

Economic Inequality in East Asia

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Abstract

This paper explores the rising inequality in East Asia, mainly focusing on Japan and China. Japan and China have experienced the rapid increase of inequality for the last three decades. This paper argues that the rise of inequality in the two countries, seemingly independent phenomenon, reflects different forms of globalization taking place in East Asia. While Japan has experienced deindustrialization with reduction of manufacturing jobs and capital mobility, China has experienced rapid industrialization with remarkable influx of the FDI and job growth in coastal cities in Eastern China. Deindustrialization in Japan and industrialization in China are the different faces of the same coin, growing capital mobility from the advanced economy to the less developed economy and consequential restructuring of the economy in each country in a large scale. The rise of inequality in Japan and China has been the co-product of domestic policies and transformation of global commodity chains.

Key words: inequality, East Asia, deindustrialization, globalization, FDI, Japan, Taiwan, commodity chain

Introduction

One of the major features of economic globalization has been the reconfiguration of global production system. It has accompanied a radical restructuring of commodity chains beyond the traditional international division of labor. In particular, with the collapse of the Cold War system, reintegration of Eastern Europe and China into the capitalist economy has totally transformed the commodity chains with the transformation of networks of production and markets developed in the Cold War period. Coupling of de-

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industrialization of advanced industrial societies such as the USA and Japan and industrialization of developing countries such as China and India has radically changed the global economy and global economic inequality.

The end of the Cold War system has also profoundly transformed East Asian societies in the last two decades. In the 1990s, East Asia has experienced a radically different economic dynamism from that of the previous period. Some East Asian countries, including Japan and Taiwan, began to experience economic downturn and social instability with relocation of production facilities to foreign countries. Since the Plaza Agreement in 1985, Japan entered into the long period of economic recession, called Heisei Recession. South Korea has undergone the economic crisis triggered by the financial crisis in December 1997. Taiwan has also undergone the economic recession due to the spreading economic crisis of the Southeast Asian countries, South Korea and Japan. Only China, a former socialist country, has continued rapid economic growth and gave other East Asian countries some fresh airs to breathe out of chronic economic recession.

Despite of diverging economic situations between China and Japan, both countries have experienced the rapid growth of economic inequality as a new social problem since the late 1980s. China, proclaimed its goal as an establishment of the egalitarian socialist state, turns out to be the most unequal society in Asia, close to the level of inequality of many South American countries (Asia Development Bank 2007; Bhalla, Yao and Zhang 2003). While the economic disadvantage of peasant workers contributed to the rapid economic growth, it becomes a source of exploding industrial disputes and social conflicts. Now the rise of social inequality in China might tend to undermine legitimacy and authority of the Chinese Communist Party that still claims its identity as the party of the peasant and workers.

Japan, once claimed “a land of 100 million middle classes” in the period of rapid economic growth, becomes a “gap society” in which income inequality among social classes becomes rapidly widened with the burst of the bubble economy (Lee 2001; Lee 2008; 佐藤俊樹 2000; Tachibanaki 2006; Wisemen and Nishiwaki 2006). The level of inequality measured by Gini coefficient of Japan exceeds the average of the OECD and the relative poverty ratio becomes at the highest level among the OECD (OECD 2006). Furthermore, as social groups that give up the hope of upward social mobility or betterment of their lives become larger, some argues that Japan becomes “a society of gap of hope” (Yamada 2004). Though causes of growing economic inequality might be different between Japan and China, the rising economic inequality appears as a new phenomenon, revealing the shadow of liberalization of the economy in East Asia (Asia Development Bank 2007; Chung 2006).

Focusing on Japan and China, this paper addresses the issue of rising economic

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inequality in East Asia over the last two decades, analyzing the impact of globalization on economic inequality in each country. An analysis of economic inequality in Japan and China might illuminate important social changes in East Asia because it reveals reconfiguration of the East Asian economy at the global scale and at the same time its impacts on income distribution in Japan and China. This paper also displays that in the age of globalization, inequality regime has been affected by international factors as well as domestic factors. Therefore, studies of inequality regime require new approaches different from traditional approaches based on the nation state as a unit of analysis. Economic inequalities in Japan and China are partly consequence of the transformation of commodity chains that operate beyond national boundaries. While two countries are quite different from each other, the interconnectedness of inequality regime of the two countries reveals the formation of a new inequality regime in East Asia.

Globalization and Transformation of Economic System in East Asia

Globalization in East Asia has been closely associated with the transformation of the commodity chains developed in the period of the Cold War. The transformation of commodity chains in East Asia took place with two different stages. During the period of the Cold War, the political economy of East Asia was divided into two systems, one with the socialist system of China, the USSR and North Korea and another with the capitalist system of South Korea, Japan and Taiwan. South Korea and Taiwan have developed with export oriented industrialization (EOI), mainly relying on the US market. The intra-regional trade among East Asian countries was on a very small scale, whereas the trade of East Asian countries with the US was on a large scale, showing a radial shape of relations between the US and East Asian countries. With the military alliance with the US in the Cold War, South Korea, Japan and Taiwan could successfully have achieved export oriented industrialization in the perimeter of the US economy (Shin 1999: 61-63).

In the post-Cold War period, the East Asian economy has undergone substantial transformation in the commodity chains in accordance with globalization. Due to the collapse of the communist regimes, the strategic importance of East Asian countries has been significantly reduced. The U.S. began to emphasize the trade balance between East Asian countries and the US, introducing measures to reduce trade deficit against Japan and Korea. The US enforced the Plaza agreement between Japan and the U.S. and abolished the generalized system of preference (GSP) given to South Korea. The GSP provided duty-free treatment for any eligible products from South Korea in the American market. In addition, the US imposed retaliatory tariff to lower the deficit of trade with East Asian countries.

