

The Economic Impact of Income Inequality in Eastern, Central and Western China

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Abstract: It is important to address one of the most common problems in economics for decades, which has been the global wealth inequality, and to promote common economic prosperity and balanced economic growth. This research examines the various impacts of income inequality on economic growth in Eastern China, and compares it with economic development in Central and Western China. Shanghai, Suzhou and Hangzhou in Eastern China have experienced significant economic transformation, but this has also exacerbated the unequal distribution of wealth and income. By analyzing economic growth, infrastructure investment, and the allocation of educational resources across regions, this paper emphasizes how these elements lead to significant economic inequalities among the Eastern, Central, and Western China. Furthermore, the paper investigates the adverse financial impacts of income inequality on consumer demand, social stability, and labor force utilization, and provides policy suggestions for fostering common prosperity and more balanced economic growth. In short, it is necessary to achieve more inclusive and sustainable economic growth through more balanced regional development policies.

Keywords: income disparity, economic expansion, social stability, educational investment.

1. Introduction

For decades, one of the most general issues in economics has been the condition of global wealth inequality. The differences in wealth distribution are frequently observed across various regions, countries, and populations [1]. As the global economy grew, the disparities expanded, leading to several significant social and economic challenges [2]. While various definitions of wealth inequality exist, this paper utilizes the Gini coefficient as a tool for analyzing wealth distribution and understanding its social and economic implications [3].

This paper discusses the current state of research on income inequality and its importance in the economy. Income inequality is becoming a crucial issue in the global economic research field [4]. This phenomenon not only influences social fairness and justice, but also has far-reaching effects on economic growth, social stability, and overall welfare. Researchers and scholars attach importance to it because the unequal distribution of income may have multiple economic consequences, such as a lack of demand for consumption, social instability, and the waste of the labor force, which are limiting the potential for economic growth [5]. Therefore, theoretical significance has been posed by researching on income inequality. Additionally, it provides a practical basis on formulating effective economic policy.

By specifically concentrating on the comparison among Eastern, Central and Western China, it is evident that Eastern China has undergone significant economic transformation in the past several decades. This paper aims to explore the diverse effects of income inequality's impact on regional economic growth, social stability, and overall advancement [6]. Including Shanghai, Suzhou, and Hangzhou, these economically active cities have always been placed at the forefront of China's rapid growth, such as industrialization and urbanization [7]. These changes have brought significant economic growth, but the growth is not even. Populations' wealth inequality has expanded wider in Eastern China [8]. By examining economic growth, infrastructure development, and the distribution of educational resources across various regions, this paper illustrates how these factors contribute to notable economic disparities among the three regions. Additionally, it addresses the adverse financial impacts of income inequality on consumer demand, social stability, and workforce utilization, and proposes policy measures for achieving shared prosperity and more balanced economic progress.

2. Economic Progress of Eastern, Central and Western China

The eastern region of China, including cities like Shanghai and Shenzhen, is the country's economic powerhouse, driven by early market reforms, industrialization, and foreign investment, leading to high income levels and rapid urbanization [9]. The central region, including provinces such as Hubei and Henan, has transitioned from an agricultural base to a more industrialized economy. It has benefited from its strategic location and enhanced infrastructure, yet it continues to trail behind the eastern region [10]. The western region, encompassing vast areas like Xinjiang and Tibet, remains the least developed due to challenging geography and lower investment, despite being rich in natural resources. Government policies, such as the "Go West" initiative, aim to bridge these regional disparities by promoting infrastructure development and economic growth in the central and western regions. In the last decades, Eastern China has experienced sustained economic expansion, mainly benefiting from industrialization, urbanization, and massive foreign direct investment. Those factors commonly motivate the significant increase in per capita Gross Domestic Product (GDP) in this region.

