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## International Trade and Income Distribution in China

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### Abstract

In this paper, we comprehensively analyze the topic related economic data to investigate the connection between International Trade and Income Distribution in China and assert that the international trade elevates the national income condition to a higher level, however, expands the income inequality among regions and various fields of industries in China. Coordinating the connection between international trade and income distribution is imperative to China's development. And we assert that maintain technical innovation, cultivate skilled laborer, and promote market competition will be of essential to solve this case.

**Key words:** International trade; Income distribution; Income inequality

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### INTRODUCTION

International trade greatly boosts the economic growth among the world. Trading between the countries freely improves the welfare and income in all participating

countries. The producers have access to and consume more favorable resources in an efficient and flexible way. And to individual consumers, they can obtain the commodities and services either domestic or imported at a lower price.

With the increasing scale of international trade in China, comes the booming of economic growth and consequently elevates the income condition in China to a higher level; improves the living condition of Chinese people. However, the international trade does not solely create welfares to the country; it alters the structure of the income distribution of one country. And that creates the inequality.

China, at present, is going through a profound economic reform, facing numerous problems and challenges. And the unsynchronized growth of international trade scale and income is one of those. It matters to enable the majority people share the benefits that the international trade created, thus to attain a sustainable development environment for the country. China's income inequality is caused by a variety of aspects. International trade is only one of the many perspectives that caused the income inequality in China. The study of the connection between international trade and income distribution will be significantly necessary in building a fair and harmonious social environment in China.

### 1. THE MECHANISM OF INTERNATIONAL TRADE AND INCOME DISTRIBUTION

There are two ways that International trade can affect income distribution. International trade can either raise or reduce the general income standard of one country; international trade can either alleviate or deteriorate the income inequality within one country.

#### 1.1 International Trade Alters Trading and Industrial Structure and Affect Income Distribution

Comparative advantage (David Ricardo, *On the Principles of Political Economy and Taxation*) asserts that one

country will produce and export the goods or services at a lower marginal and opportunity cost over another. Thus this will affect the trading and industrial structure—the industries with comparative advantage will expand their scale of production and export, while the industries with comparative disadvantage will reduce their scale of production and export until they quit the domestic market.

## 1.2 International Trade Alters the Producing Technology and Affect Income Distribution

### 1.2.1 Technological Progress Improves Income Condition of One Country

Technological progress and innovation are key drivers of economic growth, while international trade always brings the revolution of the production technology. Technological progress will reduce material consumption, improve the social and economic benefit. And with the development of economy, a country's overall income condition is improved.

### 1.2.2 Technology Progress Expands Income Inequality Among Various Industries

Technological progress will alter the marketing demand on skilled workers and unskilled workers, and according microeconomic theory, this has the impact on their incomes. So the income difference between skilled workers and unskilled workers is induced.

The technological progress that international trade induced will benefit the skill-intensive industry; increase the income of skilled workers. On the other hand, this will deteriorate the income condition of unskilled workers who are the majority in especially developing countries.

### 1.3 Administrative Factor Affects Income Distribution

The administrative power is a key factor in coordinating a

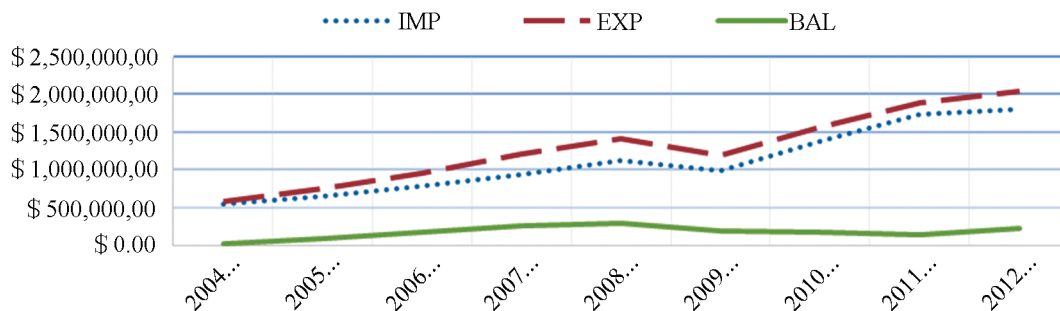
country's international trade and income distribution in an open and free economy. One authority can declare laws, regulations or policies to reveal the authority's intention on trading. For example, the government can adjust tax policy on high-tech products to either promote or restrict import and alter the structure and the scale of trade. In this case, it functions directly. Or the government can affect income distribution by increase the expenditure in public services. For example, the government can increase the expenditure in education, health to affect distribution of income.

