



# The Impacts of Economic Statecraft: The Case of Taiwan

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## Introduction

- ▶ Countries often attempt to advance their foreign policy priorities thru economic means (e.g, trade, aid, and FDI), known as **“economic statecraft”** (Hirschman, 1980).
- ▶ It’s important to understand the impacts of economic statecraft, as globalization has made different economies interdependent & the dependency is often asymmetric.
- ▶ **This paper:** I study how exports from Taiwan to mainland China affect the electoral performance of the party favoring Taiwanese independence.

## Context

- ▶ 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 (e.g., welfare state, environmentalism, reform, and rightist ideology)
- ▶ Meanwhile, the Chinese government is open about using economic ties to win hearts and minds of the Taiwanese and to facilitate unification (Kastner and Pearson, 2016).
- ▶ Taiwanese settings: examine voting behavior to learn the impacts of economic statecraft.
  - ▶ Complement *cross-country* studies: examine high-level outcomes, e.g., conflicts and UNGA voting.

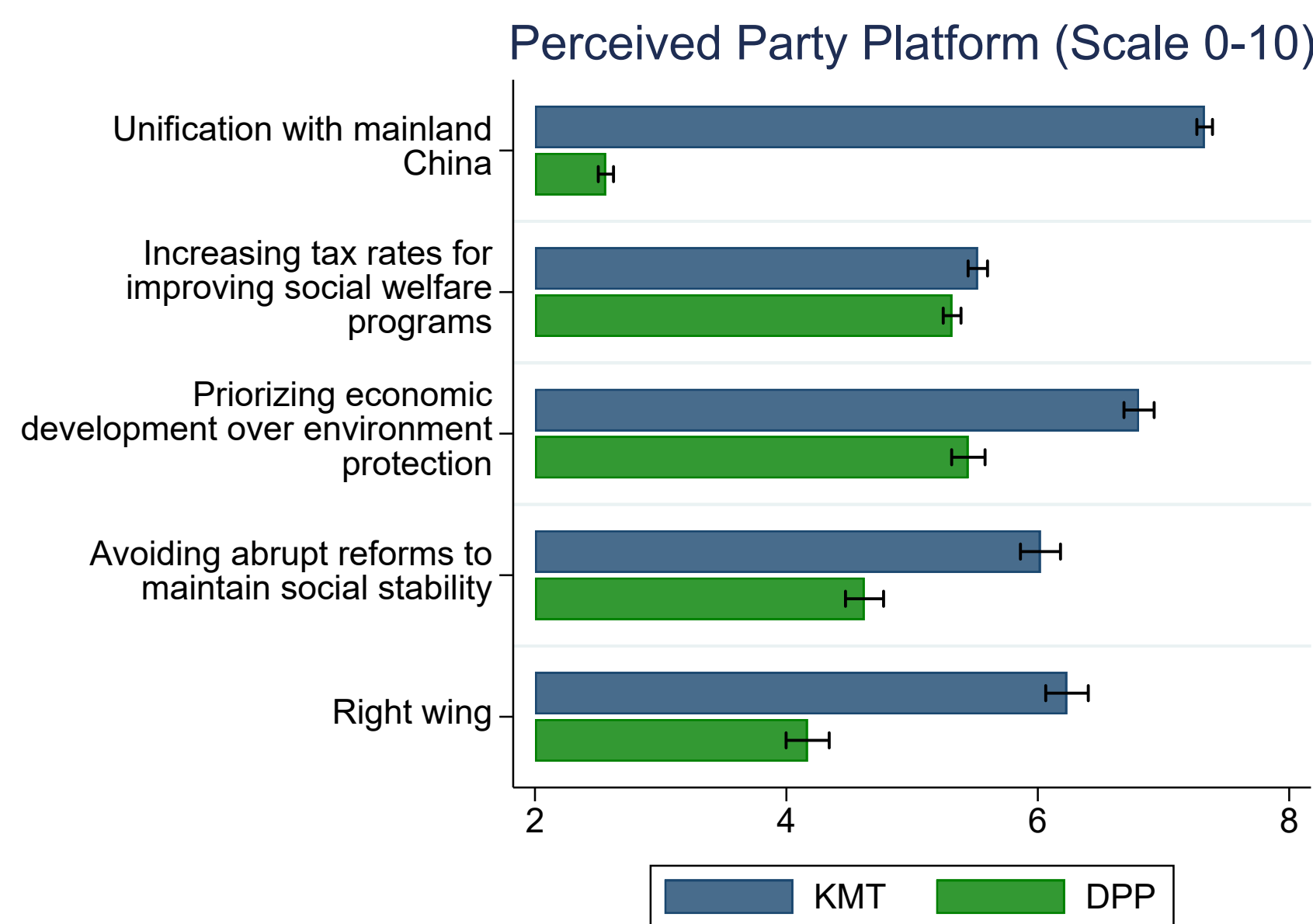


Figure 1. Perceived Political Cleavages Between the KMT and the DPP

## Research Design

### Sample

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

### Estimating Equation

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

- ▶  $\Delta y_{it}$  = change in the DPP vote share in township  $i$  and election year  $t$
- ▶  $\Delta W_{it}$  = change in township-level demographics;  $\lambda_i$  = township FE;  $\mu_{c(i)t}$  = county  $\times$  year FE ( $c(i)$  is the county that township  $i$  locates in)
- ▶  $\Delta EX_{it}^{tw-cn}$  = 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  $t$  ( $\Delta X_{kt}$  = total export change,  $L_k$  = industry size)
- ▶  $\Delta EX_{it}^{tw-cn}$  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  $\Delta X_{kt}^{row-cn}$  = change in the ROW's exports to mainland China
- ▶ Borusyak et al. (2022): IV excludability derives from the quasi-exogeneity of  $\Delta g_{kt}^{row-cn}$
- ▶ To purge global shocks, use **innovation** in  $\Delta g_{kt}^{row-cn}$  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  $\Delta g_{kt}^{row-cn}$ .
- ▶ 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

