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Trade Effects on Happiness in Asia

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Abstract

The Belt and Road Initiative is an unparalleled China-initiated international infrastructure project. Since its launch, international trade has already increased in the participating countries – a trend that is only there to stay. However, this development is not seen only in a positive light, and to date it is unclear whether it will exclusively benefit the participating countries in the long term or whether it will drag them into debt. In this piece, we investigate possible trade effects that go beyond the proclaimed monetary ones. We check if these projected increases of trade (trade volume and trade freedom) affect mean levels of subjective well-being (SWB) in Asian countries. Applying a fixed effects model, we find no evidence that sheer trade volume nor trade freedom directly affect mean levels of SWB in Asian countries. However, we find measures of wealth (GDP per capita, Human Development Index [HDI]) as well as the unemployment rate to affect SWB at the country level. This may indicate an indirect effect of trade on SWB that is channeled by GDP. Nonetheless, there could be a link between trade and SWB, as it may take some time for the effects/changes of trade to trickle down to SWB. Other possibilities are discussed in detail.

Key Words

Trade volume, freedom of trade, happiness, subjective well-being

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Trade Effects on Happiness in Asia

1 Introduction

The Belt and Road Initiative (BRI) – a gigantic endeavor – that has first been publicly announced by Xi Jinping on the 7th of September 2013 at Kazakhstan's Nazarbayev University under the title "Promote People-to-People Friendship and Create a Better Future" but has been worked on already quite some time before. For instance, the railway from China to Germany has already been operating since the 31st of August 2012.

Since its launch, the Belt and Road Initiative (BRI) project has already led to a significant increase in cross-border trade volumes across participating countries in Asia. For example, in a study from 2020 Yu et al. found according to their index that bilateral trade "[b]etween China and the Belt-Road countries has grown approximately 8% faster than has that with the non-Belt-Road countries" (page 1). Thus, the initiative has been affecting trade – a trend that is only expected to intensify in the coming years and decades. According to Zhai (2018, p. 85) by 2030 global trade is to "[b]e boosted by the BRI, with an expansion of 5.6% in 2030 in comparison" to a scenario without BRI investments. His (2018, p. 85) findings further suggest that the initiative likely leads to welfare gains for BRI countries that account for an annual raise of GDP by 2.9%.

Most studies about trade focused largely on the monetary effects. Similarly, discussions and forecasts about country-specific potential outcomes of the participation and engagement in the BRI project have also mostly focused on them. Accessing research from the field of positive psychology or economics of happiness makes it possible to look into effects that go beyond these monetary ones. This study investigates the impact of trade on the subjective well-being (SWB) of citizens living in Asian countries. Thereby it aims to assess potential non-monetary effects of the BRI project that go beyond classical macro-economic outcomes. As such, it holds the fundamental premise that a good performance on these indicators is not the end goal, but merely ways and means to promote people's well-being and happiness.

In the second section of this paper, we introduce basic concepts, dimensions and measurement methods of SWB, discuss theoretical considerations on the relationship between trade and SWB, review the empirical findings on this nexus, and formulate our main hypothesis. Section three discloses in detail the data and method specifications we used for our analysis. In section four we present our results that we then discuss in section five. At the end, in section six, we make some concluding remarks and briefly give some avenues for further research.

2 Theoretical Foundations

2.1 Research on Subjective Well-being

Research on subjective well-being (SWB) has gained massive interest amongst scholars from various scientific disciplines and publications on that subject matter have skyrocketed over the last decades. According to Diener et al. (2018a), SWB is defined as a "[g]eneral term referring to the various types of subjective evaluations of one's life, including both cognitive evaluations and affective feelings" (p. 3). Nowadays, SWB tends to be divided into three sub-dimensions: 1) cognitive or evaluative well-being, 2) experienced well-being, and 3) eudaemonic well-being (Stone & Mackie, 2013). Although these dimensions are intertwined and tend to correlate with each other, they still tap into different domains of psychological functioning (Fredrickson et al., 2013; Stone & Mackie, 2013). Together they form the SWB continuum.

Various measuring methods exist that aim to capture these SWB dimensions, such as large national surveys featuring different scales, informant reports, big data analyses, neuroimaging as well as experienced sampling, day reconstruction, cognitive organization, and reaction time methods (Diener et al., 2018a; Frey, 2018; Scollon, 2018). Out of these, the large-scale survey method is to date the most established method that provides one with sufficient high-quality data appropriate for both, cross-sectional and time series analysis. It is thus the most commonly practiced way to measure SWB. The scales and questions featured differ slightly from survey to survey, but they usually include both, global assessments and domain-specific SWB questions (Heß, 2020).

