Trade Openness, Job Sectors, and Social Policy Preferences: Evidence from China

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Abstract
How does trade openness affect individuals' social policy preferences in emerging markets? Drawing upon the theories of economic openness, risk, and social policy preference, we examine how trade openness and job sectors jointly shape preferences on social protection in China, the largest emerging market. Using the World Value Survey (WVS) Wave VI and archival macroeconomic indicators in 2012, we find that trade openness is associated with higher demands for government responsibility in social protection. We also find, compared with public-sector employees, private-sector employees exhibit lower levels of support to the role of government in social protection. The public-private divide in policy preferences, nevertheless, diminishes in regions with high levels of trade openness. This research provides new evidence to the risk-model of social policy preferences in the Chinese context. It also highlights the importance of considering the significant differences between public and private sector employees in their social policy preferences.

Keywords: Trade Openness, Social Policy Preference, Risk Compensation, Job Sector, China

1 Introduction

The literature of globalization and social protections highlights the importance of identifying how economic gains and losses determine one's preferences on government-funded social protection (Scheve and Slaughter 2004; Mayda and Rodrik 2005; Walter 2010, 2017). Other works find sociotropic and cultural factors play important roles in shaping individuals' policy preferences (Mansfield and Mutz 2009; Lü, Scheve and Slaughter 2012; Naoi and Kume 2011). Most of the existing studies, however, are drawn from the empirical context of western industrialized countries (Mares and Carnes 2009). Recent studies in developing countries find that economic globalization has led governments to adopt different policy responses such as the expansion of subsidies or public employment (Wibbels and Ahlquist 2011; Rickard 2012; Nooruddin and Rudra 2014). However, we still know much less about whether economic openness affects individuals' social policy *preferences* differently in emerging markets. Furthermore, many relevant studies primarily consider the total volume of trade and overlook how imports and exports may affect workers' labor market risks differently. It also remains unclear whether workers' occupational characteristics defined by the public-private cleavage will affect their preferences on social protection. In this paper, we fill these gaps in the literature by probing how trade openness and job sectors jointly affect individuals' preferences on social protection in China.

Drawing upon the "new new trade theory", we argue that trade openness raises workers' demand for social protection as more individuals share the heightened economic risks in local labor market. Also, imports and exports affect workers' labor market risks differently, then translate into distinct demand on social programs. Our analysis suggests that greater imports increase workers' job volatility and income variability in emerging markets as found in advanced economies (Margalit 2011; David, Dorn and Hanson 2013; Owen and Johnston 2017; Jensen, Quinn and Weymouth 2017). However, greater exports may increase demand on redistribution-related government responsibility but do not necessarily raise the demand

on unemployment compensations.

Linking micro-level preference data from WVS Wave VI and macroeconomic indicators on trade openness at the sub-national (provincial) level in China, we find evidence that trade openness significantly increases demand on social protection. Although public sector employees hold more supportive views than private sector employees regarding the role of government in providing social protection, trade openness is more likely to affect private-sector employees' social policy preferences than public-sector employees. In Chinese provinces with high levels of trade openness, we observe convergence in social policy preferences between public and private sector-employees. Our research provides new evidence to the risk-model of social policy preferences as China embraces economic globalization and has become the largest emerging market. Showing the significant differences between public and private sector employees in their social policy preferences, our research sheds lights on the economic foundations of heterogeneous social policy preferences in China.

2 Trade Openness, Economic Risks and and Social Policy Preferences

In this section, we discuss individual workers' social protection preferences in emerging markets by drawing distributional implications from the "new new trade theory" in the labor markets. We conceptualize individuals' labor market risks as two major dimensions: job security and income volatility. According to the "new new trade theory", trading firms are larger and more competitive than their domestic counterparts, because only more productive firms can afford the costs of international trade while less productive firms have to focus on the domestic market or exit (Melitz 2003). Exporting firms that are more productive and larger, therefore tend to gain increasing profits from the economies of scale and technology-oriented innovation, which result in higher returns to their workers (Atkin, Khandelwal and Osman 2017). To the contrary, domestic firms and their workers face intensified competition from foreign companies (Kim and Osgood 2019). Relevant trade

studies find that trade is associated with rising inequality in developing countries and emerging markets (Goldberg and Pavcnik 2007; Verhoogen 2008).