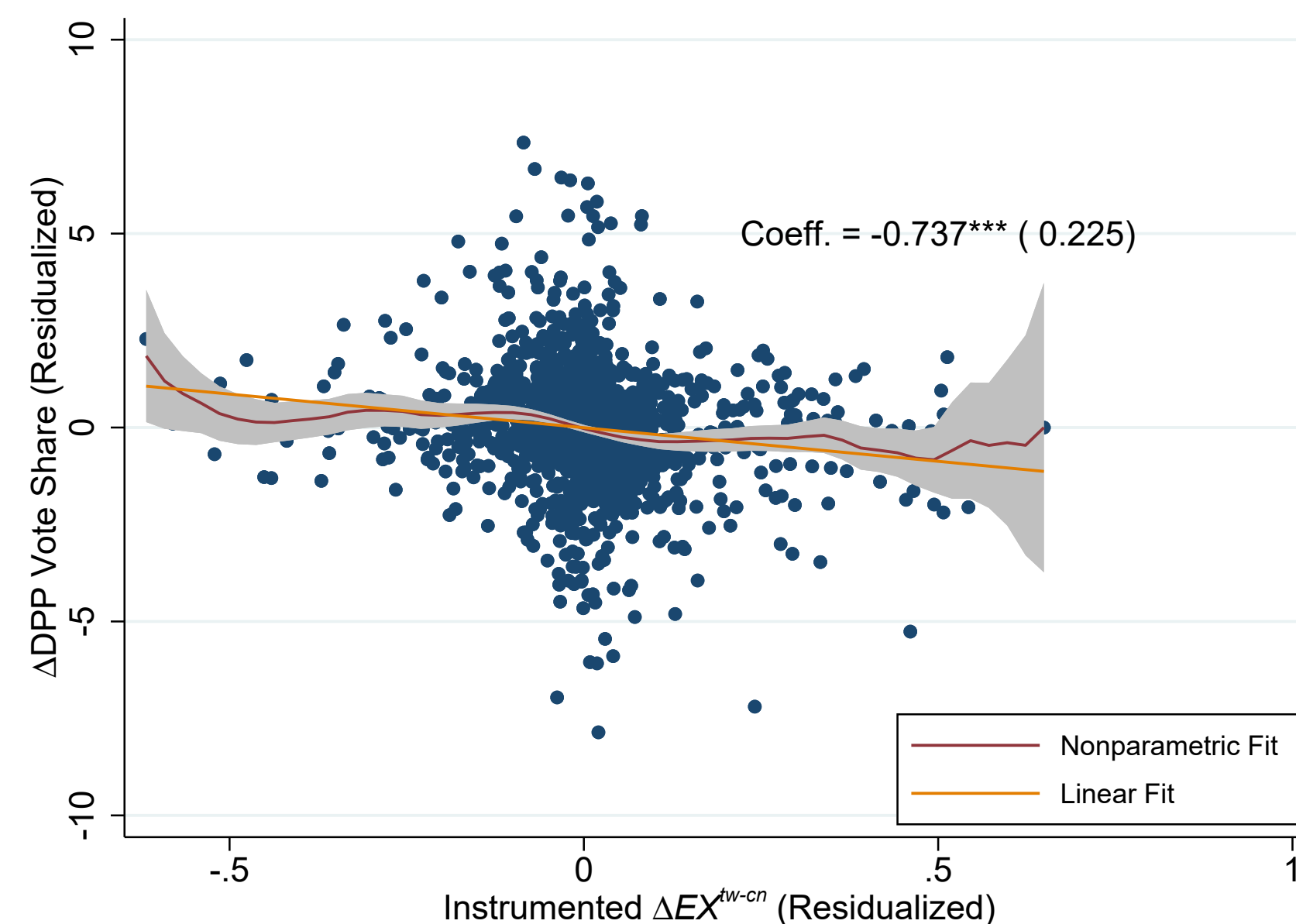


Figure 2. IV Estimate Visualized

- ▶ **\$1k** per-worker exports to mainland China  $\uparrow \Rightarrow$  **0.6537 ppt.** DPP vote share  $\downarrow$
- ▶ Effects are much more pronounced **when the DPP was incumbent**.