The collapse of the Cold War system in East Asia has also transformed the economic relationship among East Asian countries. As China entered into the capitalist market economy and the diplomatic relationship between South Korea and China was normalized in 1992, capital mobility, trade and labor mobility among East Asian countries took place in a large scale. In particular, capital mobility as a form of foreign direct investment (FDI) has skyrocketed. Now China becomes the largest import countries of FDI in the world. While it was only 1.1 billion dollars in 1978, it grew up to 70 billion Dollars in 2005 (Fung, Iizak and Tong 2004: 115; UNCTAD 2007). With the continuous influx of FDI, export oriented industrialization has been successfully carried out in China for the last three decades. FDI alleviated the shortage of capital and improved the credibility of the Chinese economy. Total amount of export by foreign companies in China was only 12 billion Dollars in 1991. Surprising enough, it increased up to 240.3 billion Dollars in 2003. The proportion of export by foreign companies among the total export from China also increased from 16.8% in 1991 to 54.8% in 2003 (KIEP 2004: 168). During the period of rapid increase of export, there was considerable change in the influx of FDI in China. Other East Asian countries became major investors, surpassing European countries and the US.

Except Hong Kong, Taiwan becomes the largest investor in mainland China in terms of FDI. The total amount of FDI of Taiwan in mainland China was already almost 1% of the GDP of China in 2003. In fact, 20,362 Taiwanese companies were already operating in China in 1997 (Chevalerias 1998). It increased further up to 71,847 in 2006 (China Investor Guide 2007). The FDI of Taiwan in China comprises 65% of the FDI in China and the export by Taiwanese companies in China was 40% of the total export of China (Bureau of Investment 2007). While there have been some diplomatic conflicts between China and Taiwan, economic integration between the two countries has been fully established in the 1990s.

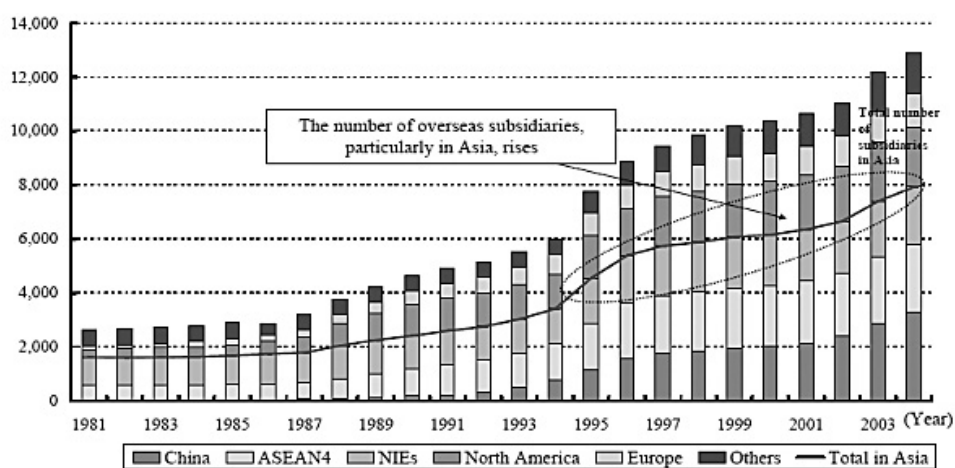
FDI on Japan and Korea in mainland China has also increased rapidly. While Japan's FDI in China the was concentrated into South East Asian countries such as Indonesia, Malaysia, Thailand, and Philippine in the past, it was shifted to China recently (Xing 2007). FDI from Japan to China increased by more than 33 times from 1,862 million Dollars in 1987 to 62,180 million Dollars in 2007 (JETRO 2008). While Korea's FDI into China started much later than Japan's, the rate of increase of investment by Korea was much faster than Japan. It began to increase only from the mid 1990s. But the amount of FDI by Korea to China was 35 billion Dollars already in the 2000s, the third largest investor to Taiwan and the US. As <Table 1> shows, China was the largest recipient of FDI from East Asia, whereas Japan and Taiwan was the largest exporter of FDI in East Asia.

Globalization has accelerated capital mobility in two ways. First, it has contributed to lower barriers to capital flow, by de-regulating the capital market as well as the factor

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market. Both Japan and China attempted to de-regulate the control of foreign direct investment. China has spearheaded de-regulation of foreign direct investment, centralizing the approval process and abolishing sectoral restrictions (Huang 1998: 14-16). Japan also de-regulated capital market by Koizumi's neo-liberal reform (Honda 2003). Second, globalization has weakened the national barrier of move of production facilities across borders. After the Plaza Agreement in 1985, production and employment

Figure 1. Changes in number of overseas subsidiaries of Japanese manufacturers



Notes: Europe includes Russia. Asia consists of China, ASEAN4 and NIEs.
Source: *Kaigai Shinshurui Kogyo Soran* (Toyo Keizai)

Source: METI(2006: 132)

Table 1. FDI in East Asian countries (Dollars) (import/export)