## 2. THE GENERAL STATE OF INTERNATIONAL TRADE AND INCOME DISTRIBUTION IN CHINA

### 2.1 The General State of International Trade in China

#### 2.1.1 The Booming International Trading Scale in China

International trade is progressing rapidly in China, and has scored remarkable achievements. According to the statistics in 1978, China's export was \$9.75 billion, while the import was \$10.89 billion, with trade deficit being \$1.14 billion. After decades of development, China joined the world trade organization in 2001; and international trade in China keeps growing fast. As shown in Figure 1, the import and export in China maintains the rising trend, and favorable balance. Except from 2008 to 2009, economic recession affects the growth of trade. In 2012, China's import and export is \$181.778 billion and \$204.894 billion, and the compound figure has reached \$386.672 billion, making China the second large economy.



**Figure 1**  
**Total Imports and Exports of China (IN USD Millions) (2004-2012)**

Note. Source: World Bank

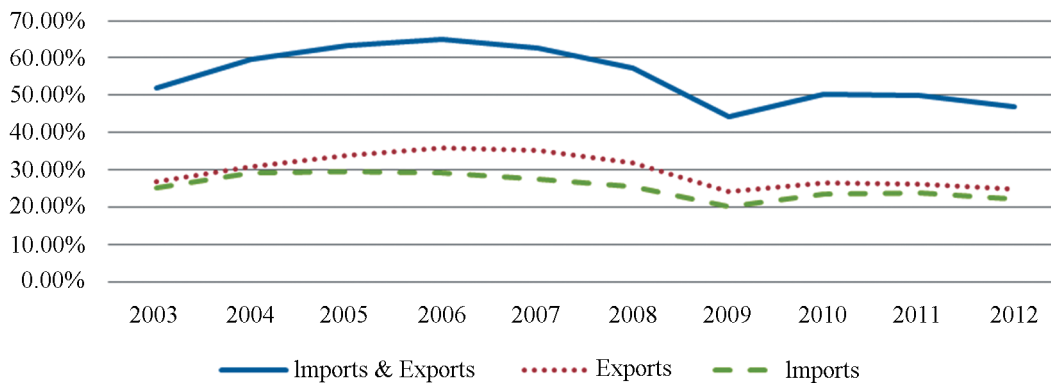
#### 2.1.2 Processing Trade is the Main Form in Export

After 1980s, processing trade (A form of manufacturing trade that processes the goods with the imported material and all produced products must be exported) took the first place over the general trade in exportation. Processing trade has not only optimized the industrial structure in China and advance the technology applications, but also promotes greater employment opportunities. According to the statistics from ministry of commerce, the processing trade which is chiefly in Guangdong and Jiangsu

provinces has made 35 to 40 million migrant workers who come from rural China employed. In 2008, the volume of exportation in processing trade is \$675.28 billion US dollars, and in 2010 is \$740.33, accounting for more than 45% of total exports in China.

#### 2.1.3 Dependence on Foreign Trade

China's rapid economic development depends greatly on international trade. The total annual international trading volume of exports and imports in china is as much as 50% of domestic GDP.