Despite its establishment, the survey method does not come without any doubts. Over the years a couple of issues and concerns have been raised regarding its validity and reliability. Among them, some issues refer to the context, specifically the questions' order and wording (Deaton & Stone, 2016; Diener et al., 2018a). Others address circumstances, such as the weather prevailing on the date of the interview (Schwarz & Clore, 1983). However, several studies suggest the effects are rather small (Diener et al. (2018b) reviews a couple of those) and despite these and other issues, these self-reported measures of SWB are generally considered reliable and valid. In this regard, reliability is usually assessed in terms of stability via a test-retest procedure. In a meta-analysis Schimmack and Oishi (2005) find self-reported measures of life satisfaction to be fairly stable. Multiple studies address the validity of self-reported SWB in various ways. For instance, Seder and Oishi (2012) find them to correlate with behavioral characteristics, such as smiling and laughing, and similarly, Schneider and Schimmack (2009) find them to correlate with well-being ratings as captured through informant reports – assessments produced by individuals in the participants' inner social circle. Other

studies address further biases and problems that might occur during the participants' reporting, such as social desirability bias (Veenhoven, 1996) and linguistic or semantic issues (Ingelhart, 1990; Veenhoven, 1996), and find no evidence for their existence. In sum, a large proportion of the SWB research is dedicated to the quality of its measures so that one can apply them confidently.

2.2 Trade and Subjective Well-being

Effects of trade or more precisely of international trade have quite extensively been studied in theory and empirics. One of the focal points of research is related to its interplay with economic growth (Singh, 2010; Zestos & Tao, 2002). Economic growth in terms of GDP per capita is often viewed as an indicator for the objective well-being dimension. As mentioned in the introduction, this paper assesses the effects of international trade that go beyond this materialistic sphere of well-being (Spruk & Kešeljević, 2015) by focusing on the subjective evaluations of one's life. Since these non-monetary effects may occur through various pathways, we ask whether trade directly affects SWB by an increase of freedom as the freedom of choice theory would suggest. Veenhoven (2000) defines freedom in broad terms "[a]s the possibility to choose" (p. 3). Since scholars have grappled with the conceptualization of freedom for decades and even centuries, we will not comment on whether or not Veenhoven's definition is exhaustive. The least one can say is that his broad definition does not exclude the two basic types of negative and positive freedom. In any way, Veenhoven goes on to explain that the possibility to choose requires two things: the opportunity and the capability to choose. The former refers to the environment and involves that a) there actually is something to choose from and b) that the choice is unrestricted by others. The latter means that the individual is a) internally aware of the options to choose from and b) brave enough to make a choice (Veenhoven, 2000).

This theory is often called 'freedom of choice theory' which involves a specific set of alternatives an individual can choose from (Verme 2009). The larger the set, the more the freedom of choice, and the smaller the set, the less freedom of choice. Thus, an increase in international trade should translate to a larger set of products and services to choose from.

In theory, the utility or satisfaction that one draws from a particular set of alternatives to choose from may vary across individuals. Verme (2009) discusses four potential perspectives that an individual may have on such an opportunity set:

1. The number of available choices is irrelevant as long as the alternative that provides one with the most satisfaction is included.

2. A larger number of choices is always better for anyone and the degree of satisfaction should be equal for everyone.

3. The degree of satisfaction that one draws from a larger number of choices might differ but is always positive.

4. The amount of satisfaction that one draws from a larger number of choices can be both, negative or positive.

We test the hypothesis that an increase in international trade and the associated increase in freedom of choice should eventually lead to an increase in SWB in terms of life satisfaction.

However, there exist a couple of theories that contradict our hypothesis. For instance, comparison theory suggests that individuals compare their lives to the standard. Consequently, a general increase of freedom of choice should leave SWB levels about the same since the standard should increase accordingly (Veenhoven & Ehrhardt, 1995). Moreover, adaptation theory combined with set-point theory suggests that given a change in living conditions or the occurrence of a bad or good event, an individual's SWB will fluctuate only temporarily before adapting to these changes and returning to an innate set-point. Hence SWB would not permanently change if freedom of choice increases (Lucas, 2007).

