



Trade, Growth and Economic Inequality in the Asia-Pacific Region

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An international research project

- With Co-Principal Investigator Baybars Karacaovali (U. of Hawai'i); Collaborator Kozo Kiyota (Keio U.)
- 11 research papers written by economists from China, Japan, South Korea and the U.S.
- Papers appear in Feb. 2017 special issue of the *Journal of Asian Economics*; policy brief distributed widely to policy makers
- Primary sponsor is The Japan Foundation's Center for Global Partnership



Motivations: Inequality concerns, Rising isolationism, Anti-trade backlash

- Picketty's (2014) Capital in the Twenty First Century; Stiglitz (2012) The Price of Inequality
- Occupy Wall Street movement
- BREXIT vote in June, 2016
- U.S. Presidential campaign with both major candidates opposed to TPP
- Very rapid increase in inequality in China
- Public concern over inequality in other Asian countries

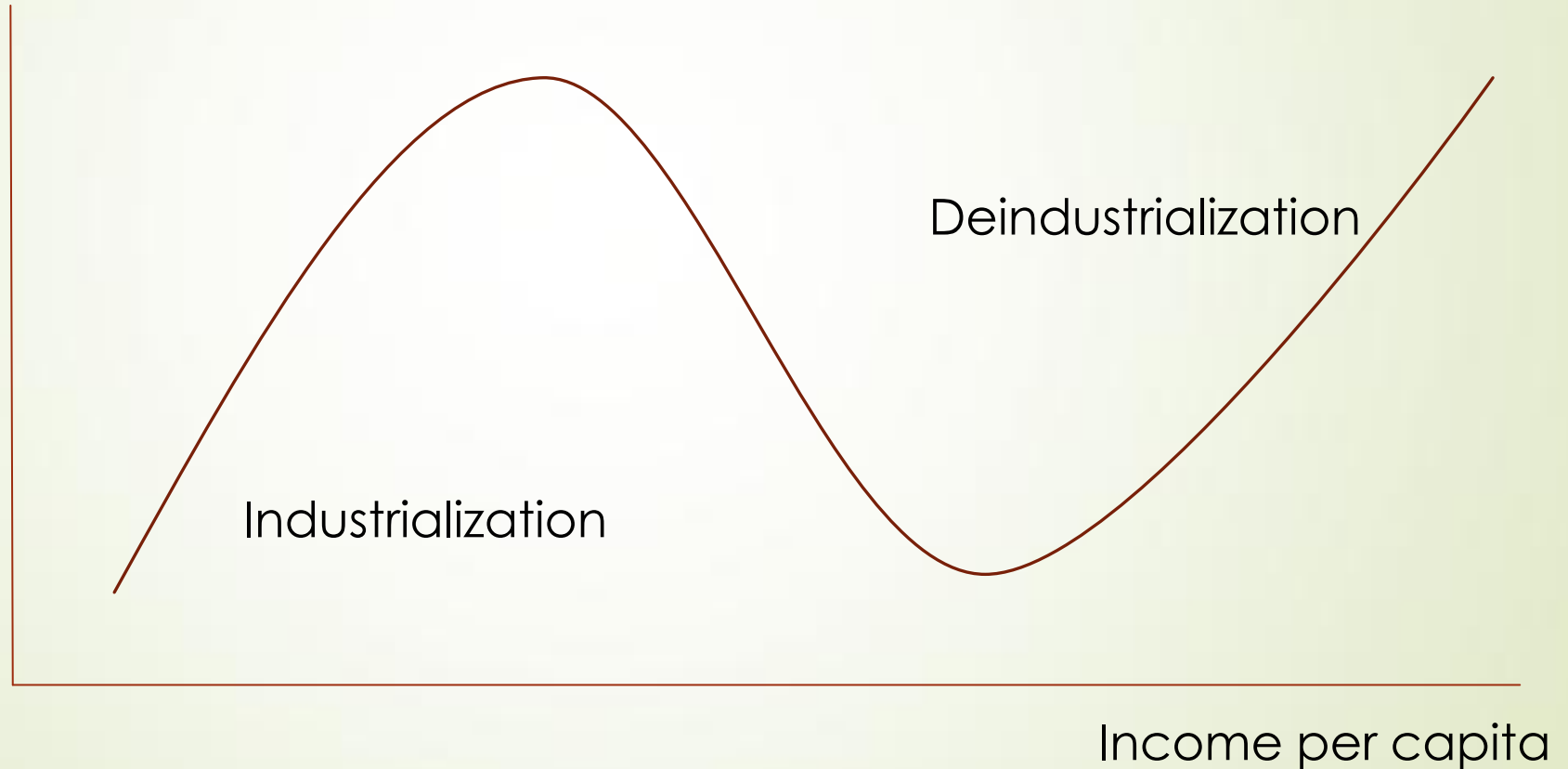


Factors that Influence Inequality

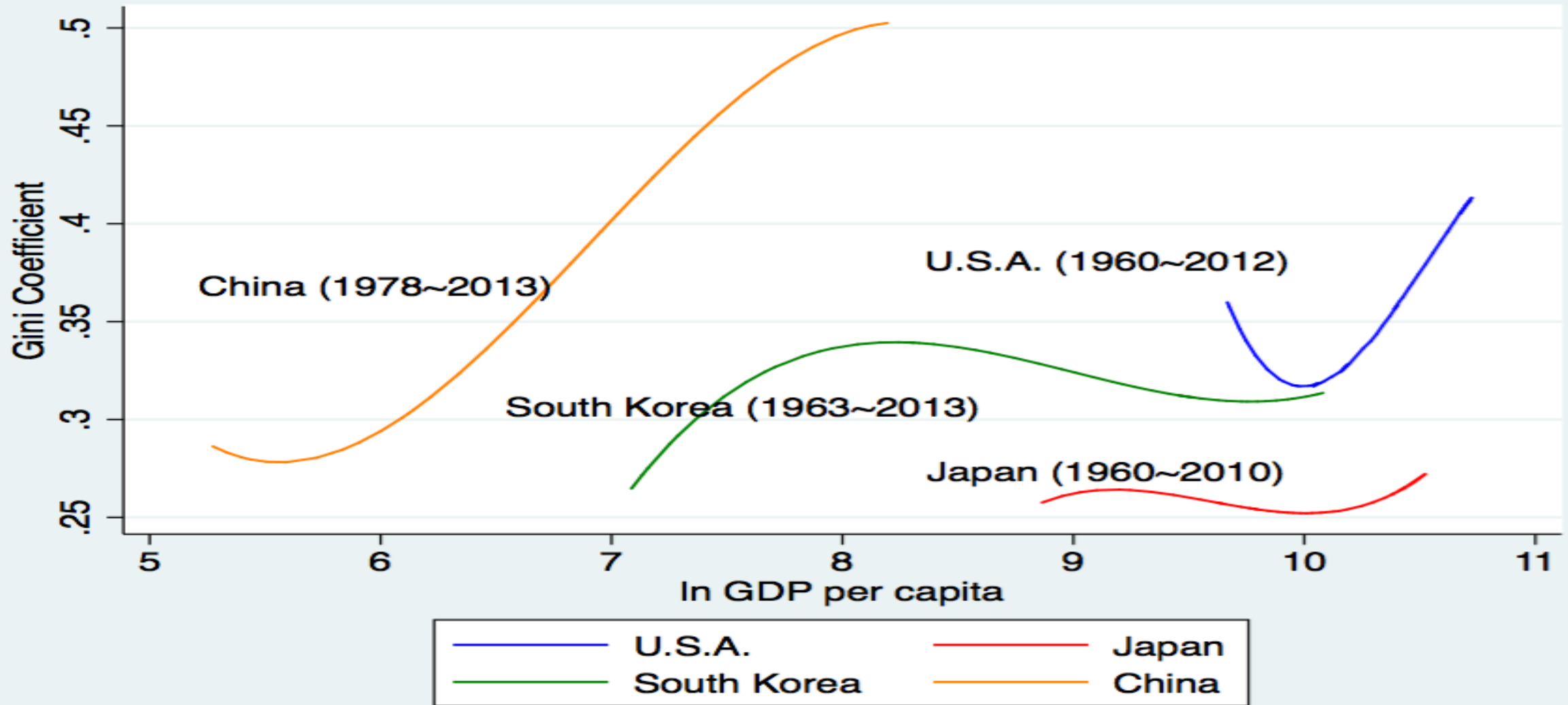
- Economic growth
 - International trade & investment
 - Technological change
 - Labor mobility (geographic, industry, and firm-based)
 - Government redistribution & regulatory policies
 - Labor unions
 - Competitive markets
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Growth → Inequality Relationship: Extended Kuznet's Curve Hypothesis

