Inter-National and Intra-Country Economic Integration: The Case of China

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Abstract:

Intra-country market segmentation and urban-rural income disparity are in fact an undeniable indication of disintegration of a national economy. In the global trend of inter-national economic integration, issues of intra-country economic integration have been largely neglected in current research. China is case in point. As China joins the World Trade Organization (WTO) and becomes increasingly integrated with the world economy, anecdotal evidence shows that markets are still internally segmented in China. This paper provides a measure of national and international economic integration from a firm's perspective. It analyzes the importance of urbanization in national economic integration in the context of the current globalization trend. It argues, among other policy recommendations, that urbanization through free labor mobility is both necessary and urgent for an economy to survive and prosper in an increasingly competitive international environment.

Key words: Globalization and Intra-Country Integration

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I. INTRODUCTION

There has been an enormous and increasing literature on globalization and integration from all aspects of economic research. Yet, there is surprisingly little on domestic market integration in today's mainstream economic literature. Words and phrases like "globalization" and "international integration" have become so obsessive that people are led to believe that each individual country is already an integrated market and that the only thing left on the economic agenda is to integrate into the world economy through trade and financial liberalization. Is it true that the world has moved beyond national economic integration toward international economic integration? Is national economic integration a prerequisite for international economic integration? Answers to these questions are crucial in understanding the fabric and the trend of the world economy, and in formulating strategic economic policies.

Anecdotal evidence on the Chinese economy suggests that the Chinese market is not a highly integrated one. Indeed, there exist many segmented local markets rather than one integrated market in China. There are many reasons for such domestic market segmentation including strong powers of local governments, regional cultural differences, labor immobility, lack of adequate economic infrastructure, and information barriers. Regional economic disparity is both a result and cause of market segmentation.

In tandem with market segmentation and regional disparities, there is a wide gap in almost every measure of living standard between urban and rural areas in China. While the urban areas in general are becoming increasingly exposed to the outside world and following the tide of international integration, much of the rural population is lagging behind with a still very backward way of life.

Regional market segmentation and urban-rural disparity are an undeniable indication of disintegration of a national economy. This is not unique of China. It is a common characteristic of less developed economies in the world. In fact, national economic integration is an important measure of economic development of a country.

The importance of national economic integration may be illustrated by Summers (1999): “In the US, the later years of the 19th century taught us that closer integration between states called for more common rule-setting at the national level, to prevent state governments undermining each other’s efforts at promoting fair taxes and labor standards.” The fact that economic research and policy analysis focus more on international economic integration rather than national economic integration exemplifies how mainstream economic research parallels economic development of the more advanced economies in the world. Yet as international economic integration presses ahead, the issue of national economic integration surges on both the economic and political agenda for many developing countries.

While both national and international economic integration may contribute to the economic development and people’s welfare of a country, national economic integration is of paramount importance to a country as long as differences in national interests exist.

A fragmented national market may not be able to reap the claimed benefits of globalization or international economic integration.

The purpose of this paper is to analyze the importance of urbanization in national economic integration in the context of the globalization trend. It will argue that urbanization through free labor mobility is both necessary and urgent for an economy to survive and prosper in an increasingly competitive international environment. It is necessary because urbanization provides the institutional infrastructure for an integrated and growing economy. It is urgent because delays or slowness in the urbanization process may leave the country in a situation in which parts of the country are highly integrated with the world market but the national economy is severely divided between regions and between urban and rural areas.

The paper is organized as follows. Section II reviews some definitional concepts of economic integration. Section III describes how national and international economic integration can be measured from a firm's perspective. Section IV alerts the reader of the coexistence of international economic integration and domestic market segmentation. This phenomenon is prevalent in many developing countries. Section V analyzes the importance of urbanization for national economic integration. The concluding section will provide some policy recommendations.

II. ECONOMIC INTEGRATION: SOME CONCEPTUAL DISCUSSIONS[1]

The existing literature on economic integration suggests that the concept of economic integration apply mostly, if not only, to inter-national integration. Economic integration is seen as either a process, or a combination of state and process, or a means towards an end.

A. Integration as a Process[2]

As a process, integration means the removal of discrimination between different states (Balassa, 1973, p. 1). Integration has been regarded as the process of the progressive removal of discrimination that exists along national borders. Mennis and Sauvant (1976, p. 75) stated, "Integration is a process whereby boundaries between ***nation-states*** become less discontinuous, thus leading to the formation of more comprehensive systems. Economic integration consists in the linking up and merging of the industrial apparatus, administration and economic policies of participating ***countries***." Some authors even included the speed of the integration process. For example, Molle (1991, p. 5) regarded integration as the process of ***gradual*** elimination of economic frontiers between ***countries***. According to Molle, at the first stage, goods' traffic among partners is liberalized. This stage is followed by the liberalization of movement of production factors. Coordination of national policies, with regard to economic sectors but also to such aspects as exchange rate, is the objective at the third stage.