New study based on the "new new trade theory" underscores that in regions that have a high-level of trade openness, domestic workers might share similar labor market risks due to job competition (Palmtag, Rommel and Walter 2020). As such, individuals are more likely to support the expansion of social protection when trade openness is high. Inspired by the non-material explanations of trade-relevant policies (Mansfield and Mutz 2009; Lü, Scheve and Slaughter 2012), we acknowledge that individuals' feelings and preferences about the economic risks might also depend on how well the other people in their surroundings feel. The overall trade exposure in the community or local area has a crucial influence on how individuals perceive the economic risks. As trade openness increases, domestic workers in the same region share the heightened economic risks and therefore form the collective sentiment for higher social protections.

We further recognize different mechanisms by which exports and imports affect individuals' economic risk and demand on social protections. Export-intensive areas benefit workers within the exporting sectors, and the income gap between exporters and domestic firms will raise domestic workers' demand on distribution-related social programs. Then individuals who reside in export-intensive areas tend to demand a higher level of government-funded social protection while they are not sensitive to unemployment risks because the expansion of exports creates new jobs. Import-intensive areas, on the contrary, will provide fewer job opportunities to local workers (David, Dorn and Hanson 2013). In a developed open economy, a high level of imports is often associated with the outsourcing of domestic jobs (Margalit 2011; David, Dorn and Hanson 2013; Owen and Johnston 2017). In emerging markets, labor market shocks from imports are also likely to produce demand on generous unemployment compensations and other social safety net programs, since one who had experienced labor market worries are also very likely to experience shocks of other social domains such as family, health, and wealth (Hacker, Rehm and Schlesinger 2013; Zhu

and Lipsmeyer 2015).

H1a: Individuals reside in places with a higher level of trade openness will be more likely to demand social protection than those living in places with a lower level of trade openness.

H1b: Individuals reside in places with a higher level of export will be more likely to demand government responsibility in redistribution-related social protection than those living in places with a lower level of export.

H1c: Individuals reside in places with a higher level of import will be more likely to demand unemployment protection than those living in places with a lower level of import.

Individuals' occupational characteristics, such as their job sectors, may color how trade openness shapes social policy preferences. We argue that private-sector employees have distinct social policy preferences in emerging markets. First, social protection program is a dual-system by design and use different schemes for public and private sector employees (Mares and Carnes 2009). For example, the Chinese government utilize its fiscal capacities to fund the public sectors while privatizing social programs for the private sectors (Huang 2019). Second, as private-sectors employees do not have access to publicly-funded social programs, they have to cope with their economic risks by relying on social insurance provided by their employers or out-of-pocket resources (Chen and Hamori 2013; Frazier 2011; Holland 2018; Jiang, Qian and Wen 2018; Frazier 2015). As such, private-sector employees are less likely to demand government-funded social protection than public-sector employees, because they do not directly benefit from these government-funded programs. However, trade openness amplifies the gap in economic risks between public employees and private employees. A high level of trade openness increases the economic risks of those who hold private-sector jobs, while public-sector employees are not affected by trade and receive generous publicly-funded social protections (Mares and Carnes 2009; Nooruddin and Rudra 2014). As the local economy is more exposed to international competition, individuals who

work in private sectors are facing heightened economic risks. Therefore, we expect that the rising economic risks caused by trade openness will motivate private workers to desire greater social protection.

H2: Private sector employees are less likely to demand social protection than public sector employees.

H3: Private employees will be more likely to demand publicly funded social protection than their counterparts in public sectors when the level of trade openness is high.

3 Research Design and Data

China, as the largest merging market, offers an ideal case to examine the link between economic openness and preferences on social protection preferences. Chinese economic growth in recent years relied on economic openness, where private companies account for the majority of its exports (Naughton and Tsai 2015). Also, a socialist welfare tradition raises the question of whether trade openness changes Chinese citizens' social policy preferences.

