EKONOMSKA ISTRAŽIVANJA-ECONOMIC RESEARCH
ISSN 1331-677X print

2013 Volume 26(2): 35-50

POLITICAL RISK AND ECONOMIC DEVELOPMENT: A CASE STUDY OF CHINA

Jingwen Yu[a], Chunchao Wang[b]

[aa] Postdoctor, Ph.D, Fudan University, Department of Economics, yujingwenpku@gmail.com.
[b] Associated Professor, Ph,D, Jinan University, Department of Economics.
Chun_Chao_Wang@hotmail.com

ARTICLE INFO

Article data:
- Received: 16 April 2012
- Accepted: 18 December 2012

JEL classification: E65 O12, P20, N5

Keywords:
- Political Risk
- Economic Development
- Synthetical Control Method
- Boud Test

ABSTRACT

The political instability affects the investment especially the foreign investment which has a close relationship with economic development. This paper investigates the mechanism of the economic influence of political risk through a case of China. The synthetic control methodwill be used to deal with the problem caused by the counterfactual analysis in the case study. The intense situation of the cross-Taiwan Strait relation has great influence on the economic development of Fujian province because of the closely geographic features and economic links. The empirical result reveals that there is an economic loss measured by GDP per capitain Fujian province as political risk increases. Furthermore, the mechanism is investigated. The result shows that FDI in Fujian province receives adverse impact correspondingly.

Reference to this paper should be made as follows: Yu, J., ; Chunchao, W.. 2013. Political Risk and Economic Development: a Case Study of China, *Ekonomska istraživanja – Economic Research 26(2): 331-345.*

I. INTRODUCTION

Political risk is important in the economic development because the investment will be repressed under an unstable political situation. The political risk will lower down the actual investment return. Hence, the economic performance will be worse in this case. On the contrary, a stable political situation will encourage the investment, and thus facilitate the economic growth. However, the cost of increase in political risk is difficult to measure because of the problem caused by the counterfactual analysis. For example, we cannot observe the economic performance in the case of political instability if the actual political situation is stable, and vice versa.

Abadie and Gardeazabal (2003) propose a synthetic control method to deal with such problem. In the case study, it is difficult to find a suitable control group. But we could use several groups to synthesize one control group that may perform better. In this paper, we will use the synthetic control method (SCM) to estimate the cost of political instability, and more importantly the mechanism behind such influence. The event of the tension of cross-Taiwan Strait relation is studied.

We choose the beginning year 2001 of governing period by Taiwan's Democratic Progressive Party (DPP) as a beginning point of the event study and 2008 that Kuomintang (KMT) elected to be the ruling party as an ending point. The major difference between DPP and KMT is that KMT supports one-China policy a fundamental principle for China. But DPP advocates the independence of Taiwan. One of the DPP's goals is to struggle for the independence of Taiwan. As a result, the political risk increases during the period when DPP is in power. Correspondingly, the perceived level of investment risk is aggrandized, which will exert a negative impact on economic development.

Moreover, Fujian province is chosen to be a treatment group. Fujian province has the closest relationship with Taiwan not only in geographical features but also in economic links. For example, Xiamen city of Fujian province has been established as special economic zone (SEZ) by central government in 1980. This special economic zone aims at attracting the investment from Taiwan, as well as the rest of the world The other three cities, Shenzhen, Shantou and Zhuhai, are also set up as special economic zones at the same time.

Shenzhen and Shantou have the purpose of attracting the investment from Hong Kong and Zhuhai has the purpose of attracting the investment from Macao. Figure 1 shows that Fujian province has a closer relationship with Taiwan. The ratio of Taiwanese direct investment to FDI in Fujian is significantly greater than that in the nationwide since 1990s, even there are some fluctuations. The tension of cross-Taiwan Strait relations will affect Fujian province most directly rather than others. Therefore, Fujian province is a treatment group and the other provinces are control groups which could be used to synthesize a new control group.