Inequality



1b. Findings: Projected Relationship between Output Level and Inequality



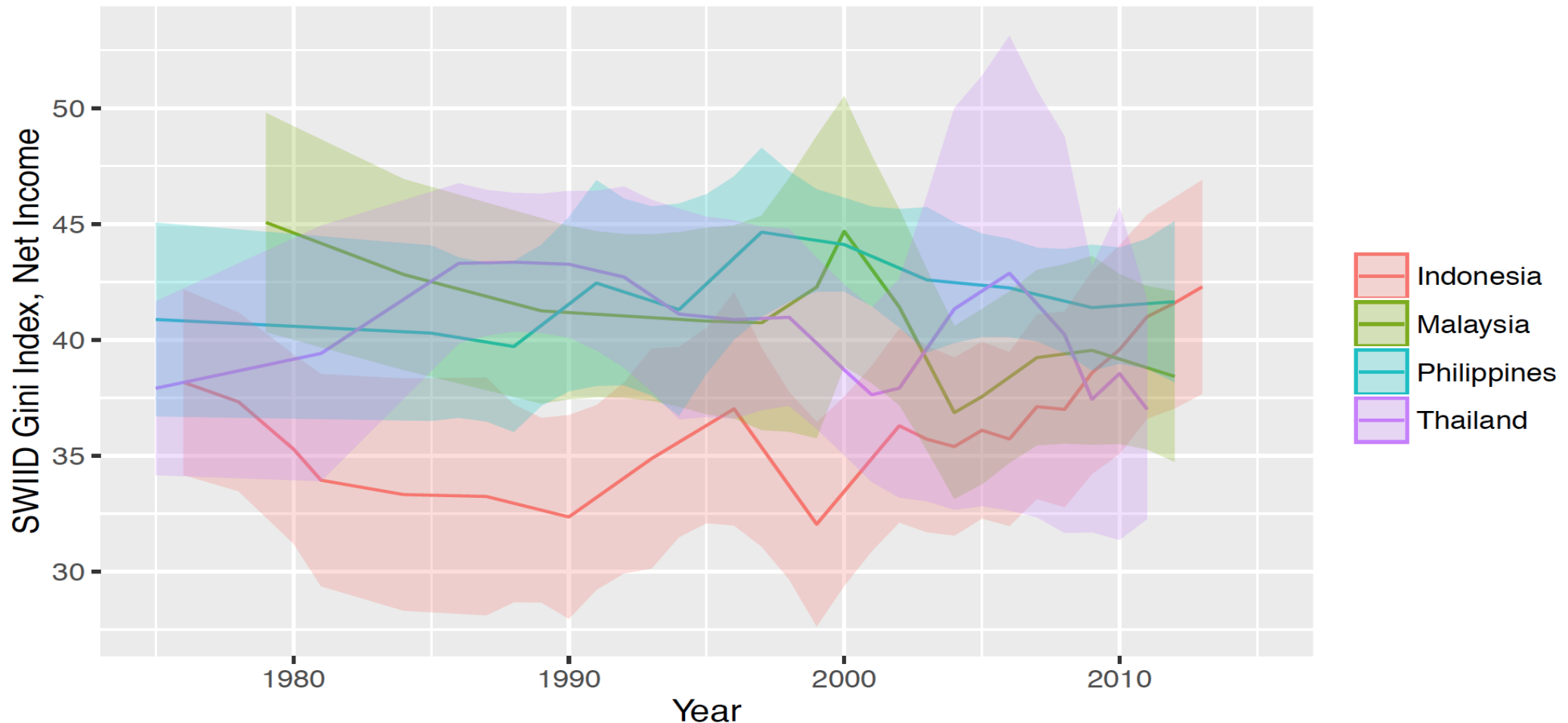
Source: Fig. 2, from Yang and Greaney (2017)