**Figure 2**  
**Dependence on Foreign Trade in China (2003-2012)**

Note. Source: China Statistical Year Book of 2013

**2.2 The General State of Income Difference in China**

**2.2.1 Gini Coefficient in China**

The Chinese official did not announce the Gini coefficient

until in 2003. In this paper, the Chinese Gini coefficients listed before 2003 is from World Bank as presented in Table 1.

**Table 1**  
**Gini Coefficient in China (1981-2013)**

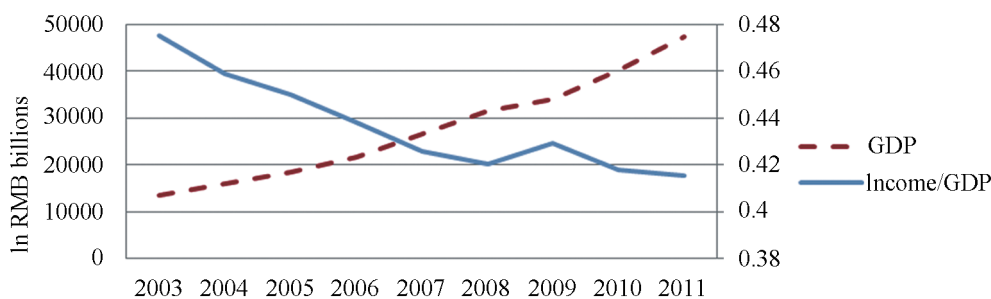
YEAR	1981	1984	1987	1990	1993	1996	1999	2002	2003	
GINI	0.2911	0.2769	0.2985	0.3243	0.355	0.357	0.3923	0.4259	0.479	
YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
GINI	0.473	0.485	0.487	0.484	0.491	0.49	0.481	0.477	0.474	0.473

Note. Source: World Bank, National Bureau of Statistics of the People’s Republic of China

According to data, the general Gini going trend is on the rise from 1981 to 2003. And the Gini’s remains running on the high level. Not until in 2009 the Gini’s is in down trends. However, it still exceeds 0.4 which indicates the income difference in China is widened.

**2.2.2 Proportion of Individual Income in GDP**

Despite the sharp raising of GDP in China, the proportion of individual income in GDP has trended down. That is to say, people’s income has not increased with the boost of GDP. As shown in Figure Three, the proportion of individual income in GDP dropped in 2003 from 47.5% to 42.5% in 2011.



**Figure 3**  
**Proportion of Individual Income in GDP (2003-2011)**

Note. Source: China Statistical Year Book of 2013

**3. THE IMPACTS OF INTERNATIONAL TRADE ON INCOME DIFFERENCES**

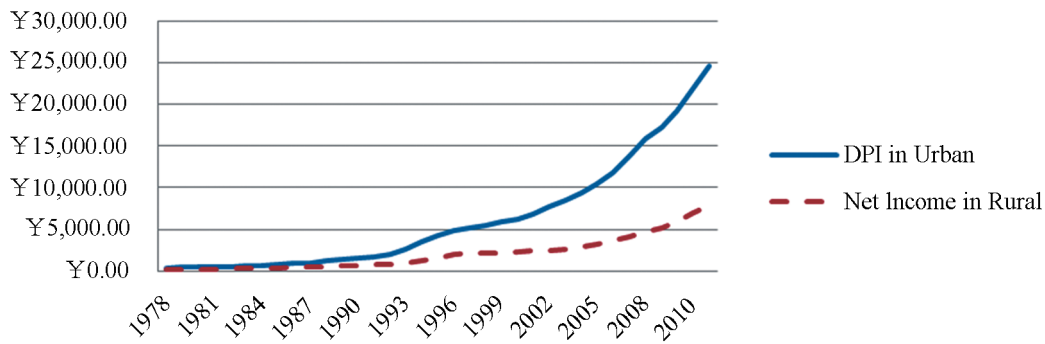
**3.1 Increase the National Average Income**

With the booming of international trade in our country, the average individual income is in increasing trend. As shown in Figure Four, both urban DPI and rural net income are rising steadily.