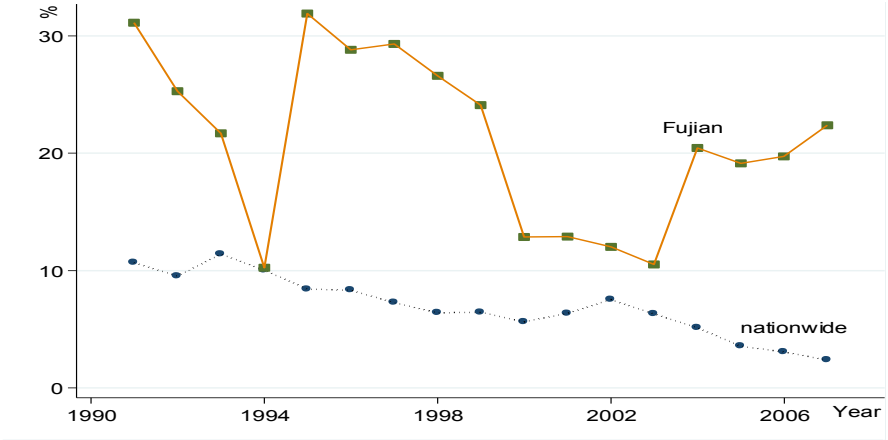

Figure 1. Ratio of Taiwanese Direct Investment to FDI

Data Source: "China's Economy and Trade Yearbook" and "China Business Yearbook"

Admittedly, in the middle period of 1990s, Denghui Li, president of KMT also renounced the one-China policy, which leads to the tension of cross-Taiwan Strait relation. For example, the Chinese people's liberation army held a military maneuver near Taiwan Strait in 1995 and 1996 respectively. When we move the beginning point of the event study backward to 1996, we find a negative gap between FDI of Fujian and FDI of synthetic Fujian, but a similar trend between GDP per capita of Fujian and GDP per capita of synthetic Fujian. It is reasonable because FDI is relatively trivial in the middle period of 1990s. However, it reveals a fact that FDI is affected by the political instability more directly, through which the economy will be influenced by the rising of political risk.

II. LITERATURE REVIEW

There are a lot of literatures on the politico-eonomic links. Alesina and Perotte (1996) find that the worsening of politico-economic environment will reduce investment because of the huge investment risk. The investment is a primary engine of growth, and thus the political risk has an intimate relationship with economic growth. Svensson (1998) and Devereux and Wen (1998)

investigate the multinational differences in investment rate and establish a theoretical model explaining the mechanism of the influence of political instability on investment rate. Jong-A-Pin (2009) also examines the impact of multidimensionality of political instability on the economic growth. The indicators are divided into four categories: politically motivated violence, mass civil protest, instability within the political regime and instability of the political regime. The generalized method of moments (GMM) model is used to deal with the endogenous problem.

Even though, it is quite difficult to estimate the economic cost of political factor because of the counterfactual essence in this case. Specifically, we cannot observe the case of favorable political situation when the de-facto adverse political situation turns up, and vice verse. Moreover, the exclusive assumption is hard to satisfy in IV method. Finally, there is no index of political risk in provincial level of China.

The synthetic control method emerged recently in the comparative case study can overcome this difficulty[1]. The data-driven property of synthetic control method guarantees that the synthesized control group can represent the treatment group had it not been treated. Abadie and Gardeazabal (2003) and Abadie et al. (2010) come up with this new method, named synthetic control method to infer the causal effect in case study. Abadie and Gardeazabal (2003) study the economic cost of terrorism led by Euskadi Ta Askatasuna (ETA), one terrorist organization in Basque of Spain. The synthetic control method is used here. Specifically, the new method is applied to find the weights for the other two areas in Spain.

These areas can be synthesized to a new control group for Basque by the obtained weights. This could overcome the identification problem. The estimated result illustrates that in the later period of 1960s, the GDP in Basque has been dropped by 10 percentage points due to the terrorist attack. Moreover, once ETA stops terrorist attack, the stock prices of enterprises located in Basque performs better than before, which confirms the economic costs generated by the conflicts. Abadie et al. (2010) also use the synthetic control method to research on the effect of California's Proposition 99 implemented in 1988 on the tobacco consumption habits of residents in California. They find that by the year 2000, annual per capita cigarette sales in California are 26 packs lower than what California would have in the absence of Proposition 99. In this case, all the other states are synthesized as a control group for California. In this case, Fujian province, the neighborhood of Taiwan is affected mostly by the impact of cross-Taiwan Strait Tension and thus regarded as a treatment group. The other provinces are synthetized to be a control group for Fujian.