Works on economic integration have also described what the integration process would lead to. According to Pinder (1969, pp. 143-145), "integration is a process towards ***union*** and economic integration is the removal of discrimination between the economic agents of the member ***countries*** and the creation and implementation of ***common policies***." The evolution of the former European Common Market may exemplify this process and the integration that this process has brought about. Others depicted economic integration as a process of developing a system and order.

Maksimova (1976, p. 33) viewed economic integration as "a process of developing ***deep and stable relationships*** about the division of labor between ***national economies***." This process aimed at "the formation of international economic entities, within the framework of groups of ***countries*** with the same type of ***socio-economic system***, which are consciously regulated in the interest of the ruling classes of these countries."

B. Economic Integration as a State and/or a Process

As a state, integration means the absence of different forms of discrimination (Balassa, 1973, p. 1). Non-discrimination and price equalization are the essence of this state. Swann (1996, p. 3) regarded economic integration as "a state of affairs or a process that involves the combination of previously separated economies into larger arrangements." In these arrangements, like the World Trade Organization (WTO) and its predecessor the General Agreement on Tariffs and Trade (GATT), the fundamental principle is equal treatment, or non-discrimination among member states. Based on standard international trade theories, free trade across nations should lead to factor and price equalization. Indeed, Holzman (1976, p. 59) factually equated free trade and economic integration in saying that "[e]conomic integration is a state in which the prices of all-similar goods and factors in two regions are equalized." From a dynamic point of view, particularly in studies of international financial markets, markets are considered integrated if stock prices in different national markets have a tendency to move together.

C. Economic Integration as a Means

A major difference in policy implications between the mercantilist views on trade and the classic trade theories is that the former perceive trade as a zero-sum game whereas the latter see mutual benefits of free trade. Whatever the arguments there may be, national interest (or national welfare as more often used in economic literature) is at the core of analysis. Trade is a means to improve one's national welfare. Likewise, economic integration has also been seen as one of the means for an increase in welfare (Jovanovic, 1998, p. 8). Similarly, Robson (1987, p. 1) regarded economic integration as a means to obtain efficiency in resource use. So "full integration" should involve the free movement of factors of production as well as the free movement of goods and an absence of discrimination.

D. Stages or Levels of Economic Integration

Based on the literature of economic integration and historical experiences, there are four main types of economic integration: free trade areas, customs union, common markets, and economic union. These types of integration may be viewed as stages if one considers integration as a process, or as levels if one considers integration as a state. According to Pugel and Lindert (2000), the four main types of regional arrangements toward increasing economic integration:

(1) Free trade area, in which members remove trade barriers among themselves, but keep their separate national barriers against non-member countries. Examples include the the European Free Trade Area formed in 1960 and the North American Free Trade Area (NAFTA) which officially began in 1994.

(2) Customs union, in which members again remove all barriers to trade among themselves and also adopt a common tariff against imports from non-member countries. The European Economic Community (EEC) from 1957 to 1992 included a customs union along with some other agreements. The Southern Common Market (MERCOSUR), formed by Argentina, Brazil, Paraguay, and Uruguay in 1991, is actually a customs union (Pugel and Lindert, 2000, p. 214).

(3) Common market, in which members allow full freedom of factor flows (migration of labor or capital) among themselves in addition to having a customs union. Despite its name, the Europe Common Market was not truly a common market until 1992 as substantial barriers to international movement of labor and capital were still in existence before then.

(4) Economic union, in which member countries unify all their economic policies, including monetary, fiscal, and welfare policies as well as policies toward trade and factor migration. Most nations are economic unions (Pugel and Lindert, 2000, p. 214). Belgium and Luxembourg have had such a union since 1921. The European Union (EU) is on a path toward full unity.

Cacho (1998) added a fifth stage or level of economic integration:

(5) Political union, in which countries agree to common policies in almost every sector, including foreign and defense policy. The demands for economic integration might lead to growing political integration as the governments of the member states worked together more closely. Pressure then would grow to create a political union.

The five stages or levels of economic integration may be viewed as a continuum from a free trade arrangement to a full economic and political union among nations. In fact, this continuum can be extended from both ends. There are many formal and informal groupings among nations before formal agreements of free trade are reached. The Asia Pacific Economic Cooperation Forum (APEC) was initiated in November 1989 at a ministerial meeting held in Canberra, Australia, and participated by representatives from some Asia-Pacific countries. Its efforts are focused on the development and adoption of concrete steps to achieve free trade and investment in the Asia-Pacific area by the year 2020 (Appleyard and Field, 1998, p.375). In more recent years, summits of the Americas have been held to discuss the creation of a free trade zone across nearly all Western Hemisphere (with Cuba as the exception) by 2005. The arrangement would strike trade barriers across the Americas from the Arctic Circle to Cape Horn – a region that is home to 800 million people. In addition, the leaders of 34 American countries at the 2001 Quebec summit adopted declarations supporting improved education, health care and participation in democratic institutions (CNN, 2001a).

The extension from the other end of the economic integration continuum requires more envisioning. Where would economic integration eventually lead? This is an inevitable question to ask as we are down the road of globalization. What would the world be like in 100 years? In 500 years? In 1000 years and beyond? Will the entire world follow a path of free trade, free mobility of factors of production, economic union, political union, cultural union, and human union? How people envision the world in the future bears significantly on today's government policies and individual behavior.

