



Introduction

- ▶ Globalization has made different economies interconnected. Foreign economic relations may become a factor influencing domestic politics.
- ▶ Some countries attempt to advance their foreign policy goals thru economic means (e.g., trade, aid, and FDI), known as “*economic statecraft*” (Hirschman, 1980).
- ▶ **This paper:** I study this issue in the Taiwanese context — how exports from Taiwan to mainland China affect the electoral performance of the party favoring Taiwanese independence.

Context

- ▶ Taiwanese exports heavily rely on the Chinese market: in 2020, 15% of Taiwanese GDP was exports to mainland China.
- ▶ In Taiwan, unlike many democracies, the major political cleavage is about foreign policy, i.e., relations with mainland China.
- ▶ Two major parties hold opposite views on this issue.
 - ▶ **Kuomintang (KMT):** favors ultimate unification
 - ▶ **Democratic Progressive Party (DPP):** supports eventual independence
- ▶ Disagreement in unification vs. independence \gg disagreements in other issues that have appeared in Taiwan’s modern history, e.g., welfare state, environmentalism, abrupt reform vs. social stability, and rightist ideology
- ▶ Taiwanese settings: examine impacts on voting behavior of foreign economic relations.
 - ▶ Complement *cross-country* studies: focus on high-level outcomes, e.g., conflicts and UNGA voting.