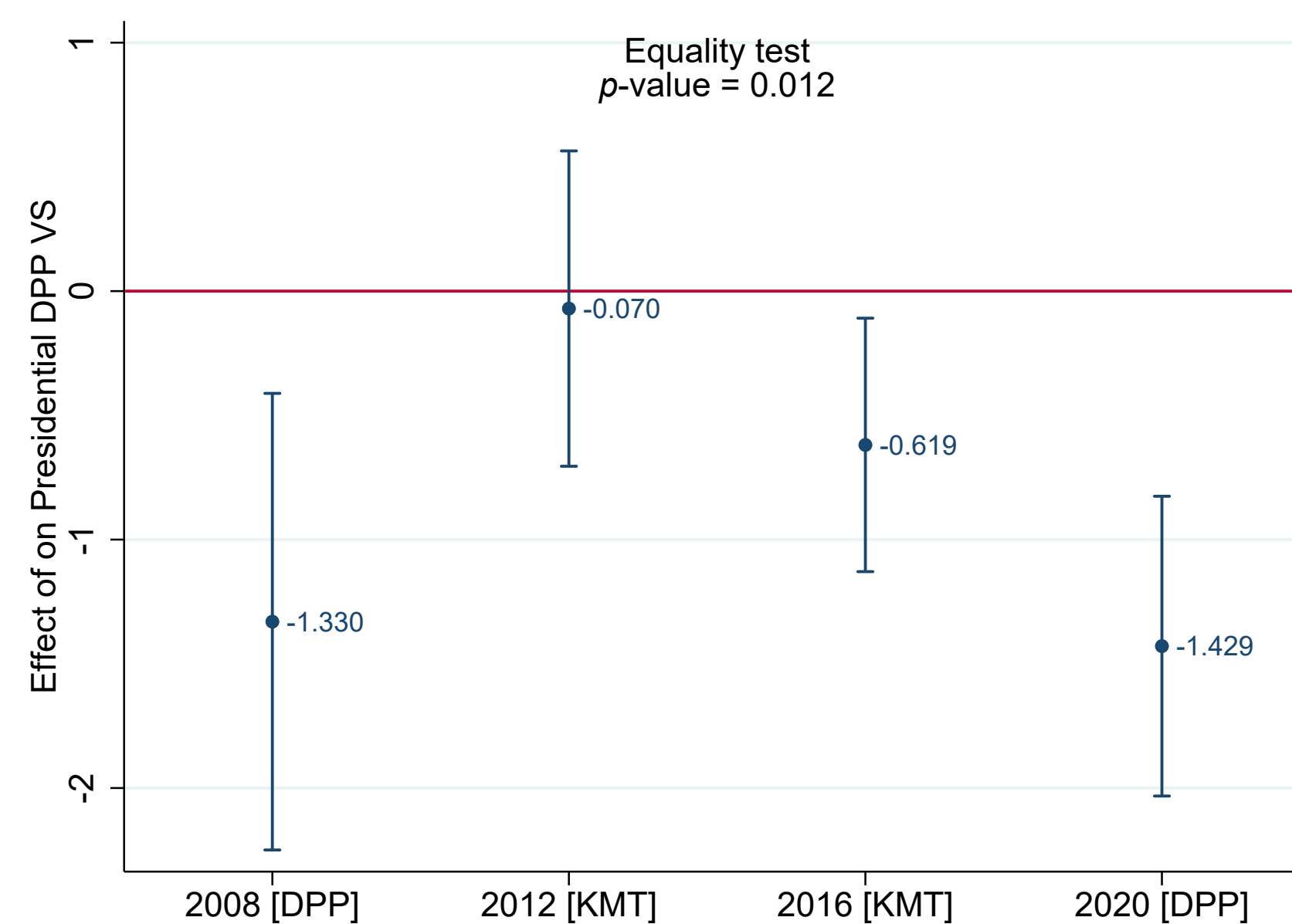


Figure 3. Effects by Election

## 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.

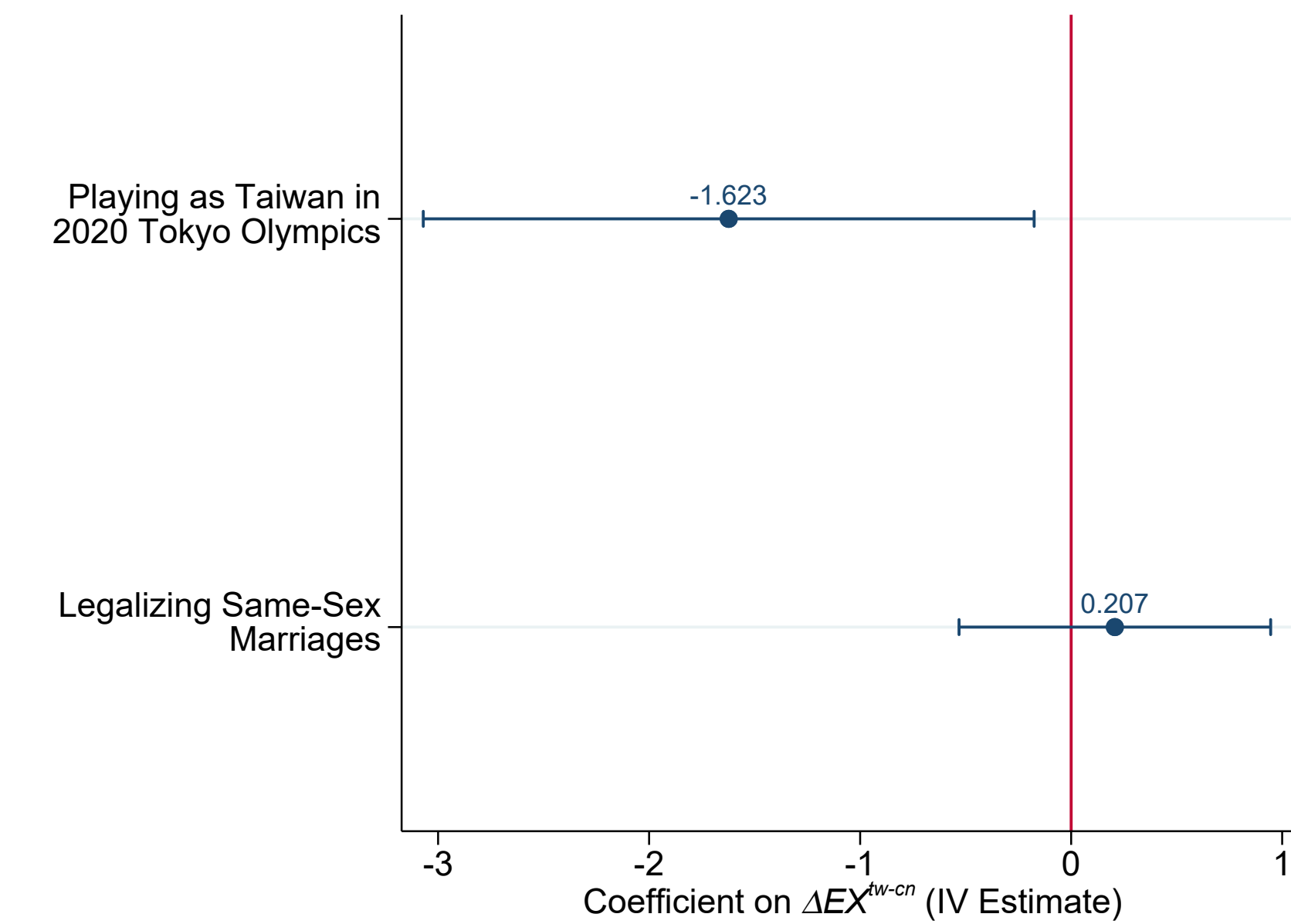