III. SOME MEASURES OF ECONOMIC INTEGRATION

There is no doubt that there are voluminous discussions of the term "globalization" and one can readily argue for the difference between "economic integration" and "(economic) globalization." Without resorting to semantics, one convenient distinction between the two terms is in scope. Economic integration may be used to describe cooperative economic arrangements among a small or a large number of countries, whereas globalization is more or less representative of the entire world. Indeed economic integration is often referred to as "regional" economic integration as most of the current integration arrangements are confined to specific regions in the world. While these integration arrangements prompt free trade and free mobility of factors of production, they discriminate against non-members. Therefore, these arrangements are often being criticized as regionalism. On the other hand, regional cooperative arrangements may be expanded in geographical coverage so it may become more "global." The proposed Free Trade Area of the Americas has been called a "logical extension" of NAFTA (CNN, 2001b). In this sense, progressive economic integration may lead to globalization.

Many studies in the vast international trade and finance literature either explicitly or implicitly measure economic integration or globalization. Price equalization of similar products in different national markets and co-movement of prices in different national financial markets are among these measures. Other measures include equality or disparities in per capita income among the world's nations.[3]

The author of this paper would like to propose yet another measure of economic integration and globalization, which focuses on the economic activities of individual firms. Of the three main types of economic agents in an economy, households (consumers), firms, and the government, firms are the most active. Households and the government do not move across national borders as much as firms do in their economic activities. So a firm's business coverage within a nation and across borders should provide an interesting measure of economic integration.

Using individual firms' market coverage as a measure of economic integration or globalization can find support in the literature on economic integration. One of the stylized facts of the development of the global economy is the concentration of manufactures (Alam, 2000, p.1). It can be argued that the concentration ratio for a firm or for a combination of firms is higher in a more integrated national economy and in a more globalized world.[4] Indeed, Machlup (1979, p.3) stated that the term integration in economics was first used in industrial organization to refer to combinations of firms. Horizontal integration referred to linkages of competitors, while vertical integration referred to the unification of suppliers and buyers (Jovanovic, 1998, p.5). Both horizontal and vertical integration will increase the size the resultant firm and its market coverage.

Suppose a particular firm, firm $\boldsymbol{i}$, can sell its products or service in $\boldsymbol{M}$ potential markets in a particular country, country $\boldsymbol{j}$. A potential market is defined as a place where the presence (as represented by products, services, or other commercial existence) of the firm or its competitors is needed. The specific boundaries of the markets are firm- or industry- specific and may vary or change as market conditions vary or change. For example, every local residential community may be viewed as a potential market for the service of a McDonald’s restaurant. On the other hand, the potential markets of Boeing’s large commercial aircraft may have to be measured at the national level. Given these discussions, a firm’s business coverage of its potential markets in a particular country can be presented as

$$C_{i,j} = \frac{P_{i,j}}{M_{i,j}}$$

where $\boldsymbol{P_{i,j}}$ is number of markets where firm $\boldsymbol{i}$ is present and $\boldsymbol{M_{i,j}}$ is the number of potential markets for firm $\boldsymbol{i}$ in country $\boldsymbol{j}$. $\boldsymbol{C_{i,j}}$ reaches one (unity) when the firm has presence in every potential market. The significance of $C_{i,j}$ is its indication of country j's national economic integration. The firm cannot achieve market unity if there are insurmountable market barriers between different potential markets.

The magnitude of $C_{i,j}$, or the degree of national economic integration as measured by firm i's business coverage, depends obviously on the maturity of the firm. It takes time for a normal firm to grow and expand beyond its base where the business is initiated.

The magnitude of $C_{i,j}$ should also depend on a country's overall economic development. A more developed economy provides the necessary infrastructure, overall business environment, and financial market support for firms to grow and expand.

The magnitude of $C_{i,j}$ can be affected by geographical restrictions in certain industries. Some of these restrictions are due to the nature of the firm's business while others are set by administrative policies. A lot of traditional services are local in nature, such as haircut, dry cleaning, and medical cares. It is difficult, if not impossible, for firms providing these services to have business coverage beyond their local confines.[5] Financial services like commercial banking are not subject to the same spatial limitations. But in the United States each state has the right to set its own rules on intrastate branch banking. This regulation was established by the McFadden Act by the U.S. Congress in 1926. This rather outdated legislation was intended to prevent large banks from expanding geographically and thereby forcing out or taking over smaller banking entities, possibly threatening competition (Fabozzi and Modigliani, 1996, p.49). There are some states where banks cannot establish branches statewide; these are called unit-banking states. These geographical limitations on branch banking understandably increase the number of banks while decreasing the geographical coverage of each establishment, thus reducing $\boldsymbol{C_{i,j}}$.

In a country where the internal markets are separated and segmented by mutual isolations, firms' activities are confined to their specific localities. As a result, the number of firms in most industries tends to be large, yet the size of each individual firm is fairly small, thus lowering the average $\boldsymbol{C_{i,j}}$.