Gini Index of Inequality

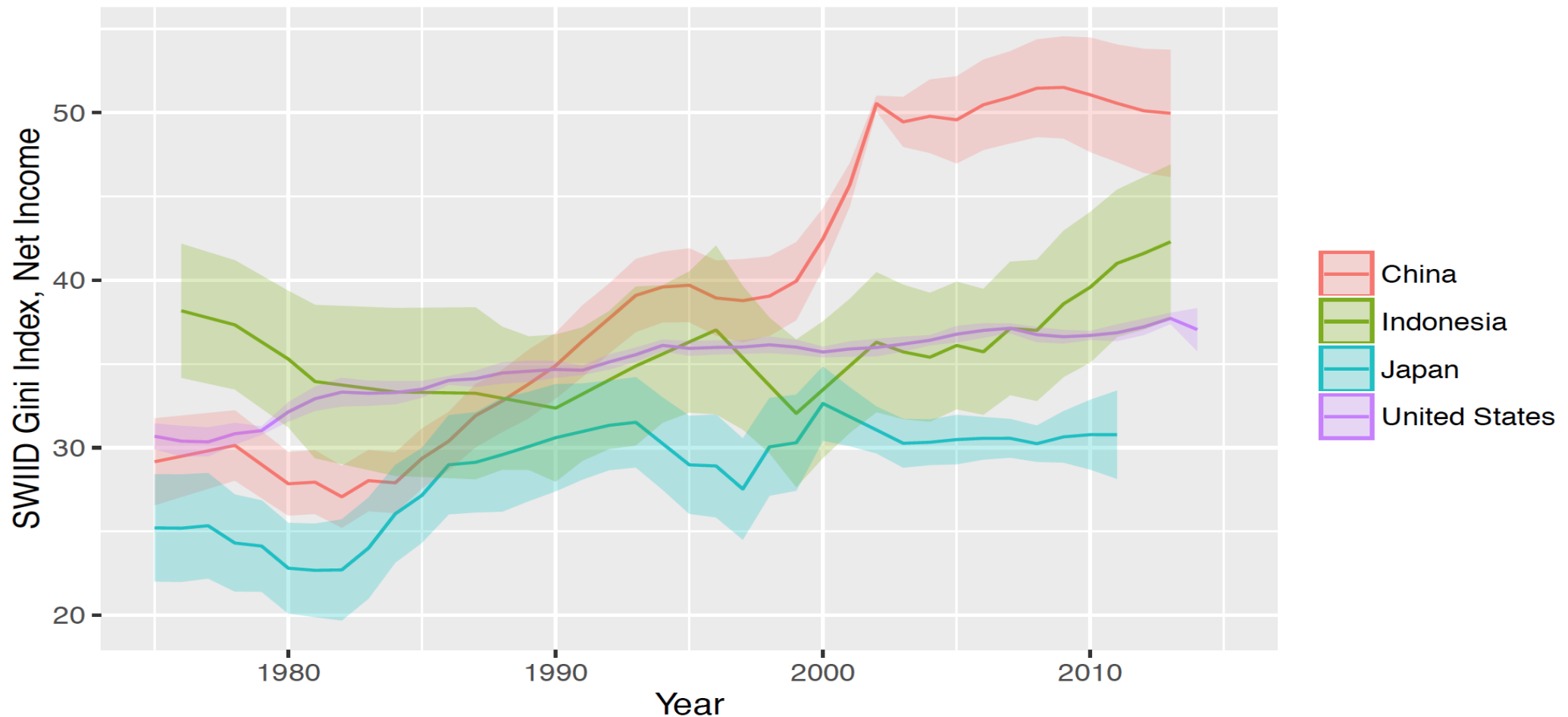
- Ranges from 0, exactly equal income distribution, to 100, indicating perfect inequality where 1 person has all of the country's income
- Gini index for net income—based on post-taxes and transfers income
- Gini index for market income—based on pre-taxes and transfers income

