China: Effect Of Globalisation On Regional Inequality In Developing Countries

Globalisation has allowed for the integration of different markets of economies around the world through the increasing flows of trade and capital across borders. This essay will go to discuss the effects globalisation has on regional inequality in developing countries, with a focus on China. Despite the pro-globalisation position claiming that the current wave of globalisation since the 1980s has promoted economic equality and have reduced overall poverty (Dollar and Kraay, 2002, pp. 120-33), many studies have been carried out to assess the role of globalisation on income inequality. However much of the literature on this relationship has focused mainly on developed nations (e.g., Prasad, Rogoff, Wei and Kose, 2003), whereas there has been a relatively small number of studies done for developing nations, limited to the effects of trade liberalisation on wage inequality. This analysis will draw from “How does globalisation affect regional inequality with a developing country? Evidence from China” (Zhang and Zhang, 2003) to review the data provided and help draw out the main themes and conclusions to better help understand this relationship. China has become the largest trading nation and is the largest recipient of foreign direct investment (FDI) in the developing world (Lardy, 2001). The Chinese economy has grown immensely on the world stage over time, due to its large population and dynamic economic growth. This would then be linked to Herman Schwartz’s argument of how China grew to become the superpower it has become now, starting from imperial China in the 1500s. Despite all this, China’s economic integration into the world economy has been accompanied by growing regional inequality, going onto to show that globalisation does not benefit all developing regions equally, and this analysis will specifically focus on the reasons why there is this discrepancy between coastal and inland areas within China

As a result of China’s economic reforms and policies made by the government has allowed for major growth in trade and FDI inflows, as table 1 (Zhang and Zhang, 2003, p. 50) shows that real GDP grew by 528.4 from 1978 to 1998, an increase of 9.63%, which resulted in the export industry for manufactured goods being worth over $100 billion. This explosive growth in GDP can be directly contributed to FDI, as the importance of FDI can be seen from the rise of FDI flows in GDP, increasing by 6.56% from 1978 to 1994. China’s boom in trade and FDI inflows has resulted in economic growth, which grew by 10% in 20 years, resulting in a sixfold increase in real GDP (Zhang and Zhang, 2003, p. 51). This empirical data can be explained as increased trade and capital inflows has allowed for specialisation in production of manufactured goods and the process of industrialisation, which resulted in incomes for the middle class to rise strongly (Merler, 2018), as the demand for more skilled workers has increased. The trade booms allowed for increased productivity through the efficient allocation of scarce resources and technological upgrades, and FDI contributed to increasing capital formation, to help generate and attract high skilled employment within the cities, which led to the economy to shift towards a market-based system, which boosted income growth. Both processes of globalisation have stimulated domestic markets, and for the reformation of state-owned enterprises to promote competition (Zang, 1999).

However, the benefits from economic growth has not been shared equally across regions in China. Table 1 goes to show that the Gini coefficient rose from 0.19 to 0.26 from 1985 to 1998

(Zhang and Zhang, 2003, p. 50), which represents that income inequality grew and this can be heavily influenced by the growth of foreign trade and FDI inflows. Table 2 (Zhang and Zhang, 2003, p. 52) illustrates that coastal regions have generated greater trade volume, with 88% share of trade value in the nation from 1992-98, compared to inland areas only having a share of 12% and has attracted greater FDI than coastal region, 87.42% of total FDI inflows into the nation from the same years compared with only 12.58% from inland regions. The disparities that exist between coastal and inland regions can be contributed to many factors. One reason can be the “levels of domestic capital and FDI per unit of labour in the coastal region are much higher than those in the inland region” (Zhang and Zhang, 2003, p. 53), so a larger proportion of investment inflows are being directed to coastal areas, attracting a larger population to thee regions, leaving the inland areas, causing brain drain. From this greater investment, the share of trade in total GDP in coastal regions are twice as higher than inland regions (Zhang and Zhang, 2003, p. 53), allowing for the conclusion that the higher labour productivity that exists in coastal regions can be inked to better education, capital input and a higher integration with the world economy. It is reasonable to argue the claim that regional comparative advantages in relation to globalisation may be the most important factor behind these regional inequalities, however it is difficult to draw definite conclusion from these studies.

There may be a positive relationship between FDI inflows and regional inequality, but this conclusion does not take into consideration the other factors that also influence regional inequality, but the studies assume other factors are constant over time and region, which is highly unrealistic, in order to isolate the effects of globalisation. One assumption is that all regions have the same production function at any given point in time. This assumption has no ground to stand, as regional economies are dynamic, as in a closed economy with agriculture as the predominant mode of production, the comparative advantages can be identified by the difference in land to labour ratio within china, but when the Chinese economy opened their doors in the early 1980s (Kobayashi, Baobo and Sano, 1999) to FDI and the de-collectivization of agriculture, regions closer to more developed nations may enjoy a better geographical advantage for trade and infrastructure than landlocked regions, and therefore experience greater economic growth. Empirical data and studies are still lacking to systematically examine the role of globalisation on China’s regional inequality. One constraint is the lack of suitable analytical frameworks to breakdown the role of FDI towards regional inequality, as the literature cited from, use income sources as the only measurement to help compare regional income inequality.

Schwartz (2010, p. 41) argues that imperial China’s highly commercialised economy, which was more advanced than what Europe was experiencing in the 1500s, is what made it easy for the central authority to gather the resources needed to challenge external threats but to also keep the economy running. This was due to the “second commercial revolution” during the Song dynasty, as there was a shift towards specialised production for distant markets, a trend towards large scale business and with a focus on profits. This allowed for the reduction of inequality at the time, as there was a greater employment of wage labour (Rowe, 1993, p. 144). This is what the modern state of China was built upon, as they had the population and resources to shift away from agriculture to a more industrialised economy that exists in the modern world. However, inequality is not just based on economic grounds but also a civil society is something that is required for inequality to be minimised and it is difficult to find in late imperial China a “comparably articulated theory of proprietorship” (Rowe, 1993, p. 150), a theory that underlay early modern English notion of a civil society that it is the individual’s role as proprietor, to be bestowed land and capital upon them as rights and benefits of membership

in the body politics. Inequality long existed in China, even before global markets came into fruition. This line of argument is intriguing as modern states were built upon during these time periods, as we saw the rise of exploration and global trade but it is difficult to argue as more works need to be done, as European states and theories are difficult to apply to non-European countries due to the large differences in politics and economics.

The world economy has become integrated through trade and capital movements, and the evidence between globalisation and income inequality has become a growing concern, due to the detrimental effect's globalisation has on the vulnerable population in developing countries. The studies around the impacts on regional inequality in developing countries have been limited, but the estimates suggest that foreign trade and FDI has played a vital role in the increase in regional inequality within China. This regional disparity can be explained but the uneven distribution of production factors amongst regions, as capital investment has been concentrated in more developed coastal regions. If the government continues to invest in coastal regions, then regional disparity will widen. Also, by studying the history of imperial China provides insight of how they had the appropriate foundation to grow into a modern state but there is still some argument abut whether they were a civil society at the time.