Initial findings regarding our nexus are not as clear-cut as one might have expected. Bjørnskov et al. (2008) find that market openness, measured by the sum of imports and exports over GDP, is slightly positively correlated with SWB in terms of self-reported life satisfaction. On the other hand, using a disaggregated approach, Di Tella and MacCulloch (2008) found that market openness in terms of trade is negatively correlated with self-reported life satisfaction and "happiness." They speculate that this effect may be due to concerns about potential risks of being exposed to external market forces that could make the domestic labor market more vulnerable. Dluhosch and Horgos (2013) find somewhat more nuanced results, as they test for both trade volume and trade freedom. In a cross-sectional setting, they examined 32 countries included in the fourth wave of the World Value Survey (WVS). They found that trade volume in low-income countries was slightly negatively correlated with self-reported "happiness" as measured on a 4-point scale. High-income countries showed no significant correlations in terms of trade volume. Trade freedom, on the other hand, was positively correlated with "happiness" in both low- and high-income countries, although the positive effect of trade freedom was significant only for low-income countries. However, the scale may be considered a bit insensitive since it only provides four response options. A too narrow scale "can cause meaningful variations in scores to be lost" (OECD, 2013, p. 77). In addition, the "happiness" item is believed to ask for a rather affective response than a reflective one (Pacek & Radcliff, 2008). In this study, we use the life satisfaction item in the WVS, which a) has a 10-point response

scale and b) asks about the evaluative well-being dimension. Similar to Dluhosch and Horgos (2013), we use both indicators of trade (trade volume and trade freedom) to investigate their effect on life satisfaction. In contrast to them, we apply a panel setting instead of a cross-sectional one and focus on Asian countries.

3 Method

This section serves the purpose of empirically investigating trade effects on SWB (as measured in terms of life satisfaction) in Asia and is thus structured in the following fashion. First, we will present our data sources for the dependent variable as well as for both the independent variables and all three control variables. We then present the model specification, outline the procedure we went through to perform a time series analysis on the data, and discuss limitations and hurdles which we faced.

3.1 Sample and Data

Dependent Variable: Life Satisfaction as a Proxy of SWB

As a proxy for SWB, we use data on life satisfaction from the WVS. First conducted in 1981, the WVS is an international research project structured in seven waves (W1: 1981-1984, W2: 1990-1994, W3: 1995-1998, W4: 1999-2004, W5: 2005-2009, W6: 2010-2014, W7: 2017-2020). We utilize data on the latest six of them since in the first wave no Asian countries are featured. In the WVS, global life satisfaction is assessed on a 10-point scale through the following question: "All in all, how satisfied are you with your life as a whole nowadays? Using this card, where 1 means you are "completely dissatisfied" and 10 means you are "completely satisfied," where would you rank your satisfaction with your life as a whole?" (WVS-7 Official Questionnaire, 2017). It is applied in the identical format throughout each wave. The number of Asian countries featured in each wave ranges from 6 (second wave) to 22 (sixth wave).[1] Each wave covers different countries in different years.

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[1] The following 22 countries are covered in the sixth wave of the WVS: Armenia, Azerbaijan, China, Georgia, Hong Kong, India, Japan, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Lebanon, Malaysia, Pakistan, Philippines, Qatar, Russia, Singapore, South Korea, Thailand, Turkey, and Yemen. (Inglehart et al., 2018)

Independent Variables

a) Variables of Interest: Trade Volume and Trade Freedom

To determine whether and to what extent international trade affects subjective well-being in Asian countries, we use two explanatory variables: trade volume and trade freedom. As for the former, we access data on international trade flows (exports + imports) as a percentage of GDP provided by the World Bank, and for the latter, we draw on data from the Economic Freedom of the World Index (EFW) of the Fraser Institute. The EFW consists of five areas: size of government, legal system and property rights, sound money, freedom to trade internationally, and regulation. There, freedom to trade internationally or in short trade freedom is assessed in four categories, which are a) tariffs, b) regulatory trade barriers, c) black-market exchange rates, and d) controls of the movement of capital and people (Gwartney et al., 2020).

b) Control Variables: GDP per Capita, Unemployment Rate, HDI

We use three control variables that are found to impact life satisfaction. The first two are GDP per capita and the unemployment rate, all provided by the World Bank (2021a, 2021b). The third variable, the Human Development Index (HDI; UNDP, 2020) serves as a substitute for GDP since both are considered as measures of wealth (Costanza et al., 2009). The HDI is composed of three main components: 1) standard of living in terms of gross national income per capita, 2) education in terms of expected and mean years of schooling, and 3) health in terms of life expectancy at birth.

