

ABSTRACT

Abstract of thesis entitled Urban Income Inequality and FDI: Results from Provincial Panel in China, submitted by Ruan Dachao (M-A7-6802-8) for the degree of Master of Social Sciences at the University of Macau in May 2010.

The potential role of FDI in the less-developed countries has raised many theoretical and empirical studies. Question related to whether developmental/modernization theory or world system/dependency theory is one of the hot debates in the studies. This thesis emphasizes the impact of foreign capital on one aspect of economic development, income inequality, in China. Moreover, the term ‘inequality’ in this study focuses on the provincial level rather than the national level.

Previous studies have examined the relationship between foreign capital inflow and China’s income inequality of ‘between-groups’ which is either coastal-inland difference or urban-rural disparity while seldom have those studies related to distinguishing FDI’s impacts between developmental/modernization theory and world system/dependency theory, and leaving a blank in literature regarding the relevant study in China.

This study examines the relationship between foreign capital penetration and provincial urban income inequality with 10 urban areas of Chinese provinces over the period of 1998-2007. The panel data analysis with fixed-effects estimation is employed to control the unmeasured provincial specific effects and to increase sample size.

The empirical evidence shows a generally positive relationship between FDI and income inequality, and supports the world system/dependency theory of FDI in China. Furthermore, our results also show that inequality increases with an accelerating rate as

more FDI comes rather than decreasing rate (which is hypothesized as the inverted U-shaped curvilinear relationship).

Keywords: Economic development, Inequality, urban, Foreign Direct Investment (FDI), Panel, Fixed-Effects Model (FEM)