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Current Situation of Income Inequality Between Developed and Underdeveloped Regions in China and Future Strategies

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Abstract. This study focuses on the issue of income inequality between developed and underdeveloped regions in China. By integrating data from authoritative sources such as the National Bureau of Statistics of China, it analyses the current gap situation from country, region, and urban-rural perspectives, offering the theoretical background such as the Gini coefficient to support the analysis. This study aims to achieve a coordinated reduction of income disparity through multi-party collaboration, promote sustainable economic and social development, and provide theoretical references and practical paths for achieving shared prosperity in China. Through in-depth exploration of factors such as historical foundation and industrial differences, shortcomings of the redistribution system, the household registration system, and resource disparities, it proposes targeted solutions at the national, social, corporate, and individual levels. At the national level, it is necessary to improve direct tax system, regulate transfer payment to key region, and improve education system in the underdeveloped areas; at the social level, social organisations should build assistance platform, at the same time, media and the public need to create a fair development atmosphere for underdeveloped regions; at the enterprise level, firms are expected to transfer more funds and production power to the underdeveloped regions and enhance the employee training; at the individual level, residents in underdeveloped regions need to upgrade their skills, participate in the development of local industries, and realise resource feedback.

Keywords: Income inequality, regional disparity, multilateral collaboration

1. Introduction

Since implementing the wide-ranging anti-poverty project in China, the gap between the rich and the poor has narrowed. However, income inequality is still at a high level, which threatens the substantial development of the economy and the stability of society. This study delves into the current income inequality situation between developed and underdeveloped regions in China and proposes some possible strategies.

This study aims to summarise the unequal income distribution between developed and underdeveloped regions in China. Based on theoretical background and real data, it analyses the leading causes of this disparity: industry, education, and policies. Additionally, it proposes feasible solutions according to the current situation and causes to narrow the regional disparity further, providing a model for policymakers, social institutions, and individuals.

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The study mainly uses literature research methods and data comparison methods. It reviews the theoretical literature and academic articles to provide theoretical and educational support for the research. It uses data from the National Bureau of Statistics and local statistical reports to quantify the current gap state by conducting a comparative analysis of per capita disposable income, the urban-rural income ratio, and industry wage gaps in developed and underdeveloped regions.

The study is structured into five parts: the introduction briefly offers the background of this study; the analysis of the current situation delves into the main problems China is facing; the cause analysis discusses some factors that result in inequality; future solutions point out the possible path for every sector; and finally, the conclusion.

2. The current situation of income inequality in China

2.1. Theoretical background of income inequality

Economists frequently use a comprehensive measure that reflects the shape of the entire income distribution, called the Lorenz curve—named after Max Lorenz. This observation led a statistician by the name of Corrado Gini to introduce a numerical measure of inequality that came to be known as the Gini ratio (or "Gini coefficient"), which is defined as the ratio of the area between the Lorenz curve and the diagonal line of equality to the total area under the diagonal line [1].

The World Bank [2] has cited that a Gini coefficient below 0.2 indicates a high degree of equality, 0.2 to 0.3 represents relative equality, 0.3 to 0.4 is a reasonable range, 0.4 to 0.5 suggests a significant income gap, and a coefficient above 0.5 implies a considerable disparity in income distribution. Furthermore, 0.4 is the warning line of the Gini coefficient.

2.2. Recent trends in income distribution

According to data from the National Bureau of Statistics of China [3], the Gini coefficient of per capita disposable income of Chinese residents was 0.467 in 2022, a decrease of 0.007 from 0.474 in 2012. The Gini coefficient indicates the level of inequality. The inequality is more severe as the Gini coefficient becomes larger. The decline of the Gini coefficient suggests that the income distribution gap in China is narrowing. However, there is room for improvement as it exceeded the internationally recognised poverty line of 0.4 Gini coefficient.

