

Coastal-inland Regional Inequality, Trade Openness and Economic Growth in China: A short-run and long-run analysis

Tianyi Ji*

October 2023

Abstract

This study investigates the dynamic relationship between coastal-inland regional inequality, economic growth, and trade by using time-series data from China over the period 1962 to 2021. The analysis is based on a Vector Error Correction Model (VECM), employing cointegration techniques and Granger causality tests. The results support the existence of long-run relationship among variables. Furthermore, a non-linear inverse U-shaped relationship is observed between inequality and growth, and trade is found to decrease inequality. Both long- and short-run bidirectional Granger causality relationships are identified between inequality and growth. Over the long-run, trade not only directly Granger causes inequality but also indirectly affects inequality through its influence on economic growth. In the case of China, trade indeed contributes to regional disparities, yet this situation is subject to change over the long term.

Keywords— Regional inequality, Vector error correction model, China, Theil index, Kuznets curve

JEL— F14, R12

*Graduate School of Economics, Nagoya University, Furo-Cho, Chikusa-Ku Nagoya, 464-8601, Japan. Email: jtykitenni@outlook.com