

EXPORT DIVERSIFICATION, SPECIALIZATION AND INEQUALITY: EVIDENCE FROM ASIAN AND WESTERN COUNTRIES

by

Sotheara SOK

A Synthesis

Submitted to the French Cooperation Department

Royal University of Law and Economics

In Partial Fulfilment of the Requirements

For the Degree of Economics and Management

June 2020

Contents

Introduction.....	1
Preliminary Evidence.....	1
Empirical Results and Discussion.....	2
Conclusion	3
Reference	4

Introduction

The relationship between globalization and inequality remains a hot debate that had not yet been reached a ground belief on how it influences on each other. Thus, other crucial elements, namely export diversification and specialization, also considered a controversial topic on what degree they could impact on the distribution of income.

Even though there are many investigations on these puzzles, there had only been seen that most studies focus on the aggregated level and not disaggregated level. Following the needs to fulfil this gap, we will synthesize one scientific paper titled, "Export diversification, specialization and inequality".

The main objective of this paper is to find out how exported diversification and manufacture specialization impact on income inequality. By taking into consideration the data set from 52 countries, namely Asian and the West between 1988-2014. Thus, this paper divided these countries into four categories, such as low-income Asian countries, high-income Asian countries, EU member states, and Anglo-Saxon countries. The main findings overall were that export diversification is the main forces of income inequality. In contrast, other aspects such as openness to trade, FDI, specialization, and high-tech products export have minority impact on income disparity. The following section will illustrate how the paper can come up with such a profound conclusion.

Preliminary Evidence

The traditional explanation of openness to trade by neoclassical had come up with the assumption that inequality in developing countries will decrease and inequality in developed countries will increase, thanks to the effect of international trade.

Moreover, there are also three schools of thoughts think differently on the link between trade and inequality. One group believed that international trade has a negative impact while another group has the contrary view, and those left remain neutral. Then, the arrival of new paradoxical has shown up which is about the rising inequality in developing countries and lowering inequality in developed countries. Unfortunately, these traditional theories cannot explain this phenomenon well, so the new wave of remarkable four models emerged to extend the scope of previous models but still leave with new challenges in empirical investigations. More specifically, these empirical surveys focus intensely on the aggregated level without considering the disaggregated level.

However, by using the data of descriptive and inferential statistic from multiple trusted sources, the paper concluded the early finding that Anglo-Saxon countries and Asian countries experience high, increasing rate of inequality, especially in high-income Asian countries. In contrast, EU member states experience stable or decreasing rate of inequality.

In-term of globalization, new trends are emerging on the international market such as the rising of developing countries in contributing to total shares of the world trade and in establishing single market which lowering their guard on the tariff to boost trade among member nations. Thus, unskilled labor products are no longer favor by developed countries. Plus, the free movements and access to the financial market is easy now more than ever. Last but not least, the fast pace movement of technology transfer to developing countries also plays an important

role. We will then examine the effect of globalization on inequality by outlining export diversification and specialization. About export diversification, the paper found that the higher the level of economic development, the lower the country diversify its exported goods. In other words, the less development group of countries like Asian have higher export diversification than the West. More importantly, between high- and low-income Asian countries, there is such a huge gap in-term of export diversification. Notably, Asian countries remain on the top spot in specialization followed by EU and Anglo-Saxon countries respectively.

Profound findings were that export diversification increases inequality in high income Asian and EU, while it decreases inequality in the low income Asian and Anglo-Saxon. Another finding was that specialization increase inequality in Anglo-Saxon and decreased inequality for high income Asian and EU, while there is left no clear interpretation for low income Asian.

Empirical Results and Discussion

In order to investigate deeper, the paper had implemented econometric methodology and drawn the results from the data set between 1988-2014 which then illustrated such profound findings by analyzing the impact on overall countries and groups of countries.

First, export diversification is the engine that fire income inequality. On the contrary, other aspects such as trade openness, FDI, specialization, and high-tech products have minority impact on income inequality. Next, the results drawn from the data verified that a country would increase income inequality at the early stage of trade but then it will steadily decrease over time. Plus, there is also a positive sign that more people are escalating to middle-class thanks to the improvement in living condition. Moreover, population growth does not shrink the economic growth because the more people, the more labor forces available, which increase economic growth overall, especially for Asian countries. Besides, government spending is found to be efficient to reduce income inequality.

On the other hand, if we dive further into each category of countries, we will be found that the effect of traditional macroeconomics variables on income for high income Asian and Anglo-Saxon, there is only a small impact on income results from openness to trade. However, there is a reduction in income inequality for EU but the accumulation of inequality for low income Asian, this might be caused by FDI inflow because it encourages faster technological transfer that favor skilled labor which resulted in income inequality. On the other hand, government spending helped hold back the inequality in the EU, thanks to the effectiveness in implementing such policies that improve the economy as a whole, especially in public health services. FDI instead has found little effect on income equality for all group of countries.

Furthermore, export diversification found to have encouraged the income inequality for both EU and high income Asian while specialization, in turn, discouraged the gap of income for both of them. However, there is no sign of any impact from export diversification and specialization on income for low income Asian and Anglo-Saxon.

Last but not least, there is no such statistical impact from the effect of high-technology exports on income for all group of countries, but there is an expected sign that the higher the level of technology export, the higher chance it is to increase income inequality, excluded high-income Asian countries. Especially by promoting R&D and patent protection, it is likely to have a great impact on the income distribution because it favors the top earners that are quite unfortunate to the unskilled labor workforce. One possible solution is to improve the educational system

specifically for developing countries in order to equip their citizens with a better level of skill to perform the job.

Conclusion

In conclusion, this paper conducted the effect of export diversification and manufacturing specialization on income inequality by taking into account the data set of 52 countries, namely Asian and the West considering the statistical data from 1988-2014. The results found that there are small shock waves of traditional macroeconomic variables that influence on income disparity while export diversification has a solid impact on income inequality overall.

For the West countries, the authors suggest that they need to rethink their new domestic and global social contract in order to compete in this fast-paced changing world. For the Asian countries; instead, the author asked the leading commentators to reinvent their model in order to lift the inequality by giving more support and attention the poorest in the country.

Reference

- Blancheton, B., & Chhorn, D. (2018). Export diversification, specialization and inequality: Evidence from Asian and Western countries. *The Journal of International Trade & Economic Development*, 28(2), 189–229.