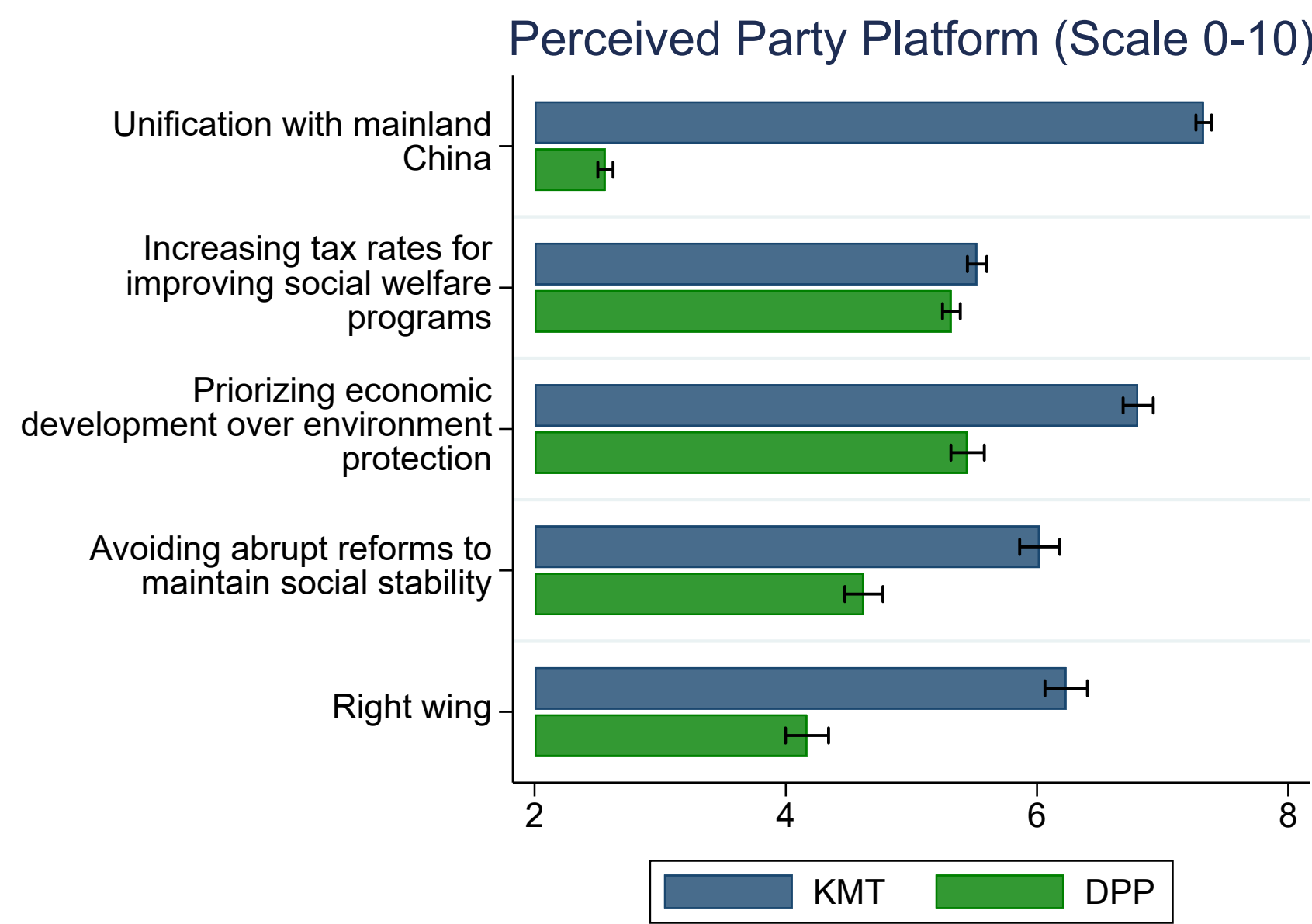


Figure 1. Perceived Political Cleavages Between the KMT and the DPP

Research Design

Sample

- ▶ 4 presidential elections btw. 2008 and 2020
- ▶ All 368 Taiwanese townships from 22 counties

Estimating Equation

$$\Delta y_{it} = \alpha + \beta \cdot \Delta EX_{it}^{tw-cn} + \Delta W_{it}'\Gamma + \lambda_i + \mu_{c(i)t} + \varepsilon_{it} \quad (1)$$

- ▶ Δy_{it} = change in the DPP vote share in township i and election year t
- ▶ ΔW_{it} = change in township-level demographics; λ_i = township FE; $\mu_{c(i)t}$ = county \times year FE ($c(i)$ is the county that township i locates in)
- ▶ ΔEX_{it}^{tw-cn} = change in township i 's exports to mainland China, measured in a **shift-share manner** (Autor et al., 2013)

$$\Delta EX_{it}^{tw-cn} = \sum_k s_{ik} \times \Delta g_{kt}^{tw-cn} \quad (2)$$

- ▶ **“Share”** s_{ik} : township i 's share of employment in industry k
- ▶ **“Shift”** $\Delta g_{kt} = \frac{\Delta X_{kt}^{tw-cn}}{L_k}$: change in Taiwan’s per-worker exports to mainland China of industry k in year t (ΔX_{kt} = total export change, L_k = industry size)
- ▶ ΔEX_{it}^{tw-cn} measures the shock in China exports experienced by an average worker in township i year t

Research Design (Cont.)

Endogeneity

- ▶ **Omitted variable bias:** exports may correlate w/local socioeconomic dynamics that impact politics.
- ▶ **Reverse causality:** Beijing’s trade policy may target some Taiwanese industries out of geopolitical considerations (Wong and Wu, 2016).

Instrumental Variable

- ▶ Use the rest of world (ROW)’s exports to mainland China to predict Taiwan’s exports
 - ▶ Chinese demand $\uparrow \Rightarrow$ ROW and Taiwan’s exports \uparrow
 - ▶ Leverage variation in Taiwanese exports unrelated to local conditions
- ▶ A heuristic shift-share IV:

$$\Delta EX_{it}^{row-cn} = \sum_k s_{ik} \times \Delta g_{kt}^{row-cn} \quad (3)$$

- ▶ $\Delta g_{kt}^{row-cn} = \frac{\Delta X_{kt}^{row-cn}}{L_k}$, where ΔX_{kt}^{row-cn} = change in the ROW’s exports to mainland China
- ▶ Borusyak et al. (2022): IV excludability derives from the quasi-exogeneity of Δg_{kt}^{row-cn}
- ▶ To purge global shocks, use **innovation** in Δg_{kt}^{row-cn} in IV construction:

$$\Delta \widehat{EX}_{it}^{row-cn} = \sum_k s_{ik} \times \Delta \hat{g}_{kt}^{row-cn} \quad (4)$$

- ▶ $\Delta \hat{g}_{kt}^{row-cn}$ is the residual from an AR(1) model of Δg_{kt}^{row-cn} .
- ▶ It’s uncorrelated w/a range of predetermined economic and political factors in Taiwan: e.g., industry size, technology, and local demographics in the 1950s.

