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ECONOMIC DIFFERENTIATION OF REGIONS IN CHINA

Abstract: Changing conditions in the global economy caused that China has become one of the economic centres in the world. The Chinese market is still a very attractive place for exporters and foreign investors. A lot of entrepreneurs have included China into their internationalization strategy because they have seen the potential and chances for growth on this market. However, it is erroneous thinking about China as a one, huge and homogeneous market. Chinese provinces differ from each other by varying level of development, purchasing power, labour costs, availability of labour, number of foreign companies etc. Even within one country there are cultural differences. The aim of this paper is to present social and economic dissimilarities of Chinese regions by analyzing the key economic indicators, in the context of possibilities of growth on one of the most important markets in the global economy.

Keywords: China, local development, regions, labour costs.

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1. Introduction

It may be a truism to say that China is undoubtedly one of the countries belonging to the world's major players in the global economy. The Chinese economy is getting stronger every year. According to the forecast by the year 2030 one billion people will live in Chinese urban areas and what is even more interesting over 350 million people will move to the urban areas from the villages areas. In this situation there will be 350 million potential cheap labour force ready to be used in factories frequently owned by foreign investors. 40 billion square meters of floor space will be built in five million of new buildings, so there will be new space for companies offices and for collar workers. China is investing more and more in the country infrastructure, that is why five billion square meters of roads will be paved till the year 2025.¹ The

¹ *Preparing for China's Urban Billion*, McKinsey Global Institute, March 2009, pp. 6, 7, http://www.mckinsey.com/insights/urbanization/preparing_for_urban_billion_in_china (retrieved: March 2014).

government is aware that only well functioning railway or maritime infrastructure can provide a good access to the less developed regions of China. In China, there are a few huge metropolitan areas with well-developed industry where many millions of people work, but the main question for China is how to activate the regions with less developed local economy. That is the essential question especially in a country in which social and economic stratification is clearly visible.

There are a lot of reasons of this amazing Chinese development. Among others labour force, labour cost, and high level of economic growth can be seen as reasons of economic boom. In the next few years the domestic demand will increase, which means that more and more products and services will be bought by Chinese consumer.² Becoming increasingly rich, Chinese middle class want to buy more expensive goods from overseas, that is why the structure of international trade is changing. A lot of foreign companies consider doing business with China, because potential of this market can be a source of success. It is therefore worth to do some market research about every region in China. This country is diversified and the knowledge about Chinese provinces is critical for entrepreneurs. The sooner we begin to think about China as a country of many regions not as a one region, the bigger success on the Chinese market we will achieve. There are four types of administrative jurisdictions in China: 22 provinces, 5 autonomous regions, 4 directly controlled municipalities and 2 special administrative regions (SAR, Hong Kong and Macau). 33 provinces and regions in China are more like separate countries so doing business with China means doing business with large number of partners.

The aim of this paper is to present social and economic dissimilarities of Chinese regions by analysing the key economic indicators in the context of possibilities of growth on one of the most important markets in the global economy. The main thesis is that there is more than “one China,” and regions are extremely different in social and economic factors. The article is divided into parts, where the attention is focused on labour cost, gross domestic products, population and access to logistic. As a curiosity, some factors are compared to other countries just to better imagine the power of China.

Social and economic inequalities can be measured by many different indices described in the literature of the subject. The Thiel index or Hoover index may be used to measure them but one of the famous and the oldest one is Gini index that can show the distribution of family income. This index shows the degree of inequality in the distribution of family income. The index is based on the Lorenz curve, and the value can be presented between 0 and 100. According to the UN definition Gini index is a “measure of the deviation of the distribution of income (or consumption)

² More information about Chinese market and Chinese consumers can be found in B. Skulska, S. Bobowski, A. Jankowiak, P. Skulski, *Nisze rynkowe dla polskich produktów w Chinach*, Ekspertyza Ministerstwa Gospodarki, Warszawa 2012.

among individuals or households within a country from a perfectly equal distribution. A value of 0 represents absolute equality, a value of 100 absolute inequality.”³

Important, for the aim of this article, is the dependency between inequalities and economic growth. The inequalities can influence the economic growth in many different ways, e.g. by capital market imperfection or social conflicts inside the community. China is a very interesting example of a country, where Gini index is high (different sources showed various data, from 41 to 62), stratification of regions is clearly seen but at the same time the Chinese economic growth is higher than in most countries in the world.

