

## The Chinese Inland-Coastal Inequality: The Role of Human Capital and the Crisis Watershed

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**Abstract :** We investigate the role of human capital in the Chinese inland-coastal inequality and how the consequences of the 2007-2008 crisis may induce China to refocus its development path on human capital. We compare panel data analyses for two periods for the richer/coastal and the relatively poor/inland provinces. Considering the rapid evolution of the Chinese economy and the changes forced by the international crisis, we wonder if these events can lead to rethinking local development paths, fostering greater attention on the diffusion of higher education. We expect that the consequences on human capital may, in turn, have consequences on the inland/coastal dualism. The focus on human capital is due to the fact that the growing differences between inland and coastal areas can be explained by the different local endowments. In this respect, human capital may play a major role and should be thoroughly investigated. To assess the extent to which human capital has an effect on economic growth, we consider a fixed-effects model where differences among the provinces are considered parametric shifts in the regression equation. Data refer to the 31 Chinese provinces for the periods 1998-2008 and 2009-2017. Our dependent variable is the annual variation of the provincial gross domestic product (GDP) at the prices of the previous year. Among our regressors, we include two proxies of advanced human capital and other known factors affecting economic development. We are aware of the problem of conceptual endogeneity of variables related to human capital with respect to GDP; we adopt an instrumental variable approach (two-stage least squares) to avoid inconsistent estimates. Our results suggest that the economic strengths that influenced the Chinese take-off and the dualism are confirmed in the first period. These results gain relevance in comparison with the second period. An evolution in local economic endowments is taking place: first, although human capital can have a positive effect on all provinces after the crisis, not all types of advanced education have a direct economic effect; second, the development path of the inland area is changing, with an evolution towards more productive sectors which can favor higher returns to human capital. New strengths (e.g., advanced education, transport infrastructures) could be useful to foster development paths of inland-coastal desirable convergence, especially by favoring the poorer provinces. Our findings suggest that in all provinces, human capital can be useful to promote convergence in growth paths, even if investments in tertiary education seem to have a negative role, most likely due to the inability to exploit the skills of highly educated workers. Furthermore, we observe important changes in the economic characteristics of the less developed internal provinces. These findings suggest an evolution towards more productive economic sectors, a greater ability to exploit both investments in fixed capital and the available infrastructures. All these aspects, if connected with the improvement in the returns to human capital (at least at the secondary level), lead us to assume a better reaction (i.e., resilience) of the less developed provinces to the crisis effects.

**Keywords :** human capital, inland-coastal inequality, Great Recession, China

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