Inequality: Indonesia Relative to Other ASEAN



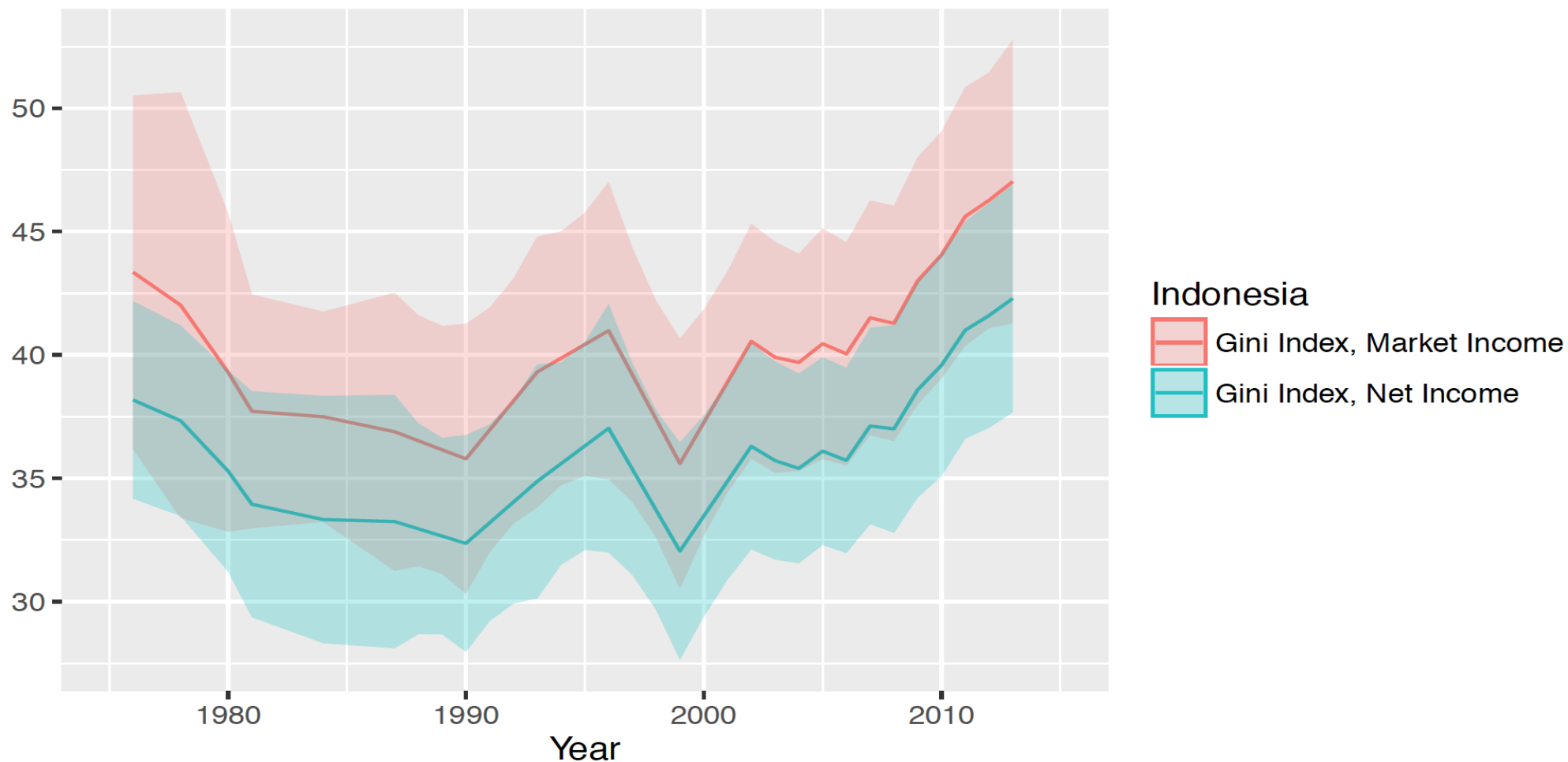
Note: Solid lines indicate mean estimates; shaded regions indicate the associated 95% confidence intervals.
Source: Standardized World Income Inequality Database v5.1 (Solt 2016).