2. Chinese regions by population

According to the CIA factbook the population of China in July 2013 was over 1.35 billion people, which placed China in the first place in the world (the second place was for India – 1.22 billion and the third was for the US – over 316 million). The most populated province in China (see Figure 1) is Guangdong, where almost 100 million people are living. Guangdong is located in southeast China, bordered by Hong Kong and Macau, and contains three of China’s five original Special Economic Zones (Shenzhen, Zhuhai, and Shantou). In the second place there is Shandong province (located on China’s eastern coast line) with 93.7 million people and in the third place there is a Henan Province (located in eastern central China) with 92.9 million. Region with the smallest population is Macau where just 0.6 million people live.⁴

The above data is even more interesting when we compare population of Chinese regions to countries all over the world (see Figure 2). The first province – Guangdong – has as much people as Philippines, the second – Shandong – can be compared to Vietnam, and the third – Henan – has even more people than Ethiopia. The most populated country in European Union – Germany with 82 million people – can be compared to the 4th largest region Sichuan. Every region in China has as much people as separate countries, so China is like 33 countries mixed together.⁵ In other words if we add populations of the European Union, US, Indonesia and Brasilia it will equal more or less the Chinese population. That is the power of China and it also shows that we cannot think about China in the context of one population.

³ *Human Development Report 2013. The Rise of the South: Human Progress in Diverse World*, United Nations Development Programme, Washington, DC, 2013, p. 155, <http://hdr.undp.org/en/2013-report> (retrieved: March 2014).

⁴ *The World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook> (retrieved: 10.05.2014).

⁵ *The Economist*, Economist Intelligence Unit, CEIC, WTO, http://www.economist.com/content/all_parities_china (retrieved: 18.05.2014).