3.2 Procedure and Model Specification

Since the aim is to conduct a country-level analysis and the WVS only provides data on individual's life satisfaction, we first calculated the mean life satisfaction of all respondents of a country for each country per wave. Although the WVS provides data on life satisfaction throughout all seven waves, we are restricted to use only the last six since only these cover Asian countries. Additionally, the number of Asian countries covered in each wave differs which is why we have to deal with an unbalanced panel consisting of 20 countries for two to six points in time making up a total of 73 (74) observations. Since each wave covers different countries in different years, we treat the data in our analysis in such a way that each WVS wave represents a uniform point in time.

Regarding the control variables, we collect the data corresponding to the year of the interview. If that is not possible due to missing data, we select either the values of the nearest year or the mean value accordingly. We apply this procedure to all our independent variables. In case we find no adequate data, we drop the observation (see Appendix for more details).

To extract the statistical effect of our variables of interest (trade volume and trade freedom), we apply a fixed-effects panel model (within estimator) since the Hausman Test suggests the application of a fixed-effects panel model (χ^2 = 7.38, p = .02).

$$LS_{it} - \overline{LS}_i = (T_{it} - \overline{T}_i)\beta_1 + (W_{it} - \overline{W}_i)\beta_2 + (U_{it} - \overline{U}_i)\beta_3 + \epsilon_{it}$$

with "LS" denoting life satisfaction and thus representing the SWB dimension of evaluative WB. The independent variables to our main interest (trade volume and trade freedom) are represented by "T". Depending on the specification we add the discussed control variables to the model: "W" (for wealth) denoting GDP per capita or the Human Development Index, and "U" denoting the unemployment rate. The subscript "t" denotes a particular WVS wave.

4 Results

Table 1 shows the results of our initial correlational analysis, where we simply correlate each of our independent variables with life satisfaction.

Table 1: Bivariate Correlations with Life Satisfaction						
Dependent Variable: Life Satisfaction	*Wave of WVS*					
	2	**3**	**4**	**5**	**6**	**7**
Trade Freedom	-.67	-.21	.62	-.11	-.25	.08
Trade (in % of GDP) (log)	-.31	-.26	**.52**[*]	.10	.02	-.07
GDP per capita (log)	-.50	-.02	.48	.15	.30	**-.51**[**]
HDI	-.48	-.38	**.59**[**]	-.03	.10	-.31
Unemployment Rate	-.48	-.24	−.03	**-.48**[*]	**-.82**[***]	**-45**[**]
N	6	7	14	14	22	21

[*] p < .10 [**] p < .05 [***] p < .01 (two-tailed)

As can be seen, the interpretation of these results is difficult since, except for the unemployment rate, the variables do not show a consistent pattern. In addition, most correlations are insignificant. However, this may be a consequence of the small number of observations (N) since a larger N would translate to a larger test statistic (lower p-value). The results of our main analyses presented in Table 2 provide a clearer picture.

Dependent Variable: Life Satisfaction

	(1)		(2)		(3)		(4)		(5)		(6)	
	Coef.	t-value	Coef.	t-value	Coef.	t-value	Coef.	t-value	Coef.	t-value	Coef.	t-value
+ GDP per capita (log)	**1.21*****	**2.78**	**1.61*****	**3.03**	**1.35*****	**2.70**						
+ HDI							**3.33*****	**2.72**	**3.80*****	**2.69**	**4.18*****	**2.77**
+ Unemployment Rate	**-0.05***	**-1.75**	**-0.06***	**-1.87**	-0.05	-1.58	-0.05	-148	-0.05	-1.47	-0.04	-1.16
+ Trade Freedom			-0.14	-1.26					-0.08	-0.77		
+ Trade (in % of GDP) (log)					-0.44	-0.58					-0.79	-0.96
N	74		73		74		74		73		74	
R^2	0.15		0.19		0.16		0.15		0.16		0.16	

* $p < .10$ ** $p < .05$ *** $p < .01$ (two-tailed)
Unbalanced Panel n=20, T=2-6, N=73 (74)

Each number in parentheses on the top row represents a specification of the model presented in Section 3.2 where we stepwise added explanatory and control variables. All significant values are highlighted in bold. We find no evidence that changes in trade volume or trade freedom significantly affect life satisfaction. We also find no evidence for a significant effect of our trade variables on life satisfaction when running the fixed-effects panel model without any control variables (not stated in the table). In all model specifications, we find both indicators of wealth GDP per capita and the HDI to be positively correlated with life satisfaction. In at least two model specifications the unemployment rate is significantly negatively correlated with life satisfaction in Asia. The coefficient of determination (R^2) illustrates that only 15 – 19 % of the variation of our dependent variable can be explained by our independent variables.

