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Globalization and Rural-Urban Inequality in China: A Provincial Analysis

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1. Background and Objective:

There have been various propositions to hypothesize as to whether the globalization process generates adverse effects on income and earnings inequality. For instance, the recent work by Ravallion (2018) questions the thesis that globalization has been a major driving force of inequality forwarded in Bourguignon (2016) and Milanovic (2016). China and globalization are no strangers since the process has been happening for a long time. The country has become the front-runner of economic cooperation, trade and globalization and the Chinese businesses are expanding in all corners of the world. The globalization story of China is worth mentioning the recent Belt and Road Initiative (BRI) that focuses on connecting with various countries. However, while the growth of globalization or the trade network expansion has happened at a fast pace, the rural-urban inequality in income and other aspects has soared in recent years. In fact, reports of the IMF and OECD Surveys have claimed that China has moved from being moderately unequal in 1990 to being one of the world's most unequal countries and accordingly argue that the country must solve its rural-urban divide to solve income inequalities. The concern for rural-urban disparity in China has earlier been subjected to some critical discussions, e.g., Kanbur and Zhang (1998), Sicular et al (2006), Sicular et al (2007). The recent inequality studies on China have almost universally reported that the gap between urban and rural household incomes has increased over time, and contributed to the overall inequality (Wei and Wu 2001, Zhang and Wan 2006, Yue 2010, Cheong and Wu 2013). It may be mentioned that with about 40 percent of China's population living in rural areas during 2018, there is a wide gap between rural and urban China in the respect of disposable income, economic empowerment and living condition. In this background, the main objective of this paper is to explore on the impacts of the Chinese globalization process on the rural-urban inequalities by employing the provincial level data.

2. Methodology and Plan of Study:

Given our hypothesis, we first develop an empirical framework for describing the inequalities across different provinces in China, and subsequently examine the links in the cross-sectional regression framework. To elaborate, we construct a measure of globalization across the 31

provinces in China by using indicators such as exports, inward FDI, foreign capital investments, etc. Similarly, we incorporate aspects of income, health, education, living conditions and social security coverage to capture the components of rural-urban inequality. In this part, we would use indicators like per capita disposable income, literacy rates, availability of schools and hospitals, access to electricity and cooking fuel, number of pension-account holders, etc., separately for the rural and urban areas in different provinces. We develop the composite indices by using a system of statistical weights. Finally, we specify a single-equation econometric model to explain the aggregate index of rural-urban inequality (RUI) in terms of the aggregate measure of globalization (GLOB). We might subsequently add other control variables in the following regression equation:

RUI= f (GLOB)   (1)

with: f ′ GLOB > 0.

The aggregate index on various aspects of rural-urban inequality would be constructed for 31 provinces in China, viz., Anhui, Beijing, Chongqing, Fujian, Gansu, Guangdong, Guangxi, Guizhou, Hainan, Hebei, Heilongjiang, Henan, Hubei, Hunan, Inner Mongolia, Jiangsu, Jiangxi, Jilin, Liaoning, Ningxia, Qinghai, Shaanxi, Shandong, Shanghai, Shanxi, Sichuan, Tianjin, Tibet, Xinjiang, Yunnan and Zhejiang. We would try to prepare the indices at three different points, viz., 1990, 2000 and 2010. The regression exercises would be undertaken individually using the cross-sectional data-sets at three different points of time, and subsequently on a pooled or panel data-set.

The rest of the paper would tentatively proceed in the following sequence. We first discuss the analytics of unequal impacts of globalization in section 2. We would analyze the progress of globalization at the provincial level in section 3. In section 4, we would discuss the provincial dimensions of rural-urban divide in China. In Section 5, we provide the empirical analysis that contains the structure of the econometric model, the data description, and comments on the estimation results. Section 6 would summarize and conclude.

3. Data Source:

The basic data would be sourced from the various issues of National Bureau of Statistics, China.

4. Policy Implications:

One of the most interesting contradictions of China's globalization story has been the emergence of major inequalities in the country and growing disparity between the urban and rural areas. The market forces has led to the creation of a urban labor market, who have much better access to health care, education, living conditions and social security opportunities in comparison to the rural populations. The examination of the impacts of globalization process on different aspects of rural-urban inequality in China has seldom been attempted in a cross-sectional framework. The

results of this paper derived from the use of provincial data in China could offer some new insights.