2.1. Per Capita GDP in Eastern China

According to the most recent data, the economic strength of Eastern China has taken the lead. For example, Shanghai, achieving economic diversification in international trade and the technology industry, has contributed to the forefront per capita GDP in the nation, which was over \$25,000. More than 70% of GDP is spent in the service industry. In Jiangsu, GDP per capita is about \$18,000, benefiting from its stable economic foundation. Manufacturing sectors such as chemicals have significantly contributed to this progress. Additionally, the economic development of Eastern China benefited from multiple factors, including its superior geographical location, sufficient resources, a strong industrial base, and the government's policy support. Due to its location on the east coastline, Eastern China is naturally convenient for foreign trade and the investment of foreign capital. Meanwhile, an adequate population and a mature education system provide sufficient workforce and capital reserves for enterprises. What is more, the Eastern areas' growth rate is much higher than the national average, which indicates that in terms of economic development, Eastern China is far ahead of the Central and Western regions. This advantage can be reflected in both economic indicators and the significant differences in residents' income levels and quality of life. Due to the superior geographical location, stable industrial base, and the support from government policies, the eastern region's economic growth rate is significantly faster than that of the inland region. Therefore, the Eastern region has a higher income level, better living conditions, education resources, and medical

services than the Central and Western regions, which further contribute to the regional imbalance and help Eastern to be more competitive in attracting potential talents.

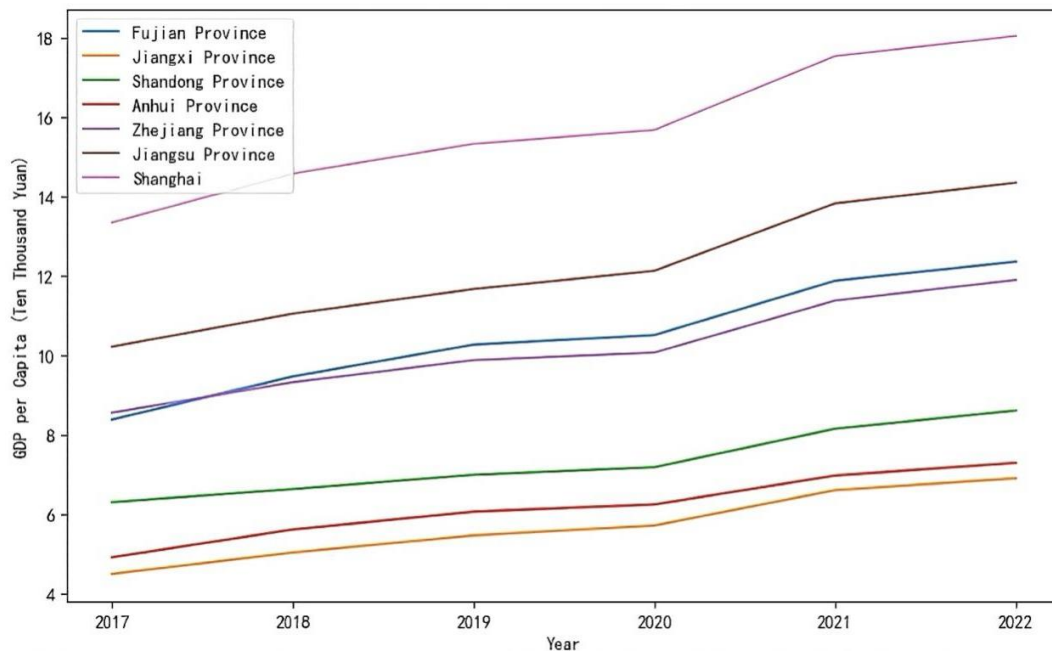


Figure 1: GDP per capita growth trend from 2017 to 2022 (Data Source: National Bureau of Statistics).

Figure 1 illustrates the trend in GDP per capita for Eastern China (including Fujian, Jiangxi, Shandong, Anhui, Zhejiang, Jiangsu, and Shanghai) from 2017 to 2022. The graph demonstrates a gradual increase in GDP per capita across all provinces, reflecting consistent economic growth over the years. Apparently, Shanghai's per capita GDP has been in a leading position with 180,000 yuan in 2022. Zhejiang, in the second place, has a per capita GDP reached about 150,000 yuan in 2022. Jiangsu shows significant growth, from 100,000 yuan in 2017 to about 140,000 yuan in 2022. However, provinces like Jiangxi and Anhui are relatively slow, which is about 60,000 to 80,000 yuan in 2022. Provinces like Fujian and Shandong are in the middle, with per capita GDP of 100,000 yuan and 120,000 yuan in 2022.

