

China's Reviving Self-Reliance Policies and Regional Development

Topic: Input-output Analysis for Policy Making (3)

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Abstract: In 2018, President Xi Jinping highlighted "self-reliance policies" amidst challenging times marked by China's economic slowdown, the end of the real estate bubble, decoupling from developed economies, and an aging population. Despite a decline in regional income inequality since 2004, China's regional disparity remains significant when compared to the US, Europe, and Japan. For the self-reliance policies to succeed, a key issue is the development of rural China. There remains huge potential for further economic development in less developed regions in China. Since China's present GDP per capita is close to the level of Japan in 1970, when Japan's high growth era ended. Japan accomplished regional convergence during the stable growth period of 1970–1990. Therefore, Japan's experience probably offers valuable insights for China.

Methodologically, we adopt a level growth accounting approach following Caves, Christensen, and Diewert (1982). Using regional input-output tables of China and Japan, industry-level data on productivity by region, and regional and international trade statistics, we analyze regional inequality in China and conduct a China-Japan comparison on this issue.

Our findings reveal that Japan achieved regional convergence through industrial expansion into rural areas between 1970 and 1990, following its high-growth era. However, China faces more pronounced labor productivity disparities across regions, primarily due to variations in total factor productivity. Achieving similar convergence in China through further industrialization in less-developed regions is challenged by the second unbundling phenomenon (Baldwin, 2016) and competition with other developing economies. Addressing these challenges necessitates institutional reforms and enhancements to the business environment to attract private and foreign investment, particularly in less-developed areas.

Keywords: regional development; labor productivity; regional specialization; GVC (global value chain) and NVC (national value chain) participation

JEL Classification: O11, O18, R11, R12