and on making the opportunities accessible to all. Growth is inclusive when it allows all members of the society to participate in and benefit from the growth process on an equal basis regardless of their individual circumstances. They argue that the importance of equal access to opportunities for all lies in its intrinsic value and instrumental

role. The intrinsic value is based on the belief that equitable access to opportunity is a basic right of a human being and that it is unethical and immoral to treat individuals differently in access to opportunities. The instrumental role comes from the recognition that equal access to opportunities increases growth potential, while unequal access to opportunities diminishes it and makes growth unsustainable. Inequality in access to opportunities leads to inefficient use of human and physical resources, lowers the quality of institutions and policies, erodes social cohesion, and increases social conflict.

From a policy perspective, a development strategy anchored on inclusive growth should have two mutually reinforcing strategic focuses: (i) high and sustainable growth to create and expand economic opportunities, and (ii) equal access to these opportunities to ensure that all members of the society can participate in and benefit from the growth process.

High and sustainable growth is the key to creating productive and decent employment opportunities. This must be driven by a dynamic private sector through market competition and market-based incentives. However, markets can fail and are sometimes missing. The central role of the government is to develop and maintain an environment that enables business investment and private entrepreneurs by eliminating impediments and distortions created by market failures, institutional weaknesses, and policy shortcomings. This requires the government to invest in physical infrastructure and human capital, build institutional capacities, maintain macroeconomic stability, adopt market-friendly policies, protect property rights, and maintain the rule of law.

Promoting equal access to opportunities requires (i) expanding human capacities, especially of the disadvantaged, to participate in new opportunities; (ii) improving access to markets and basic productive assets by putting in place good policies and sound institutions; and (iii) improving social safety nets. Expanding human capacities requires investing in education, health, and other social services. The expansion of human capacities will not ensure equal opportunity for all if some people do not have access to employment opportunities because of their circumstances; if they face unfair returns to those capacities and unequal protection of their rights; or if they have unequal access to complementary factors of production (World Bank 2006). Such social and economic injustice often reflects bad policies, weak governance mechanisms, faulty legal/institutional arrangements, or market failures. In developing Asia, factor market (land and credit) failures are particularly acute. The central role of the government in promoting social and economic justice is to address all these market, institutional, and policy failures.

Promoting equal access to opportunities also requires the government to provide social safety nets to mitigate the effects of external and transitory livelihood shocks as well as to meet the minimum needs of the chronically poor. Such shocks are often created by ill health, macroeconomic crises, industrial



restructuring, and natural disasters. Developing and improving social safety nets is particularly important for developing Asia, as markets for insuring such risks are often rudimentary and, even if they exist, only cover a small segment of the population. Social safety nets serve two main purposes. First, by providing a floor for consumption, they are a coping mechanism for the very poor and the unfortunate. Second, they can provide insurance against risk so that vulnerable people may invest in potentially high-return activities to lift themselves up by their bootstraps, i.e., social safety nets serve as springboards to enable vulnerable people to break out of poverty (World Bank 2001). By encouraging efforts, safety nets could contribute toward greater equality in outcomes.

Inclusive growth, through addressing the inequality issue, enhances the poverty reduction agenda. First, the impact of growth on poverty reduction is higher when the initial level of inequality is lower and/or inequality declines over time. Second, inclusive growth makes poverty reduction efforts more effective by focusing on creating productive employment opportunities and making them equally accessible for all while addressing extreme poverty through social safety nets.

#### **IV. INCLUSIVE GROWTH TOWARD A HARMONIOUS SOCIETY IN THE PRC**

The PRC's economic achievement since it embarked on its reform program has been remarkable. During 1979–2006, its per capita GDP grew at 8.5 percent on average annually, the fastest in the world. In aggregate terms, the PRC was the fourth largest economy globally in 2005—after the United States, Japan, and Germany—compared to its 12th rank in 1979. Rapid economic growth has brought significant improvements in living standards. During the last three decades, average per capita household incomes (including both urban and rural) grew at about 7 percent on average per annum. As a result, poverty incidence has declined dramatically. According to Ali and Zhuang (2007), during 1990–2005, the PRC's \$1-a-day poverty incidence declined from 32.5 to 7.1 percent, or by 25 percentage points; and its \$2-a-day poverty incidence declined from 71.5 to 29.4 percent, or by 42 percentage points. Such achievements are unparalleled regionally as well as globally.

