

ECONOMIC GEOGRAPHY, SPATIAL DEPENDENCE AND INCOME INEQUALITY IN CHINA

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NON-TECHNICAL SUMMARY

Over the last two decades, China has benefited from unprecedented income growth but its development process has come with large and increasing income level differences within China (Meng et al., 2005). With regions with low per capita income predominantly located at the geographical periphery while those with the highest income locate at the center, a core-periphery structure is clearly emerging within China.

Recent studies show that this evolution is coherent with predictions from the New Economic Geography (NEG) theory (De Sousa and Poncet, 2007) and confirm the validity of the “NEG wage equation” (Hering and Poncet, 2006; Lin, 2005; Ma, 2006): locations closer to consumer markets (i.e. with a higher “market access”) experience lower transport costs and enjoy higher income levels (Fujita et al., 1999).

But some critics can be addressed to these analyzes. First, these studies do not properly control for differences in endowments, policies or institutions across locations since none include location fixed effects. Another possible shortcoming of these studies is that they assume each location to be an isolated entity. But individual geographical units tend to be relatively integrated due to migration, interregional trade, technology and knowledge spillovers as well as institutions (Buettner, 1999), what can lead to a spatial dependence between the locations. Spatial dependence is acknowledged to be an important force in the process of convergence (Rey and Montouri, 1999) and ignoring this dimension in the estimation could thus result in a serious misspecification (Abreu et al., 2005).

The current paper contributes to a better understanding of the relationship between market access and spatial inequality in China by exploring regional variations. We use a panel data set covering 195 Chinese cities between 1995 and 2002, that allows us to include fixed effects by city to control for scale economies and factor endowments.

A final contribution of this paper consists in the analysis of whether the impact of market access depends on province-level characteristics such as the intensity of immigration or the income level.

Our results suggest that access to sources of demand is indeed an important factor in shaping the spatial income structure in China. While spatial relationships between Chinese cities also matter significantly they do not bias our estimates of the impact of market access on income.

As an attempt to determine whether labor supply under the form of internal immigration plays a role in this dynamics we investigate whether the relationship between income and market access is valid only for locations with low or high immigration. According to our theoretical model, in case of quasi-infinite labor supply for the manufacturing sector, wages would respond only little to changes in the demand emanating from international and local markets. Our results are very consistent with the NEG model, which predicts that the relationship between market access and income will be weaker as migration is stronger. We thus confirm previous results (De Sousa and Poncet, 2007; Hering and Poncet, 2006) on that further liberalization of internal migration may help to mitigate the widening of spatial income disparities fueled by the further opening of the country.

J.E.L. Classification: E1, 01, 05, R1.

Keywords: Income inequality, Economic geography, Spatial dependence, China.