In 2013 urban average individual income reached RMB 26955 (DPI). Nominal growth rate is 9.7% over the

last year. Actual growth rate is 7.0%, deducting the price factor. The nominal growth rate of income from wage and salary is 9.2% over the past year and 9.8% in business net income growth, 14.6% in property income growth, 10.1% in transferred income growth.

The average individual income in rural is RMB 8896 (net income) in 2013. Nominal growth rate is 12.4% over the last year. Actual growth rate is 9.3%, deducting the price factor. The Nominal growth rate of income from wage and salary is 16.8% over the past year and 7.4% in household net income growth, 17.7% in property income growth, 14.2% in transferred income growth.

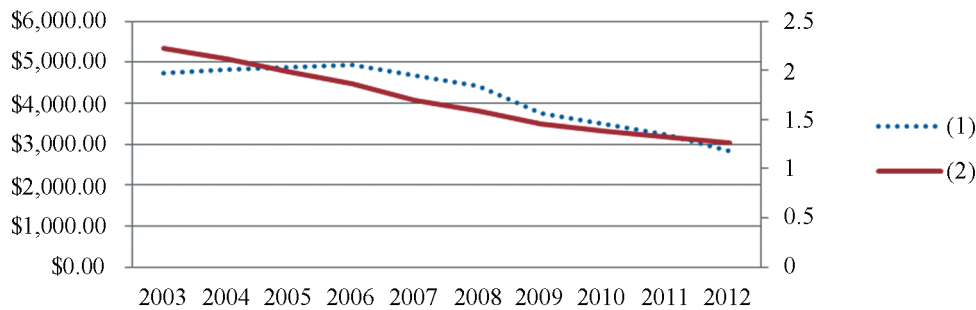


**Figure 4**  
**Individual Incomes in China (1978-2012)**  
 Note. Source: China Statistical Year Book of 2013

### 3.2 Narrow the Income Differences Between World Average and China

To support this point, we compare the GNI per capita (GNI includes all incomes from business sector, government sector, and individual sector) as between the

world average and China. As shown in Figure Five, we present the difference value of GNI per capita (1) and ratio of GNI per capita (2) based on the data from World Bank. Both (1) and (2) are indicating that the income differences between China and world average is downward.

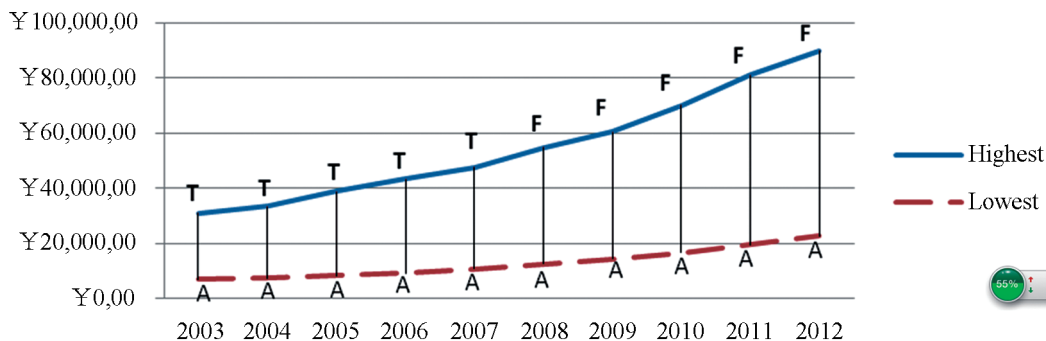


**Figure 5**  
**Comparative of GNI Per Capita Between China and World Average (2003-2012)**  
 Note. Source: (1) Difference Value of GNI per capita (World Average – China)  
 (2) Ratio of GNI per capita (World Average / China)  
 Source: World Bank

### 3.3 Affect the Income Distribution Among Industries

As shown in Figure 6, the income gap among different industries in China is continues expanding. Telecommunication and IT workers have the highest

average income between 2003 and 2007, and the financial industry workers have the highest average income between 2008 and 2012. The lowest average income is in agriculture related industries.