In practice, the number of potential markets for each firm may be difficult to measure. The appropriate level of administrative jurisdictions or zoning localities may be used as a close proxy for specific firms. For example, the potential markets for McDonald's fast food and most consumer products in the United States may be approximated by the number of postal codes or postal offices.[6] The number of potential markets for automobiles and other durable goods may be measured by the number of counties. Then a survey of the presence of each firm in its corresponding proxy territories will yield a measure of its geographical coverage and an indication of economic integration. People will not be surprised to find that $\boldsymbol{C_{i,j}}$ for McDonald is very high in the United States. In fact, $\boldsymbol{C_{i,j}}$ for most of the brand name companies should be very high.[7]

One may doubt the validity of these individual business coverage measures as a measure or indication of economic integration, arguing that the $\boldsymbol{C_{i,j}}$'s for different firms in the same industry can be very different. It is true that these differences are very often reflections of different firms' competitive positions in the market rather than an indicator of market integration. Yet a leading firm's $\boldsymbol{C_{i,j}}$ represents the general environment that allows a certain degree of market integration within a national economy. A composite measure of national economic integration may be defined as

$$I_j = \frac{1}{N}\sum_{m=1}^{N} C_{m,j}$$

where $\boldsymbol{N}$ is the number of industries in country $\boldsymbol{j}$, and $\boldsymbol{C_{m,j}}$ is the leading firm's $\boldsymbol{C_{i,j}}$ in a particular industry. Here a leading firm refers to the one that has the highest $\boldsymbol{C_{i,j}}$ in a industry. A country reaches full economic integration when $\boldsymbol{I_j}$ attains the value of 1.

The international economic integration or globalization as seen from a particular firm is simply an extension of the national measure:

$$G_i = \sum_{j=1}^{W} C_{i,j} \qquad 0 < G_i < W$$

where $\boldsymbol{W}$ is the total number of countries in the world. If $\boldsymbol{G_i}$ is greater than 1, an obvious inference is that the firm has at least some international presence.[8] If $\boldsymbol{G_i}$ approaches $\boldsymbol{W}$, it is literally a global firm. Much of the previous discussion about $\boldsymbol{C_{i,j}}$. also applies to $\boldsymbol{G_i}$ except for an international context. As the global trend of liberalization in trade, investment, and services presses on, firms in the most competitive positions in the world will be able to crack national barriers and to penetrate more markets. This is an important force that drives economic integration and globalization. It is now reasonable to assert that many well-known multinational firms have achieved a $\boldsymbol{G_i}$ score that is not far away from $\boldsymbol{W}$. This is particularly true in high-tech industries.

Correspondingly, an overall measure of globalization (for the entire world) may be presented as

$$G = \sum_{l=1}^{N} G_l \qquad 0 < G < NW$$

where $\boldsymbol{G_l}$ is the leading firm's $\boldsymbol{G_i}$ in a particularly industry. The underlying assumption for the expression is that every country has the same number of industries, not an unreasonable assumption. The ultimate measure of globalization, NW, is the product of the number of countries and the number of industries in the world. The process of economic integration or globalization will make the products or services of the most competitive firms in the world available in more and more national markets.

IV. THE COEXISTENCE OF INTERNATIONAL ECONOMIC INTEGRATION AND INTRA-COUNTRY MARKET SEGMENTATION

One basic assumption of the classic international trade theories is that there is free mobility of factors of production within a nation but immobility across national borders. So international trade is based on the implication that the national market is already integrated. An integrated national market is a necessary condition for the efficient allocation of productive resources within a nation.

But the assumption of free mobility of factors of production within national boundaries does not seem to be consistent with the stylized facts of economic disparities within many nations. These disparities include regional disparities and differences between urban and rural areas in per capita income and other measures of living standards within a nation. Based on classic trade theories, free trade across nations can equalize factor and product prices; similarly, free mobility of factors of production within a nation ensures equalization of wages and capital returns within the same nation. Why don't people in low-income areas move to more advanced areas? Why don't people in rural areas migrate to urban areas so as to improve their standard of living? Obviously there must be some hindrance to full mobility of factors of production and a lack of full market integration in the economy.

International trade has a long history, so do economic disparities within nations. So the coexistence of international economic integration and national market segmentation is not a new phenomenon. Yet the trend of international economic integration or globalization gained unprecedented momentum in the last decade of the 20th century. With the collapse of the former Soviet Union, a strong push for a global market economy led to a sweeping torrent of trade and financial liberalization throughout the world with mostly the developing countries bearing the brunt. In tandem with this trend, there were efforts to institutionalize economic integration and globalization. Among these efforts were the establishment of the World Trade Organization (WTO) and the proposal for a new international financial architecture. These developments have provided a more favorable global environment for multinational firms to extend and expand their businesses to potential markets all over the world. While manufacturing multinationals will continue to increase their business coverage in the world, the General Agreement on Trade in Services (GATS) under WTO, which came into force in January 1995, has paved the way for multinationals in service industries to integrate into more markets in the world. These services encompass banking, insurance, accountancy, telecommunications and transportation. As claimed by the WTO, "[i]t is impossible for any country to prosper today under the burden of an inefficient and expensive services infrastructure." [9] Not surprisingly, the measure of international economic integration, $\boldsymbol{G_i}$, for many multinational firms has significantly increased toward the end of the 20^{th} century and will continue to increase. The more comprehensive measure of globalization, $\boldsymbol{G}$, have also increased and will continue to increase. Global economic integration has been assisted by agreements within the WTO (Wolf, 1999).