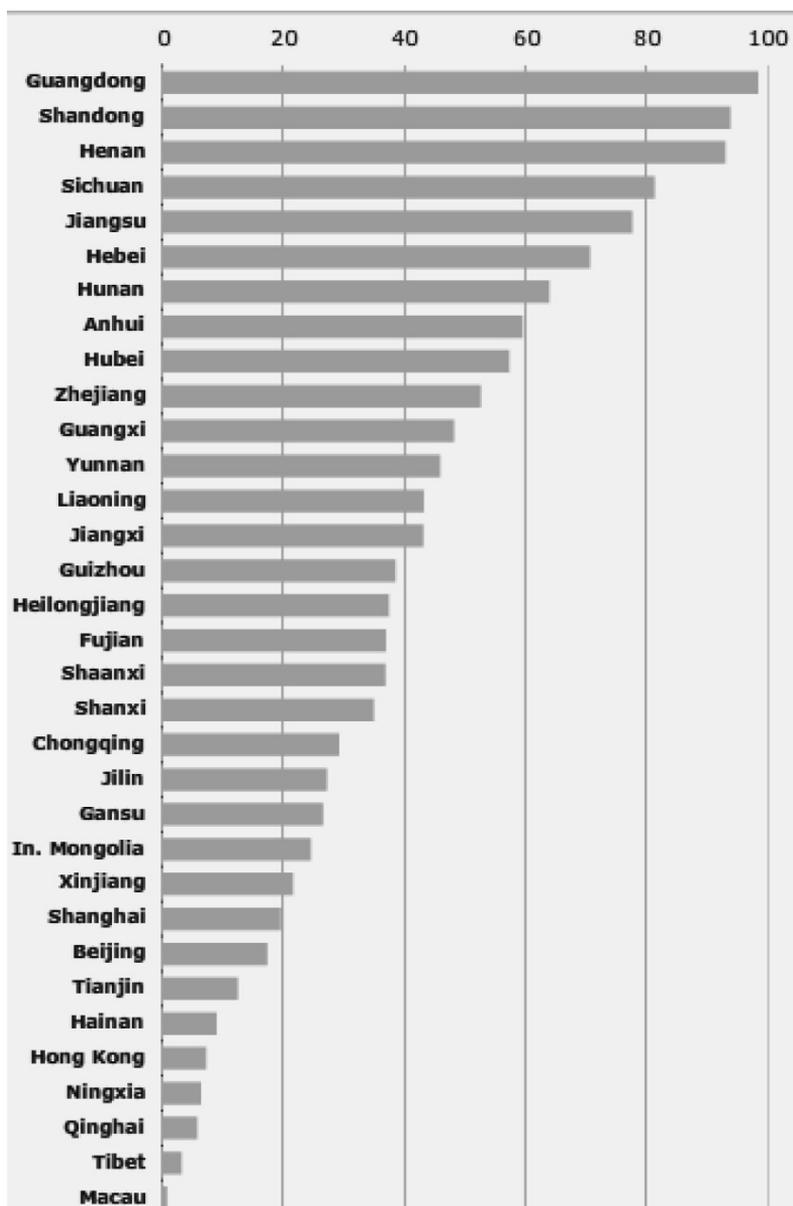


Figure 1. Population in the Chinese province (in millions)

Source: *The Economist*, Economist Intelligence Unit, CEIC, WTO, http://www.economist.com/content/all_parities_china (retrieved: 18.05.2014).



Figure 2. Population of the regions in China seen as countries (in millions of people)

Source: *The Economist*, Economist Intelligence Unit, CEIC, WTO, http://www.economist.com/content/all_parities_china (retrieved: 18.05.2014).

Chinese population is extremely critical for the economic growth. The basis for success is cheap labour force. Even if the people from urban areas do not have problems with finding jobs, the labour demand is really high. In last 20 years a high number of foreign direct investments were located in China just to use the Chinese workers. Nowadays, China is still an attractive place for investment but at the same time more and more local Chinese companies are being created and looking for the labour force. This situation caused the increase in salaries, what will be discussed below in the paper, but it is clear that there are enormous resources of labour waiting to be used in the production or services.

3. Chinese regions by GDP

Chinese GDP has been rising very rapidly every year. In 2012 China stood as the second-largest economy in the world with GDP 12.26 trillion USD (the first one was US with GDP 16.24 trillion USD). The distance between the first and the second

economy is not so huge right now but what is worth mentioning, the gap between second and third economy is inconceivable (the third place is for India with 4.17 trillion USD). In the global economy, the highest GDP per person can be noticed in Qatar and China looks very adversely in this ranking – it was ranked in the 122nd position with GDP *per capita* 9100 USD (if we separate Special Administrative Regions, Macau will be in the 4th position and Hong Kong in 14th).⁶ Next factor – GDP growth – is not as impressive as it used to be a couple of years ago. According to the World Bank data, in 2012 the Chinese economy grew at the rate of 7.8% GDP, what is a downward trend comparing to 10.4% GDP in 2010.⁷