Main Findings: Presidential Elections

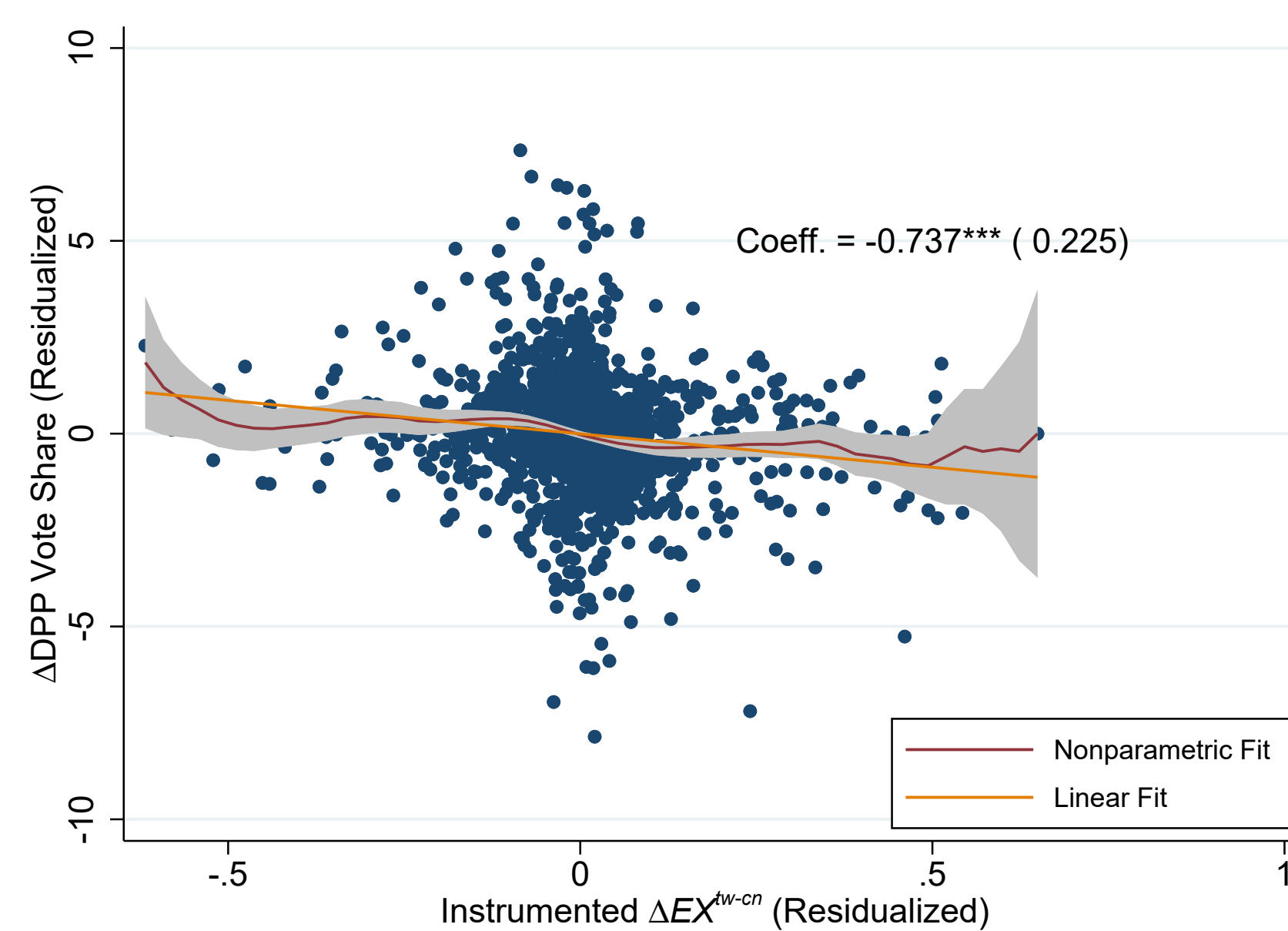


Figure 2. IV Estimate Visualized

- ▶ **\$1k** per-worker exports to mainland China $\uparrow \Rightarrow$ **0.737 ppt.** DPP vote share \downarrow
- ▶ Effects are much more pronounced **when the DPP was incumbent.**