We draw data on Chinese workers' social policy preferences from the China Module of the World Values Survey Wave 6. Using the GPS-assisted area sampling method (Landry and Shen 2005), the survey produces a nationally representative sample of adults between the ages of 18 and 75, who reside in Mainland China (Hong Kong and Macao are not included) in 2012. Forty counties were chosen as primary survey units (PSUs) by stratified PPS (Probabilities Proportional to Size) out of 2,855 counties in China. The resulting data include respondents from 21 provinces and 3 direct-administrated municipalities. We merge the individual-level survey data with archival macroeconomic indicators at the provincial level. Provincial-level data on foreign trade, foreign direct investment (FDI), service industry ratio, unemployment rate, and province-level GDP are drawn from the National Bureau of Statistics of China (NBSC) and Chinese Provincial Statistical Yearbooks.

Two survey items from the WVS measure Chinese citizens' social protection preferences. The first dependent variable measures individuals' responses to the question: "Do you agree or disagree with the government, or people should take more responsibility to ensure that everyone is provided for living?" Responses are coded from 1 to 10 , with "10" referring to a strongly supportive attitude toward the role of government in providing social protection, and "1" referring to the opinion that people should care for their basic needs for living. The second dependent variable also has a 1-to-10 ordinal scale, measuring whether the government should provide unemployment benefits to citizens. Higher values on this scale indicates the government should provide higher unemployment subsidies [1].

We attribute individuals' preferences of social protection to economic vulnerability induced by trade openness and job sector. First, we use rade volume as the percent of Gross Domestic Product (GDP) at province level in 2012 to measure the overall level of trade openness. Figure 2 in Appendix shows the geographic variation of trade openness across 24 provincial units in China. The mean of variable-trade openness is 34%, with a range from 3.8% to 144%. Because we conceptualize different effects of exports and imports, we provide exports over GDP and imports over GDP.

The second independent variable is a dichotomous variable measuring survey respondents' job sectors based on whether one works in public or private sector, coding "1" for to private-sector employees and "0" for employees in governmental and public sectors. In the Chinese economy, private firms dominate export-oriented sectors that produce manufacturing goods. While some SOEs involve in foreign trade, the majority of them concentrates on strategic sectors, like banks and energy industries, and therefore are sheltered from external economic shocks.

We include a battery of macro-level and individual-level control variables, including province-level unemployment rate, foreign direct investment, service industry ratio, gender,

[1]Figure 1 in Appendix provides more information about more respondents' preferences on government responsibility in social protection and unemployment subsidies.

age, education, skill level, and employment status of respondents. To measure unemployment risk in one's local labor market, we use province-level unemployment rate data in 2011 from NBSC. We also control for provincial-level FDI as a percent of provincial GDP since FDI is closely related with trade openness. We add the relative size of the service sector in each in-sample province to account for the impact of the macro-economic structure on social policy (Iversen and Cusack 2000).

Several individual-level socio-economic factors are important control variables in empirical models. We include self-reported household income levels to account for individuals' economic wellbeing. In the WVS database, respondents' income level is measured as a 1-to-10 ordinal scale based on income quantiles, with "10" referring to the highest. We expect that as the income level increases, respondents are less likely to demand government social protections. We also include respondents' perceptions of income inequality, as it might affect how people conceive the importance of government social spending. [2] This variable denotes individual workers' views on income equality ranging from "1" (more significant income differences are incentives for individual effort) to "10" (supporting equal income distribution). We expect that individual respondents who are concerned with income inequality are more likely to demand higher social protection than the respondents who value individual efforts. Studies find that people with higher education, especially college-level educations, tend to view social issues with a more liberal and cosmopolitan perspective in addition to skill-oriented economic considerations (Hainmueller and Hiscox 2006; Mansfield and Mutz 2009). Thus, we include both respondents' education attainment and skill level (physical-intensive vs. intelligent-intensive) in our analysis. Last but not least, we control for respondents' employment status, measured as a dichotomous variable to separate full-time employees from others, and gender, coded as "1" for female respondents.[3]

[2] As a robustness check, we estimate and report additional models using the province-level Gini coefficient in 2010 as an objective measure of income inequality. We find that including this objective measure of income inequality in our models does not change the primary results. We also find a null relationship between province-level Gini-coefficient of income inequality and individuals' social policy preferences. We present and discuss this robustness check in the Statistical Appendix (Table A14).

