

Social capital, economic growth and regional inequality in China

Paper for 2012 CEA conference in London

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ABSTRACT

The connection between social capital and economic development has been highlighted in a large number of studies over the last 15 years (see Westlund & Adam 2010 for an overview). Also, theoretical arguments have been presented saying that social capital is reducing transaction cost, generating information spillovers, promoting the transmission of knowledge, establishing cooperation, etc.

Since 1978, China has achieved fast annual economic growth which also has been accompanied by the enlarging regional inequalities. A number of studies have analyzed and explained Chinese economic growth and the regional inequalities. However, very few studies have incorporated the social capital as an important factor. The Eastern, Middle and Western China differ a lot in the economic growth. How has social capital affected these different growth patterns? The paper aims to examine the relationship between social capital and differences in economic growth in China.

First, an expanded Solow model is used in the paper. This model consists of three input factors (material capital, labor and knowledge capital) and three total factor productivity factors (education, institution and social capital) which influence the input factors' efficiency. Full sample regression is made to

examine the contribution of social capital to the economic production in China when other variables were controlled.

Then, the paper uses Barro's general growth model which incorporates three control variables (initial per capital GDP, institution and location factors). This model estimates the economic growth rates in the three supra-regions of China in terms of their social capital. The difference of the growth rates is expected to explain the regional inequalities in China.

The paper covers a ten-year period (2000-2009). The measure of social capital at the provincial level consists of the number of associations (China Civil Affairs' Statistical Yearbooks) and business-related trust on provincial level (see Ke and Zhang, 2003). The measure of institution refers to the China's market index (Fan, et al. 2001, 2006 and 2009). Data of GDP, people's education and labor is collected from the provincial statistical yearbooks.

The paper contributes to better understanding of the role of social factors in the Chinese economic growth. The findings are also expected to generate policy implications for balancing the regional inequalities in China.