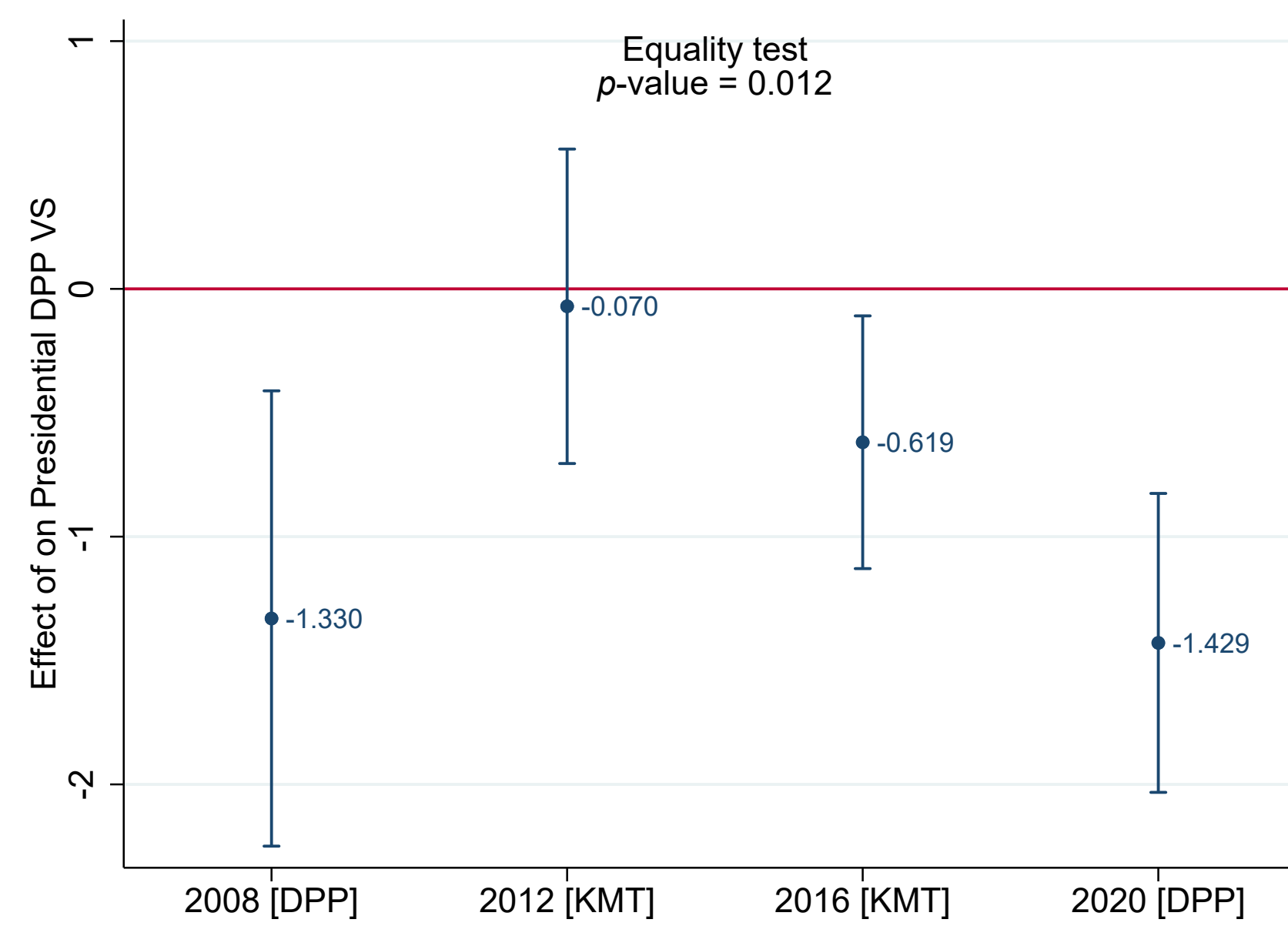


Figure 3. Effects by Election

Other Findings

Effects on 2018 Referendum of Exports to Mainland China

There were two issues with different geopolitical sensitivity:

1. Whether to play as “Taiwan” (r/t “Chinese Taipei”) in 2020 Tokyo Olympics.
2. Whether to legalize same-sex marriages.

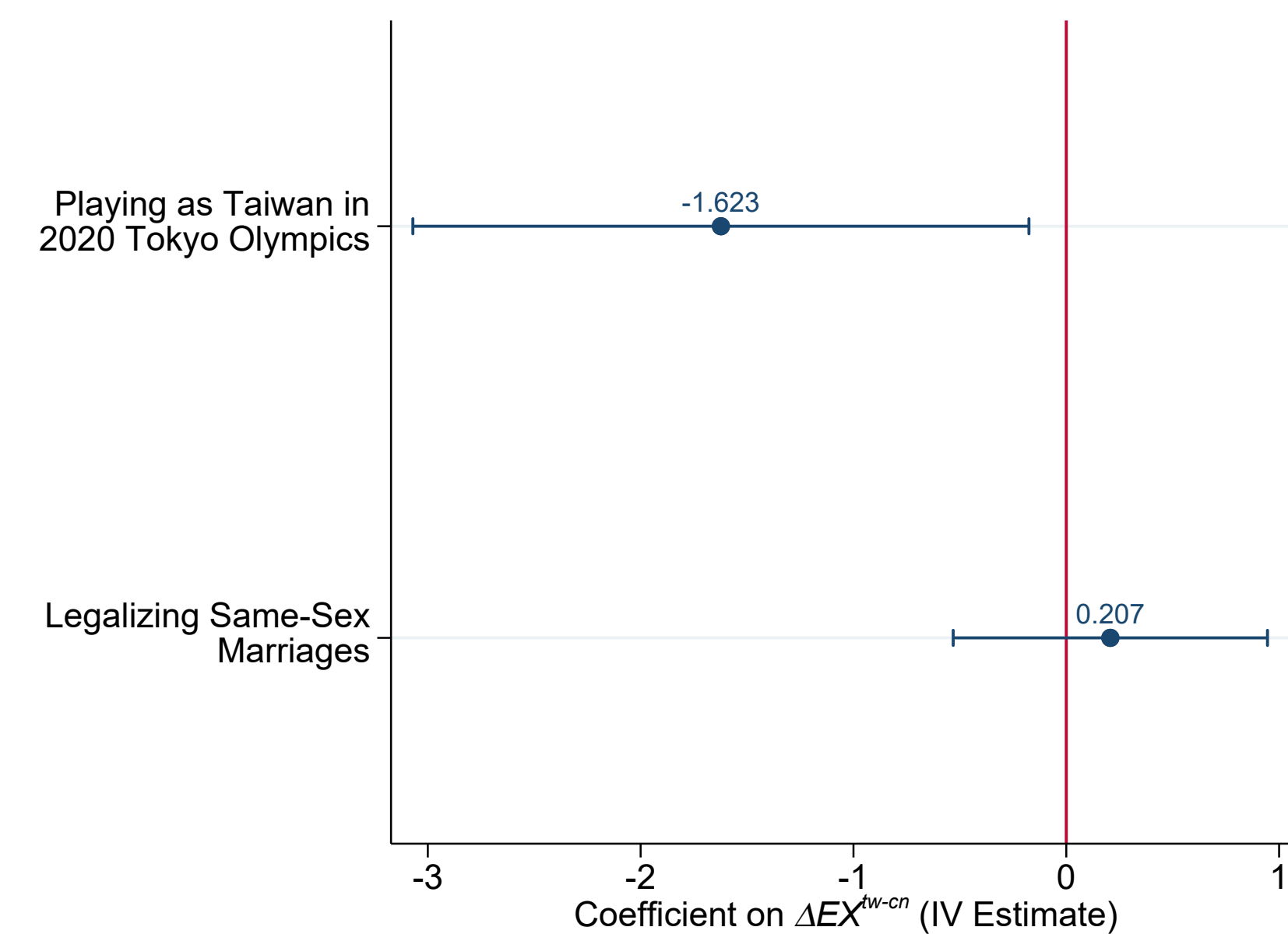


Figure 4. Effects on 2018 Referendum of Exports to Mainland China

Effects of Exports to Mainland China vs. to the U.S.