Figure 4. Effects on 2018 Referendum of Exports to Mainland China

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

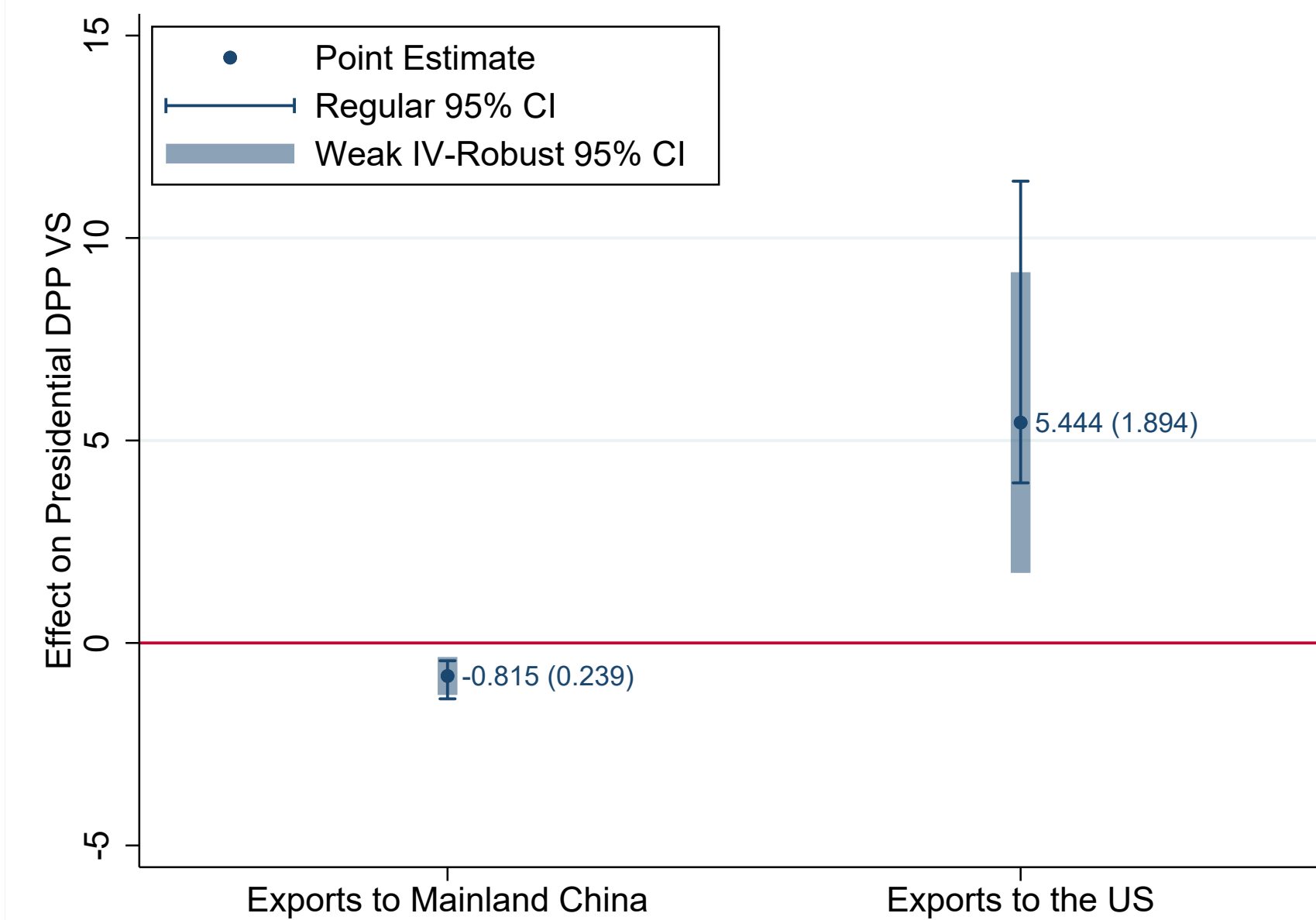


Figure 5. Effects of Exports to Mainland China vs. to the U.S.

### 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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