On that account, this paper uses SCM to investigate the impact of cross-Taiwan Strait tension in China on regional economy. As far as we know, DPP has elected to be the ruling party of Taiwan in 2000, which has a significantly negative influence on the cross-Taiwan Strait relation, because DPP is willing to make Taiwan an independent country. In many circumstances, DPP advocates that Taiwan is an independent sovereign country and declares that it is necessary for referendum legislation to determine the future and the fate of Taiwan. This definitely breaks through the bottom line of China. During this period, the cross-Taiwan Strait relation comes to a deadlock.

This paper uses a quantitative method to provide a Chinese case about the connection between political risk and economic development. This research is similar with Chan and

1The details about comparative case study can be found in Card (1990), Card and Krueger (1994). Card (1990) investigates Mariel Boatlift in Cuba and its influence on Miami's economy. Card and Krueger (1994) study the case of minimum wage increase in New Jersey.

Wei(1996) and Sun et al.(2002). The difference is that this paper exploits a natural experiment and uses a latest method of empirical study to carry on the research.

In addition, Enders and Sandler (1996) use the basic analysis method in time series Vector-Autoregression Model (VAM) and Impulse Response Function (IRF) to calculate the cost of terrorist activities on foreign direct investment in Spain and Greece. Abadie and Dermisi (2008) use the building-level data to investigate the vacancy rates in Chicago after "9/11".

The 9/11 attacks induce a large increase in the perception of terrorism risk in Chicago Central Business District. Their results reveal that the economic activity in Central Business Districts is affected greatly by the increase of terrorism risk. However, there is little evidence about Chinese case.

The paper is organized as follows. Section 3 introduces the synthetic control method. Section 4 uses the provincial data of China to analyze the influence of political instability on economy and carry on the robustness check. Section 5 investigates the influence channel of political instability on economic development. Section 6 concludes

III. INTRODUCTION OF SCM

The essential feature of synthetic control method is that the choice of control group depends on the existing data completely. A precondition of a perfect control group is the fitness between the treatment group and the control group before the treatment. It is verifiable because both the treatment group and the control group can be observed without intervention. Hence, the potential control groups and the treatment group before the treatment should be compared to find the weights of these potential control groups for the best fitness. This implies the potential control groups could represent the treatment group by using these weights before the treatment. Moreover, if the potential groups are not been affected by the treatment, these weights could be used to synthesize a new control group that can predict the treatment group after the treatment in the case that it does not accept the treatment. In the following, more details about the synthetic control method will be discussed.

Suppose Y_{it}^N be the outcome that would be observed for region i at time t without treatment and Y_{it}^I be the outcome that would be observed for region i at time t with treatment, where $i = 1,2,\ldots,J+1, t = 1,2,\ldots,T$. Region 1 receives the treatment at time T_0 and ends at time T, where $1 < T_0 < T$. The model can be specified as the following:

$$T_{it} = Y_{it}^N + \alpha_{it} D_{it} + \varepsilon_{it} \quad (1)$$

$$D_{it} = \begin{cases} 1 \text{ if } i = 1 \text{ and } t > T_0 \\ 0 \text{ otherwise} \end{cases}$$

Where δ_t is an unknown common factor with constant factor loading across unit. When D_{it} equals 1, region i receives the treatment at time t. When D_{it} equals 0, region i does not

receive the treatment at time t. Because only region 1 receives treatment, our purpose is to estimate the value of α_{1t} when $t > T_0$. However, we cannot observe the value of Y_{it}^N for $t > T_0$, because we only observe the value of Y_{it}^I, and thus Y_{it}^N is a counterfactual variable here. Hence, the key point of comparative case study is to construct the counterfactual variable and estimate it..

