

Interregional trade, supply chains and regional income disparity

Topic: Trade and supply chains

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Regional income disparity is caused by broad ranges of factors. Much research concentrates on studying convergence or divergence of single regions or nations within the context of the growth theory of closed economies. Recently, the perspective of different production functions for different regions is added. This study extends this contribution by developing a multi-regional model, based on China's 2002 updated interregional input-output table. The main findings show that interregional trade and regional income disparities are partly explained by a region's position in the global supply chain. In China, typically, the South Coast region and East Coast region locate in the top tier of the hierarchy, and have high income per capita levels. On the opposite side, Central, Northwest, and Southwest China locate in the bottom tier of the hierarchy, and end up with low income per head levels. Moreover, by means of a scenario analysis, the multi-regional model shows that regional disparity will persist, but to a lesser extent due to Regional Development Programs.