

# *The Status Quo of Regional Inequality in China*

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**Abstract:** China's economic development has seen impressive growth, yet this progress is marked by significant regional inequalities. This study provides a comprehensive analysis of these disparities, moving from a macroeconomic overview to a more focused micro-level examination. At the national level, regional inequality is evident, with coastal regions benefiting disproportionately from economic reforms compared to inland areas. The structure of these inequalities is analyzed from multiple perspectives: economic development, talent distribution, resource allocation, and policy support. Economically, disparities are driven by uneven industrialization and investment. From the talent perspective, there is a concentration of skilled labor in more developed regions. Resource-wise, natural and financial resources are unevenly distributed, further exacerbating regional gaps. Policy support has often favored already prosperous regions, widening the economic divide. To address these issues, the study proposes policy-driven solutions aimed at reducing regional inequalities. Key recommendations include enhancing targeted fiscal policies, improving infrastructure in underdeveloped areas, fostering balanced talent distribution, and ensuring equitable resource allocation. These strategies are crucial for promoting sustainable and inclusive economic growth across all regions in China.

**Keywords:** regional inequality, urban polarization, decentralization, Fiscal transfers.

## 1. Introduction

Thanks to its rapid industrialization and urbanization since its reform and opening-up, China has seen extraordinary economic development and progress over the past few decades, successfully transforming itself from an agriculturally-dominated nation to the second-largest economy in the world. China's economic structure has seen significant changes as a result of the country's recent rapid economic expansion. Traditional labor-intensive manufacturing industries have gradually given way to technology-intensive businesses, with the eastern coast emerging as the region's main driver of economic growth. But as the "new normal" for economic development has arrived, China's economic growth rate has progressively decreased, moving from double-digit growth to medium- to high-speed growth. Particularly during the Xinguang epidemic's three-year aftermath, China's economy has encountered before unseen difficulties.

During the epidemic, China's economy was severely impacted by a sharp decline in production and consumption activities, resulting in weak economic growth.2024 China's economy was fundamentally characterized by a weak recovery, insufficient consumer demand, and a lack of momentum in economic growth. The government has implemented several stimulus programs, but

they haven't had a significant impact on the economy's recovery. Meanwhile, a new generation of productivity is quickly emerging as China's mode of production shifts from traditional manufacturing to the digital economy and burgeoning technological sectors. The issue of uneven regional development is still very much present, though, with the eastern coastal regions' economic dynamism and income levels far exceeding those of the central, western, and northeastern regions. To some extent, these regional economic differences exacerbate China's social and economic inequality[1].

Against this background, researching regional inequality in China is very crucial. It will be easier to create more effective policies to support a more sustainable and balanced development of the Chinese economy going forward if we comprehend and analyze the underlying causes of interregional development imbalances and how to achieve more coordinated development in the new economic environment.

This study aims to systematically explore the current situation of regional inequality in China and its causes, and to analyze the structure and impact of inequality from a multidimensional perspective. In order to understand the impact of the epidemic on China's economy and the phenomenon of the weak recovery caused by it, the study will first analyze China's economic development history since the reform and opening up, with a particular focus on the transition from the high-speed growth stage to the medium-high growth stage. Additionally, the study will analyze the fundamentals of China's economic development and its effects on regional inequality in the context of the lack of consumer demand and the lack of economic growth momentum. Second, the study will look into how regional development inequality is currently occurring in China, with a focus on the disparities in quality of life, income, and economic development between the eastern coastal regions and the central, western, and northeastern regions. It will also analyze how interregional inequality manifests itself and how it might affect social stability and long-term economic growth. Further, the study will analyze the structure of China's regional inequality from three perspectives: economic development, talent mobility and resource distribution, including the impact of factors such as differences in interregional industrial structure, uneven distribution of investment, unbalanced development of infrastructure, unequal distribution of educational resources, mobility of talent and unbalanced distribution of natural resources, capital resources and policy resources on regional economic inequality.

Finally, the study will propose feasible measures and suggestions to improve regional inequality from a policy perspective, examining how to promote coordinated regional development and achieve balanced economic and social progress by optimizing the fiscal transfer system, upgrading infrastructure development in the central and western regions, promoting a balanced flow of talent, and enhancing the efficiency of resource allocation. By means of an extensive examination of China's regional disparities, this research aims to furnish theoretical backing and pragmatic direction for the government in crafting more rational and scientific regional development strategies, thereby advancing the superior and well-rounded growth of China's economy in the upcoming developmental phase.

