

報告番号	※	第	号
------	---	---	---

## 主 論 文 の 要 旨

論文題目

Preferential Policies and Inequality in Urban China  
(中国都市部における優遇政策および不平等について)

氏 名

VALERIO MENDOZA Octasiano Miguel

## 論 文 内 容 の 要 旨

### Introduction

For over thirty years, the world has marveled at the fast pace of China's economic growth, acknowledging the role of preferential policies as a main driver of economic performance. However, China's rapid growth has been accompanied by rising income inequality. Reducing inequality is one of the Sustainable Development Goals (SDGs). Within recent years, many countries, especially in Africa and Latin America, have announced, or are already implementing, preferential policy programs into their development agendas. All of these programs are modeled after, or closely resemble, the Chinese Special Economic Zones (SEZs). Given the widespread application of preferential policies, it is important to understand their impact on welfare. However, there is no research that shows the relationship between preferential policies and income inequality in China. The pursuit of rapid economic growth through these preferential policy instruments might also lead higher income disparities.

China's SEZs are regarded as the most successful cases of preferential policy instruments leading to rapid economic growth. Most "zones" around the world tend to be small in size and are specialized in one or more types of export-oriented economic activity. In China, SEZs are larger in terms of scale (size of cities) and more comprehensive in terms of function (not just exports, but finance, welfare, labor, administrative, and others) serving as an innovative policy instrument for economic transition. Additionally, China has smaller scale "development zones" (DZs), found within cities, including SEZs, such as Economic and Technological Development Zones (ETDZs) and High-Tech Industrial Development Zones (HIDZs). These DZs represented different development strategies that were aimed at using fiscal incentives to gain high grade technological expertise and develop domestic technologies and industries.

These are two tiers of preferential policies in China. SEZs and Open Cities (OCs) have the highest level of autonomy. These sixty cities have citywide preferential status and are reform-oriented zones. They can experiment

with different policies that cover a wide range of aspects such as markets, labor, finance, education, healthcare, welfare, and skills upgrading schemes. DZs, on the other hand, are not reform oriented. They have specific functions such as improving technological innovation or developing domestic industries. Not all cities followed the same DZ strategy. Many did not create a DZ at all, while some decided to specialize in one type of DZ and others implemented different types of DZs.

The main research questions of this dissertation are:

1. What is the relationship between citywide preferential policies and income inequality in China's Special Economic Zones and Open Cities?
2. What is the relationship between different development zone strategies and income inequality in Urban China?

The design of the two research questions was made for them to complement each other. The first research question will ascertain whether there are any differences between cities receiving citywide preferential policies and other cities. If the first research question yields a significant gap, then the second question is meant to further enhance or ascertain if any of the DZ strategies is ideal for maximizing income gains while minimizing inequality.

This dissertation offers two plausible theories on how preferential policies might influence income inequalities in cities. The first argument is based on the expected unbalanced growth that accompanies market capitalism: that because of the larger degree of decentralization and deregulation that is enjoyed by SEZs and OCs, coupled with more liberalized market policies, the rapid gains in economic growth will create higher income inequality within these cities by rewarding those with higher skills, experience, and performance at much higher rates than those with lower competencies. The second theory underscores the power of social programs at redistributing the gains and opportunities created from rapid growth. These were predicated around providing better employment opportunities, social welfare programs, skills upgrading schemes, and greater financing for social spending. These theories are further elaborated in Chapter Four while the underlying policies are explained in Chapter Two.

## **Methodology**

This dissertation uses the urban datasets from the China Household Income Project (CHIP) surveys from 1988 to 2013, which include over to 6,000 households and 20,000 individuals from 125 cities and 12 provinces. The study measures inequality of household disposable per capita income, using different inequality indices, for all 125 cities. The inequality indices are then aggregated using population shares to show the inequality between Cities with preferential policies and cities without. Regional decomposition is also applied separating the sample into West,

Center, and East. Thus producing 6 comparative subsamples. (East with preferential policies, East without, and so on...). Regression-based decomposition of inequality is used to determine the factors contributing to inequality in cities with preferential policies and cities without preferential policies.