FDI	1990-2000	2003	2004	2005	2006
Korea Import/Export	3,060/ 3,101	4,384/ 3,426	8,980/ 4,658	7,050/ 4,298	4,950/ 7,129
Japan Import/Export	3,149/25,409	6,324/28,800	7,816/30,951	2,775/45,781	-6,506/50,266
Taiwan Import/Export	1,774/ 3,777	453/ 5,682	1,898/ 7,145	1,625/ 6,028	7,424/ 7,390
China Import/Export	30,104/ 2,195	53,505/ 2,855	60,630/ 5,498	72,406/12,261	69,466/16,130

Source: UNCTAD (2007), World Investment Report 2007; www.unctad.org/fdistatistics

outside Japan became important part of Japanese firms. While overseas employment in manufacturing sector was 5 to 6.5 percent of employment in Japan before 1985, it almost tripled with 19 percent in 1996 (Blomstrom et al., 2000: 10). As <Figure 1> shows, number of overseas subsidiaries of Japanese manufacturing companies rapidly rose since the late 1980s. FDI sharply rose in industries with relatively low comparative advantages in declining industries such as food, apparel, textile, wood, etc. Those were labor intensive industries, losing competitiveness with the rise in the value of the Japanese Yen. Thus, outward FDI facilitated to adjust Japanese companies to the changing international economic environment since the mid 1980s. Since the mid 1980s China attracted Japanese companies to invest and established new commodity chains in East Asia.

<Table 1> displays the trend of capital mobility in four East Asian countries. The balance of foreign direct investment shows a striking contrast between Japan and China. Whereas foreign direct investment is highly skewed towards export in Japan, it is skewed towards import in China.

Under the pressure of fierce competition, outsourcing also has been extensively developed among East Asian countries to cut costs, since the level of technological development in the manufacturing industry has been different so that most of production processes between the home country and the source country has not much overlapped so far. Especially Japan, the most technologically advanced country in East Asia, has been increasingly outsourcing production overseas. In Japan, more than 20 percent of manufacturing firms are outsourcing overseas in 2007 (富浦英一 2007: 7). Due to the increasing pressure of market competition and development of communication technology, Japanese companies began to transfer work to overseas. China has become the most favored destination of Japanese companies' offshore outsourcing in the 21 century. Outsourcing to China exceeded more than half of the total Japanese firms' offshore outsourcing in 2007 (Ito et al., 2007: 8). ASEAN was the second largest outsourcing region with the share of one fifth of the total Japanese firms' outsourcing. While Japanese firms' outsourcing production in America and Europe produce goods to the local markets, outsourcing firms in China and ASEAN tend to produce for the Japanese market. Thus, intra-firm transaction comprises a large proportion of the total imports from China and ASEAN. In 2004, 18 percent of total import in Japan was intra-firm trade of Japanese affiliates in China (JETRO 2004: 2).

In the post-Cold War period, trade among East Asian countries has rapidly increased. Intra-regional trade exceeded inter-regional trade after the collapse of the Cold War. Whereas there was no trade between mainland China and Taiwan in 1990. Taiwan becomes the largest exporter to China in 2004. China becomes the second largest exporter to Taiwan, next to Japan. 25% of the total export from Taiwan goes to mainland

China, while 13% of total import to Taiwan comes from mainland China.

South Korea did not have trade relations with China until 1991. However, the trade between South Korea and China began to play a pivotal role for the Korean economy during economic recovery in the 1990s. Trade between Korea and China exploded after the normalization of the diplomatic relationship in 1992. Now China becomes the largest import country of Korean goods in the world, exceeding the US in 2003. It was only 1.4% of the total export of South Korea in 1992. But it reached to 22.1% in 2007. Import from China was also small, only 4.2% of the total import of South Korea in 1992. Now it increased to 17.7% in 2007 (Korea Trade Association 2008). China becomes the largest trading partner of South Korea.

Increasing inter-dependency among East Asian economies creates new economic environment for each country in East Asia. The impacts of that change on each society differ according to national economic and political conditions. It also reflects effects of policy each government chose with respect to the labor market and social welfare. However, we observe the similar phenomenon in East Asia with regard to income distribution. That is steady deterioration of income distribution.

Income Distribution

As globalization has proceeded, two significant changes in East Asia have taken place. One is the weakening of the developmental state in South Korea, Japan and Taiwan and strengthening market fundamentalism. Extensive neo-liberal reforms including deregulation of the market and privatization of the public service was initiated by the government in South Korea, Japan and Taiwan. While there were some differences in the timing and methods of introducing neo-liberal economic policy, neo-liberalism based on the Washington consensus was the core policy ideology of the economic policy among the three countries. Another was economic reform in China that transformed the socialist developmental state into the capitalist developmental state. While the Chinese government maintained the control over the financial market, it selectively pursued privatization and de-regulation in the labor market, education and welfare in the 1990s (Andreas 2008). Thus, while some institution such as unit system was abolished, other institution such as Hokou system persists and generates new social strata such as peasant workers in China (Liu, Dong and Wang 2008).

The process and background of the introduction of neo-liberalism was different among East Asian countries. While privatization of public enterprises was the core of neo-liberal economic reform during the economic boom in Japan, it was a part of overall economic reform in the early stage of economic growth in China. In Japan, neo-liberal

reform took place in a gradual and incremental manner with political debates and even negotiation among stakeholders according to the election results. Thus, the process of neoliberal reforms was partial and in the long time span. In China, the government has been solely responsible for economic planning and implementation of it. It could coordinate the whole process of economic reform, selectively responding to the changing economic environments and mobilizing a variety of policy instruments.