In the course of economic development, studying inequality is an inevitable phenomenon, and in the context of China, this study is even more crucial. As a socialist country, China takes the realization of communism as its core and ultimate goal, and the elimination of inequality is an important mission in this process. One of the main goals of national development has always been the progressive decrease of inequality and the realization of common prosperity, even though China is still in the early stages of socialism. In light of this, researching regional inequality in China can aid in developing a deeper comprehension of the difficulties and contradictions associated with economic development. It can also offer a scientific foundation and policy recommendations for investigating ways to attain more equitable development within the socialist framework. Through such research, it can provide theoretical support for the government to formulate effective strategic measures to promote fair distribution of resources and coordinated inter-regional development, and ultimately

push the whole society towards the goal of greater equality and common prosperity. This not only contributes to sustainable economic development, but also reflects to a greater extent the superiority of the socialist system and its commitment to social equity.

## 2. Literature review

Liu Xueliang found that since the reform and opening up, regional development imbalance has gone through three stages: a rapid decline from 1978-1990, a rise from 1990-2003, and another decline from 2003-2019. The study provides an important reference for understanding China's regional imbalances and policy making [1].

Yu Junhua examines the causes of regional economic disparities, including production factors, industrial structure, policy support and natural environment. It proposes to promote coordinated regional development through industrial restructuring, deepening reforms and strengthening policy guidance, and summarizes domestic and international experiences to provide theoretical basis and policy suggestions for China to achieve a more balanced development [2].

According to Cao Haibo, although China's GDP has increased dramatically since reform and opening-up were implemented in 1978, the disparity in wealth between the country's regions has progressively worsened. Moreover, the author further suggests that while the eastern region has achieved faster economic growth due to the accumulation of capital and technology, the central and western regions are relatively lagging behind in terms of resource allocation and policy support, which has led to the continued widening of regional economic disparities [3].

Using spatial statistical methods, Wu Yuming reveals the complex relationship between economic growth and income distribution differences, emphasizes the geospatial effects and the role of multidimensional factors in it, and provides theoretical support for the understanding of the causes of China's regional economic imbalances and policy regulation [4].

## 3. Factual analysis

### 3.1. Current status of China's economic development

China's economic development has advanced significantly in recent years, yet there are still numerous obstacles to overcome. China's economy has grown from being primarily agrarian to being the second largest in the world since its reform and opening up. The change in China's total GDP value between 2014 and 2023 is depicted in Figure 1. It grows from 6,435.63 billion yuan in 2014 to 12,605.821 billion yuan in 2023, showing a continuous and steady upward trend. Despite the slowdown in growth in 2020 due to the epidemic, the overall economy still maintains a relatively fast growth, showing the strong momentum of China's economy (Figure 1).

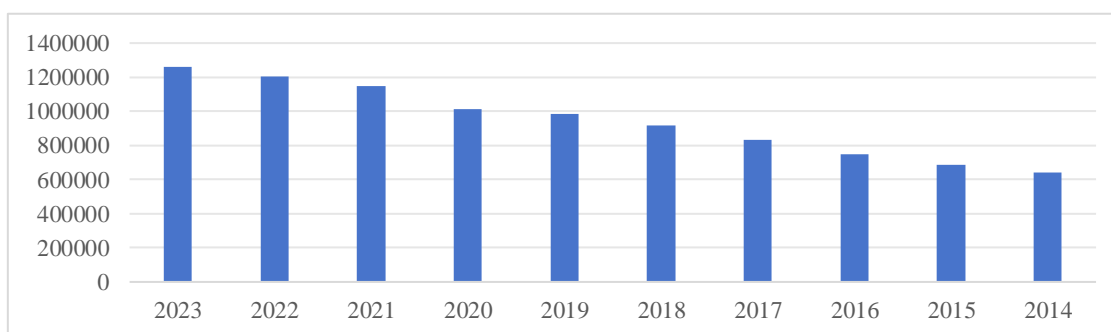


Figure 1: China's GDP , 2014-2023 (million yuan) Source: National Bureau of Statistics

As Figure 2 illustrates, China's economic growth rate has entered the "new normal" phase, having previously grown at a double-digit rate. Between 2019 and 2023, the average annual growth rate is expected to be between 5% and 6%. From \$46,912 in 2014 to \$89,358 in 2023, China's gross domestic product (GDP) per capita displays a consistent climbing trend. The pandemic in 2020 causes the growth rate to slow down, but total GDP per capita grows gradually, indicating the benefits of economic development in the population's income level.