Let's suppose that Y_{it}^N is given by the factor model:

$$Y_{it}^N = \delta_t + \theta_t Z_i + \lambda_t \mu_i + \varepsilon_{it} \tag{2}$$

Where Z_i is a vector of control variables that are seldom affected by the treatment, θ_t is a vector of parameters needed to be estimated, λ_t is common factor with varying factor loadings, μ_i across units standing for the individual effect, and ε_{it} is the error term that standing for the unobserved transitory shocks at the region level with 0 mean for all i.

The purpose here is to estimate a vector of weights $W = (w_2, \ldots, w_{J+1})'$ that $w_j \geq 0$ for $i = 2, \ldots, J+1$ and $\sum_{j>1} w_j = 1$. In fact, each value of vector $W = (w_2, \ldots, w_{J+1})'$ can synthesize to a potential control group, that is, a particular weighted average of control regions.

The value of the outcome variable for each synthetic control indexed by $W = (w_2, \ldots, w_{J+1})'$ is as follows:

$$\sum_{j=2}^{J+1} w_j Y_{jt} = \delta_t + \theta_t \sum_{j=2}^{J+1} w_j Z_j + \lambda_t \sum_{j=2}^{J+1} w_j \mu_j + \sum_{j=2}^{J+1} w_j \varepsilon_{jt} \tag{3}$$

Suppose there is a vector of $(w_2^*, \ldots, w_{J+1}^*)$such that [2]:

$$\sum_{j=2}^{J+1} w_j^* Y_{j1} = Y_{11}, \ldots, \sum_{j=2}^{J+1} w_j^* Y_{jT_0} = Y_{1T_0} \tag{4}$$

$$\sum_{j=2}^{J+1} w_j^* Z_j = Z_1 \tag{5}$$

If $\sum_{t=1}^{T_0} \lambda_t' \lambda_t$ is nonsingular, then the following equation

[2] $(w_2^*, \ldots, w_{J+1}^*)$ can be obtained from minimization of $\| X_1 - X_0 W \|_V = \sqrt{(X_1 - X_0 W)' V (X_1 - X_0 W)}$, where X represents the predicted variables and V is the symmetric positive semi-definite matrix. The detail is discussed in the appendix B of Abadie and Gardeazabal(2003).

holds. $Y_{1t}^N - \sum_{j=2}^{J+1} w_j^* Y_{jt} = \sum_{j=2}^{J+1} w_j^* \sum_{s=1}^{T_0} \lambda_t (\sum_{n=1}^{T_0} \lambda_n' \lambda_n) \lambda_s' (\varepsilon_{js} - \varepsilon_{1s}) - \sum_{j=2}^{J+1} w_j^* (\varepsilon_{js} - \varepsilon_{1s})$ (6)

Abadie et al. (2010) has proven that under the general condition [3], the right hand side of equation (6) will approach to zero. As a result, $\sum_{j=2}^{J+1} w_j^* Y_{jt}^N$ is the unbiased estimator of Y_{1t}^N. When $t > T_0$, Y_{1t}^N cannot be observed, $\sum_{j=2}^{J+1} w_j^* Y_{jt}^N$ could be used to estimate Y_{1t}^N. The treatment effect in the time t can be estimated, where $t \in \{T_0 + 1, \ldots, T\}$ [4]:

$$\alpha_{1t} = Y_{1t} - \sum_{j=2}^{J+1} w_j^* Y_{jt} \quad (7)$$

Equation (7) implies that in fact synthesized control method is similar with weighted difference-in-difference estimation strategy.

IV. EMPIRICAL STUDIES

A. Data

This paper uses the provincial data in China from "Comprehensive Statistical Data and Materials on 60 Years of New China" except Chongqing which becomes a new municipality after 1997. The dependent variable using to describe the economic development is GDP per capita adjusted by the price of 1978. The predicted/independent variables include the ratio of fixed investment to GDP, the ratio of industrial output to GDP, the ratio of construction output to GDP, the ratio of farming forestry, animal husbandry and fishery output to GDP and the ratio of labor force to total population(Abadie and Gardeazabal, 2003). These predicted variables are closely related with regional economic development. Because of the uncertainty of the economic reform, we choose the data from 1990 to 2008. Deng Xiaoping's southern tour happened in 1992 opened the prelude of the market-oriented reform. The data before 2000 will be used to predict the dependent variable Y_{it}^N in equation (2).