Neoliberal policies in Japan have been carried out by the initiatives of the government in the mid 1980s. Major purpose of the reform was to improve competitiveness of public enterprises. According to the recommendation of the Provisional Commission for Administrative Reform (PCAR) in 1983, the Privatization Act of 1984 was enacted by the Nakasone cabinet. In particular, three major public corporations, Japan Tobacco and Salt Public Corporation (JTSPC), Nippon Telegraph and Telephone (NTT), and Japan National Railways (JNR), were the targets for privatization (Sueyoshi 1998). The privatization of JNR was carried out by the Nakasone government in 1987. NTT was sold in 1998 and the breakup of NTT into several holding companies. The Koizumi government attempted to privatize the postal service in 2002. Japan Post was formed under the Japan Post Law of 2002.

However, the economic environment has drastically changed during the period of neo-liberal reform due to the burst of the bubble economy. In turn, the rising budget deficit impelled the government to change the purpose of privatization from enhancement of efficiency to support public finance. As the Japan's public debt becomes the highest in the developed countries, privatization of Japan Post was scaled back to utilize it for buying government bonds in 2010. Postal privatization was not intended to improve postal delivery service, but to unlock the financial assets of Japan Post, the world biggest financial corporation.

It is revealing to consider privatization in China and Taiwan. Neo-liberalism has been selectively adopted in China. Similar to Taiwan, privatization in China was done to transform state owned enterprises into private enterprises. Privatization in Taiwan aimed to dismantle party-state capitalism in which major public sector and big corporations were owned by the KMT. Thus privatization was carried out as a part of democratization without much resistance. Privatization in China attempted to transform state or village ownership to private ownership.

Regardless of paths of globalization, the common outcome was the rising inequality in the 1990s. "Gap society" in Japan and "unharmonious society" in China commonly refer to the new trend of the rising economic inequality. Japan, proud of "the middle of all with 100 million people," becomes a highly unequal society next to the US. China, the most egalitarian society in the 70s, becomes a country ridden with massive poverty and an

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extreme level of inequality, similar to the level of countries in South America.

While there are many causes of the rising inequality in Japan and China, one common factor is the transformation of the labor market. The primary actor of the transformation was the state in Japan and China. The secondary actor was company in private and public sector which responded to the state economic policies. Workers and their families were not key actors in the process of the transformation. They should react

Table 2. Trend of Gini coefficient of disposable income in the 23 countries

A. Total population						
	Level of the Gini coefficient			Percentage-point change in the level		
	Mid-1980s	Mid-1990s	2000	Mid-1980s to mid-1990s	Mid-1990s to 2000	Mid-1980s to 2000
Australia	31.2	30.5	30.5	-0.7	0.0	-0.7
Austria	23.6	23.8	25.2	0.2	1.4	1.6
Canada	29.0	28.3	30.1	-0.7	1.8	1.1
Czech Republic	23.2	25.8	26.0	2.6	0.2	2.8
Denmark	22.9	21.3	22.5	-1.6	1.2	-0.4
Finland	20.7	22.8	26.1	2.1	3.3	5.4
France	27.5	27.8	27.3	0.3	-0.5	-0.2
Germany ¹	26.3	27.7	27.5	1.4	-0.2	1.2
Greece	33.6	33.6	34.5	0.0	0.0	0.9
Hungary	27.1	29.2	29.3	2.1	0.1	2.2
Ireland	33.1	32.5	30.4	-0.6	-2.1	-2.7
Italy	30.6	34.8	34.7	4.2	-0.1	4.1
Japan	27.8	29.5	31.4	1.7	1.9	3.6
Luxembourg	24.7	25.9	26.1	1.2	0.2	1.4
Mexico	43.9	50.8	46.7	6.9	-4.1	2.8
Netherlands	23.4	25.5	25.1	2.1	-0.4	1.7
New Zealand	27.0	33.1	33.7	6.1	0.6	6.7
Norway	23.4	25.6	26.1	2.2	0.5	2.7
Portugal	32.9	35.9	35.6	3.0	-0.3	2.7
Sweden	19.8	21.2	24.3	1.4	3.1	4.5
Turkey	43.5	49.1	43.9	5.6	-5.2	0.4
United Kingdom	28.7	31.2	32.6	2.5	1.4	3.9
United States	33.8	36.2	35.7	2.4	-0.5	1.9
Average ²	28.6	30.5	30.7	1.9	0.1	2.1
B. Working-age population						
Australia	30.4	29.4	29.5	-1.0	0.1	-0.9
Canada	28.6	28.7	30.5	0.0	1.8	1.9
Denmark	22.0	21.4	22.6	-0.6	1.2	0.6
Finland	20.5	23.4	26.0	3.0	2.6	5.5
France	26.7	27.7	27.2	1.0	-0.5	0.5
Germany ¹	25.4	27.0	27.2	1.6	0.1	1.8
Italy	30.5	34.9	34.5	4.4	-0.4	4.0
Japan	27.6	29.0	31.0	1.3	2.0	3.4
Netherlands	23.3	25.4	25.0	2.1	-0.4	1.7
New Zealand	26.3	32.4	33.0	6.1	0.6	6.7
Norway	22.2	24.9	26.0	2.7	1.1	3.8
Sweden	22.4	21.6	24.2	-0.8	2.6	1.8
United Kingdom	27.7	30.4	31.9	2.7	1.5	4.2
United States	32.6	35.1	34.6	2.6	-0.5	2.0
Average ²	26.2	27.9	28.8	1.8	0.9	2.6

1. Old Länder.

2. Average of the 23 countries in Panel A and the 14 countries in Panel B. For information on the exact year for each country, see Förster and Mira d'Ercole (2005).

