The Political Economy of Inequality in Developing Countries:

: Trajectories from Industrialization to Inequality

Inyoung Cho

Research Professor, Institute of Governmental Studies, Korea University

Research Fellow, SSK Varieties of Governance Center

Research Questions

Q. Why are the levels of income inequality so different in Latin America and East Asia?

Q. What can explain the different levels of inequality in Latin American and East Asia?

Key Variable: Types of industrialization

Inward-looking Industrialization i.e. ISI (Import Substitution)	Outward-looking Industrialization i.e. EOI (Export-oriented)

- Protected/Closed Economy

- Import substitution production for domestic market growth

- Capital-intensive and Technology-intensive Manufacturing

- Open Economy

- Export oriented policies for growth

- Light manufacturing for mass production

Historical Evidence on the Choice of Industrialization Strategy

Trade Regime (after independence)	Ideal Types	
Protectionism	North Korea	Maintained protectionism from division of territory until now
Protectionism to Openness	Korea (1950s~1960s) Taiwan (1960s)	Maintained protectionist industrialisation only few years and moved to openness
Openness	Japan (since 1853) Hong Kong Singapore Philippines, Thailand, Malaysia, Indonesia (after 1960s)	Maintained openness after 1853 Under British influence Since independence, 1965 Autarky to openness
Openness (primary goods export phrase) **to Protectionism, and then Openness**	Argentina, Brazil, Mexico, Venezuela, Chile (1930s ~1940s): from openness to protectionism Chile, Uruguay, Venezuela, El Salvador (1960s) : protectionism to openness Argentina, Brazil, Mexico, (1970s 80s) : protectionism to openness	**Argentina, Brazil, Mexico** : Maintained a primary goods export economy for quite a long period of time after independence. Then, moved to protectionism in the 1930s and 1940s and then transited to openness in the 1980s **Chile, Uruguay, Venezuela, El Salvador** : Maintained protectionism relatively short period compared to other big Latin American countries

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Argument: Industrialization and Institutions

Main Argument :

Inward-looking industrialization and Outward-looking industrialization make a huge difference in the levels of inequality.

How? Via different institutional arrangements following development strategies

Industrialization affects institutions, especially labor market institutions (Rueda 2015) and welfare state policies/institutions (Wibbels and Alquist 2007, 2011).

→ The institutional configurations shaped by different types of industrialization lead to different distributional results (inequality)

Expected relationships: The impact of institutions on Inequality

Variables	Latin America (ISI)	East Asia (EOI)
Independent Variables		
Labor market institutions		
Union density	+	**-/0**
Employment Protection (EPL)	+	**-/0**
Labor Market Regulations	+	**-/0**
Welfare spending		
Education spending	**0/+**	**-**
Health spending	**0/+**	**-**
Social Security	**0/+**	**-**

Data and Analysis

- Countries

 : Hong Kong, Japan, South Korea, Philippines, Singapore, Thailand, Malaysia, and Indonesia in East Asia, and Argentina, Brazil, Chile, Costa Rica, Mexico, Uruguay, and Venezuela in Latin America.

- Unbalanced pooled time series cross-sectional analysis from 1960 to 2000s

- DV: Economic Inequality (Gini coef): Solt (2016)

- IV: ISI: Size of manufacturing products consumed in domestic market (Wibbels and Ahlquist , 2007)

Data and Analysis

- Testing the impact of labor market/ welfare state institutions on income Inequality

- Dividing regions into Latin America and East Asia:

$$Y_{it} = \alpha_i + \sum_k r_k X_{kit-1} * \textbf{Latin} + \sum_k h_k X_{kit-1} * \textbf{Asia} + \sum_k j_k \text{ country}$$
$$+ \Sigma_k g_k \text{ year } + \varepsilon_{it}$$

- Considering the impact of ISI(protectionist tendency):

$$Y_{it} = \alpha_i + \sum_k \beta_k X_{kit-1} + \sum_k m_k X_{kit-1} * \textbf{ISI}(\textbf{inwardness}) + \sum_k j_k \text{ country}$$
$$+ \Sigma_k g_k \text{ year } + \varepsilon_{it}$$

Results- Overall

	Model 1	Model 2	Model 3	Model 4
Employment protection legislation (EPL)	4.186*** (0.879)		6.292*** (1.768)	
Labour market regulations		-0.127 (0.345)		-0.613** (0.244)
Union density	-0.049 (0.046)	-0.071 (0.053)	-0.040 (0.048)	-0.039 (0.054)
Education spending	-0.175 (0.166)	-0.850*** (0.274)		
Health spending	0.265 (0.165)	1.426*** (0.325)	0.331** (0.168)	1.303*** (0.322)
Social security spending	0.221*** (0.061)	0.665*** (0.145)	0.128* (0.066)	0.462*** (0.098)
Democracy	-1.358 (0.843)	-2.107* (1.253)	-2.459*** (0.879)	-3.565** (1.449)
Strength of democratic history	0.047 (0.182)	0.017 (0.215)	0.350 (0.222)	0.768** (0.362)
obs	209	150	221	162
groups	16	15	16	15

Results: by region

	Model 1		Model 4	
	LA	EA	LA	EA
	coef/se	coef/se	coef/se	coef/se
Labour Market Regulations	1.131***	-2.102***		
	(0.261)	(0.496)		
EPL			2.040*	7.075***
			(1.052)	(2.729)
Union Density	0.014	-0.366***	-0.007	-0.147**
	(0.032)	(0.097)	(0.031)	(0.068)
Education Spending	-0.354	-0.659*		
	(0.221)	(0.387)		
Human capital Index			1.379	-6.148***
			(1.719)	(1.632)
Health Spending	0.651***	-3.175***	0.178	0.209
	(0.212)	(0.799)	(0.147)	(0.639)
Social Security Spending	0.092	-0.749**	0.237***	-0.631**
	(0.069)	(0.380)	(0.087)	(0.286)
obs	69	81	146	75
group	7	8	9	7

Findings

- Historical evidence supports the argument regarding the choice of development strategy.

- Empirical results considerably support the argument linking development model, different institutional arrangements, and inequality.

- All in all, the development model hypothesis explains 'insider-outsider inequality' through labor market institutions and welfare spending.

Thank you!