The increased business presence of multinational firms can be evidenced in China. Browsing the web sites of major economic and developments zones (areas) in China, one can easily find proud descriptions of the number of multinational companies that have made investment in their respective zones. To get connected to the world economy has become the buzzword in China and it seems that one way to achieve this is to provide preferential policies to attract foreign investment. Foreign investment has been deemed as a driving force for China's economic growth since China adopted a reform and open-door policy in 1978.

The most phenomenal change in the Chinese economy during the reform is the transformation of the market structure. During the years of a planned economy, every industrial production unit in every locality could be regarded as a branch or subsidiary of a central government agency or department. If these central government agencies and departments were regarded as headquarters of their nation-wide production units and operations, then the measures of economic integrations, $\boldsymbol{C_{ij}}$ and $\boldsymbol{I}$, had mostly attained unity. So the Chinese economy might be considered to be highly integrated, or more integrated than most of the market economies at the time. But, as it is known to all, such a high level of integration was based on state monopoly. The network of state monopoly in most industries has been torn during the economic reform in the last two decades. Village and township enterprises have sprung like mushrooms in China's coastal areas.

The economic growth in the non-state sector has significantly surpassed that of the state sector. State-owned enterprises have more recently become a focal point in China's economic reform.

As people in and out of China hail China's economic achievements, one may observe that the Chinese market or the economy is not fully integrated in many aspects. This may be evidenced by the lack of a sufficiently large group of domestic firms that can extend their business coverage through most potential markets in China. The many thriving small- and medium sized firms have limited access to markets beyond their respective localities where they had started. Even many large state-owned enterprises, now being severed from their former state network systems, have lost much of their previous geographical business coverage in China. As compared with the market structure in industrial countries, China has a vast collections of small and medium sized firms with very few conglomerate giants whose businesses can span all over China or have established significant presence in overseas markets. So the measure of integration for most Chinese firms, $\boldsymbol{C_{ij}}$, and for the overall economy, $\boldsymbol{I}$, are presumably small.

The lack of dominance by large firms in the China's market is in sharp contrast with high concentration ratios of U.S. firms. Table 1 shows the historical trend of the share of value-added in manufacture by 50, 100, 150, and 200 largest manufacturing companies in the United States. Although no comparable statistics are available for China, industry survey data published by China's State Statistic Bureau should shed some light to concentration ratios in China. In 1995, 23,007 industrial firms that were categorized as large or medium-sized enterprises, about 0.3% of all enterprises and production units in China, produced 39.6% of all the industrial value added in China.[10] In contrast, as Table

1 shows, the 200 largest firms in the United States produced over 40% of all value-added in U.S. manufacturing industries since 1962. The 200 largest U.S. firms constituted about 0.06% of the total number of companies in 1997. 200 largest U.S. firms produced about the same proportion in their industry's value-added in 1997 as more than 20,000 firms in China did in 1995.

The lack of dominance of nationally recognizable large firms in the Chinese economy is an evidence of economic disintegration in China. One plausible explanation is that the emergence of leading companies in an industry takes time. After all, there has been only about twenty years since China economic reform began. But a congenial economic environment is crucial for a star firm to expand its business throughout the country. Market access may be denied of a firm from another locality through either explicit administrative restrictions or local culture. Anecdotal evidence shows that barriers for market access by non-local firms and labor mobility exist in at least some provinces and municipalities in China. Such barriers include, for instance, local authorities restricting registration of vehicles produced elsewhere that are in direct competition with those produce locally and regulating against non-local residents for employment in certain local industries.

Insert Table 1 about here

The drive for international economic integration in China has made many multinational firms and products prevalent in China's local markets. In the meantime, few domestic firms have broken through their local market confines. As a result, many multinational firms and their products enjoy a more integrated market in China than domestic firms in corresponding industries. Many U.S. products have achieved dominating market shares in China. According to a 1997 market survey, Motorola cellular phones, Coca Cola drinks, and Kodak films, among others, had more than 40% of market shares in their respective markets in China (People's Daily, 1997).

How should one explain the dominance of multinational in China's specific markets? For multinational firms, the superiority of their products and their management skills have rendered them unchallenged advantages in many cases. Domestic firms, particularly those non-state-owned firms, as mentioned earlier, have a relatively short history and have not yet attained their potentials. But the differential treatment between foreign investment and domestic enterprises should have also contributed to the dominance of multinational firms. In addition, pre-established consumer perceptions favor foreign goods over domestic products.