2.3. 2.3.disparity in regional income

In China Statistical Yearbook 2024 [4], there are significant differences in per capita disposable income among residents across China's eastern, central, western, and northeastern regions. In 2023, there is a substantial difference of 18,722 yuan in per capita disposable income between the eastern region (49,822 yuan) and the western region (31,100 yuan). The per capita disposable income among residents in the central and northeastern regions is above 33,000 yuan, slightly higher than in the western region. Overall income shows a decreasing trend from southeast to northwest. Such a skewed income distribution has existed for decades, but in 2023, the income gap between the eastern and western regions reached its maximum in the past 11 years [3].

2.4. Income gap between urban and rural areas

In the same region, the per capita disposable income of residents in urban areas and rural areas differs significantly. The difference is more apparent in developed regions than in underdeveloped

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regions. In the eastern region of China, the average disposable income per person in the urban areas reaches 61,472 yuan. In comparison, this figure is approximately 2.3 times lower in rural areas (26,907 yuan) (National Bureau of Statistics of China, 2024) [4]. The difference is relatively small in the remaining regions (around 20,000 yuan).

In addition, the income gap between urban and rural areas increased from 2012 to 2023, bringing unbalanced development within a region. The extent is distinct across the country, but the disparity has expanded most severely in the eastern regions, increasing by 1.3 times from 26,168 yuan to 34,565 yuan (National Bureau of Statistics of China, 2024) [4].

3. Cause analysis- the cumulative effect of multifaceted factors and the limitations of policies

3.1. Historical foundation and industrial differences

The "gradient development strategy" in the early stage of China's reform and opening-up [5] gathered high-quality resources such as capital and technology in the eastern regions, forming an industrial cluster advantage. The central and western areas, due to their remote geographical locations and high infrastructure costs, have long been at the lower end of the industrial chain. This disparity has accumulated over time, resulting in significant differences in industrial structures between the eastern areas and the western areas.

The unbalanced accumulation of resources and different development levels leads to a different industrial structure across the country. From the data of National Bureau of Statistics of China (2024) [6], at the end of 2023, the eastern region accounted for 53.1% of the industrial activity units in the secondary and tertiary industries across the country; the central region accounted for 22.1%; the western region accounted for 19.8%; and the northeastern region accounted for 5.0%. This indicates that the eastern region focuses on high-value-added service industries such as internet and financial services, which have strong profitability and offer high employee salaries. In contrast, in some parts of the central and western regions, traditional industries account for a large proportion, such as the coal and steel industries, which have relatively low added value, resulting in lower incomes for the workers.

In some regions (such as Horqin District in Inner Mongolia), the government optimises the industrial structure, transforming from primary industry to secondary and tertiary sectors, thereby narrowing the income gap between urban and rural areas [7]. However, the impact of industrial structure upgrading on the urban-rural income gap varies by region: in eastern region, the effect of industrial structure upgrading on the urban-rural income gap changes over time; in central area, industrial structure upgrading helps narrow the urban-rural income gap; in western region, industrial structure upgrading will widen the urban-rural income gap [8]. Thus, the effect of the policy is unbalanced across the whole country, which indicates that the policy would expand the regional difference.

3.2. The shortcomings of the redistribution system

After the wealth initially accumulates in some regions, the absence of an effective redistribution system aggravates income inequality. Compared with developed economies, the proportion of redistributive taxes in China's total tax revenue is relatively low. In China, the low proportion of personal income tax revenue limits the regular power of taxation on income distribution [9]. This has, to a certain extent, exacerbated the expansion of the income gap and affected the fairness of income distribution. In addition, the initial distribution process is incomplete, and there is a large

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amount of illegal grey and black incomes in personal income. As the government cannot obtain complete information on their sources, many high-income earners' incomes are outside the scope of individual income tax, making income more extreme [10].

