The relationship between international politics and international trade is often ambiguous. While realist theories argue that politics drive international trade, liberalism stresses the primacy of trade and international discourse in influencing foreign relations. This connection between political relations and trade is particularly important in East Asia where growing trade faces serious challenges in the form of rising political tensions due to territorial disputes, large contested energy reserves, and the animosity from past conflicts like World War II.

My work with Professor Tang focused on the effects of recent political tensions on bilateral trade flows in East Asia from 1990 to 2013, an area which has been previously unexplored in specific detail. We used a modified “gravity model” to estimate the impact of various variables on trade levels between Asian countries. This linear regression model quantifies how trade flows are related to explanatory variables that include individual countries’ economic output, geographic distance, and other “distances” such as language and political tension. We defined political tension scores using the Virtual Research Associates’ (VRA) “Virtual Reader” program which reads daily Reuters articles, determines the participant countries and assigns a positive or negative score towards the dyad depending on the event’s severity.

Our empirical model has four main findings. First, a longer history of war does have a strong and statistically significant negative correlation with systematically lowered trade levels. This makes intuitive sense as resentment from conflicts like World War II, the series of Sino-Japanese wars, or Japan’s annexation of Korea may lessen trade as governments, firms, and individuals choose to spurn old adversaries.

Second, political tensions with China, a rising superpower often associated with the highest levels of tension, have a statistically significant negative correlation with trade levels. Our results imply that increasing tensions between China and an East Asian trading partner by 1% reduces trade levels between the two countries by .06%. We conjecture that significant government intervention in the Chinese economy, and the perceived threat from China associated with its rapidly increasing economic and military power may explain such a negative relationship. Third, we find that political tensions had a greater impact on Chinese trade before ascension to the WTO than after. This is likely because the rules of the WTO generally prevent China from reducing trade with tariffs and quotas to achieve a political objective. Thus WTO admittance may further divide the realm of politics and economics. Fourth, after accounting for war history and the role of China, additional political tensions generally do not strongly impact trade in East Asia. The coefficient on political tensions was positive, contrary to our hypothesis that more tension would hurt trade, though this was generally statistically insignificant.

Current political tensions, conditional on past history, seem to only be impacting trade decisions with China. China’s admittance to the WTO has apparently lessened these effects yet the general political climate still factors into trade with China and its neighbors. As China increases its political and economic clout, it remains a risk that political tension can negatively affect trade relationships. However, multilateral trade agreements and institutions, such as the WTO, can play an important role in reining in the impact of politics. I hope to expand this work during the academic year as an honors project by including long and short-term bilateral capital investment and further exploring why tensions in general have a surprisingly positive coefficient.

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