The presence (and the dominance) of multinational firms in China is indicative of China's integration with the world economy. On the other hand, the fact that the majority of Chinese firms are being confined to their local markets reveals disintegration of the Chinese markets. The coexistence of international economic integration and intra-country market disintegration reflects the current stage of China's economic development and will likely persist for the foreseeable future. Yet continued disintegration in the presence of globalization may pose severe challenges to sustainable economic growth and stability in the Chinese society. One can hardly imagine that a country can maintain a viable and consistent economic system when part of the country is being integrated with the outside world while the rest is left behind.

It is claimed that international economic integration through joining the WTO may help introduce a competitive mechanism to China. This will provide incentives and pressure for Chinese firms to become more efficient and competitive. But the playing field may not be level for some domestic firms. First, they are not at the same starting line with multinationals. Second, they may not receive the same preferential treatment that multinational companies have enjoyed. Obviously the fate for the domestic firms is either to prosper or to perish. Domestic firms form a country's base for sustainable economic growth and long-term stability. Therefore, it is important that a sufficient number of domestic firms survive international competition and emerge stronger.

V. THE IMPORTANCE OF URBANIZATION FOR NATIONAL ECONOMIC INTEGRATION

While a leading firm's market coverage in a particular industry measures a country's internal economic integration, intra-country per capita income parity (or disparity) provides an alternative indication of a country's economic integration. Intra-country parities are often measured across regions within a country or between urban and rural areas.

Table 2 presents per capital income distribution in the United States in 1998. The District of Columbia and Connecticut were the top earners while West Virginia and Mississippi were among the lowest. While the gap between the top and the bottom seems to be fairly large (Mississippi's per capita income is about 53% of that for the District of Columbia), the standard deviation of per capita income across states was only about 15%.

Insert Table 2 about here

The regional and urban/rural disparities in China are more pronounced, as shown in Table 3, which presents both urban and rural per capita income distributions across provinces and municipalities in 1998. Guangdong and Shanghai ranked the highest in urban per capita income. The per capita income for Shanxi and Gansu, on the other hand, was less than half of those on top of the list. The standard deviation for China's urban per capita income in 1998 was about 26%. For the rural areas, the standard distribution for per capita income was even higher – a staggering 40%, with the lowest income (Tibet) was only 23% of the highest (Shanghai). China's urban area per capita income was 2.52 times that of rural areas on average. In places like Yunnan (4.40), Guizhou (3.43), Chongqing (3.19), and Shaanxi (3.02), urban area per capita income is more than three times that of rural areas. The urban/rural disparities in coastal areas are relatively smaller (e.g., Shanghai 1.63, Jiangsu 1.80, Zhejiang 2.07). It is interesting to note that the three provinces in China's northeast (Jilin 1.77, Liaoning 1.80, and Heilongjiang 1.90) are among the areas in China that have the least urban/rural disparities. Does this mean that these places are more urbanized than most other places or that these places have a different economic structure? These are interesting questions for further exploration.

Insert Table 3 about here

A casual economic comparison between China and the United States reveals that urbanization and economic integration are essentially synonyms in a competitive market environment.[11] Like economic integration, urbanization may be viewed as a process, a state, or a means. As a process, it means the removal of barriers to resource mobility, exchange, and communication between rural and urban areas, eventually the removal of differences between rural and urban areas. As a state, it means equity and equality in employment, business operation, and social benefits. As a means, it is to achieve an ever-increasing level of economic welfare for the nation. A highly urbanized economy should also be a highly integrated economy.

While national economic integration will definitely improve a country's national welfare, the contribution of international economic integration to a particular country's welfare cannot be taken for granted. In a study of integration and polarization in the global economy since 1760, Alam (2000, p. 1) stated that the asymmetric developments in the global economy during the two hundred years ending in the 1950s were shaped by "unequal races" and unequal states. According to Alam, the evolution of the global economy during that time period was defined by four stylized facts: (i) relentless polarization, (ii) international integration, (iii) spatial concentration of manufactures, and (iv) concentration of power.

There are no strong indications that these facts have changed much over the last half a century. However, the current globalization trend may impose a new test to the integrity of country's national economy. If a country's economy is disintegrated geographically, parts of the country's market may be integrated with the rest of the world while other parts are still isolated and left behind. It should be noted that a disintegrated economy is characterized by not only barriers in regional trade, but also by immobility of labor and residence. This disintegration only hinders commerce between regions within a country, but also blocks communication among people in different regions, between different ethnic groups, and between people in different religious beliefs. Obviously, the risk is beyond just economic. The breakdown of the former Soviet Union and the disintegration of other countries in the last decade or so should have provided sufficient lessons for a country whose markets, including labor markets, are disintegrated.

VI. POLICY IMPLICATIONS AND FURTHER RESEARCH

The foregoing discussions of economic integration and existence of intra-country market segmentation in China have a number of policy implications. While these implications are derived from observations on China, they should have more general references for other developing countries.

Centralized rule setting to eliminate intra-country market barriers

Centralization is crucial for a country's economic integration and for more efficient participation in globalization. As the U.S. experience has indicated, closer integration between different regional areas and localities call for more common rule-setting at the national level, to prevent local governments undermining each other's efforts toward a fair and competitive but unified market. Firms will be able to extend and expand their business coverage in all potential markets, taking advantage of economies of scale and improving efficiency. Enhanced competition will also benefit consumers as prices are driven down.