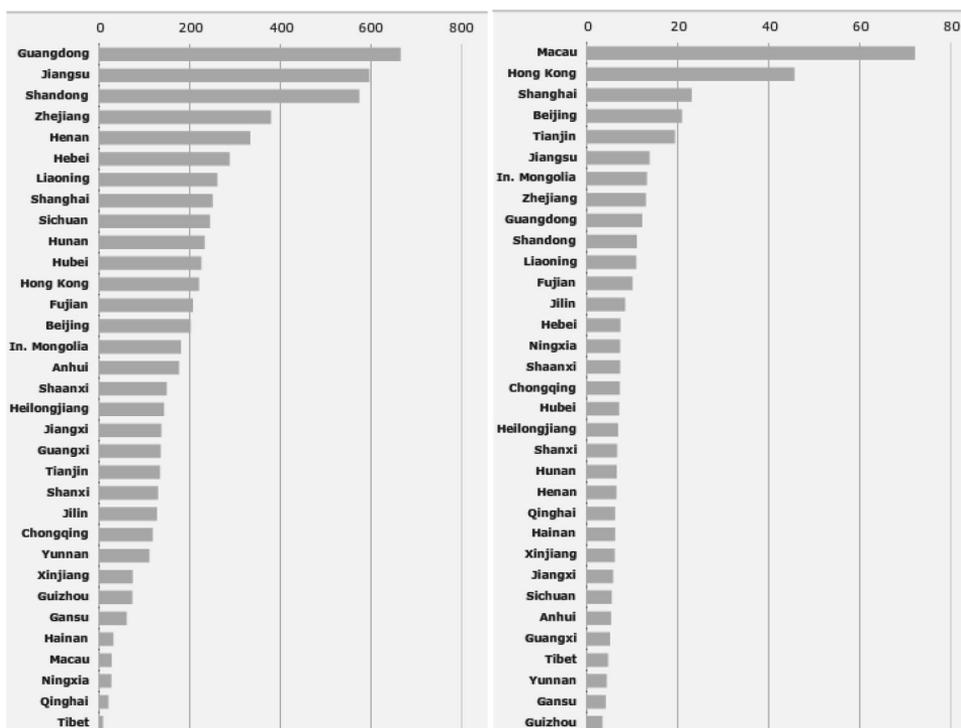


Figure 3. GDP in the regions in China (in billions USD) and GDP *per capita* in the regions in China (in thousands USD; PPP)

Source: *The Economist*, Economist Intelligence Unit, CEIC, WTO, http://www.economist.com/content/all_parities_china (retrieved: 18.05.2014).

⁶ *The World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/> (retrieved: 10.05.2014).

⁷ The World Bank, *GDP Growth (annual %)*, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG> (retrieved: 12.05.2014).



Figure 4. GDP in the regions in China seen as a country (in billions USD) and GDP *per capita* in the regions in China seen as a country (in thousand USD; PPP)

Source: *The Economist*, Economist Intelligence Unit, CEIC, WTO, http://www.economist.com/content/all_parities_china (retrieved: 18.05.2014).

Regions in China generated different levels of GDP and some of them are like big countries (see Figures 3 and 4) – for example Hunan Province has GDP as high as GDP of Singapore which is one of the fastest growing and well-developed countries in Asia. Jiangsu Province is like Switzerland, and the province that reached the highest GDP in China – Guangdong – can be compared to Indonesia. Regions that generated the highest GDP have at the same time the biggest population. Neither Beijing nor Shanghai generated more GDP than Guangdong, Jiangsu or Shandong. Behind the success of these regions can lay a well-developed industry and foreign direct investment. Jiangsu Province is a very attractive location for foreign companies, and many transnational corporations are present in this region. Jiangsu benefits from the proximity to Shanghai and that is why it is so popular for manufacturing production. Guangdong, as it was mentioned before, contains three special economic zones, so a lot of companies operate over there and this translates into region's GDP.

Even if the Chinese GDP is impressive and puts China in the second position in the world economy, GDP *per capita* shows the real situation in the country. The highest GDP *per capita* is in Macau (72,000 USD), Hong Kong (45,000 USD), Shanghai (23,000 USD), Beijing (21,000 USD) and Tianjin (19,000 USD) (see Figures 3 and 4). Most of provinces have GDP *per capita* lower than 9,000 USD which is an average GDP *per capita* in China. The poorest province is Guizhou with GDP *per capita* just 3,300 USD but even this result is only 100 USD lower than the average GDP *per capita* in India.

The last factor connected with GDP is the economic growth. As it was mentioned before, Chinese economy, in general, is growing 7–8% a year. The growth at this

level can be seen in the most developed and the richest regions in China – Shanghai and Beijing (see Table 1).

Table 1. China's Provincial GDP growth rates in 2012

More than 12%		11.9–10.0%		Less than 9.9%	
Tianjin	13.8	Tibet	11.8	Shandong	9.8
Chongqing	13.6	Inner Mongolia	11.7	Hebei	9.6
Guizhou	13.6	Ningxia	11.5	Liaoning	9.5
Yunnan	13.0	Fujian	11.4	Hainan	9.1
Shaanxi	12.9	Hubei	11.3	Guangdong	8.2
Sichuan	12.6	Hunan	11.3	Zhejiang	8.0
Gansu	12.6	Guangxi	11.3	Beijing	7.7
Qinghai	12.3	Jiangxi	11.0	Shanghai	7.5
Anhui	12.1	Shanxi	10.1		
Jilin	12.0	Jiangsu	10.1		
Xinjiang	12.0	Henan	10.1		
		Heilongjiang	10.0		

Source: Economist Intelligence Unit, <http://country.eiu.com/china> (retrieved: 11.05.2014).

