REGIONAL INCOME DISTRIBUTION IN CHINA, 1978-95

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by

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ABSTRACT

This thesis aims at analysing rigorously the changing patterns of regional income distribution in China since the launch of economic reform in 1978. The dispersion (or inequality) as well as the intra-distribution mobility of regional incomes in China are investigated, using provincial and county level data.

The pattern of change of inter-provincial income disparity is re-examined and compared with the findings of a number of researchers. It is shown that the pattern of change depends on whether the three centrally-administered municipalities are treated as independent units or not. The widening dispersion of income among the provinces has been disguised by the relatively slower growth of the three municipalities. One further finding is that the rise in inter-provincial inequality in the reform period was driven by the rural sector, in which the inequality in turn arose from non-agricultural income.

The thesis then analyses the data of over 2,000 counties in China. It is shown that inter-county inequality in rural output rose significantly during 1985-91 and that the intra-provincial component of inter-county inequality increased as much as the inter-provincial component. The decomposition result also indicates that the increase in inequality came mainly from the non-agricultural sector. However, it was due to an increase in the share of the non-agricultural sector in total output, rather than a substantial increase in the inequality within this sector. Furthermore, intra-provincial inequality increased with the development level of the province, against the inverted-U hypothesis.

Turning to analysing the intra-distribution dynamics of provincial economies, the thesis casts doubts on recent applications of Solow growth models to China and the empirical results of cross-provincial convergence of growth. Empirical investigation shows that the major driving force behind the pattern of cross-province growth is structural change, a process characterised by a reallocation of resources from the low productivity sector of agriculture to the high productivity sectors of industry and service. Such structural change, which typically is an important source of growth in developing countries, is ignored by the Solow models. Finally, the intra-distribution dynamics of counties in Guangdong is studied. Substantial reranking of county output levels alongside the rise of inequality is found. However, this kind of mobility occurred mainly within sub-regions and not between them.
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