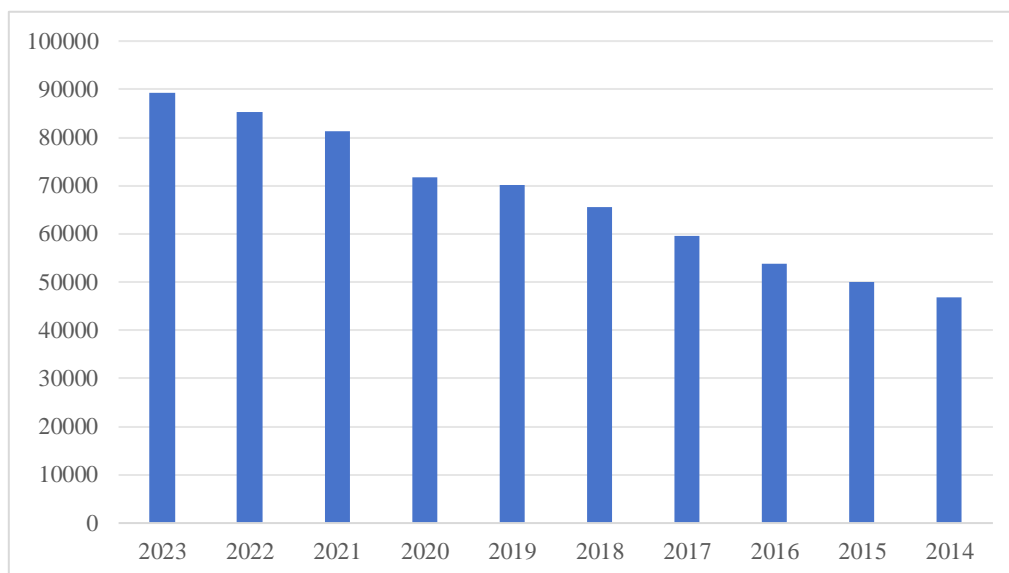


Figure 2: China's GDP per capita, 2014-2023 (Yuan) Source: National Bureau of Statistics

At the enterprise level, the market competitiveness and innovation capacity of Chinese enterprises have significantly improved, with Chinese companies occupying 142 seats in the Fortune Global 500 in 2023, double the number a decade ago. The digital economy and Internet technology are developing rapidly, and emerging industries such as e-commerce and artificial intelligence have become new growth points. China's e-commerce market turnover reached about \$2.1 trillion in 2023, continuing to hold the top position in the world. Even though China's economy is expanding quickly, certain issues—such as uneven regional development, resource waste, and unemployment—have unavoidably surfaced. The problem of the growing gap between the rich and the poor and the imbalance of regional development arises after the policy of letting some people get rich first, even while the degree of economic development rises [5].

### 3.2. Current regional inequalities in China

The income gap between urban and rural residents in China, which was 1.8:1 in absolute terms in the 1980s, had risen to 2.9:1 by 2001 and further widened to 3.1:1 by 2002; meanwhile, the rate of growth of farmers' incomes has gradually slowed down; it had increased by 4.6% in 1997, but fell to 4.3% in 1998 and 2.1% in 1999. At the same time, economic disparities between China's various regions have intensified significantly. The rate of increase in farmers' income was 4.6 percent in 1997, 4.3 percent in 1998, and 2.1 percent in 1999. The per capita income of peasants by the first half of 2003 was 1,158 yuan, representing a 2.5 percent year-over-year gain and a growth rate that was 3.4 percentage points lower than the previous year. Apart from the challenges faced by the rural economy, the income. As the coastal areas of Guangdong opened up earlier, the foundation of economic development is better than that of remote areas in the west, and in recent years, benefiting from preferential policies of the State, the income level of local residents is significantly higher than that of most cities in the

Mainland. Especially in cities close to Hong Kong, Macao and Taiwan, the income and living standards of their residents are even better than those of inland residents. The average spending power of residents in some traditionally economically developed cities, such as Shanghai, is also higher than the indicators for residents in the western inland regions. The central and western and northeastern regions, on the other hand, are relatively backward, with slow economic growth, a monolithic industrial structure, lagging infrastructure development, and an obvious development gap between urban and rural areas. This imbalance not only limits the overall improvement of the national economy, but also brings challenges of social equity and coordinated regional development [5].

## **4. Structural analysis of regional inequality in China**

### **4.1. Economic development perspective**

The uneven pace of economic development in China is one of the primary causes of regional inequality. The reasons for the unbalanced regional economic development in China mainly lie in the factor agglomeration brought about by the urban polarization effect in different regions, the imbalance of regional development rights caused by the long-term administrative decentralization, and the differences in regional resource endowment [6]. Long-term development imbalance is highlighted in the three major aspects of urban-rural development gap, economic development gap, and inter-regional industrial structure imbalance.