Inequality: Indonesia Rel. to China, Japan, US



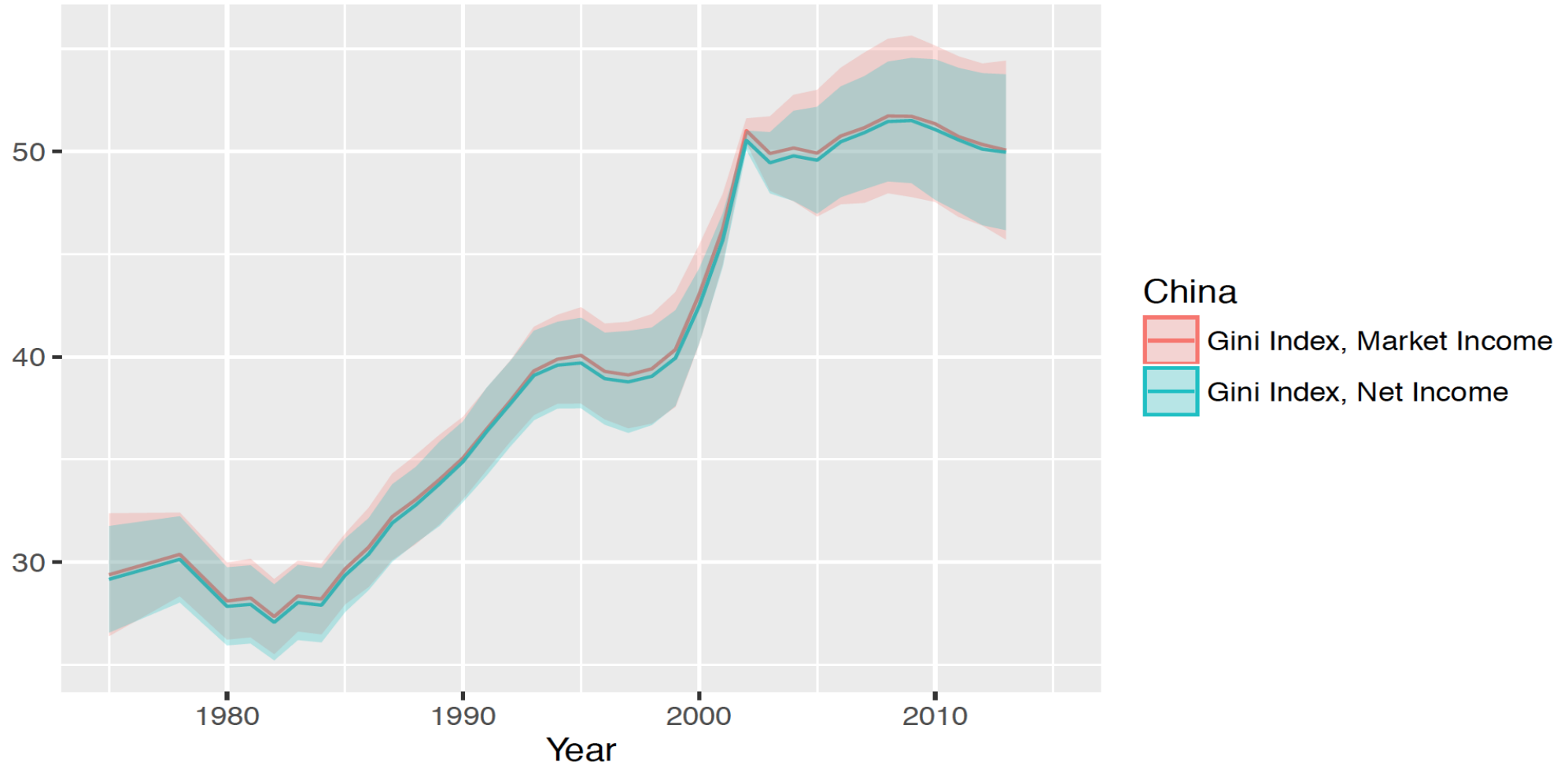
Note: Solid lines indicate mean estimates; shaded regions indicate the associated 95% confidence intervals.
Source: Standardized World Income Inequality Database v5.1 (Solt 2016).