Source: Förster and Mira d'Ercole (2005).

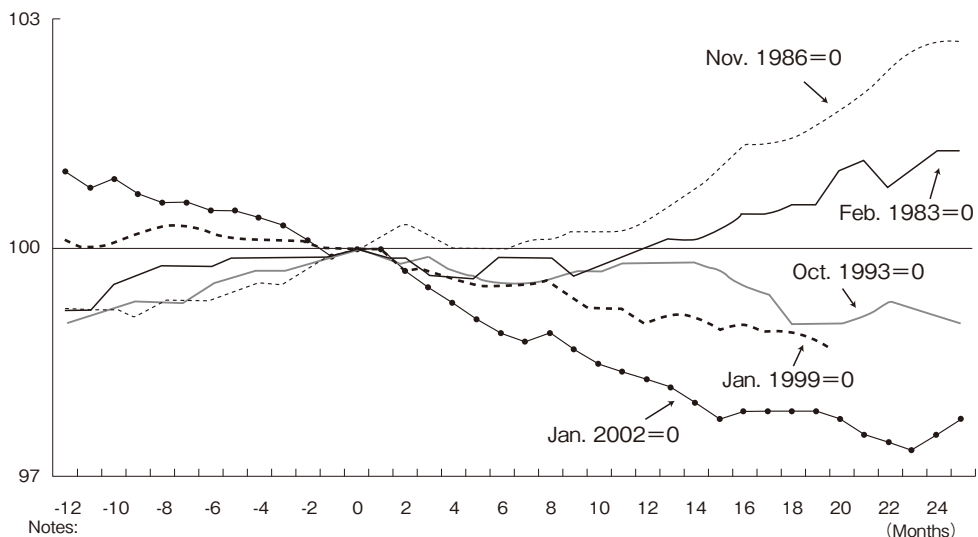
to the changing environment by changing jobs or moving out to other places or countries. While the state and companies might act proactively and reactively simultaneously, ordinary people could act only reactively. The scope of choices and the timing of choice among three groups of actors represent unbalanced power relations in contemporary East Asia. In China and Japan, opposition parties are not strong enough to prevent deepening inequality and trade unions do not have power resources to challenge power of the state and capital.

Japan

November 2007, economic inequality became a political issue in Japan, society with all middle class (Newsweek 2007). Inequality became a new social problem, as inequality increased and poverty expanded. Tachibanaki (2000), an economist at Kyoto University, claimed that Gini coefficient continuously increased from .314 in 1981 to .381 in 2002. While asset inequality decreased with the collapse of the real estate market and the stock market, income inequality sharply increased after the burst of the bubble economy.

<Table 2> displays the trend of inequality in 23 countries, using the data from the

Figure 1. Trends in regular employment indices during recoveries in Japan (establishment with 30 and more)



Notes:
 1. Regular employees are full-time employees and part-time employees.
 2. Seasonally adjusted.
 3. Months "0" indicates a trough in the economic cycle.
 Source: *Monthly Labour Survey* (Ministry of Health, Labour and Welfare).

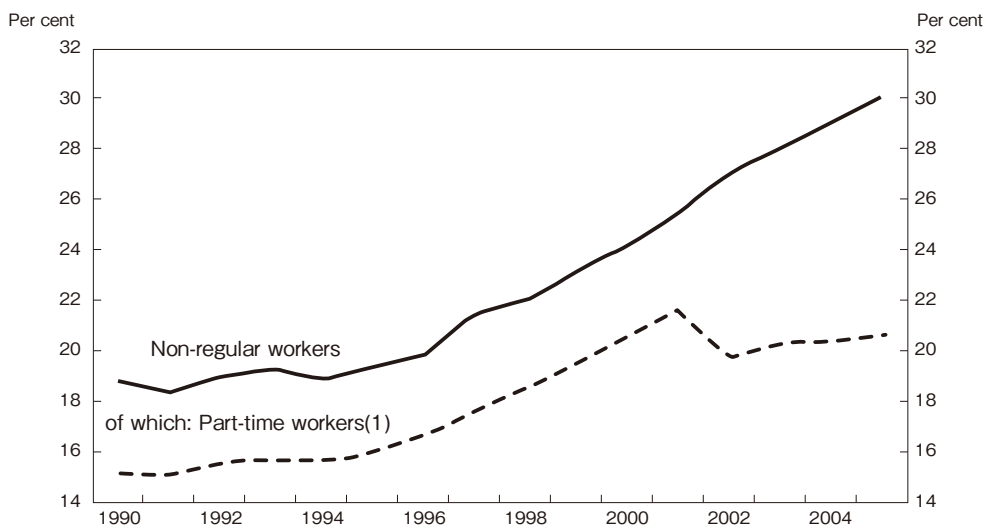
Source: METI (2004: 3)

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Luxembourg Income Studies (LIS). Japan shows the trend of rising inequality in both total population and working age population from the mid 1990s to the 2000s. The liberal market economy shows two things: the relatively high level of inequality and the rising inequality. Except Turkey and Mexico, the level of inequality in Canada, New Zealand, United Kingdom and United States is much higher than that of European countries with the coordinated market economy. The level of inequality in Japan continuously increased from the mid 1980s. The last column indicates that Japan is one of the countries with rapidly increasing inequality. Percentage-point change between the mid 1980s and 2000 for Japan was 3.6 for the total population and 3.8 for the working-age population.