5 Discussion

In this study trade in terms of volume and freedom was found to have no significant direct effect on SWB in terms of life satisfaction in Asia. However, it does not mean that such an effect does not exist since our study faces several limitations. First, one issue is the limited availability of life satisfaction data. The WVS covers only a small number of Asian countries, especially in its first five waves. To add to this, each wave not only covers a different number but also a partly different set of countries which further distorts our analysis. Second, we only assess country means of life satisfaction which do not reflect possible variations within specific subgroups of a country's population. Further studies shall supplement our investigation by applying an individual or multi-level analysis. Third, life satisfaction might have risen but that increase might have lasted only for a short amount of time. As mentioned in section 2.2. adaptation theory in combination with set-point theory suggests that individuals adapt rather quickly

to changes in living conditions and SWB levels only oscillate around an innate set point before they eventually return back to it. Fourth, the contrary is also possible. Trade could have a long-term effect on SWB, but this effect could occur with a time delay, as these non-monetary effects take a while before they reach the general population. Fifth, an increase in international trade may not necessarily translate to an increase of the opportunity set since it may not have affected the variety of goods and services. Further research should not only consider trade volumes but also the variety of goods and services traded.

Apart from trade, we find that wealth as captured by GDP per capita or the HDI is positively, and the unemployment rate is negatively correlated with life satisfaction. It is thus imaginable that international trade affects SWB indirectly. Singh (2010) reviews studies that find that "[m]acroeconomic evidence provides dominant support for the positive and significant effects of trade on output and growth" (p. 1554).

Our findings slightly deviate from the ones of Dluhosch and Horgos' study from 2013 (see Table 3 for a comparison of the results). In contrast to us, they applied an ordered probit model to analyze the happiness data at the individual level. As mentioned in section 2.2., similar to us they found an insignificant negative correlation of trade volume and SWB as captured by the 'happiness' item. However, splitting up the sample, they found a significant negative correlation between trade volume and "happiness" for low-income economies. Trade freedom, on the other hand, was positively correlated with individual 'happiness' on the whole sample. Splitting up the sample, while the effect was similar for low-income economies, such an effect was not found for high-income economies. Likewise, GDP proved to be strongly positively correlated to "happiness" but after the split, this effect only remained for low-income economies. The unemployment rate turned out to be strongly negatively correlated to 'happiness' but after the split, this effect only remained for high-income economies.

Table 3: Results in Comparison

	Dluhosch & Horgos (2013)			Our study
	Whole sample	Low-income economies	High-income economies	
GDP per capita	+++	+++	0	+++
Unemployment Rate	---	0	-	-
Trade Freedom	++	+	0	0
Trade (in % of GDP)	0	---	0	0

+++ (++/+) positively correlated with happiness (or SWB); p < .01 (p < .05 / p < .10)
--- (--/-) negatively correlated with happiness (or SWB); (p < .05 / p < .10)
0 no significant correlation with happiness (or SWB)

6 Conclusion

The Chinese endeavor to revive the spirit of the ancient Silk Road and create the largest trade route(s) the world has yet to see is met with mixed feelings and sometimes with hostility by the global audience. The differing views do not just stem from advocates and opponents of globalization per se, but rather from anyone that questions the underlying intentions of this endeavor's instigators as well as anyone concerned about the participating countries to become dependent on the benevolence of the Chinese government. In this study, we analyzed whether changes in trade volume and trade freedom are correlated with SWB in Asia. Since the different projects within the BRI can still be considered to be in their early stages these effects are expected to grow even larger in the future.

Future research should consider the following aspects. First, it may prove beneficial to conduct a similar analysis splitting trade volumes into imports and exports, or disaggregate trade volumes even further into different commodity groups. Second, one could supplement our analyses with an individual or multi-level approach to study trade effect on SWB of specific subgroups of the population. Third, running the analyses with SWB data from other large-scale surveys, such as the Gallup World Poll would allow for a comparison of the results with those produced by this study using WVS data. Fourth, the use of SWB measures collected via a multi-method approach would be ideal to further increase validity and reliability, thereby improving the informative value of the results, which in turn inform more sound policy actions. Finally, one could further imagine that trade impacts on SWB vary depending on the SWB dimension that one is assessing. The analytical decomposition and distinction of these effects are crucial since the holders of political offices will in the course be enabled to form better and more fine-tuned policy measures that will benefit the citizens and societies in multiple ways.

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