Inequality: Indonesia Market vs. Net Income



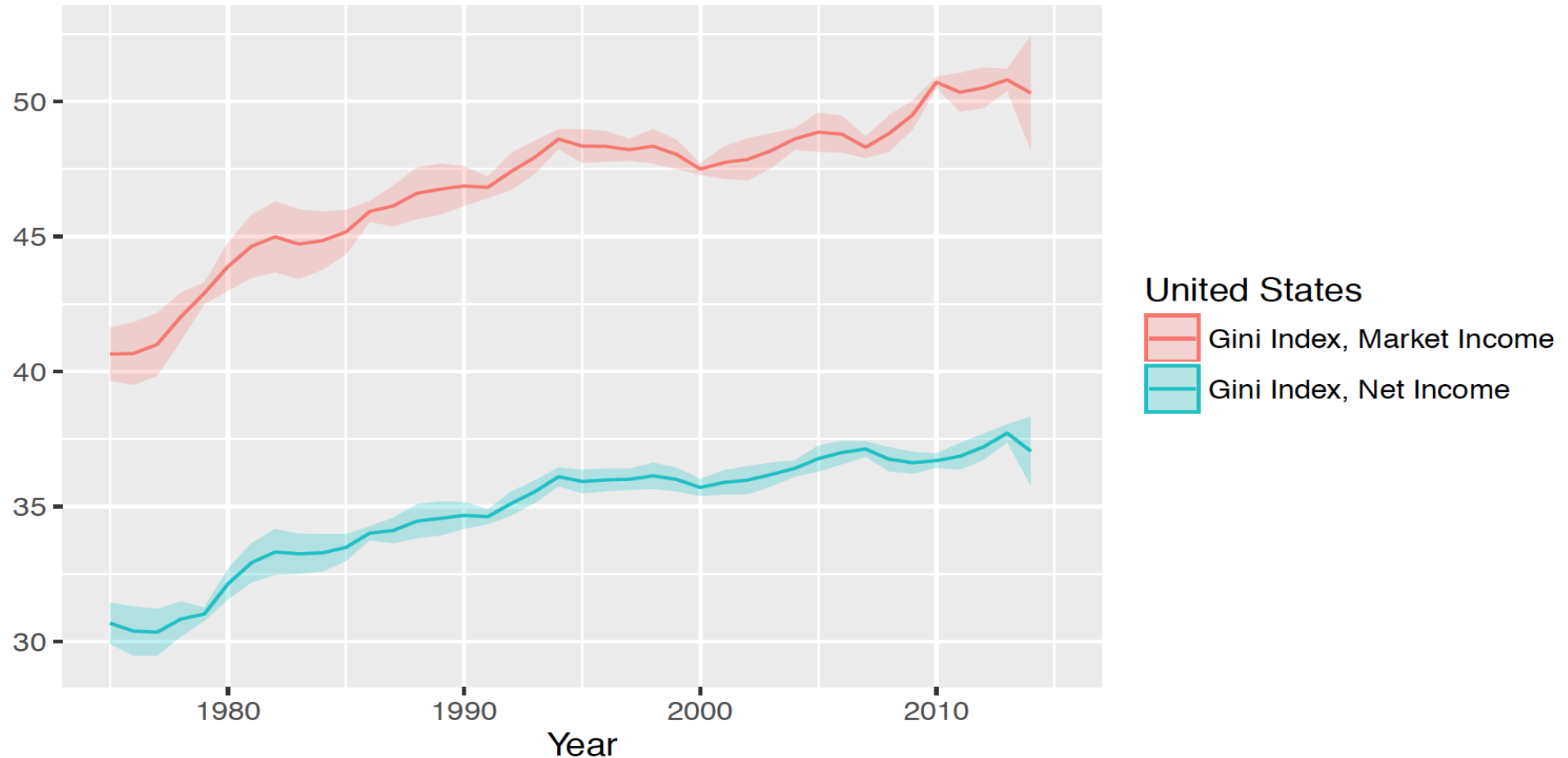
Note: Solid lines indicate mean estimates; shaded regions indicate the associated 95% confidence intervals.
Source: Standardized World Income Inequality Database v5.1 (Solt 2016).