A politically integrated country cannot have an economy that is significantly separated and disintegrated. While the United States is being considered one of the freest countries, if not the freest country, in the world, the federal government of the United States has enormous power over the country's economy and great capacity in mobilizing the country's economic resources. For example, income tax (both individual and corporate), by far the largest category in U.S. tax revenue, is collected and allocated (or expensed) by the federal government. Many corporate and business laws and regulations are set at the federal level in the United States.

Free labor mobility and equal opportunity

Urbanization should allow free mobility of labor within the nation. Freedom of labor mobility ensures the efficient allocation of human resources and increase overall labor productivity. It promotes communication, exchange, and technical innovation. It reduces local cultural barriers and eliminates prejudices caused by isolation. It lowers transaction and production cost.

Residents should be allowed to choose where to live, where to work, and when to move. There should be no discrimination in education, employment, and residence for every citizen. In addition, free labor mobility will gradually rid off people's attachment to their localities and promote a common identity. Many people in the rural areas have been confined to their local "tribes" and are not exposed to the changing world beyond their localities. In this sense, mobility itself is an education for these people.

Elimination of regional and local barriers in trade and business

Regional barriers are not consistent with urbanization. Urbanization cannot achieve its highest efficiency if it is coupled with regionalism or localism. "Opening to the inside" is at least as important as opening to the outside world. Business and investment policies should be based on standard and merits of firms, but not on their geographical origin. Domestic firms should be given equal treatment in business opportunities.

Growth of firms

The growth and expansion of firms are the driving force for urbanization. Labor mobility provides a competitive labor market for firms. As new firms being established and existing firms expanding, more people will be employed. The various economic and development zones formed in the last two decades in China are a good start in China's urbanization.

The contribution of large enterprises to a country's urbanization and economic integration cannot be overly emphasized. In some industrial countries, these enterprises have offices and production facilities in many parts of their home countries. So they can mobilize labor, capital, and technology resources throughout the country, or throughout the world for some multinationals. Many local towns and communities have been established upon the presence of these companies.

Centralize rule making, free labor mobility, and equal opportunity for firms are all interrelated policies that are necessary in urbanization, domestic economic integration, and effective participation in globalization.

Future research

The discussions and the proposed measure of economic integration may lead to a number of areas for future research. One of the hypotheses of the discussions is that leading firms in more developed countries have higher business coverage due to a higher degree of intra-country economic integration. This hypothesis can be empirically tested through appropriate survey designs and data collection. Mergers and acquisitions are a very common approach for firms to expand and extend their market coverage. One may investigate the impact of mergers and acquisitions on inter-national and intra-country economic integration. Concentration ratios have been used in this paper to illustrate market coverage and market integration for the U.S. in this paper. Further research is need to justify both theoretical and empirically the use of such ratios for firms' market coverage and economic integration.

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Table 1
Share of Value Added by Manufacture
Accounted for by the 50, 100, 150 and 200 Largest Manufacturing Companies
(Percent)

	50 largest	100 largest	150 largest	200 largest
1947	17.0	23.0	27.0	30.0
1954	23.0	30.0	34.0	37.0
1958	23.0	30.0	35.0	38.0
1962	24.0	32.0	36.0	40.0
1972	25.0	33.0	39.0	43.0
1982	24.0	33.0	39.0	43.0
1992	24.0	32.0	38.0	42.0
1997	24.0	31.7	36.9	40.7

Sources: 1982 Census of Manufactures, Volume I.
1992 Census of Manufactures: Concentration Ratios.
1997 Economic Census: Concentration Ratios. U.S. Department of Commerce.

Table 2

US Per Capita Income, 1998

(In U.S. dollars; Comparison in ratios)

State	Income	Comparison	State	Income	Comparison
District of Columbia	37,714	1.00	Texas	25,803	0.68
Connecticut	37,452	0.99	Kansas	25,687	0.68
New Jersey	34,310	0.91	North Carolina	25,454	0.67
Massachusetts	33,394	0.89	Missouri	25,403	0.67
New York	32,236	0.85	Indiana	25,182	0.67
Maryland	30,850	0.82	Wyoming	24,927	0.66
Illinois	29,974	0.79	Iowa	24,844	0.66
Colorado	29,860	0.79	Vermont	24,803	0.66
Nevada	29,806	0.79	Tennessee	24,576	0.65
New Hampshire	29,679	0.79	Arizona	24,133	0.64
Delaware	29,571	0.78	South Dakota	23,797	0.63
Minnesota	29,503	0.78	Maine	23,529	0.62
Washington	28,632	0.76	North Dakota	22,767	0.60
Virginia	28,343	0.75	South Carolina	22,544	0.60
California	28,280	0.75	Kentucky	22,353	0.59
Rhode Island	28,012	0.74	Louisiana	22,352	0.59
Alaska	27,904	0.74	Utah	22,294	0.59
Pennsylvania	27,358	0.73	Oklahoma	22,199	0.59
Florida	26,930	0.71	Alabama	22,123	0.59
Michigan	26,807	0.71	Idaho	21,923	0.58
Hawaii	26,725	0.71	Montana	21,324	0.57
Wisconsin	26,245	0.70	Arkansas	21,260	0.56
Ohio	26,164	0.69	New Mexico	21,178	0.56
Georgia	26,134	0.69	West Virginia	20,246	0.54
Oregon	25,958	0.69	Mississippi	20,013	0.53
Nebraska	25,861	0.69	**United States**	**27,322**	**0.72**

