Foreign Direct Investment, Intellectual Property Rights and Wage Inequality in China*

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ABSTRACT

This paper incorporates foreign direct investment and product differentiation in a general equilibrium trade model. The analysis shows that freer trade and FDI will upgrade China’s technology, improve its skills of labor, and increase the competitiveness of local firms in the international market. At the same time, FDI in differentiate sectors will increase the relative wage of skilled labor to unskilled labor. The size of this rise will be affected by the degree of protection for intellectual property rights. These theoretical results are consistent with empirical evidence. The analysis provides insights in coordinating policies on foreign direct investment, labor market reform, and intellectual property rights protection.

JEL Classification: F23, J31, O34

Key words: wage inequality, FDI, product quality, intellectual property rights

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