PROJECT POLICY BRIEF

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STEG

Trade Exposure and Social Cohesion: Evidence from Uganda

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This project provides new evidence on the link between trade exposure and various dimensions of social cohesion, such as trust, identity and participation, in the context of Uganda. The study constructs measures of "exposure" to international price shocks for firms, workers and households and links it to data on public attitudes at locality levels. The underlying intuition of these exposure measures is that internationally trading firms as well as workers working at such firms, and household that consume more of imported goods, are more susceptible to this international price shocks, thus providing a causal pathway how trade may affect social cohesion. The results suggest that trade exposure is a relevant predictor of social cohesion and therefore trade shocks may cumulate into social disintegration.

Introduction

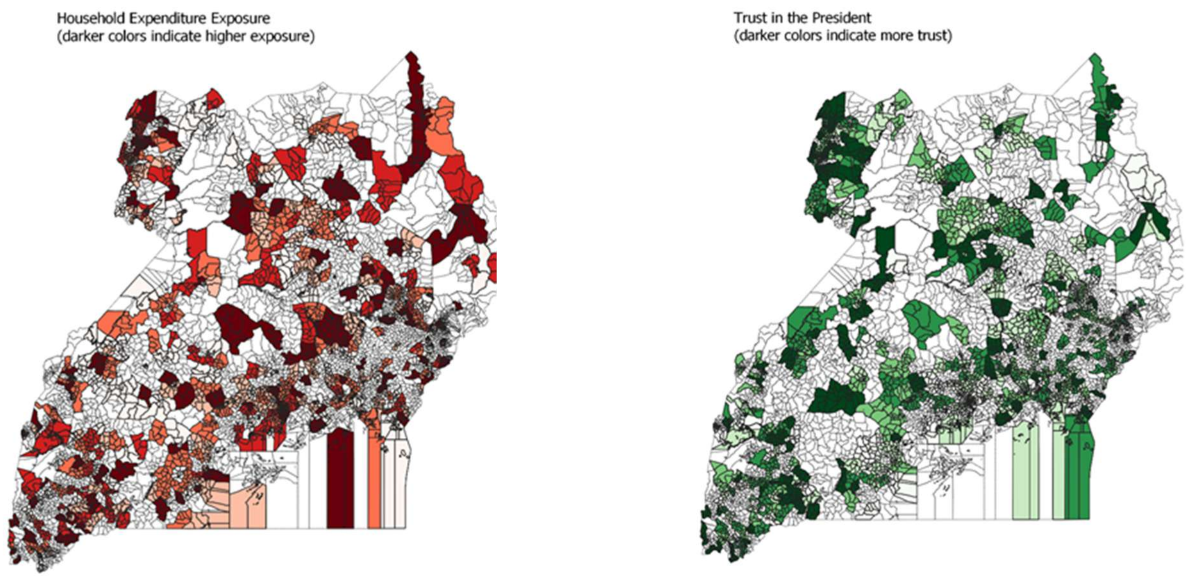
In his famous book, Putnam (2000, p. 283) reflected on the decline in social capital in the U.S. and argued that "global economic transformations are having an important impact on community life". Putnam's reflection came two years after Rodrik (1997) warned in his seminal book that ignoring social consequences of globalisation may lead to social disintegration and political backlash against trade. Indeed, anecdotal and empirical evidence suggest that recent globalisation is characterised by anti-globalisation backlash and a return to (trade) protectionism.

Understanding how globalisation affects social cohesion and the channels through which it operates are relevant both for understanding individual preferences towards globalisation and for designing appropriate policy responses. This is particularly important for low- and middle-income countries that pursue trade liberalisation to enhance structural transformation, growth and welfare. Does trade liberalisation pose a threat to structural transformation through a destruction of social values? How could policy be amended to limit negative and increase positive effects from trade liberalisation on trust, identity and participation?

To date, we know little about how social capital or cohesion is affected by globalisation. Fischer (2012) offers cross-country evidence that globalisation lowers trust. Fang et al. (2021) use a sample of 149 countries and find economic and political globalisation measures are negatively related to indicators of society and political polarisation. Several studies document factors that are plausibly relevant in explaining changes in social cohesion outcomes. Those regions more exposed to import competition from China are found to raise authoritarian values (Ballard-Rosa, Jensen, & Scheve, 2021) and political polarisation in the U.S. (Autor et al., 2020) and see lower support for democracy and lower liberal values in the EU (Colantone & Stanig, 2018). Mendez and Van Patten (2023) document in the case of Costa Rica that firm exposure to a trade reform affects voting behaviour and attitudes towards trade policy among firm's employees.