**Figure 6**  
**Highest and Lowest Wages Among Different Industries in China (2003-2012)**  
 Note. (A)-Agriculture, Forestry, Animal Husbandry and Fishery Industries.  
 (T)-Telecommunication, Software and IT Services  
 (F)-Financial

### 3.3.1 Decreases the Labor-Intensive Industry Workers' Income

(a) **Technology Progress.** International trade introduces in the technology progress. According to The theory in 1.2.2 of this article, technological progress is likely to increase the income of skilled workers and deteriorate the income condition of unskilled workers, increased technical income gap between the workers and unskilled workers.

The labor-intensive (mostly are unskilled labors) enterprises constitute the majority of the manufacturing industry in China. The manufacturing industry in China tends to be simple labor and has no technical advantages. For example, assemble electronic components, process accessories. The profits in these fields are comparative low. Correspondingly, their workers' income is low.

(b) **Administrative Factor - Cheap Labor Policy.** In order to attract foreign enterprises, China once promoted labor-intensive industry with population advantageous. However, such policy orientation is prone to be a deviation from the original goal of raising the income of its national.

Despite cheap labors attract the foreign technology transferring into China which enhances the domestic

technology standard, speeds up the technology progress. But the cost of that is the depressed labor prices and minor profit of Chinese manufacturers.

### 3.3.2 Domestic Monopolies Restrict the Function of International Trade in Income Distribution

As shown in Table 2, the average income of manufacturing industry workers is RMB 41650 in 2012, which ranked at the 14th among 19 industries. However, by comparison it is oblivious to find that, manufacturing industry is the most foreign-invested industry among other fields. And the investment amount is nearly four times of the real estate which ranked at the second place.

This is for, the financial and telecommunications industries are mainly monopolies and state-owned. According to the related information, as of 2011, China Commercial Banks' net profit reached as high as 1.0412 trillion Yuan. That is to say, the banks in China profited about 2.85 billion yuan everyday. In 2010, China's GDP accounted for only 9.5% of the world GDP, but China's banking sector profit takes over than 20% of global banking profit. Besides China's telecommunications market is under the control of three state-owned telecommunications giant enterprises.

**Table 2**  
**Comparison of the Average Income of Urban Workers and Foreign Investment Amount in Selected Industries**

Industry	Avg. income (RMB)	Rank	Investment amount (In USD Billions)	Rank
Manufacturing	24267	14	1559.5	1
Telecommunication, software and IT services	52320.4	1	91.2	8
Financial	50910.7	2	53.6	10

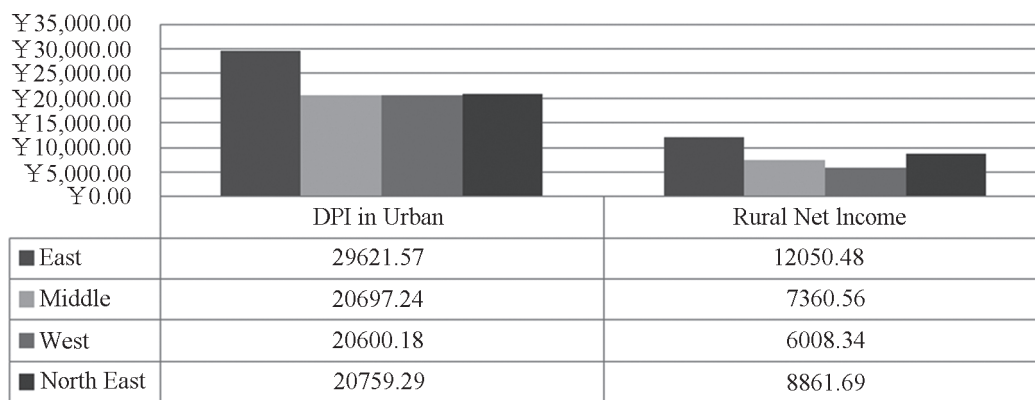
### 3.4 Increase the Regional Income Differences

The average individual income in eastern China was significantly higher than in the other three regions, as the Figure Seven shows. And the reasons that caused the regional income differences are these:

Firstly, technical differences exist between regions. Technology in eastern China is advanced than in other parts of China. Eastern China experienced industrialization and absorb the foreign capital and technology earlier

than other regions in China. And there are more skilled-industries in eastern China.

