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Does Globalisation Affect Inequality? An Analysis of the Vietnamese Data

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The debate over the potential effects of globalisation on inequality has intensified over the last some decades. This study proposes an investigation of whether economic integration in the world economy impacts income per capita and inequality in a particular case (i.e. Vietnam).

The motivation for this research is twofold. First, the country as small and opening, is more likely to be exposed to the globalisation as it has proactively participated in the vast majority of the prominent regional as well as international economic agreements embracing WTO, CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) and EVFTA (European Union-Vietnam Free Trade Agreement). This economic openness coincidentally associates with income rise owing to the fast-paced growth. Meanwhile, some argue that Vietnam witnessed a firm rise in income inequality. It is therefore the key question here is that to what extent international integration contributes to income inequality.

Second, the literature on the globalisation and inequality link is still complex and disputable. In particular, Milanovic (2016) and Bourguignon (2016), albeit with different approaches, proved that globalisation increases within-country inequality in developed countries but decreases between-country one. In the wealthiest world, globalisation wipes out lower-skilled jobs, and thus labour-based income in the lower end of the distribution levels off whereas the earnings from capital increases. In contrast, the low- and middle-income groups in developing countries favour globalisation as increased lower skilled job opportunities and perhaps their wages. However, regarding globalisation as the prominent driver of inequality found in Milanovic (2016) and Bourguignon (2016) is likely much of a stretch although it is reasonable to some degree (Ravallion 2018). Along with globalisation, other radical factors including institutional changes (financial deregulation, political transition, welfare policies), technological innovations are worth to be considered.

From the motivation mentioned above, this paper focuses on some main points:

- (i) Highlighting a key updated literature on this issue;
- (ii) Identifying variables proxied for economic integration in globalisation from the Vietnamese data as a case study for specific individual country:

- (iii) Developing an econometric model based on the exist literature and data availability;
- (iv) Discussing research results and proposed implications.

Among these four parts, (ii) and (iii) are described in more detail. Regarding the openness variable as the independent variable of interest, the data at hand are the values of foreign trade (import/export) (FT) and foreign direct investment (FDI). To generate such a unique variable, the study uses the PCA technique for the weight identification because of the belief that FT and FDI are likely interrelated. For the dependent variable – inequality, the Gini coefficient of income is applied. The main controlled variables including quality of public service, population, education. The research analysis unit here is province.

Then, considering the econometric model, the current research has intention of using a generalised method of moment – GMM owing the data structure. First, data available for this analysis from the year 2006 to 2016, thereby allowing to set a short-time panel consisting of 63 observations (N) for each cross-section over 6 waves (T).

Due to the absence of a consensus on the direction of the effect of globalisation on inequality, it is very dogmatic if possible results are outlined in the proposal at this stage; therefore, I leave this section for an intensive discussion developed in the full paper.

References

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