Inequality: China Market vs. Net Income



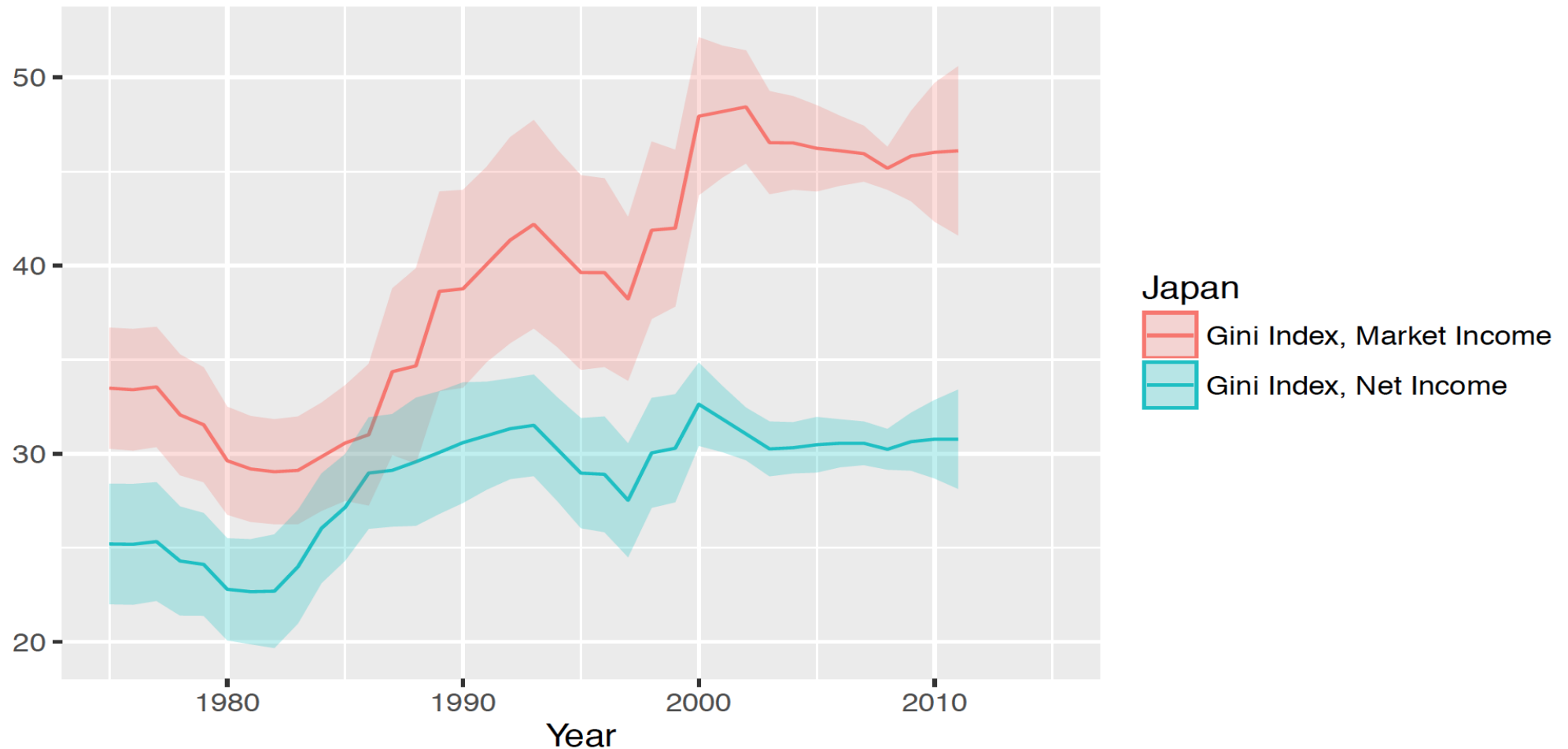
Note: Solid lines indicate mean estimates; shaded regions indicate the associated 95% confidence intervals.
Source: Standardized World Income Inequality Database v5.1 (Solt 2016).

Inequality: US Market vs. Net Income



Note: Solid lines indicate mean estimates; shaded regions indicate the associated 95% confidence intervals.
Source: Standardized World Income Inequality Database v5.1 (Solt 2016).

Inequality: Japan Market vs. Net Income



Note: Solid lines indicate mean estimates; shaded regions indicate the associated 95% confidence intervals.
Source: Standardized World Income Inequality Database v5.1 (Solt 2016).



Results & Discussion

- Impact of economic growth on inequality is not a simple growth-equity tradeoff
- Growth-trade-FDI-inequality relationships complex
- Trade economists very united regarding the case in favor of free trade



Concerns over distributional effects

- Technological change, growth, & trade all cause changes in income distribution within a country
- Workers & business owners in outdated or comparative disadvantage industries often suffer losses in real income
- Research & policy attention needed on how to alleviate these losses using domestic (not trade) policies