On the expenditure side, around 2010, the social security system was not well established, and the coverage of social insurance was relatively low, which restricted the function of social security in regulating the income distribution gap [10]. Secondly, the distribution of fiscal social security expenditure between urban and rural areas was unreasonable. Most of the limited social security funds were allocated to cities. At the same time, less public spending was used for rural social security, resulting in the continuous expansion of the income gap between urban and rural residents.

According to information from the Ministry of Human Resources and Social Security of the People's Republic of China [11], the social security system reform has completed the insurance participation system and optimised the pension insurance system. However, when implementing the national unified management of enterprise employees' basic old-age insurance, the contribution rate of units in the developed eastern provinces was lower than that in other regions [12]. After the unified contribution rate was implemented, the contribution rate in the coastal areas increased, leading to a short-term decline in economic vitality. If the contribution base and the basic pension were calculated based on the national average wage, it would be impossible to achieve income redistribution between developed and underdeveloped regions and the participation enthusiasm of high-income groups. Therefore, its redistributive effect depends on the government's weighing of different goals.

3.3. The household registration system and resource disparities

The educational resources are distributed unequally in China, mainly gathering in developed regions such as the eastern region. According to Shuang's statistics [13], the per-student expenditure on education in regular colleges and universities across the country was 21,000-yuan, 23,000 yuan in the eastern region, and 16,000 yuan in the central and western areas. The proportion of full-time teachers with postgraduate degrees or above in regular colleges and universities nationwide was 65%, with 70% in the eastern region and 61% in the central and western areas. The income and education are highly related; thus, with lower quality of education, residents in underdeveloped regions have access to fewer good job opportunities and earn significantly lower income.

Moreover, through the household registration system that distinguishes by identity characteristics, the urban agglomeration restricts the participation of migrant workers in the distribution process of public resources, including urban educational resources, thereby leading to an objective inequality in educational opportunities [14]. This results in low-income mobility and low-class mobility of residents in underdeveloped regions, which indicates that the descendants of the residents hardly have access to high-quality education and thus hardly earn a high income in the future. Therefore, the income gap among different regions expands and solidifies.

4. Multilateral collaborative solutions

4.1. From a perspective of country

The country is the most essential sector in corporate work for reducing the widespread income gap. To further achieve common prosperity, China needs to improve the direct tax system, regulate transfer payments to key regions, and improve the education system in underdeveloped regions.

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First, China needs to consider adopting and improving the capital tax in response to the evidence that the distribution of capital income has increasingly become a source of income inequality [15]. The legislation of the inheritance tax and the donation tax should be considered. The direct tax system is not complete yet in China compared to developed countries. The direct tax plays an essential role in regulating social distribution, transferring a portion of the property of those with large inheritances to public ownership, and supporting low-income individuals and social welfare undertakings.

Second, the public service deficiencies in underdeveloped areas, such as infrastructure and social security, require more financial support. When increasing the scale of transfer payments, funds should be allocated based on quantitative indices such as the coverage rate of educational resources and the compliance rate of medical facilities. Concurrently, a dynamic tracking mechanism for using funds should be established to ensure that transfer payments are used to improve the living conditions and development environment in underdeveloped areas, thereby fundamentally narrowing the regional development gap.

Besides, education should be further invested in underdeveloped regions. Although educational conditions have improved in recent years, the educational resources in the the central and western regions, especially rural areas, are still insufficient. Compared with developed areas, there are still gaps in the quantity of schools and the quality of teachers. In rural areas, the education for special groups such as left-behind children still lacks guarantees. It is necessary to provide subsidies for educational talents who go to underdeveloped regions and improve the treatment of teachers, thereby attracting and retaining more outstanding talents to teach.

4.2. From a perspective of society

Under the government's policies and calls, all sectors of society are expected to leverage the organisational strength and promote the resource flow. For social organisations, they can establish precise assistance platforms. For instance, charity organisations can connect experts from the East to provide online courses for Western practitioners. Industry associations can promote "Production and Sales Connections", helping local agricultural products from underdeveloped regions, such as Xinjiang apples, enter the upscale markets in the east, increasing their added value.

