Exports and interregional inequality in China: A domestic value chain analysis

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Reducing welfare differences between the rich coastal zone and the much poorer inland regions is high on the agenda of the Chinese government. Chinaâ€™s focus on generating income from exports is partly responsible for interregional income inequality, since most of its export products are manufactured in the coastal zone. The current literature on this topic has always ignored the income effects of â€œindirect exportsâ€• of the remote inlands through providing materials and components to the export production activities in the coastal regions. For processing exports in coastal provinces like Guangdong, the income effects of indirect exports are expected to be considerably smaller, since a far larger share of materials and components are sourced abroad.

We propose a new value chain-based accounting framework to quantify the respective contributions of processing exports and ordinary exports to interregional income inequality. It employs newly developed Chinese interregional input-output tables for 2002 and 2007, which separate processing exports from other products. We find that exports explained 70% of interregional income inequality in 2007, but that processing exports only made a small contribution. Between 2002 and 2007, the rapid expansion of exports was the main culprit for the increasing inequality. The increasing domestic fragmentation in China (the inland regions getting increasingly involved in upstream activities required to produce exports), alleviated this effect to some extent.