In a recent project, we fill this gap and provide new evidence on the link between trade exposure and various dimensions of social cohesion, such as trust, identity and participation, in the context of Uganda. We construct measures of "exposure" to international price shocks for firms, workers and households and link it to data on public attitudes at locality levels (Figure 1). To construct these exposure measures, the underlying intuition of these exposure measures is that internationally trading firms as well as workers working at such firms, and household that consume more of imported goods, are more susceptible to this international price shocks, thus providing a causal pathway how trade may affect social cohesion.

Figure 1 – Relation between Exposure and Cohesion



Notes: Graph shows household expenditure exposure (which is normalised to range between zero and one) and trust in the president (which ranges from zero to three) at locality level, using respectively representative household survey and public attitude data. For details on the exposure and attitude measure construction, see the working paper.

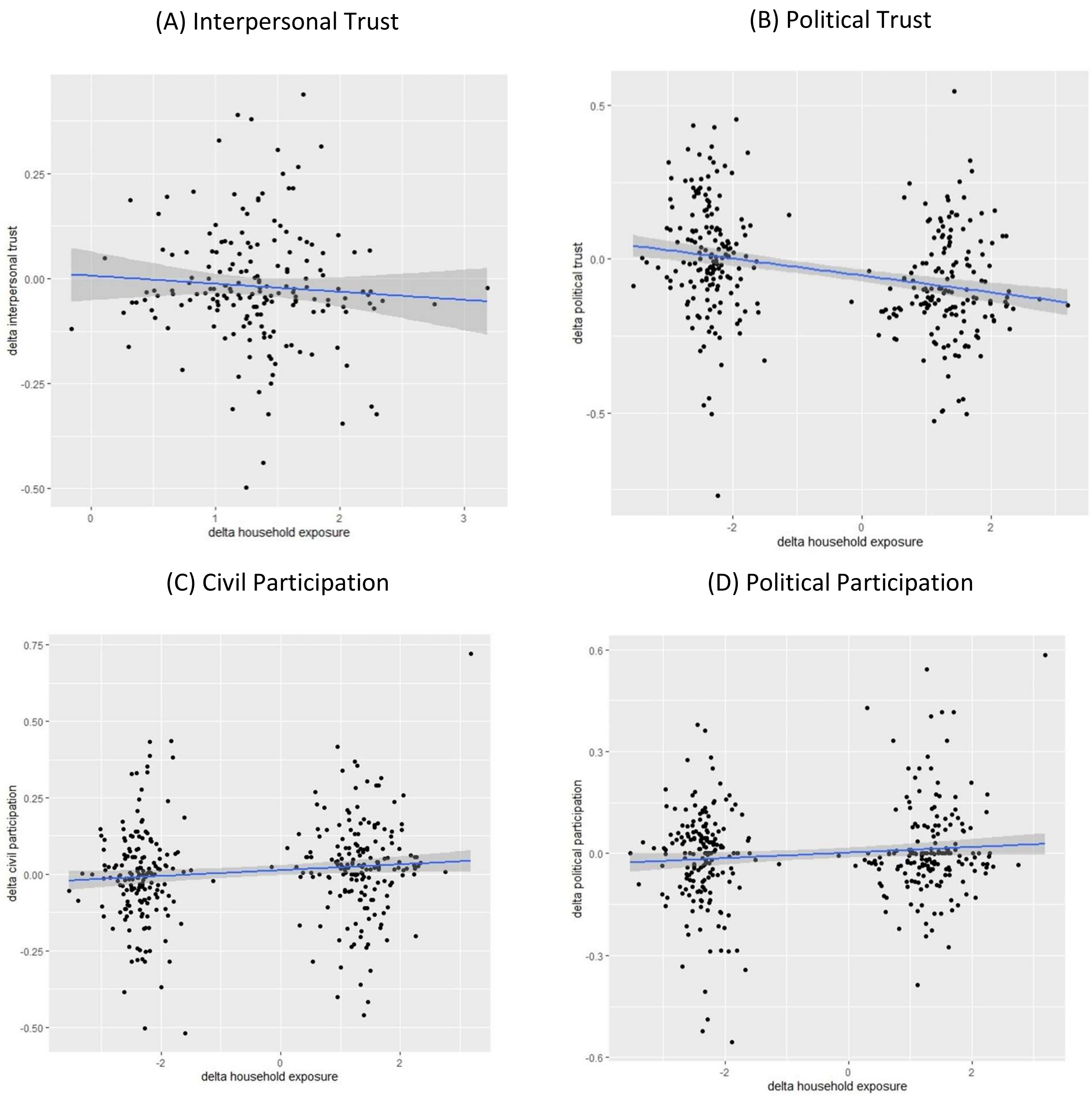
Trade Exposure Reduces Trust, Enhances Participation and has Ambiguous Effects on Identity

Our results show that household expenditure exposure to negative trade shocks reduces average trust levels and increases average participation levels (Figure 2). These results hold both for the horizontal level (e.g., interpersonal trust) and vertical level (e.g., political trust) of social cohesion. An increase in household trade exposure is also associated with an increase in identification with groups within a society and a declining identification with the nation as a whole, thus suggesting social disintegration.