Social media should be responsible for publicising the potential opportunities of underdeveloped regions. To create an atmosphere for fair development, the media uses its advantage in communication power to attract the attention of private capital. Thus, the public purchases products from the central and western regions through consumption assistance and participates in volunteer activities such as teaching in rural areas, realising the potential of the underdeveloped regions.

4.3. From the perspective of enterprise

Enterprises should tap into the investment potential of underdeveloped regions and proactively tilt towards these regions, achieving both profitability and poverty alleviation. The leading enterprises in the east are expected to establish production bases or R&D centres in the central and western areas instead of only transferring to the low-end production stage, thereby driving the income growth for talents in emerging industries. Also, enterprises should invest their profits in vocational training in underdeveloped regions. This creates a win-win situation for enterprises and underdeveloped regions, as the talent cultivation and supply chain not only solves the talent shortage problem for enterprises but also offers residents in underdeveloped regions good job opportunities.

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4.4. From the perspective of individuals

For individuals, enhancing their capabilities and seizing development opportunities are paramount. First, residents in underdeveloped areas can take advantage of the vocational training resources provided by the state to learn new skills and break through the income bottleneck of traditional industries. Second, they can participate in developing local characteristic industries by combining the advantages of local resources. Starting businesses to achieve income growth is more effective in alleviating the regional income gap rather than unquestioningly flocking to the low-end job market in the east. Moreover, individuals with conditions can accumulate experience in the East and then return to starting businesses, bringing technology and management experience back to underdeveloped areas.

5. Conclusion

5.1. Research summary

This study focuses on income inequality between developed and underdeveloped regions in China. By analysing authoritative data sources from the National Bureau of Statistics, it clarifies the current gap in three dimensions: national, regional, and urban-rural.

At the same time, this study analysed the causes from three aspects, including industrial structure differences, shortcomings of the redistribution system, and uneven distribution of educational resources. Moreover, a multilateral collaborative solution path is proposed. It is necessary to improve the direct tax system, regulate transfer payments to key regions, and improve the education system in the underdeveloped areas nationally. Social organisations should build an assistance platform; at the same time, the media and the public need to create a fair development atmosphere. Enterprises are expected to transfer funds and production power to underdeveloped regions and enhance employee training. At the individual level, residents in underdeveloped areas need to upgrade their skills, participate in developing local industries, and realise resource feedback. It provides practical references for narrowing the income gap and promoting shared prosperity.

5.2. Research limitations

First, data timeliness and granularity are insufficient. Some data rely on the China Statistical Yearbook 2024 and publicly available information before 2023, lacking the latest dynamic data for 2024 and 2025. Moreover, the income disparity within underdeveloped regions (such as different provinces and counties in the central and western areas) has not been segmented and compared, potentially overlooking the differentiated characteristics within these regions.

Second, the depth of cause analysis is limited. The study has not quantified the specific mechanisms of their impact on income distribution through empirical methods such as questionnaires and interviews.

Third, the practicality of proposed solutions has not been verified yet. Measures such as co-construction for enterprises and skill-sharing programmes of social organisations have not been compared for their adaptability in different underdeveloped regions and lack specific implementation conditions and effect evaluations.

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5.3. Research prospects

First, the research units can be refined to the county and township levels, according to the latest statistical data from 2024 to 2025. Additionally, new dimensions such as the development gap of the digital economy and the degree of equalisation of public services can be included to more accurately depict the micro-characteristics of income inequality.

Second, through empirical research, the influence of factors such as social perception and policy implementation deviations on income disparity can be quantified. Third, solutions can be more accurate and effective in needs evaluation. Differentiated assistance plans can be designed for various types of underdeveloped regions, and a long-term tracking mechanism for the implementation effects of measures can be established to summarise experiences and risks to be avoided.

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