Secondly, the government's action is another factor. The coastal areas where most of the eastern provinces locate, have unique advantage to develop international trade. And the government inclined to offer the most favorable policies to the eastern China. So the infrastructure construction in the eastern area is adequate. In addition, China prefers to financially invest in eastern region.



**Figure 7**  
**Average Individual Income in Different Parts of China (2012)**

## 4. OPTIMIZING INCOME DISTRIBUTION VIA INTERNATIONAL TRADE

### 4.1 Improve the Competitiveness of Traditional Industry

China is mainly concentrated in manufacturing the labor-intensive products which provide abundant of job opportunities. However the workers of labor-intensive industry are generally unskilled labors who are in disadvantage of income distribution. For example, the electronic products that China exported are mainly the low-tech and minor profit products. And China is facing great competition with Southeast Asian countries that border on China like Vietnam which has many unskilled labors too, so it is difficult for China to maintain a stable export environment in traditional industry. In order to maintain China's comparative advantages in traditional industry, it is important to, first improve the quality of the traditional industry commodities; second, exploit new aiming markets.

### 4.2 Promote Technical Innovation

Technical innovation will be conducive to international trade and industrial structure reforming in China. Besides, it will be helpful in employment and solving the income inequality among industries.

To advance technical, the government should firstly support the technical innovation financially and practically. Secondly, introduce in technology innovation industries. Thirdly, practice new regulations to improve product quality and promote technical advance. Fourthly, optimize the domestic investment environment to attract foreign capital, technology investment. Fifthly, accelerate the development of high-tech industry, upgrade producing technologies.

### 4.3 Balance the Regional Development

As previous stated, the income inequality in different regions of China is large and with the tendency of being worsened. To increase the average income via international trade methods in western China we believe the following measures shall be implemented. Firstly, reduce trading barriers between regions; open the local markets to each other; promote trade freely among regions. Secondly, apply the trading policies that comply with local conditions. Thirdly, transfer the labor-intensive industry which is losing its advantage in eastern China to western China. Fourthly, central government practices favored policies to western China.

### 4.4 Cultivate Skilled Labors

As China embraces the worldwide free trade, external marketing competition is intensified. In order to maintain excess profits, both domestic and foreign-invested enterprises will depress the wages of their employees, and replaced unskilled labor with skilled labor to maximize their profit. This caused the income indifferences between

skilled-unskilled labors and among different industries.

China should increase the investment in education to optimize the human capital structure. We believe this could be achieved by firstly expand the scale of higher education labors and vocational education; secondly, train the unskilled labors and to let them have better vocational capability; thirdly, improve the educational quality and practicability; fourthly, ensure the educational equity.

### 4.5 End the Monopolies in Open Market

China's widening income gap in different industries has been greatly contributed to monopolies that are caused by governmental restrictions instead of the natural monopolies. Natural monopolies and oligopolies are necessary for the economy in specified period and industries. In early establishment of China, in order to prevent overcapacity and excessive competition, the water, electricity, coal, gas, and other industries are state-owned and restricted on governmental running to maintain at a lower price in domestic market. In today, however, the excessive governmental protection creates the inefficient monopolies. This unfair market system pushes other private enterprises out of the market in certain fields.

To break up the monopolies, China should firstly allow private enterprises and foreign-invested enterprises invest in certain governmental protected fields without any administrative barriers. Secondly, maintain a competitive and fair market in opened industries. Thirdly, practice impartial administrative policy and criterion to both domestic and foreign invested enterprises.

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