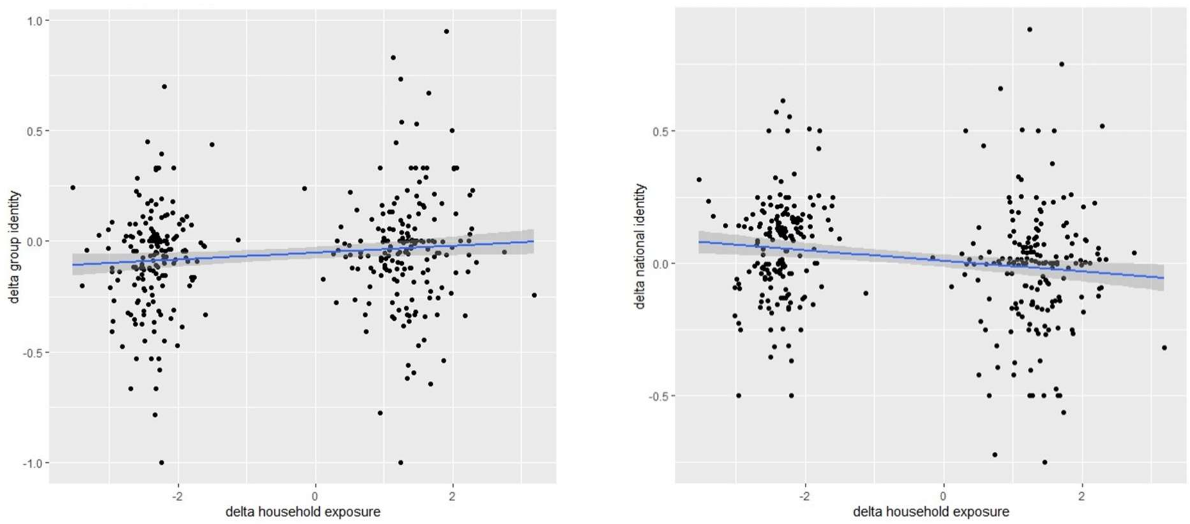
Specifically, we find that a one percent increase in household exposure results in a 0.018 and 0.014 percent reduction in social and political trust, a 0.009 percent rise in political participation (but no significant effect on civic participation), and a 0.014 reduction in national identity and 0.034 increase in affiliation to group identity. The economically small effect we find is somewhat unsurprising given the multitude of co-founding factors that in the literature have been shown to affect social cohesion (e.g. institutions, education and access to public goods).

Further, we find that the effects of worker earning exposure and direct firm exposure are less pronounced, both in magnitude and significant predictors of social cohesion outcomes. This means that the trade effects operate largely through the expenditure channel and to a lesser extent through the earnings channel. These results somewhat contrast other research that trade expenditure effects are often diffuse (Stantcheva, 2022) and therefore are unlikely to lead to social disintegration.

Figure 2 – Correlations between household exposure and social cohesion dimensions



(E) Group Identity (F) National Identity



Notes: Graph shows changes in household expenditure exposure plotted against changes in social cohesion dimension between two particular years. Social cohesion values are normalised to range from zero (0) to one (1). Household expenditure exposure is log-transformed.

Conclusion and Policy Options

Our results suggest that trade exposure is a relevant predictor of social cohesion and therefore trade shocks may cumulate into social disintegration. These negative effects on social cohesion are economically larger (almost by a factor of seven) for households compared to exposure through firm or worker earnings exposure. One interpretation is that workers (through savings or temporary employment) or firms (through reduced profits) might absorb some of the trade shock in case of worker earnings, while shocks to expenditure are directly absorbed by households.

For policy, our results suggest that governments should:

1. **Take into account social repercussions from trade**: traditionally, trade is evaluated according to gains and losses to particular industries and workers (e.g. wages, price). Our findings suggest that losses to particular groups may also lead to social disintegration, thus further amplifying negative effects of trade.
2. **Consider mechanisms to absorb expenditures price shocks**: our results point out that social repercussions are largest when households are exposed through their expenditures. Government should thus install relevant policy mechanisms that could partly absorb such shocks (e.g., price caps).

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