The urban polarization effect refers to the unidirectional agglomeration of various economic resource elements to the central region, including cities at the regional level, as well as different regions at the national level, and even the unidirectional agglomeration of economic resource elements arising from the different levels of urbanization among different regions [6].

The polarization effect of cities further exacerbates the imbalance between regional and urban development. One of the main causes of uneven growth is the growing per capita income disparity between urban and rural areas and regions as a result of urbanization. Urban dwellers in the four main areas of the nation had per capita disposable incomes of 33,866.4 yuan in the east, 24,838.3 yuan in the center, 23,694 yuan in the west, and 24,969.7 yuan in the northeast in 2014. In the eastern area, urban dwellers' per capita income was 1.46 times higher than in the northeast in 2010, but by 2014, the disparity had reduced to 1.36 times. Nonetheless, there is significant disparity in the eastern region's economic progress. Residents in Shanghai and Beijing had per capita disposable incomes of 59,000 yuan and 57,000 yuan in 2017, respectively, significantly higher than the 42,000 yuan of Zhejiang, which ranked third, while Shandong's income level was even less than half that of Shanghai and Beijing. An important reason for the inter-regional income gap lies in the imbalance between urban and rural incomes. In 2017, The disparity between urban and rural areas remains enormous, as evidenced by the fact that the per capita disposable income of urban people was still 2.7 times higher than that of rural ones.

The decentralization reform has significantly decentralized economic development authority, not only giving local governments more autonomy, but also transferring some power to enterprises. In this process, the relationship between the central and local governments has been continuously adjusted, and local governments have gradually evolved into independent representatives of interests. The local economy has grown quickly in part because of this administrative decentralization, but it has also resulted in an imbalance in the power of regional development. The eastern coastal regions, with their superior geographical location and high level of marketization, have made better use of the policy and resource advantages brought about by decentralization, and have successfully attracted lots of foreign investment and high-quality talents, resulting in rapid economic development. However, due to their late start and relatively weak infrastructure, the central and western and northeastern regions, despite the fact that decentralization has brought these regions a certain amount

of space for autonomous development, are at a disadvantage in terms of resource allocation and policy support, making it difficult for them to compete with the eastern seaboard regions. Regional economic imbalances are made worse by this imbalance in power allocation. For instance, in 2022, the country's entire fiscal revenue came from around 55% of the eastern region and just approximately 15% from the western region (Source: National Bureau of Statistics, China Statistical Yearbook 2022).

This power imbalance in regional development triggered by decentralization reform not only widens the imbalance in economic development, but also poses a serious challenge to social equity and coordinated regional development. [7-8].

## 4.2. Resource perspective

The uneven distribution of natural resources and infrastructure is also an important cause of regional inequality. Due to its simple transit and wealth of seaport resources, the eastern region has seen a rise in both foreign trade and economic development. For instance, the ports in Shanghai and Shenzhen, which rank among the top in the world, had cargo throughputs of 435 million and 277 million tons, respectively, in 2022 (Ministry of Transportation and Communications, "China Port Yearbook 2022"). Regarding the central and western regions, while certain areas are rich in energy and mineral resources, the high development costs and difficult transportation have prevented these resources from being completely developed into economic benefits. Additionally, the central and western areas' inability to draw investment and build their economies are hampered by their lagging infrastructure. The Ministry of Transportation and Communications (MOTC) has published data showing that in 2022, the total mileage of highways in the eastern area would be 89,000 kilometers, compared to only 52,000 kilometers in the western region.

Uneven factor endowments are the main cause of China's regional economic growth imbalance. A region's distribution and usage of different elements of production, such as labor, capital, natural resources, and technology, vary significantly. These factors are collectively referred to as factor endowment. The eastern coastal region is endowed with abundant natural resources and convenient transportation conditions, especially the advantages of ports and maritime transport, which have facilitated foreign trade and industrialization. These areas have been able to quickly establish high value-added businesses and contemporary services because of this, as well as the concentration of capital and cutting-edge technology in this area. More over 20% of the nation's imports and exports in 2022 came from Guangdong Province. On the other hand, despite the fact that the northeastern and central-western regions contain abundant mineral and energy resources in some areas, these resources have not yet fully translated into economic benefits because of slow infrastructure and difficult transportation. In addition, these regions have relatively weak capital accumulation and technological innovation capabilities, and the quality of their labor force is lower than that of the eastern regions.