Eight out of 31 Chinese regions in 2012 had economic growth less than 10% of GDP. 12 regions noticed the growth at the level of 10–12% and the rest had more than 12% of growth.⁸ The highest economic growth in 2012 was in the Tianjin Province – another coastal province that benefits from the richest “neighbour” which in this case is Beijing. Nevertheless Tianjin is just the exception, because provinces that are located in the centre of China, are away from the developed cities and eastern seaboard. Being away from the east coast means being away from factories and foreign corporations. Chinese's fastest growing regions are in the central and western parts of the country, but as it has been proven above, those regions are still lagging behind eastern part in development and wealth.

4. Chinese regions by labour cost

Nowadays, a lot of things are being said about Chinese labour cost. Frequently is the opinion that it is not as cheap as it used to be, and Chinese workers are earning as much as employees in more developed countries. However the aim of this article is not to compare Chinese labour cost to different countries but to show the differentiation inside China, and this is in fact huge (see Table 2). The lowest average

⁸ The Economist, Economist Intelligence Unit, CEIC, WTO, http://www.economist.com/content/all_parities_china (retrieved: 4.05.2014).

monthly salary in 2011 was in Sichuan and it was 1400 RMB (about 216 USD). Sichuan's employees earn two times less than Chinese people in Beijing and five times less than their colleagues in Hong Kong. What is worth mentioning is that salary in 2011 was lower than in 2010 (1925 RMB). On the other hand, minimum wage per month increased year to year from 650 RMB to 850 RMB. In China's twelfth five year plan, legislature stated its intent to urge provinces to increase their minimum wages through 2015. The assumption is that it has to counteract unusually high inflation and increase the standard of living. The only region in China that is not having minimum wage is Macau, but in this SAR salaries increased in a very impressive rate – over a year about five times (206 USD in 2010 to 1016 USD in 2011). The highest salaries must be paid in Hong Kong and in 2011 the average wage was almost 1200 USD.⁹

Table 2. Chinese employees' wages in regions

Province/region	2010		2011		2010	2011
	Avg. RMB/ month	min. wage RMB/month	Avg. RMB/ month	min. wage RMB/month	Avg. USD/ month	Avg. USD/ month
1	2	3	4	5	6	7
Sichuan	1925	650	1400	850	283	216
Jiangsu	1800	960	1424	1140	265	220
Shantou	1408	950	1758	1758	207	271
Fujian	1510	600	1947	750	222	300
Hebei	1838	–	1960	900	270	302
Tianjin	1640	–	1998	1070	241	308
Zhejiang	1870	1100	2100	1310	275	324
Binhai	1950	920	2293	1070	287	354
Gansu	2046	500	2441	630	301	377
Heilongjiang	1750	–	2497	880	257	385
Hubei	2100	900	2499	900	309	386
Liaoning	1633	–	2559	900	240	395
Xiamen	1750	900	2645	1100	257	408
Chongqing	1866	580	2671	710	274	412
Guangdong	1530	780	2729	1300	225	421
Hainan	2100	500	2766	830	308	427
Beijing	3000	960	2800	1160	441	432

⁹ *Understand China*, www.understand-china.com (retrieved: 4.03.2014).

Table 2, cont.

1	2	3	4	5	6	7
Pudong	2660	1120	2841	1232	391	438
Zhuhai	1400	920	2868	1110	206	443
Shanghai	1996	1120	3084	1232	294	476
Henan	1590	–	3150	700	234	486
Shenzhen	1750	–	3321	1320	257	513
Macau	1400	non	6584	non	206	1016
Hong Kong	3500	–	7729	2983	515	1193

Source: author's own elaboration based on *Understand China*, www.understand-china.com (retrieved: 12.05.2014).

As it was mentioned before, the labour cost is the pillar for the Chinese economic growth. It is not the only source of success but one of the most important. Foreign companies took the opportunity and because of the production in China they achieved bigger profits. Especially in the time of crises those who were active on Chinese market did not have to be worried. They always could pay less for the same work, because the gap between e.g. European and Chinese salaries is significant.