At least, we can identify four factors for this trend in Japan. One is de-industrialization caused by capital mobility from Japan to other countries. As Japanese companies moved from Japan to South East Asian countries and China, number of jobs also diminished. As a response to the long economic recession, Japanese firms moved their production site to South East Asia and China with cheap labor cost. The proportion of foreign production of the Japanese firms was only 3.7% in 1987. It increased up to 10% in 1997. The proportion of the Japanese firms engaged in foreign production also increased from 33% in 1987 to 57.2% in 1998. Correspondingly, the number of employees also diminished in Japan. The number of jobs reduced by 1.3% per year from 1995 to 1998 and it was much severe in manufacturing sector with 2% per year (Policy Planning and Research

Figure 2. Trend of Contingent Workers in Japan (1990–2005)



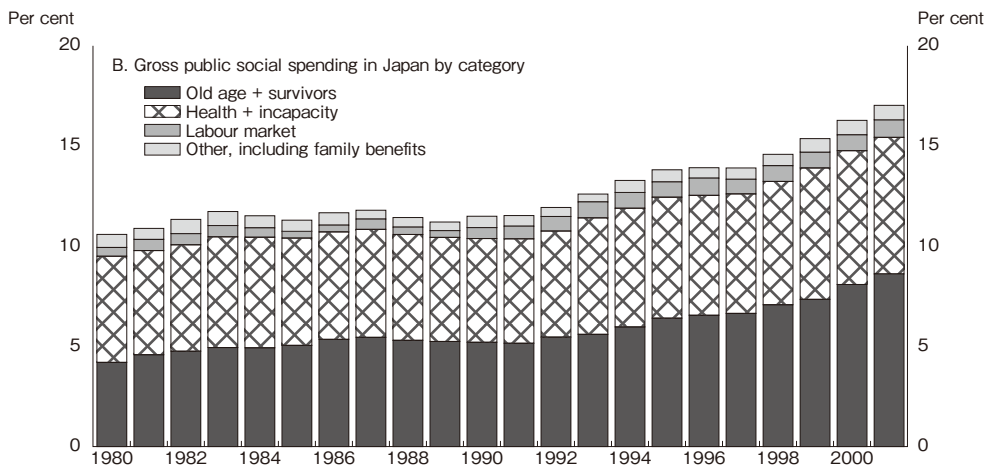
Note: The decline of part-time workers in 2001 is mainly due to the change of classification of part-time workers. Source: 総務省, 労働力調査特別調査 and 労働力調査詳細集計 (http://www.oecd.org/document/38/0,3343,en_2649_201185_37130854_1_1_1_1,00.html)

Office 1999: 10). As Japanese Yen was revaluated in the 1980s, Japanese firms underwent massive restructuring and began to move out to other countries. Large companies such as Mitsubishi, Nippon Steel and Nissan transferred their production facilities to foreign countries and a hollowing out of the local industry, technology and skills became a serious economic problem (Institute for Basic Economic Science 1998: 105-107). As<Figure 1> shows, recently economic recovery did not accompany expansion of regular employment. Rather steady decline of regular employment emerges as a new trend.

Second, the labor market becomes polarized. The Japanese employment system began to change since the 1990s. Instead of lifetime employment, contingent employment became a new mode of Japanese employment system. The middle class in Japan began to experience deterioration of job security guaranteed by companies prior to the economic recession (Sato and Arita 2004). Due to the burst of the bubble economy, contingent workers rapidly increased during the long economic recession. The proportion of contingent workers was 16.4% in 1985. It increased up to about 20% in the 1990s and 30% in the 2000s. It reached to 33.7% in 2007 (OECD 2008). Types of contingent workers include dispatched workers, short term contract workers, hourly workers and indirectly employed workers. Because the average wage of hourly workers is about 40% of that of regular workers, companies utilize hourly workers to reduce the labor cost. In terms of dispatched workers, big companies are more likely to use dispatched workers than small companies (大澤眞知子 2005: 20). It shows that big companies also prefer the new employment system different from the life-time employment system, one of cores of the labor market institution in Japan.

Third, poor social policies do not properly respond to social change in Japan. From a

Figure 3. Gross Public Social Spending in Japan by Category



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comparative perspective, the rising inequality in Japan can be considered partly as a product of tax system and social welfare. As <Table 3> shows, the tax system in Japan does not properly function to lower the poverty rate. Reduction in poverty due to tax benefit system is the lowest in Japan among major OECD countries. While inequality of the pre-tax income in Japan is not much lower than that of other OECD countries, inequality of the post-tax income is much higher than other OECD countries. Now the poverty rate in Japan is close to that of the US, the highest poverty rate in advanced industrial societies. In addition, the underdevelopment of the welfare system does not effectively solve the problem due to the long economic recession. Three fourth of the total welfare expenditure is spent for the welfare of the aged. The remaining one fourth is used for all the other population. However, the fact that inequality within cohort increases as the age of cohort increases and aging of the population continues is attributable to the growing inequality (Shirahase 2009: 40-42).

In addition, the poverty rate of single mother or single father household is 58% in Japan, whereas it was 21% on average in OECD (Jones 2008: 24). That is immediately related with the high level of child poverty. The ratio of child poverty in Japan was 14% in 2000. With the development of private education, children in the poor family do not have enough opportunity for education and social mobility. The gap of hope across social strata reproduces inequality and poverty in the next generation (山田昌弘 2004).