#### **Chapter Four**

Chapter Four investigated whether preferential policies led to higher income inequality. The results indicated that this was not the case. In the case of urban China, citywide preferential policies and autonomy have contributed to reduce income inequality while increasing mean incomes from 1995 to 2002. By 2013, cities with preferential policies not only had higher incomes but lower income inequality than cities without preferential policies across all regions. Additionally, the largest contributors to inequality are location and tertiary education. The former is examined further in Chapter 5. The third main finding is that the poorest households are better off in cities with preferential policies than in other cities. There are more households benefitting from housing subsidies and living in public housing in cities with preferential policy than in other cities. The fourth main finding is that regression estimates revealed changing trends regarding industry dummies. By 2002, manufacturing and construction were negatively correlated with income in SEZs and OCs but positively correlated in other cities. This relationship persisted in the 2013 sample. Comparably, the returns to finance were almost ten times higher in cities with preferential policies than in other cities in 2002. Similarly, the returns to retail were much higher in SEZs and OCs than in cities without preferential policies.

#### **Chapter Five**

The results from the analyses in Chapter Five reveal how the adoption of heterogeneous development zone strategies via the implementation of ETDZs and HIDZs has led to different outcomes in terms of income growth and income inequality across urban China. Cities without an ETDZ or HIDZ have the lowest mean incomes and highest income inequality indices in urban China. These results are consistent across all regions. It is, therefore, recommended that having a DZ is better than not having one.

The results also suggest that cities should pursue specialized development zone strategies instead of diversified ones, since cities which had both an ETDZ and HIDZ, were outperformed by those which only had one type of DZ. While having both types of zone might appear attractive because they would offer a higher output and higher growth rates, the results indicate that having both will be counterproductive in achieving growth and equality targets. It would seem that having two types of DZs results in them competing with each other for resources.

## **Policy Implications**

The results from the regression estimates in Chapter Four have implications for China's "Supply-side Reforms" in the era of a "New Normal Growth" as the country continues its transition from a state-managed, industry-driven, and investment-led economy towards a market-oriented, service-driven, and consumption-led economy. The regression estimates from Chapter Four, reveal SEZs and OCs are better suited for such a transition, while other cities might be more vulnerable to such reforms in the future. It is therefore advisable that urban areas reduce the reliance on the manufacturing sector to help ease this transition. This will include skills retraining and upgrading programs, which are ubiquitous in SEZs and OCs, but have yet been implemented in many other cities.

In order to optimize a better balanced growth, it is recommended that cities take into account their geographical advantages and try to match them with the objectives of each DZ. ETDZs were able to outperform HIDZs only in the eastern region but not in the central and western cities. These results suggest that ETDZs have a higher optimization where access to trade is highest. The coastal cities have access to ports and it would therefore behoove them to have ETDZs instead of HIDZs. However, the "One Belt, One Road" (OBOR) strategy disclosed in previous years will connect central and western provinces via railroad to Central Asia, the Middle East and Europe. Not only would inland cities have trade access to these markets, but the freight time will be half that of current sea routes. This development will allow inland cities to compete with coastal cities in trade performance. This turn of events could allow cities with ETDZs on central and western China to improve performance. Cities should therefore take into account whether they wish to specialize in trade performance or domestic markets in order to maximize their future performance.

## **Conclusion**

This dissertation revealed that cities with preferential policies in China had faster growth and lower inequality than other cities. These results contribute to the debate on whether preferential policies should be removed by providing evidence that their success should be extended instead. Preferential policies have also given SEZs and OCs an advantageous position regarding upcoming supply-side reforms.

While location remains the largest contributor to inequality, this dissertation uncovers how different development zone strategies led to different income and inequality outcomes across regions. Cities that specialized in just one type of zone had better results over cities that chose to implement both or none at all.