[3] In our Statistical Appendix, we estimate empirical models, including two additional control variables

Because we nest individual-level preference data within provincial-level economic indicators, we estimate several multi-level models for the two policy preference variables. Specifically, we use the generalized linear latent and mixed models (GLLAMMs) (Rabe-Hesketh and Skrondal 2012). For each of our empirical models, we recognize the two-level hierarchical data structure, and include random intercepts by provinces to deal with intra-class heterogeneity. We choose the multilevel-model approach over the method using clustered standard errors to more explicitly account for the hierarchical bias (Abadie et al. 2017). [4]

4 Empirical Findings

The Impact of Trade Openness on Social Policy Preferences

Table A2 in the appendix presents findings based on two multi-level regressions without specifying the difference between exports and imports. Model 1 is for the dependent variable that measures attitudes regarding the role of government in supporting basic living standards. Model 2 is for the dependent variable specifically measuring demand on government-funded unemployment compensation. In both models, we observe that variable *Trade* (as % of GDP) is positive and significantly associated with supporting greater role of government. Both models show consistent evidence supporting H1a that individuals living in provinces (or directly-administrated municipalities) with higher levels of trade openness are more likely to demand greater role of government in the social protection. The left-hand panel in Figure 1 shows the estimated odds ratios of variable "Trade", which are 1.018 and 1.025, in Model 1 and Model 2, respectively. These two odds ratios suggest a one percent increase in trade openness will lead to an increase in the probability of demanding government responsibility in

measuring if one is a member of labor union and the Chinese Communist Party. Neither variable is associated with one's social policy preferences (Table A10 and Table A11).

[4] In the Statistical Appendix, we provide additional models using clustered standard errors as the robustness check (Table A7 and A8). The alternative model specification produce similar substantive results. Where we also present more detailed discussions about the multilevel model we adopt.

providing one's living by 1.8% and an increase in the probability of supporting government-funded unemployment protection by 2.5%. The substantive effect size of foreign trade on individual social protection could be very large across different provinces, given the extensive range of foreign trade across Chinese provinces (from 4% to 144%).

Table A2-Model 1 also confirms *Hypothesis 2* that private-sector employees are less likely than public-sector employees to demand greater government responsibility in providing for one's living (b=-0.329, $p<0.05$). The corresponding odds ratio is approximately 0.70. This odds ratio indicates that individuals from private sectors will be less likely to demand government responsibility in economic welfare than their counterparts in the public sector by a probability of 30%. This finding is substantively significant in support of our theory that workers in private sectors strongly disfavor the expansion of government's role in social protection.

Key findings in Table A2 remain robust in two robustness checks. First, since our empirical sample includes 24 different sub-national units, it might be possible that some provinces with a very high level of trade openness would bias the empirical estimation. It is also possible that some unobserved province-specific factors could affect individuals' labor market risks. In our Statistical Appendix, we re-estimate our models by adding provincial fixed effects. This robustness check confirms the empirical results reported in the main manuscript (Table A9). The fixed effects specification produces slightly larger coefficient sizes for our two key explanatory variable. The coefficients for trade openness in two models increase from 0.019 to 0.103 (government responsibility) and 0.022 to 0.329 (unemployment subsidies) while private-sector employees show a lower coefficient at -0.377 from -0.329.

Second, we posit that foreign trade affects individuals' labor market risks as a form of an external economic shock. Therefore, we replace the level of foreign trade by an annual change measure. Using the yearly difference between 2011 and 2012 over the total trade volume in 2012, we probe whether the change ratio of trade significantly affect one's social