Source: Bureau of Economic Analysis, Department of Commerce

Table 3
Per Capita Income in China: 1998

(In Chinese yuan; Comparison in ratios)

Region	Urban	Rural	Urban/Rural Ratio	Urban Comparison	Rural Comparison
Guangdong	8,904.83	3,527.14	2.52	1.00	0.65
Shanghai	8,825.26	5,406.87	1.63	0.99	1.00
Beijing	8,520.61	3,952.32	2.16	0.96	0.73
Zhejiang	7,883.77	3,814.56	2.07	0.89	0.71
Tianjin	7,126.23	3,395.70	2.10	0.80	0.63
Fujian	6,544.81	2,946.37	2.22	0.73	0.54
Yunnan	6,100.26	1,387.25	4.40	0.69	0.26
Jiangsu	6,064.45	3,376.78	1.80	0.68	0.62
Chongqing	5,487.49	1,720.46	3.19	0.62	0.32
Hunan	5,474.55	2,064.85	2.65	0.61	0.38
Guangxi	5,440.55	1,971.90	2.76	0.61	0.36
Shandong	5,414.17	2,452.83	2.21	0.61	0.45
Sichuan	5,159.97	1,789.17	2.88	0.58	0.33
Hebei	5,116.12	2,405.32	2.13	0.57	0.44
Xinjiang	5,041.67	1,600.14	3.15	0.57	0.30
Hainan	4,895.39	2,018.31	2.43	0.55	0.37
Hubei	4,849.43	2,172.24	2.23	0.54	0.40
Anhui	4,798.76	1,863.06	2.58	0.54	0.34
Liaoning	4,646.41	2,579.79	1.80	0.52	0.48
Guizhou	4,580.48	1,334.46	3.43	0.51	0.25
Inner Mongolia	4,389.44	1,981.48	2.22	0.49	0.37
Heilongjiang	4,291.76	2,253.10	1.90	0.48	0.42
Jiangxi	4,274.32	2,048.00	2.09	0.48	0.38
Qinghai	4,257.50	1,424.79	2.99	0.48	0.26
Shaanxi	4,243.76	1,405.59	3.02	0.48	0.26
Henan	4,238.49	1,864.05	2.27	0.48	0.34
Jilin	4,223.91	2,383.60	1.77	0.47	0.44
Ningxia	4,146.37	1,721.17	2.41	0.47	0.32
Shanxi	4,117.79	1,858.60	2.22	0.46	0.34
Gansu	4,034.26	1,393.05	2.90	0.45	0.26
Tibet	…	1,231.50			0.23
National Total	5,458.34	2,161.98	2.52	0.61	0.40

Source: Chinese Statistics Yearbook, 1998.

End Notes:

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[1] This section is based on literature collection made available by Cacho (1998)

[2] The italic and bold-face emphases in the subsequent quotes are added by the author of this paper unless otherwise noted.

[3] See Alam (2000) for discussions of international economic integration and polarization in the global economy since 1760.

[4] Concentration ratio is often defined as the share (e.g., in sales or value-added) of a particular number of firms in the entire market/industry.

[5] One may argue that even these services can expand their business coverage through franchising or setting up branches throughout a country. Such franchising or branching may require standardization of the products or services involved, which may prove to be difficult, as evidenced by the lack of prevalence of such arrangements in the real world.

[6] As of June 30, 2002, McDonald's had 30,464 restaurants in 121 countries, of which slightly fewer than half – between 13,000 and 15,000 – were located in the United States (http://www.mcdonalds.com/, accessed October 19, 2002. As of August 9, 2002, the United States had 27,863 postal offices (U.S. Postal Services: Financial and Operating Statements, Accounting Period 12, PFY2002 (http://www.usps.com,

accessed October 19, 2002). McDonald's business coverage is approximately one-half of its potential markets as measured by the number of postal offices.

[7] The discussion here does not rule out the possibility that a firm may have a strong presence in more than one industry.

[8] Of course, a firm can have presence in several or many countries even if its G_i measure is less than one.

[9] WTO, GATS: FACT AND FICTION: Why is the liberalization of services important? http://www.wto.org/english/tratop_e/serv_e/gats_factfiction2_e.htm.

[10] Data is from The Third National Industrial Survey, China State Statistic Bureau, 2001. Available at http://www/stats.gov.cn/tjgb/gypcgb/qggypcgb/200203310150.htm, accessed October 4, 2002.

[11] The Chinese economy may be regarded as highly integrated before the economic reform as discussion earlier, but it was a network of state monopoly, not a competitive market.