2.2. Comparison among Eastern, Central and Western China

In 2023, most provinces in Eastern China have an average per capita GDP, due to its location on the east coast, higher than that in the Midwest. In provinces like Gansu and Guizhou in the west, the per capita GDP is about 60,000 yuan, which is even half of the well-developed provinces. Such a disparity shows that Eastern China not only has an absolute dominant position in the total economic output but also has a higher average income and living standards than the people in the Midwest. The great difference is caused by factors in different aspects.

As stated, the provinces in Eastern China, like Jiangsu and Zhejiang, possessed developed manufacturing sectors that were marked by advanced technology and productivity. As shown in Figure 2, by comparing the eastern and western regions, it can be seen that the total operating income of the high-tech manufacturing sector in the eastern region significantly exceeds that of the western region, underscoring a notable economic disparity between these areas. The electronic information industry in Jiangsu and the digital economy in Zhejiang are especially pivotal in driving economic growth in Eastern China. On the contrary, in western regions such as Xinjiang, and other places, economic sources are basically reliant on the mining of minerals, energy industries, and livestock

industries; central areas like Henan and Hunan mostly depend on farming and traditional manufacturing. Even those industries in the central and western area are upgrading satisfactorily, and efficiency is increasing with the progress of time and technology, the huge gap between the Midwest and East still exists as the overall modernization and service economy structure in the East.

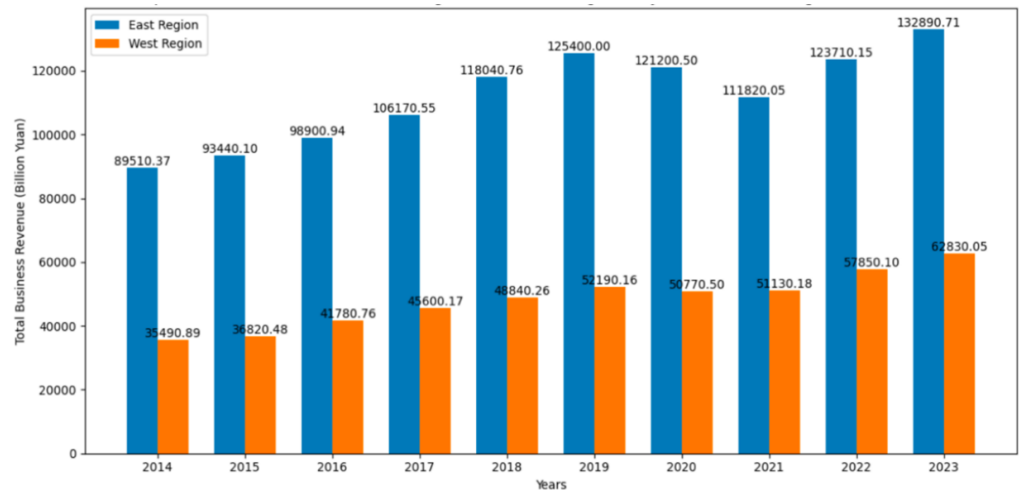


Figure 2: Comparison of Total Business Revenue of High-tech Manufacturing Industry (Data Source: National Data Centre).

In Eastern China, the infrastructure's gaps are relatively small, while rural areas have gradually expanded road access to every village, Internet, water supply, and power supply coverage. However, in the Midwest, the gap in infrastructure is still remarkable. This kind of lag limited local economic development and intensified the living standard between urban and rural areas.

Eastern China mostly develops high-tech manufacturing and service, which means the industrial structure in the eastern region is more modern and diversified, with high-tech and service industries accounting for a larger proportion, as shown in Figure 3. While in the central and western regions, it usually depends on traditional manufacturing, agriculture, and mining, which are more traditional and relying on agriculture and resource extraction.