Fourth, tax reduction policy of Koizumi cabinet contributed to the rise of inequality. The Koizumi cabinet abated the tax rate so as to promote consumption of the people and investment of the private companies. While financial burden of the government increased with the aging of the population, the financing the welfare expenditure becomes more difficult with the tax reduction. The welfare spending for the old age increased from 43.4% in 1980 to 70.4% in 2003 (Hiroyuki 2008: 192). As tax reduction did not contribute to growth of consumption, tax reduction became a source of the rising inequality.

China

The rising inequality in China is a product of transition from the socialist planning economy to the capitalist market economy. Economic reforms including deregulation and privatization abruptly intensified income inequality. Opening of the economy contributed to the rapid economic growth for the last 3 decades. While the influx of FDI into China became a major factor for economic growth, it also drastically increased economic inequality across region in China. Simply because FDI has been concentrated in some cities chosen by the Chinese government, those areas receiving foreign direct investment have flourished with new companies and service business. With continuous economic

Table 3. Changes of Capitalists and Enterprises

Year	1993	1995	1997	1998	1999	2001	2002
Number of Capitalist	51.4	134.0	204.2	263.8	322.4	460.84	622.82
Number of Enterprise	23.8	65.5	96.1	120.1	150.9	202.86	243.53
Total Capital Asset	681.0	2622.0	5140.0	7198.1	10287.0	18212.2	24756.2
Average Capital Asset	28.6	40.1	43.5	59.9	68.2	89.8	101.65

Source: 張厚又 (2007: 313).

growth for three decades, China becomes not only a factory of the world but also the market of the world, as consumption power of the new rich in China extends the new frontier of the world market.

The rising income inequality in China has been associated with three major social changes: class differentiation, the rising rural-urban disparity, and the rising intra-urban inequality. Class inequality in the socialist market economy emerged as a major source of economic inequality during the period of the rapid economic growth. As the transformation of ownership of means of production proceeds, the capitalist class emerged as a new class in socialist China. As <Table 4> displays, the number of capitalist almost increased by almost 13 times larger between 1993 and 2002. While the number of private enterprise was 238,000 in 1992, it increased by almost 10 times more with 2,435,300 in 2002. In addition, the average capital size also increased, revealing the increasing role of private capital in the Chinese economy.

The urban middle class also grows out of the economic reform and gets benefits from economic growth. The middle class is also a new class in socialist China which has been formed as Deng Xiaoping launched Four Modernizations by inviting foreign capital, market, technologies and management skills in 1978. Managers and professional in the private sector expanded with the growth of private enterprises. Now the middle class is about 15% of the total labor force participants. The new Chinese middle class enjoys the economic benefits coming from the social market economy.

However, the level of economic status of peasants and peasant workers has not been significantly improved. Mass labor migration took place from rural areas to cities in East China. Peasant workers are unique socio-economic groups in contemporary China. Peasant workers, who migrated from country to city after the economic reform, can't get social and economic benefits because they are not legally entitled to legal rights as residents in the city under the *Hokou* system, which restricts permanent inter-regional

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labor mobility. Mostly they belong to the working poor characterized by the low level of education and low income. The number of peasant workers rapidly increased from the late 1980s and it accelerated in the 2000s (Chang 2007: 23). If we include workers engaged in non-agricultural activity in rural areas in peasants, peasant workers comprise almost 50% of the total employees in China (Wang 2004: 309). The average wage of peasant workers is only 40% of that of urban workers. Peasant workers engaged in construction, clerical work, transportation, security, hair shop and massage is only 30% of urban workers (Kwak 2007: 181-183).

There has been severe economic disparity between rural and urban areas (Bhalla, Yao and Zhang 2003; Chotikapanich, Rao and Tang 2007). While rural development was emphasized during Mao's period, selective growth poles in coastal area in East China were chosen as Special Economic Zones where foreign investment and market liberalization were encouraged by Deng's economic reform. Almost 87,6 % FDI, 432.4 billion Dollars FDI, in China was concentrated in Eastern China between 1983 and 2003 (Xing 2008: 12). The ways in which the Chinese government attempts to achieve economic growth has contributed to conspicuous uneven development across regions in China. In 1952, the level of inequality, measured by GE (generalized entropy), was very low with .038. It increased to .110 in 1999. While the proportion of inter-regional inequality to the total inequality was 32.30% in 1952, it was 70.98% in 1999. When we explore the trend of

Table 4. Coverage of Social Security by Types of Workers

Social Security	Peasant workers N=769	Urban workers N=1152	X2	P
Old age pension	16.3	67.3	485.72	0.000
Unemployment pension	6.2	44.5	365.98	0.000
Health insurance	28.4	66.3	307.72	0.000

Source: 李培林·李焯 (2007: 6)

Table 5. Comparison of Gini Coefficients from 1985 to 2003.

year	Urban Gini	Rural Gini	Total Gini	Urban Theil Index	Rural Theil Index	Total Theil
2003	.3293	.3344	.4018	.1550	.1805	.2697
2000	.2528	.3302	.3471	.1041	.1757	.2001
1995	.2114	.3394	.3506	.0727	.1846	.2027
1985	.1665	.2994	.2827	.0436	.1421	.1322