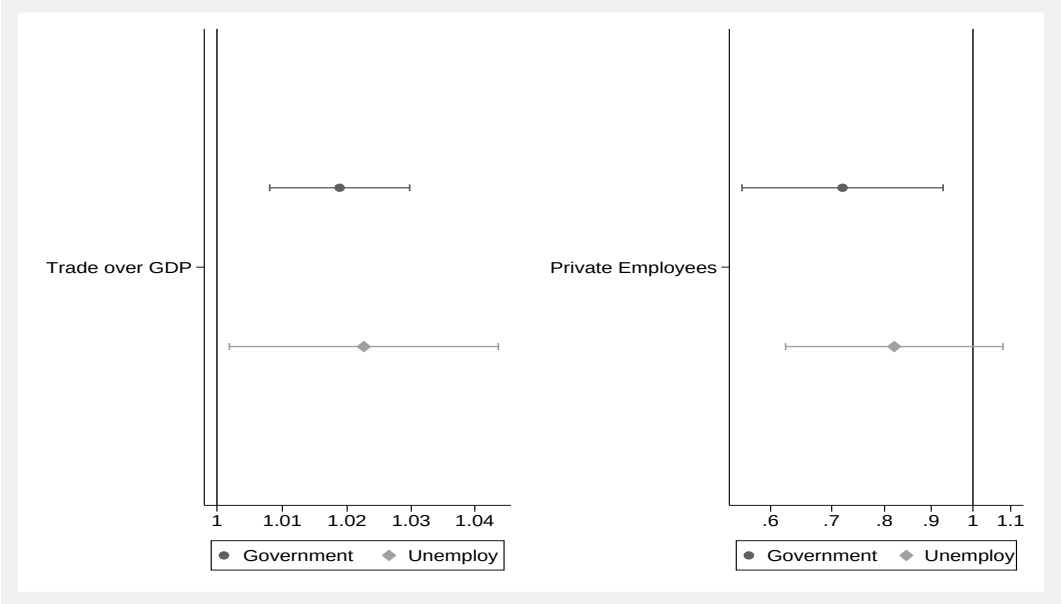

Figure 1: Odds Ratio Coefficients and 95% Confidence Intervals, Based on Full Models in Table 1

policy preferences. We provide these tests in the supplementary materials (Table A12). This robustness check further confirms our theory that trade openness treated as an economic shock does drive individuals' demand on government responsibility in social protection. In addition, considering the lagged effect of trade on individuals' labor market effects, we find that using trade data in 2011 produces highly consistent results in the supplementary materials (Table A12).

In Table A3, we present two additional models by decomposing the total trade measured as over local GDP into two parts: exports over local GDP and imports over local GDP. Consistent with our theoretical expectation, model 3 and model 4 support *Hypothesis1b* and *Hypothesis1c* by providing more nuanced tests on how exports affect individuals' social protection preferences differently from imports. Specifically, we find that residents who live in a province with greater exports tend to demand a higher level of government intervention and unemployment subsidies. However, exports' effect on unemployment subsidies does not reach statistical significance because export sectors could bring about more new jobs for local people that absorb many workers from declining domestic firms. In contrast, imports

increase an individual's support for unemployment subsidies and the role of government in distribution. Figure 2 visualizes the odds ratio coefficients derived from Table A3. Figure 2 shows the odds ratios for export in model 3 is 1.02, which means a one-unit increase in the export will lead to an increase in the probability of demanding the role of government by 2%. The odds ratios for imports in model 3, and model 4 are 1.01 and 1.04, respectively. Imports' effect on one's support for job-related subsidies (4%) is higher than her demand for income-related social protection (1%). Moreover, the empirical findings of private-sector employees on social protection preferences are consistent with models 1 and 2 in Table A2.