Apart from the cheap labour force, the very important aspect of Chinese population is the consumer market. The combination of population plus increasing salaries places China in a group of very attractive countries to do business. As shown in Table 2, Chinese workers earn more and more every year (only in a few provinces workers earned less in 2011 than in 2010). The indicator of growing attractiveness of Chinese market is seen not only in the salaries of simple production worker, but the rapidly increasing middle class. The Chinese middle class is stronger than ever and they want to buy and consume expensive products just to raise their life status. In the regions like Macau or Hong Kong you can see the most expensive brands and shops that are there just to satisfy the consumers' needs and demand. Foreign companies need to change the way of thinking about China. They need to notice not only the labour force but what is even more important – the Chinese consumers.

5. Chinese regions by access to logistics

The eastern part of China is higher developed and can offer better logistic system. Especially the coastal provinces and regions of eastern part are in a strong position, because all the water ports are located over there and are ready to serve Chinese trade companies. Chinese export needs good logistics and a lot of activities are done by government to improve logistic system in China. Uninterrupted supply chain is critical for Chinese economy and logistics is a part of that.

Table 3. Chinese regions logistics information

Rating	Province/region	Airport	Water port
Very good	Binhai	Yes (TSN)	Coastal
	Fujian	Yes (FOC; XMN; JIN)	Coastal
	Guangdong	Yes (CAN; SZX)	Coastal
	Hebei	Yes (SJW; SHP)	Coastal
	Hong Kong	Yes (HKG)	Coastal/river
	Jiangsu	Yes (NKG; SZV; WUX; CZX; NTG; XUZ)	Coastal/river
	Liaoning	Yes (SHE; DLC; AOG; JNZ)	Coastal
	Macau	Yes (MFM)	Coastal
	Pudong	Yes (PVG)	Coastal
	Shanghai	Yes (SHA, PVG)	Coastal
	Shantou	Yes (SWA)	Coastal
	Shenzhen	Yes (SZX)	Coastal
	Tianjin	Yes (TSN)	Coastal
	Xiamen	Yes (XMN)	Coastal
	Zhejiang	Yes (HGH; NGB; WNZ)	Coastal
Zhuhai	Yes (ZUH)	Coastal	
Good	Beijing	Yes (PEK)	No (Tianjin)
	Hainan	Yes (HAK; SYX)	Coastal
	Hubei	Yes (WUH; XFN)	River
Fair	Chongqing	Yes (CKG)	River
	Heilongjiang	Yes (HRB; NGD; MDG; JMU)	River
	Henan	Yes (CGO; LYA; NNY)	No
	Sichuan	Yes (CTU; MIG; YBP)	River
Poor	Gansu	Yes (ZGC; JGN; ION)	No

Rating: Very Good – the region has at least one big port, one international airport and a well developed highway logistics system; good – the region has at least one big port or one international airport and has a good highway system; fair – the region does not have a big port, but it may have a river port; it does have an airport and an intermediate logistics system; poor – the region does not have a port, it has poor air transport capability, a poor highway and railway system.

Source: author's own elaboration based on *Understand China*.

Aside from water ports, the essential for logistic system are also airports, international and domestic, cargo airports, rail, rail hubs, west-east expressways and highways. So important for Chinese economy, container ports, are located for example in Guangdong, Hong Kong, Jiangsu, Fujian or Tianjin (see Table 3). Guangdong is the largest port in south and east China and the fifth in the world. Not to mention seaport in Hong Kong, which has always been the Chinese window to

the world. The last mentioned province – Tianjin – cooperates with Beijing, so the good rail and road transport between them is required. Beijing is well known rail hub and airport both for people and for cargo as well. Air transport is expanded to a large extent and in every province and region there is at least one airport. But on the other hand if the country is so vast, developed air transport is basic for business. There are provinces in China that have less advanced logistic development – for example Gansu or Henan – but even those regions have airports and some water ports – river or sea. It is not astonishing because Chinese economy is based on trade. Production from the west part of China is transported to hubs and logistics zones located mostly on east shore, and from there it is sent to the rest of the world.