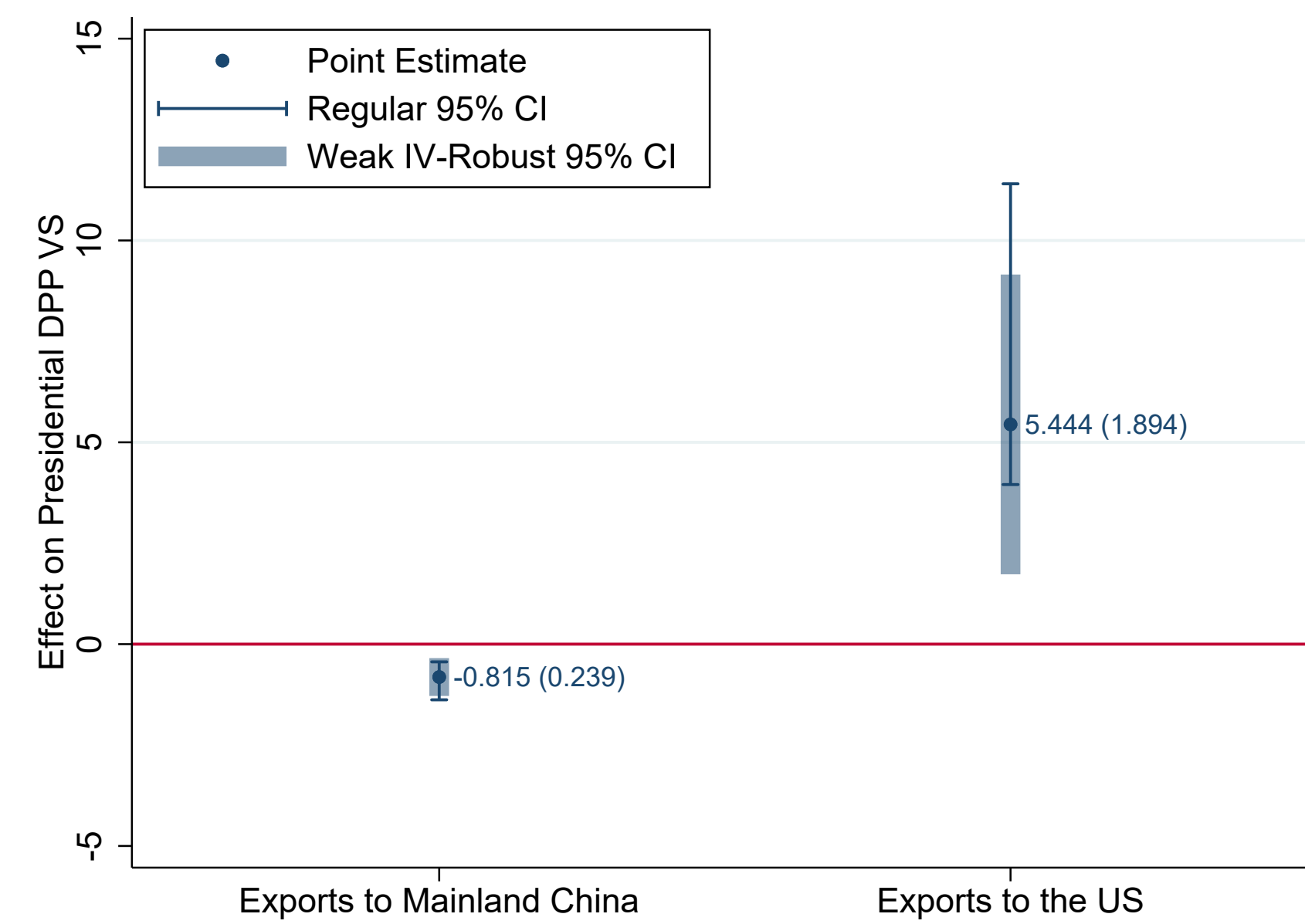


Figure 5. Effects of Exports to Mainland China vs. to the U.S.

Effects on Other Outcomes

Exports to mainland China:

1. **increases** household income \Rightarrow people cherish economic benefits and thus choose the party w/a dovish foreign policy platform;
2. has **no impact** on ideology, e.g., partisanship, national identity, and views on unification vs. independence.

Summary

- ▶ Exports to mainland China reduce electoral support of the DPP, the party favoring Taiwanese independence.
- ▶ Trade changes the calculus of specific constituencies, but the impact could be limited due to presence of competing trade partners and lack of ideological influences.

References

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