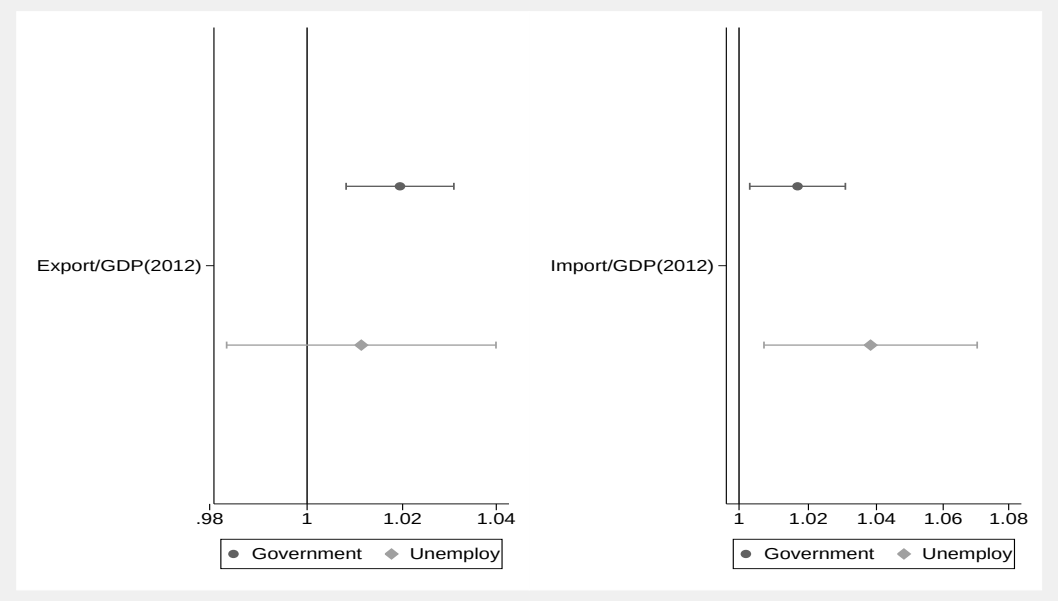

Figure 2: Odds Ratio Coefficients and 95% Confidence Intervals, Based on Full Models in Table 2

A quick review of the control variables in Table A2 and Table A3 shows expected relationships. Provincial-level unemployment rate is positively associated with demand on the role of government in social protection and unemployment compensation across four models. In the Chinese context, we do not find evidence that FDI and individuals' skill assets significantly affect their social policy preferences.[5] Future research should examine whether inward and outward FDI at the province level may have meaningful impacts on one's social policy preferences. While previous studies in the context of advanced economies find the size of the service sector is positively associated with demand on government-funded social protection (Iversen and Cusack 2000), we find in the Chinese context, the expansion of service sector is associated with decreases in support for government responsibility in social protection. Female workers are more likely to demand unemployment-related benefits than the role of government in social protection. This finding might be indicative that women are motivated by sociotropic factors such as family-related job security than self-interested considerations(Mansfield, Mutz and Silver 2015). Last but not least, individuals' perceptions on income inequality significantly affect their social protection preferences. Those who endorse egalitarian values and are concerned about income inequality are more likely to support a higher level of social protections.

Heterogeneous Social Policy Preference across the Public- and Private-Sector

To test *Hypothesis 3* regarding the joint effect of trade openness and private-sector jobs, we present two models in Table A4. Trade openness and workers' job sectors are significant predictors of individuals' social protection preferences, as shown in Table A4. In Model 5, we find some evidence that trade openness moderate the effect of private sector jobs. Private-sector employees exhibit lower levels of support to the role of government in social protection, but the public-private divide in policy preferences diminishes as trade openness increases. Figure 3 and 4 further illustrate the interactive effects.[6] Figure 3 shows the marginal effects

[5]We find skilled workers are less likely to demand government-funded social protection, using the fixed effects specification shown in the Statistical Appendix, Table A9.

[6]We use the *interflex* package in STATA to generate visualizations of the conditional marginal effects