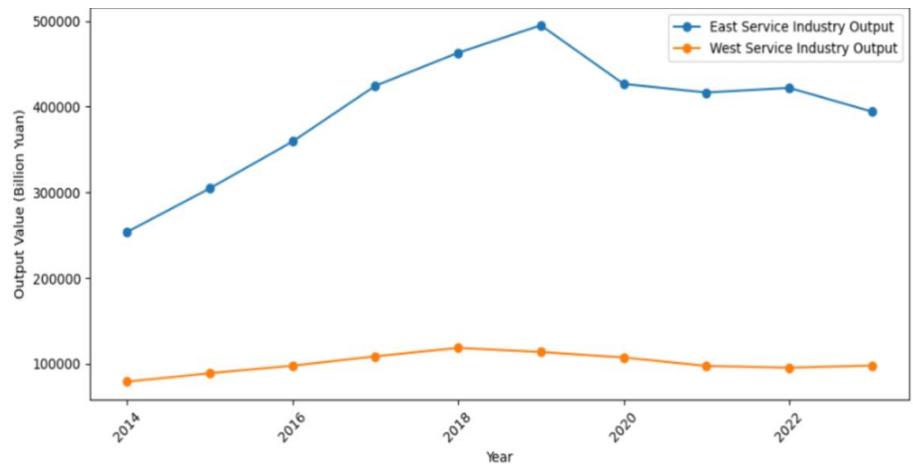


Figure 3: Service industry output in China from 2014 to 2023 (Data Source: National Data Centre).

2.3. Education

In China, not partially, but the overall educational disparity has existed for decades, especially between urban and rural areas, and east and west. The gap is particularly obvious. In Eastern China, the economy is well developed, and the government puts a lot of investment into education and the construction of schools. In areas like Shanghai and Jiangsu, schools are well-equipped with abundant resources, including state-of-the-art teaching facilities (modern classrooms, laboratories, libraries, and multimedia equipment), highly educated staff, and a diverse range of courses, all contributing to comprehensive development. Recently, due to the funding supported by the government for rural areas, the disparity in education has reduced. In the meantime, the government has also set up policies that benefit and support the development of rural schools. For example, sharing educational information can help close the gap between urban and rural education. However, rural areas in the Midwest of China lack educational resources, and there are still some basic problems prevailing. Rural schools usually lack basic teaching tools, sometimes even lack of classrooms and chairs, which will impede the quality of teaching. In addition, the number of teachers is insufficient; more importantly, the professional quality and education level of teachers need to be improved. This appearance will limit the upper bound of rural teaching. However, due to the lower wages, low living standards and conditions, most well-educated teachers are not willing to teach in the Midwest, which leads to outflow of human capital and makes it difficult to promote education.

3. Economic Impact and Policy Solutions

Income inequality brings a significant economic and social challenges worldwide, which also had a great impact onto the global economic growth and stability. Economically, imparity is likely to reduce the demand on consumption since the purchasing power of low-income group have been reduced. As consumer spending is a crucial driver of economic growth, this reduction can lead to lower business revenues, lower production, and higher unemployment rates. Therefore, economic activity will slow down and create a negative feedback loop that further expand the economic downturn. Socially, the widening disparity between rich and poor leads to a great instability. This social unrest can be revealed through protests or more severe disruptions and complicating policy implementation. In some extreme situations, long-term inequality will contribute to the political instability. Moreover, income inequality leads to the underutilization of labor force. Individuals from low-income family often lack training skills and education resources, resulting in a workforce that cannot fully satisfy the economy's demand. This kind of mismatch will reduce the productivity and constrain innovation, weakening the economy's global competitiveness. Figure 4 summarizes the causes and effects of income inequality, and the interactions between key determinants.

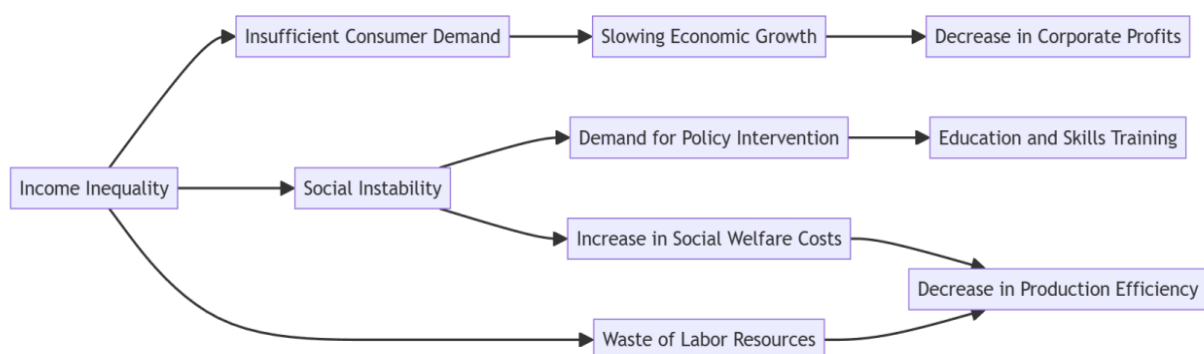


Figure 4: Flow chart of the impact from income inequality.