How to improve regional inequalities

### Strengthening fiscal transfers

Fiscal transfers are one of the main ways in which the central government provides financial support to less economically developed regions. The central government may assist the regions in improving public services like as infrastructure, education, and healthcare, as well as their potential for economic development and the standard of living of their citizens, by augmenting fiscal transfers to the central, western, and northeastern regions. For example, the proportion of annual fiscal transfers from the state to the western regions has been gradually increased to support local infrastructure construction and poverty alleviation. These kinds of measures have the potential to significantly reduce the fiscal divide across regions and improve the circumstances for the growth of less developed economies.

### Promoting industrial transfer and upgrading



The state ought to encourage the relocation of some businesses from the eastern coastal areas to the central, western, and northeastern regions in order to foster balanced regional growth. Through policy guidance and incentives, such as tax concessions, land concessions and investment subsidies, enterprises in the eastern region are attracted to set up branches or relocate their production bases in the central, western and northeastern regions. For instance, the state has released several guidelines in recent years to facilitate the movement of industries from the eastern to the central and western regions, particularly labor-intensive industries (National Development and Reform Commission, "Guidelines for the Transfer of Industries from the Central and Western Regions"). In addition to increasing job prospects in the central, western, and northeastern areas and fostering local economic growth, such industrial transfers also assist in reducing the strain on resources and the environment in the eastern region.

#### Strengthening Infrastructure Development

An essential component of economic development is infrastructure. The central, western, and northeastern areas' comparatively inadequate infrastructure impedes economic growth and the enhancement of the investment climate. Transportation, energy, and information networks are among the infrastructure projects in these areas that the state ought to invest more in. For instance, the state has substantially improved local transportation conditions recently by increasing its investment in train and highway building in the central and western areas. By improving infrastructure, the economic development capacity and attractiveness of these regions can be enhanced, promoting balanced regional development.

#### Promoting Education and Talent Development

Talent and education are important components of regional economic success. To improve the caliber and standard of local education, particularly higher education and vocational training, the state ought to enhance funding for education in the central, western, and northeastern areas. Excellent teachers and education management talents should be attracted to work in these regions through measures such as setting up special education funds, increasing the allocation of education resources and improving teachers' salaries. In order to foster talent and technology exchanges, schools and businesses in the central, western, and northeastern areas should collaborate with colleges, universities, and scientific research institutes in the eastern region. To encourage the pooling and exchange of educational resources, for instance, the state has established a strategy to assist colleges and institutions in the western area (Ministry of Education, "Counterpart Support Program for Western Colleges and Universities"). A program of this kind might significantly raise the educational attainment and talent development potential of the northeastern, central, and western regions, giving local economic growth a strong talent foundation.

## 5. Conclusion

This study concludes after a thorough analysis of China's regional development disparities with the following findings: There are important historical and structural characteristics that define China's regional development disparities. The development gap between China's regions has steadily expanded since the reform and opening up, despite the country's general economy making impressive strides. This is particularly true between the central, western, and northeastern areas and the eastern coastline regions. A number of factors, including income distribution, infrastructure development, the distribution of educational resources, and social welfare, are also reflected in this inequality, which goes beyond the level of economic development. This imbalance results in unbalanced regional development, which in turn affects overall economic efficiency and social fairness and even exacerbates social conflicts and urban-rural disparities. From the point of view of the causes of inequality, multiple factors such as historical background, policy tilts, natural resource endowment,

industrial structure differences, talent mobility and geographic location, etc., have combined to lead to the unbalanced development among regions.

The eastern region has achieved rapid economic growth by virtue of its policy advantages, resource accumulation and first-mover advantage of a higher degree of marketization, while the central and western and northeastern regions are lagging behind due to relatively weak infrastructure and a lower degree of marketization. Comprehensive policy measures are required to promote coordinated regional development and effectively address the issue of uneven regional development. Narrowing regional development gaps and promoting more balanced economic growth can be achieved through actions like improving the fiscal transfer mechanism, boosting investments in the development of infrastructure in the central and western regions, encouraging talent mobility, and putting regional differentiation policies into place. Simultaneously, the government ought to fortify policy backing and allocate resources towards less developed areas, augment inter-regional collaboration and synchronization, and foster equitable development across the country. In summary, reducing regional development inequality is both a necessary condition for realizing social equity and a key to enhancing the country's overall economic competitiveness and sustainable development. This process requires long-term efforts and systematic policy support to ensure that China's future development can realize a more balanced and inclusive economic and social pattern.

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