

Regional Inequality and Policy

IFPRI

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Distribution and Growth in China (1)

- Dramatic growth, spectacular reduction in poverty.
- But rapid increase in interpersonal inequality, composed of different dimensions, including of course regional inequality.

Distribution and Growth in China (2)

- Fast rise in inequality dissipates impact of growth on poverty reduction.
- High levels of inequality dissipate impact of growth on poverty reduction.
- High levels of inequality may affect growth prospects through a number of channels, including social tension and discontent.
- The Crisis and Distribution.

Inequality and Regional Inequality (1)

- Why is regional inequality important?
- As a contribution to overall interpersonal inequality—standard approach in economics.
- In and of itself—less standard in economics, but common in other disciplines, and common among policy makers.

Inequality and Regional Inequality (2)

- Which view one takes makes a difference.
- “Jobs to people”, or “People to jobs”?
- If locational identity is not important, choice depends on “pure” utilitarian cost-benefit.
- If locational identity is important, there is a stronger imperative to move “jobs to people,” over and above the extent suggested by “pure” cost-benefit.

Inequality and Regional Inequality (3)

- For most countries, locational identity matters. Total de-population of a region is not an option, even if it “makes sense.”
- Examples—Brazil, India, Canada, European Union. Regions (countries in the case of EU) have identities, especially in federated structures, and especially if ethnic, religion, language and other cleavages align with regional divisions.

Inequality and Regional Inequality: Is China Different? (1)

- Given the high degree of homogeneity in population across China, do regional identities matter much less? Can a “pure” cost benefit be applied?
- This is something for policy makers to answer. We should try and elicit this from them before presenting detailed policy options.

Inequality and Regional Inequality: Is China Different? (2)

- My guess is that China is no different than other countries—regional identity matters.
 - There is indeed some ethnic/language/religion heterogeneity aligned with region.
 - Even without such heterogeneity, long histories of common administration, or acts of federation, induce regional identities (eg Argentina, Britain, Malaysia, even US)
 - Chinese history shows remarkable attention to regional inequalities.

Inequality and Regional Inequality: Is China Different? (3)

- Important and interesting work of Berkeley historian Bin Wong, part of a body of work that has followed opening up the archives of the Qing empire, and work on earlier periods.
- “...no other imperial state in world history has bequeathed to its successors in the twenty-first century a government that continues to rule most all the territory and a far vaster population than was once ruled by an empire.... [T]his [paper] suggests how political accountability in both the eighteenth century and in contemporary China is achieved through balancing central-local relationships in ways that facilitate spatial integration through attention to equity issues.”

Chinese Regional Policy: Lessons from International Experience? (1)

- In general and in very broad terms, “regional policy” appears to be similar across countries such as Brazil, Canada, India, and in the European Union.
- The EU’s approach encompasses most approaches in terms of objectives and finance.

Chinese Regional Policy: Lessons from International Experience? (2)

- “ One region in four has a GDP per inhabitant under 75% of the average of the European Union of 27....European regional policy is designed to bring about concrete results, furthering economic and social cohesion to reduce the gap between the development levels of the various regions.”
- “The Cohesion Fund is aimed at Member States whose Gross National Income (GNI) per inhabitant is less than 90% of the Community average....The Cohesion Fund finances activities under the following categories: trans-European transport networks, notably priority projects of European interest as identified by the Union; environment; here, Cohesion Fund can also support projects related to energy or transport, as long as they clearly present a benefit to the environment: energy efficiency, use of renewable energy, developing rail transport, supporting intermodality, strengthening public transport, etc.”

Chinese Regional Policy: Lessons from International Experience? (3)

- The lessons, therefore, are not from a general perspective, since these approaches have been known in China for many centuries, but rather from specific policy instruments. But here too, there is more to learn in some categories of instruments than others.
- Let us consider three categories of instruments: Infrastructure, Social Protection and Investment, and Governance.

Chinese Regional Policy: Lessons from International Experience? (4)

- Infrastructure Investment. Here China has indeed been engaged in significant activity over the past three decades and especially recently. We would argue that the lessons to be learnt are from Chinese experience itself.
- For example, detailed work at IFPRI has shown high rates of return to investment in lagging regions in: irrigation, roads, electricity and telecommunications.

Chinese Regional Policy: Lessons from International Experience? (4)

- Social Protection and Social Investment. Over the past two decades, social protection and social investment have converged in the shape of Conditional Cash Transfers targeted to building up the human capital of the poorest.
- This is an area in which China does not have much experience in recent history, and it is an area in which Chinese policy makers could indeed learn from international experience in countries such as Brazil, Mexico and India. The regional dimensions of these programs, their targeting to poorer regions, is of particular interest.

Chinese Regional Policy: Lessons from International Experience? (4)

- Governance Reform. Here there is varied international experience, ranging from India's experiments with village level democracy, or the constitutional powers given to the regions in Brazil, etc.
- However, we would argue that political, locational and cultural specificities make such experiences almost unusable for China.

Chinese Regional Policy: Lessons from International Experience? (5)

- Rather, we would argue that China should continue to conduct its own experiments in governance reform, especially in light of the finding that provincial level decentralization has contributed to growing regional inequalities. Improvements in governance at county level and below in the lagging regions hold out greater promise. Available detailed assessments by IFPRI of some such experiments may help.

Conclusion

- Inequality, and Regional Inequality, has been growing rapidly.
- Concerns about Regional Inequality go beyond its contribution to interpersonal inequality. This is true globally, and it is true in China.
- Social protection and social investment instruments are of particular interest because:
 - They are increasingly seen in conjunction with regional policy.
 - The instruments are relatively little used in China.
 - There is significant global experience of these instruments.
 - Unlike for some other instruments, global experience may be relevant for China.

Thank You!