Currently, China's common prosperity policy has shown a significant effect in the eastern region, not only promoting regional economies to equally develop but also motivating social stability and harmony. The core value of the policy is to improve people's living quality through reducing income disparity to achieve overall wealth. In Eastern China, the foundation for implementing the policy of common prosperity is advantageous. Additionally, it also concentrates a lot of economic resources, technological advancement, and talented labor resources throughout the country, so the policy can be rapidly implemented.

Each province in the eastern area, especially for the Jiangsu, Zhejiang, and Shanghai regions, has formulated targeted economic and social policies in combination with their own advantages when implementing the policy of common prosperity. For instance, Zhejiang, by speeding up the digital economy and green economy development, consistently refines the industrial framework, in order to achieve high-quality economic growth. In the meantime, Zhejiang puts in a lot of effort on social security, infrastructure, and public service, specifically in expanding the support for rural and poor developed regions, fixing the basic infrastructure, and improving the education and medical quality to narrow the gap between urban and rural areas and the imbalance in regional development. By contrast, Jiangsu and Shanghai focus more on the process of industrial development and technological innovation, which further advances the leading position of the Eastern region in the nation's economic landscape. These provinces attract top-tier talents and foreign investment by enhancing the business climate and fostering the growth of emerging industries, which raise the overall economic level. In addition, the Eastern region also gives great assistance to help unify urban-rural development to reduce the income gap and quality of life gap. The overarching aim is to promote social stability by elevating living standards and ensuring equal opportunities for all citizens, irrespective of their geographic location. This strategy is also intended to integrate the western region more fully into the national economy, enhancing its contribution to China's overall development. Ultimately, "common prosperity" policy reflects China's broader efforts to create a more balanced and inclusive economic landscape across the country.

4. Conclusion

This paper offers a comprehensive analysis of the economic development disparities among the eastern, central, and western regions of China, and highlights the extensive socio-economic effects of income inequality. The eastern region holds a dominant position in China's economic landscape, boasting a prime geographical location, an advanced industrial base, and abundant human and capital resources. As a result, the economic growth rate and living standards in the eastern region are remarkably higher than those in the central and western regions. However, this rapid development has also led to substantial wealth inequality, with a growing disparity between the eastern region and the central and western regions in terms of income levels, infrastructure, and the quality of public services. This inequality not only leads to a decline in purchasing power, which further inhibits the country's overall economic growth, but also poses a potential threat to social stability. In extreme cases, chronic income inequality can trigger social unrest, make policy implementation more difficult, and lead to political instability. In addition, due to the relative lack of educational resources and skilled labor, central and western regions cannot fully meet the modern economy's demand for highly skilled personnel, thus limiting the productivity and innovation capacity, and weakening the global competitiveness of the Chinese economy.

To tackle these challenges, the Chinese government has introduced the "common prosperity" policy, which aims to reduce the economic disparity between regions by promoting balanced regional development, enhancing education and infrastructure, and increasing investment in the central and western regions. This policy has already paid off in the eastern region, not only promoting the balanced development of the regional economy, but also enhancing social stability and harmony.

However, the challenge for the future lies in how to extend this successful experience to the central and western regions, especially given the lack of resources and poor infrastructure prevalent in these regions, to achieve a truly balanced national development.

In short, to achieve long-term stability and prosperity of the Chinese economy as a whole, greater efforts must be made to promote economic modernization in the central and western regions and narrow the income and quality of life gap with the eastern regions. Through more balanced regional development policies, countries can ensure that the fruits of economic development are shared by residents in all regions, resulting in more inclusive and sustainable economic growth.

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