In such an immense country the infrastructure is essential for the economic growth and it seems that Chinese government is trying to build as much connections as needed. Well-developed railway infrastructure can be used to transport products from the northern and eastern parts of China to the maritime ports and then to the rest of the world. Without that the export on such a scale like Chinese export is impossible. The transportation of people is important as well. In China there is the biggest network of fast trains, so the journey from the capital city, Beijing to another economic and industrial centre, Shanghai, takes only about 5 hours. China is investing and the scale of this investment is impressive.

6. Conclusions

In global economy talking about country's economies is not enough. Individual regions should be in the centre of researchers' attention. Average data about country's indices not fully reflect the situation in regions and that is why more specific research should be done. It is clearly seen in case of huge and diversified countries like China. In China there are very rich and developed regions but on the other hand there are regions which are poor and less developed. Some regions are playing the role of the leaders but we need to remember that there are a lot of regions and provinces that are behind in economic development.

Without doubt Chinese economy has been changing every year. We get used to the situation that eastern and south-eastern parts of the country are much more developed than the rest but, according to the data showed above, the "go west" policy seems to work. Eastern part of China will be still growing but except for this part, other provinces will develop their economies through production and consumption as well. Right now in many cases eastern provinces lose in the race for the investor – domestic and international – and western and central regions become more and more competitive. Labour costs and labour force are the main reasons of the growth in those regions. East of China is sometimes "too crowded" for production so investors look for new locations and in many cases they find it on the west. But labour costs and force are not the only factor, inherently, without the logistic system and infrastructure, the economic success is impossible to achieve. As it was showed

above, regions are characterized by different levels of logistic development, but in every regions works at the logistic system are carried out.

There is no “one China.” Every region has different potential and capabilities to grow. It should be taken under consideration at the moment of entering Chinese market. Actually, the best known and higher developed regions like Beijing and Shanghai are not so encouraging due to increased competition from foreign companies located over there. Those regions are Chinese financial centres but their economic growth is one of the lowest in China while the labour costs are one of the highest in the country. Rapid development in less-known regions is a good indicator for investors. It is possible to find an adequate region with large population of consumers (including rich middle class), numerous labour force with lower labour costs, and with comfortable logistic system. Companies and entrepreneurs, who want to achieve the success on Chinese market, need to think outside the box. As a country, China is diversified, and high potential can be found in its regions.

As it was proven, economic differentiation in China is clearly visible in the structure of population, GDP, GDP *per capita*, economic growth, labour costs and infrastructure. Some regions have impressive populations while others have high GDP *per capita*. China can be characterized by huge disproportion in development but the process of growth seen in western, central and northern parts of this country can slightly reduce the differences. There are new cities in Chinese landscape, for instance Zhengzhou, Jiaozuo and Xinxiang that take advantage of lower cost of labour and production. Provinces like Chongqing, Hunan, Hebei, Jiangsu, Zhejiang or Guangdong are blooming nowadays and it seems that this process will be continued in the future. The listed provinces existed in a shadow of “rich east” for too long so their hunger for development and economic growth is considerable and obvious.

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ZRÓŻNICOWANIE EKONOMICZNE REGIONÓW CHIN

Streszczenie: Zmieniające się warunki w gospodarce światowej sprawiły, że Chiny stały się jednym z centrów gospodarczych świata. Chiny są nadal atrakcyjnym rynkiem dla eksporterów oraz inwestorów zagranicznych. Wielu przedsiębiorców wpisuje Chiny w swoją strategię internacjonalizacji, dostrzegając potencjał oraz możliwości rozwoju na tym rynku. Błędne jednak jest myślenie o Chinach jako o jednym rynku, gdyż jest to rynek niezwykle zróżnicowany. Chińskie prowincje różnią się między sobą, charakteryzują się różnym stopniem rozwoju, siłą nabywczą, kosztami pracy itd. Nawet w ramach jednego kraju występują różnice kulturowe mające przełożenie na powodzenie w biznesie na rynku chińskim. Celem artykułu jest przedstawienie odmienności chińskich regionów w kontekście społecznym i ekonomicznym, poprzez analizę podstawowych wskaźników ekonomicznych.

Słowa kluczowe: Chiny, rozwój regionalny, regionalizm, koszty siły roboczej.