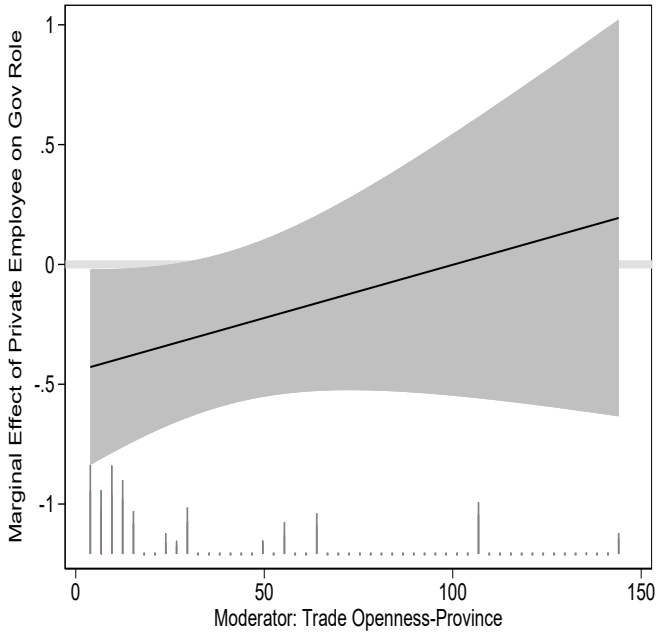

Figure 3: Marginal Effect of Supporting Government Responsibility by Occupation Sector among Individuals As Province-level Trade Varies

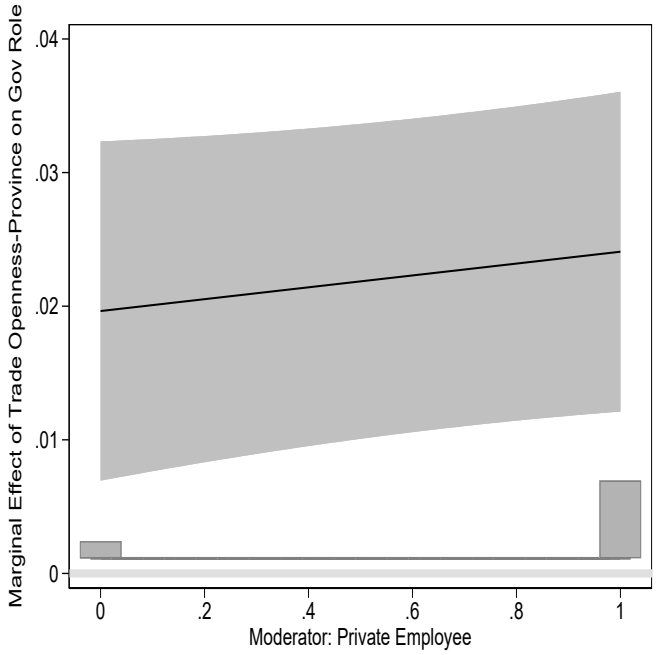

Figure 4: Marginal Effect of Supporting Government Responsibility by Trade Openness As Occupation Sector among Individuals Varies

of trade openness and private-sector jobs(Hainmueller, Mummolo and Xu 2019). The visuals are produced using bootstrap standard errors with 1,500 replications, which mitigates the potential bias because of the small number of clusters (provinces) in our sample.

of private employees across the full range of the trade openness variable. We find that the marginal effect of private-sector jobs is negative and statistically significant in provinces with low trade openness (i.e., total trade volume accounting for less than 30% of provincial GPD). As trade openness increases, the marginal effect becomes not distinguishable from zero, meaning that in Chinese provinces with high levels of trade openness, there is a convergence of policy preferences between public and private sector employees. Figure 4 demonstrates the marginal effects of trade openness on the support for government-funded protection between two job sectors. It shows that trade openness has positive marginal effects on demand for public-funded social protection across both job sectors.

5 Concluding Discussions

In this paper, we provide a risk model to emphasize how trade openness and job sectors jointly shape social policy preferences in the largest emerging market. Despite the fact that China has long been a socialist country, Chinese workers are now exposed to different labor market risks. The empirical results show that trade openness and job sectors breed into more heterogeneous preferences in the social policy area among Chinese citizens.

This paper contributes new insights about social policy preferences in open emerging markets. Our paper identifies who is helped, hurt, and sheltered in one largest emerging market, by drawing upon insights from the "new new trade theory". We theorize and present that individuals from export-intensive and import-intensive areas face rising labor market risks and therefore demand higher social protection in China. This study also provides new evidence in the context of emerging markets, that trade does increase workers' demands for greater social protection, but more saliently among those in private sectors. This finding diverges from the argument that globalization exposure does not increase workers' demand for job-related protections when they mainly rely on insurance (Lim and Burgoon 2018). Based on a risk model of social protection, our paper finds that trade-induced economic risks

motivate private-sector workers to demand higher protections, although they have limited accesses to public-funded social protections (Frazier 2011; Holland 2018; Huang 2019).

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