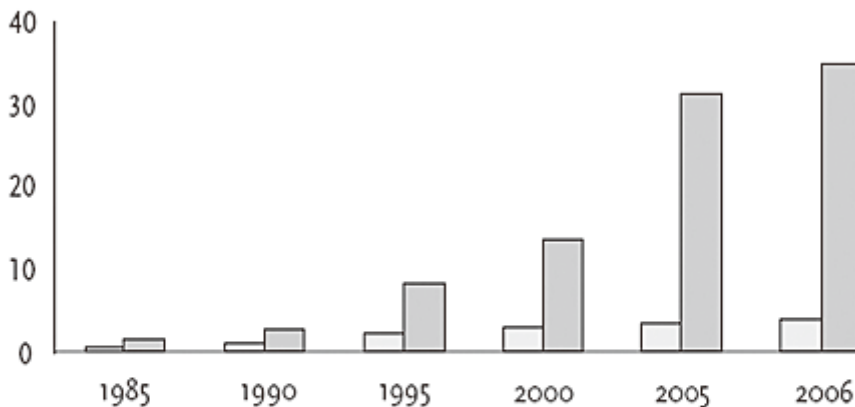
Source: Chotikapanich et al. (2007: 141)

inequality, it decreased since the mid 1960s but it began to increase since 1978 (Bhalla, Yao and Zhang 2003: 944).

There is social security gap as well as income gap between rural areas and urban areas. <Table 4> presents the fact that unlike urban workers peasant workers are not protected by social safety net. Only one sixth or one fourth of peasant workers is protected by the old age pension and health insurance, whereas two thirds of urban workers are protected by them. Recent research shows that 45% of urban workers are protected by unemployment insurance and only 6% of peasant workers are protected by it (Lee and Lee 2007: 6). It implies that majority of Chinese peasant workers are dangerously exposed to new social risks. In short, the peasant workers belong to “second citizens” who are deprived of their social rights (沈原 2007: 226-227).

Intra-urban inequality is also rising. While there has been increasing disparity between rural and urban, inequality within city is also rapidly increasing. <Table 5> presents Gini coefficients and Theil index between rural and urban after the economic reform. We observe that both Gini coefficients and Theil index sharply increased in an unprecedented way in China between 1985 and 2003. Between 1985 and 2003, Gini coefficient increased twice from .1665 to .3293 in urban area, whereas it slightly increased from .2994 to .3344 in rural area. The total Gini coefficients or Theil index indicate that the level of inequality in China becomes close to those in Latin American countries. It implies

Figure 3. Per capita annual income of richest and poorest 20 percent of urban household 1985-2006



Income in thousands of yuan. Source: Department of Urban Society and Economic Statistics, National Bureau of Statistics of China, *China Urban Life and Price Yearbook 2007*, Beijing 2007, pp. 14-29.

that China underwent a significant transformation of inequality regime for the last three decades.

Compared to other capitalist countries in Asian, inequality in China is extremely high. Among developing countries in South East Asia and East Asia, the most unequal society was Nepal with Gini coefficient of .46. China was the second most unequal society to Nepal. If we consider that Nepal in Asia is now in civil war, China must be the most unequal society in the contemporary Asia. We observe a drastic change from relatively equal socialist society to mostly unequal capitalist society between the 1980s and 2000s.

<Figure 3> displays income disparity of urban household between 1985 and 2006. While the average level of income of the poorest 20 percent increased, the gap between the richest 20 percent and the poorest 20 percent dramatically widened. In 1985, the average income of the richest 20 percent was three times higher than that of the poorest 20 percent. But in 2006 it becomes almost 10 times higher than that of the poorest 20 percent (Andreas 2008: 136). There has been unstoppable tendency of the widening gap between the rich and the poor.

Conclusion

This paper addresses the rising inequality in East Asia, focusing on Japan and China. Two countries are different in their economic condition. While Japan has suffered for a long economic recession, China has enjoyed a long economic boom. Nevertheless, they observe a common phenomenon of the rising economic inequality since 1980s. While globalization is social change occurring at the global level, processes and outcomes of it vary greatly according to interactions between domestic actors and transnational actors. Globalization has been an interactive process of diverse actors including transnational or national corporations, national governments, and national labor organizations. We might observe diverse policies and social change as consequences of globalization according to the balance of power between social classes and between civil society and the state.

In Japan, the low level of organized workers and enterprise union system curtails the veto power of labor unions against the state policy. The Liberal Democratic Party and the New Komeito dominates the institutional politics by making a conservative coalition until 2008. The neo-liberal globalization by the government and enterprises has proceeded without much challenge. Neo-liberalization in Japan has driven the economy to unprepared social crisis with growing inequality and poverty. In China, the Chinese Communist Party has pursued liberalization of the economy by opening the market and reforming the state sector. Though globalization in China cannot simply be called as neo-liberal globalization, the restriction of the state's role and an expansion of the role of market in the national economy have been key factors in globalization in China.

Furthermore, as China becomes a member of the WTO, China has been fully integrated into the global economy.

Globalization in East Asia began with the collapse of the Cold War. Both intra-regional trade and inter-regional trade have been rapidly expanded in East Asian countries. Furthermore the formation of commodity chains among East Asian countries was a direct outcome of globalization in East Asia. Though economic interdependency among East Asian countries has fostered economic growth in each country, the neo-liberal economic policy has drastically changed the structure of income distribution in East Asia, with deterioration of job quality and destabilization of economic security in the labor market. Public provision of welfare in Japan and China fail to provide enough social security against new social risks stemming from the neo-liberal globalization.

This paper is an attempt to explore changing inequality regime in East Asia. We need further investigation to fully understand relationship between globalization and inequality in East Asia, analyzing newly emerging stratification system due to labor mobility and international networks of commodity chains. We also need to identify socio-economic mechanism to understand the rising inequality in each country by decomposing factors contributing inequality. To examine the ways in which interconnectedness of macro-economic system works in shaping inequality in each country requires more bold theoretical conjectures and more extensive empirical research.

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