



Short Communication

Editorial: Trade, growth and economic inequality in the Asia-Pacific region



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ABSTRACT

This editorial provides a brief summary of the results of our research project entitled "Trade, Growth and Economic Inequality in the Asia-Pacific Region", which explores and documents the linkages between international trade and inequality in the Asia-Pacific Region. The project's eleven research papers find some evidence that trade or FDI contribute to inequality, some evidence that it reduces inequality and some evidence of no causal relationship. These seemingly conflicting results are not at all surprising given the complex relationships involved and the different countries, time periods, and means of measuring inequality, trade and FDI our authors adopted.

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The Occupy Wall Street movement and provocative books such as "Capital in the Twenty First Century", by Thomas Piketty (2014), and "The Price of Inequality" by Joseph Stiglitz (2012) have propelled the topic of inequality to the forefront of public policy discourse and media attention in the U.S. (and Europe). In Japan, Prime Minister Shinzo Abe's pro-growth policies have spurred concerns over increasing inequality, while China's leaders face public discontent regarding the shockingly rapid rise in China's income inequality. Even in South Korea, with relatively low income inequality by world standards, public anger over inequality became a major political issue in the 2012 presidential election. Public officials throughout the Asia-Pacific Region are being forced to respond to increasing economic inequality,¹ so economists are being called upon to explain it. Globalization, technological change, and financial crisis often are referenced as contributing factors to increasing economic inequality, and international trade and investment play a crucial role in all three.

Globalization involves lowering trade and investment barriers to allow freer flows of goods, services and capital inputs. International trade economists have long focused on the aggregate benefits of trade as a means of garnering support for trade liberalization, while focusing less attention on the distributional effects of trade. That tendency has become indefensible in light of the recent backlash against international trade, as seen in the 2016 U.S. Presidential campaign and in the June 2016 vote in Britain to exit the European Union. The need to analyze the complicated relationships between international trade,

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E-mail address: greaney@hawaii.edu (T.M. Greaney).¹ We use the non-specific term "economic inequality" intentionally to allow for the use of various means of measuring disparities in economic welfare (e.g., inequalities in income, living standards or life expectancy).

foreign direct investment (FDI), economic growth and inequality is critical to inform policy makers facing crucial decisions regarding the Trans-Pacific Partnership (TPP) agreement and other trade agreements.

To address these concerns, University of Hawai'i economists Theresa M. Greaney and Baybars Karacaovali invited the authors of the eleven papers in this special issue to participate in a conference, Trade, Growth and Economic Inequality in the Asia-Pacific Region, to explore and document the linkages between international trade and economic inequality in the Asia-Pacific Region (APR). The conference was held at Keio University in Tokyo, May 20–21, 2016. The authors also met for a pre-conference meeting at the University of Hawai'i in Honolulu on Jan. 6–7, 2016, to present preliminary results and discuss further research. The conference and pre-conference meeting were sponsored by The Japan Foundation Center for Global Partnership (CGP), with co-sponsorship from the Keio Economic Observatory, the Ministry of Education, Culture, Sports, Science and Technology's (MEXT) Program for the Strategic Research Foundation at Private Universities, and the University of Hawai'i Center for Japanese Studies, College of Social Sciences, and Economics Department. The project organizers gratefully acknowledge the conference sponsor and co-sponsors for financial support. They also thank Project Collaborator, Kozo Kiyota, for his extensive assistance in planning the Tokyo conference, Project Manager, Jane Martin, for her administrative assistance throughout the project, and CGP Associate Program Officer, Lisa Wong, for helpful guidance involving sponsorship. The organizers also gratefully acknowledge the key role played by the project discussants, who provided extensive comments on the papers and helped to improve this volume.

The project papers are organized into four topic areas based on which particular economic relationship is examined. The first two papers focus on the linkages between economic growth and inequality, including discussion of industrialization, deindustrialization, poverty reduction and labor movement from rural to urban sectors. These papers include cross-country comparisons involving many East Asian countries and the U.S. The next set of three papers examines the linkages between international trade and inequality, with two papers focused on South Korea and one on China. The last two groupings of papers explore the complicated relationship between FDI and inequality, with the first three papers focused on home country effects and the last three papers focused on host country effects. Japan and the U.S. are the home countries studied while China and Vietnam are the host countries studied in these FDI and inequality papers.

1. Economic growth and inequality

The first paper in this issue, "Economic Growth and Economic Inequality in the Asia-Pacific Region: A Comparative Study of China, Japan, South Korea, and the United States" provides a comprehensive overview of the various channels through which economic growth can impact inequality and vice versa. Authors Yiwen Yang and Theresa M. Greaney investigate short-run and long-run relationships between growth and inequality for four APR economies: China, Japan, South Korea, and the U.S. They find support for the augmented Kuznets curve relating per capita income to inequality with industrialization and deindustrialization forces producing an S-shaped curve over time. Each of the four economies experienced its own unique S-shaped curve over the 1960–2013 period, indicating that growth increased inequality for some period of time and it decreased inequality over another period. For the reverse relationship, the authors find that increased inequality spurred economic growth in China, Japan and the U.S., but it hindered growth in South Korea. The effects of trade on inequality and growth also differed by country over the study period. Trade openness reduced inequality in Japan and the U.S., increased inequality in China and had no significant impact on inequality in South Korea. Testing for the impact of trade on growth had fewer significant results, with only Japan showing a significant positive effect on growth due to exports.

Fukunari Kimura and Mateus Silva Chang take a different approach in examining a particular channel through which international trade might impact economic growth. In "Industrialization and Poverty Reduction in East Asia: Internal Labor Movements Matter" they link trade and international supply chains to intra-national labor mobility and its importance in economic growth and poverty reduction. They document the rapid and inclusive growth that has occurred in ASEAN countries and China since the 1980s. Industrialization has involved population shifts towards urban areas, output shifts away from agriculture and towards manufacturing and/or services, and reductions in poverty for almost all of these countries. They argue that these countries maintained the competitive wages needed to participate in international supply chains through smooth flows of surplus unskilled labor from rural to urban areas. They use Thailand's experience as a case study of this transition, with large labor movements from 1965 until the mid-2000s. They discuss possible reasons why Thailand's internal labor movements have slowed over the last decade even though the gap between non-agricultural and agricultural wages has persisted and even grown slightly during this period. Contributing factors may include slower economic growth, a quality mismatch between labor demanded in urban areas and available labor supply in rural areas, and inflows of migrant workers from neighboring developing countries.

2. International trade and inequality

The papers in this section analyze the wage inequality effects of international trade with two papers on South Korea and one on China. In "Trade, Technology and Within-sector Wage Inequality: the Case of South Korea", Siwook Lee focuses on within-sector wage variation after confirming it to be the main component of wage inequality in Korean manufacturing. Lee finds that import penetration and skill-biased technological change—proxied by information and communications technology (ICT) capital services per hour worked—contributed to rising within-sector wage inequality. However, there are no robust effects of other international trade-related measures such as export intensity, offshoring, and inward or outward

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