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Abstract. In China, alongside fast economic growth has come a new challenge: increasing regional disparity. Using GDP and industry output data, this paper examines trends in regional disparity during the period 1985–1994, from the aspects of both income distribution and production agglomeration. This period has been chosen not only because it reflects the latest trend, but also because it reflects the most intensive effects of globalization and economic liberalization in the Chinese economy. It is shown that the income disparity between the coastal area and the interior had been increasing, and industrial production showed strong agglomeration toward the coastal area, while within coastal provinces there was a trend of convergence. Further this paper investigates the reasons behind the increasing regional disparity from the aspects of regional development policy, globalization, and economic liberalization. Biased regional policies had some effect, but their role was limited. More importantly, globalization (measured by export and FDI) and economic liberalization (indicated by the decline of the share of state-owned enterprises and the growth of township and village enterprises) had significant influence on the increasing regional disparity.

1. Introduction

By promoting domestic efficiency and productivity, and providing an environment that is friendlier to exports and foreign investment, globalization and economic liberalization reforms lie at the heart of China’s improved economic prospects. Alongside the fast economic growth and the new opportunities in trade and external finance, however, has come a new challenge: increasing regional disparity. The coastal area is booming at an average 12% annual growth rate, while the interior has not seen the same level of investment and development.

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growth rate of real GDP over the past decade, while the interior also grows, but at a slower pace of 9% annually. As a consequence, the gap between coastal provinces and the hinterland is growing fast. In 1994, the per capita GDP of coastal provinces was 2.24 times that of the interior provinces, while it was 1.76 in 1984. Per capita income of Shanghai, the richest provincial unit, is 10 times that of the poorest Guizhou province. This increasing regional disparity is now a serious problem in China. What, exactly, is the trend of the regional disparity in China during the past 10 years? What is the mechanism behind the trend? Particularly, what are the influences of the ongoing globalization and economic liberalization? To explore these questions is the main objective of this paper.

Studies of regional disparities in China have been lively since 1990. Utilizing Williamson’s (1965) coefficient of variation (CV) measure and national income data, Lyons (1991) and Tsui (1991) analyzed the inter-provincial disparities in China from the 1950s to the mid-1980s, and Zhao (1996) extended this analysis to the early 1990s. Treyz (1996) measured per capita GDP disparities within and among provinces for 1987–1991. From the regional growth approach, the World Bank (1995) estimated the provincial disparity in per capita GDP growth rate for the period 1977–1992, and Tian et al. (1996) further studied the tendency of regional convergence from 1953 to 1993. A major conclusion is that during the 1980s, the inter-provincial disparity was decreasing, although some debate this. Zhu and Deng (1993), Huo (1994), Fan (1995), and Lin (1996), among others, studied the evolution of China’s regional policies and the role of state policy toward regional disparities. Hu and Tan (1996) pointed out that fiscal transfers from rich to poor had played an important role in reducing the disparity in regional consumption, but that it decreased over the past 10 years.

To date, most studies have focused almost exclusively on inter-provincial disparity. The disparity between the booming coast and the backward interior, which generates more political complaints and potential social unrest, has not been clearly addressed. Regional disparity between the two regions can show a different pattern from that discovered in the literature. Further, while most papers measured disparity using the National Income or GDP data, few efforts have been made to study the agglomeration of production in the coastal area. Production agglomeration does not necessarily lead regional income disparity, but it does when cross-region labor mobility is restricted. Finally, regional development policies have always been used as the primary explanation of the disparity, while the effects of ongoing globalization and economic liberalization, which are changing the national economy greatly, have not been identified explicitly. State policy is important, but overstating its role can be misleading.

Based on the above considerations, several new features distinguished our study from the existing literature. This paper examines the regional disparity in China from the coast-interior perspective as well as from an inter-provincial comparison. Further we decompose the total disparity into coast-interior disparity (inter-regional disparity) and disparity within each region (intra-regional disparity). Besides examination of the income disparity in per capita GDP, we also analyze the regional production inequality\(^1\) and industrial

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\(^1\) Regional income inequality comes from production disparity and income redistribution. For our purposes, we give little discussion on income redistribution issue in this paper.