However, the PRC's growth record has been marred by rising income inequalities. In the late 1970s, the country had an overall Gini coefficient of about 0.30; in 2005, it reached about 0.45 (He 2007, Li and Luo 2008, Lin et al. 2008). To a large extent, rising inequalities were caused by widening income disparities between urban and rural areas, and across regions. During 1985–2004, the ratio of urban to rural per capita incomes increased from 1.9 to 3.2, and the ratio of per

capita incomes of coastal and western provinces also increased from 1.4 to almost 2.<sup>2</sup>

In addition to income inequalities, nonincome inequalities have also increased. The most notable aspect of nonincome inequalities that has attracted a great deal of attention both in and outside the PRC is the access to basic medical services and health care. The rising inequality in access to basic health care has led to increasing disparities in some population health outcome indicators, such as the infant mortality ratio, between urban and rural populations (Tandon and Zhuang 2007).

Increasing inequalities, if left unchecked, could have significant negative social and economic impacts, such as undermining social cohesion and stability, which would make reforms more difficult, lead to inefficient use of human capital, constrain economic growth and social development, and even derail the reform process and undermine long-term prosperity. Recognizing these, the PRC government has been taking measures to address increasing inequalities. The 11th Five-Year Plan, announced in 2006, made the establishment of a harmonious society the basic development goal. This development goal was reaffirmed at the 17th Congress of the Community Party in October 2007. However, academic and policy researchers in the PRC are debating how to reduce income inequalities and how to establish a harmonious society. There are also views that rising income inequalities are inevitable and an inherent part of the economic development process.

The foregoing discussions on the concept of inclusive growth and its policy ingredients have important implications for the choice of policy to establish a harmonious society in the PRC. A development strategy anchored on inclusive growth provides an effective means toward a harmonious society. On one hand, a harmonious society will have to be based on high and sustainable economic growth. Only through growth can productive and decent employment and other development opportunities be created. On the other hand, a harmonious society should create equality in the access to opportunities for all. Years of experience have shown that rapid growth alone cannot guarantee equality in access to opportunities.

In the PRC, which is still in transition from a planned to a market economy, incomplete transition and market imperfections lead to increasing income and nonincome inequalities. For example, restrictions on the free mobility of labor lead to large rural–urban and interregional income disparities. Deficiencies in regulatory frameworks make it possible for certain sectors to make monopolistic profits. The state's continued excessive role in allocating resources leaves wide scope for rent seeking by individuals with special

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<sup>2</sup>Author's estimates based on data from various provincial statistical yearbooks of the National Bureau of Statistics of China.

privileges. Information asymmetry presents formidable barriers to certain groups in accessing productive factors such as credit. Increasing income inequalities further lead to increasing inequalities in access to basic education and health care. Developing a harmonious society requires eliminating various types of inequalities in the access to opportunities, and improving the inclusiveness of economic growth.

Adopting a development strategy anchored on inclusive growth requires continued policy and institutional reforms to keep growth high and sustainable. In the last three decades, the PRC's success in integrating its economy with regional and global economies has been a significant source of economic growth. In the next 20–30 years, while it is important to continue and deepen its integration with the rest of the world, the PRC needs to pay greater attention to domestic economic and market integration. This will provide new sources of growth and effectively reduce income disparities between urban and rural populations and across regions. Deepening domestic integration should rely mainly on the private sector and be driven by market forces. The role of the government is to address market, institutional, and policy failures and weaknesses so as to eliminate distortions and barriers, i.e., making resources more mobile across regions and sectors, and between urban and rural areas; and making economic structures more compatible with the country's comparative advantage, thereby creating more employment opportunities.

Carefully designed redistributive policy should also be part of an inclusive growth strategy. However, the purpose of redistribution is not simply to equalize incomes, but to promote equal access to opportunities so as to improve income distribution. In this regard, the government has made significant efforts by adopting public policies aimed at improving equalization of opportunities, such as increasing investment in infrastructure in western regions, increasing investment in basic education and basic health care, speeding up the development of the new rural society, and developing and improving social protection systems. These measures will not only reduce income inequalities; more importantly, they will help to empower disadvantaged groups and people in the poorer regions. The government needs to continue these measures and make them more effective.

Another important element of an inclusive growth strategy is good governance and strong institutions to ensure economic and social justice and even playing fields and to prevent corruption. The handling of several headline corruption cases involving high-level government officials in recent years demonstrates the government's determination to fight corruption and improve governance standards. Good policies and sound institutions are preconditions for the equalization of opportunities, which is at the core of inclusiveness of economic growth.

For future policy choices, what is important for the PRC is to avoid (i) focusing only on economic growth while ignoring the inclusiveness of growth,

and (ii) relying excessively on redistributive policies in order to achieve equalization of incomes. International experience has shown that neither of these policies is good for efficient and sustainable economic growth and development.

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