3See more detail in the appendix B of Abadie et al (2010).

4 The technical detail about the synthetic control method is discussed in the appendix B of Abadie et al (2010).

TABLE 1. MEAN VALUE OF PREDICTED VARIABLES

	Fujian (1)	China (2)	Synthetic Fujian (3)
Fixed Investment/GDP (%)	0.299	0.219	0.321
Farming forestry, animal husbandry and fishery /GDP(%)	0.347	0.416	0.315
Industry/GDP (%)	0.351	0.403	0.353
Building Industy/GDP (%)	0.059	0.046	0.053
Labor/Population (%)	0.482	0.465	0.492
GDP per capita in 1992 (Yuan)	1027.209	969.281	1078.097
GDP per capita in 1994 (Yuan)	1487.753	1191.786	1558.553
GDP per capita in 1997 (Yuan)	2055.405	1451.068	1964.331

Data Source: "Comprehensive Statistical Data and Materials on 60 Years of New China"

Table 1 illustrates that the differences between the predicted variables of Fujian and that of synthetic Fujian are all smaller than the difference between the predicted variables of the Fujian province and that of the nationwide. This means the weights from synthetic control method can match the characteristic of Fujian province much well, and thus can used to predict the economic development of Fujian province in the period of post cross-Taiwan Strait tension.

B. Empirical Results

In this study, the potential control groups include 29 provinces in China. The estimated result of synthetic control method shows that Jiangsu has the largest weight that is 0.708. Shandong has the weight of 0.231 and Tianjin has the weight of 0.061. The others are 0. The weighted average of Jiangsu, Tianjin and Shandong can well fit the economic development of Fujian province. Such combination can be used as a control group for Fujian without the change in political situation.

Figure 2 shows that before 2001, the synthetic data fits the actual data quite well. After 2001, the gap between GDP per capita of Fujian and that of the synthetic Fujian emerges, which shows a deviation from the synthetic data. In 2008, this gap becomes -1364.19 Yuan and the average loss of GDP per capita is -682.54 Yuan. In other word, the loss of GDP per capita in Fujian province has accumulated to 711 US Dollar from 2001 to 2008.Summarily, the cross-Taiwan Straittension increases the investment risk in Fujian province and lowers down the predicted investment return, and thus goes against the economic development of Fujian.

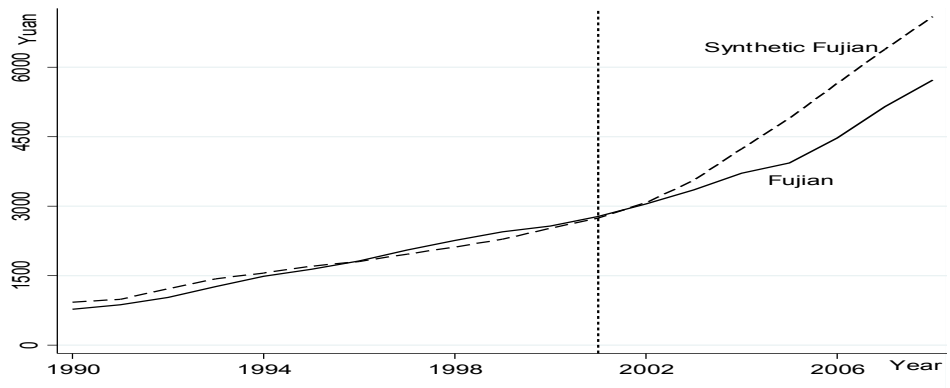

FIGURE 2. GDP PER CAPITA: FUJIAN VS SYNTHETIC FUJIAN

Source: Author calculation

C. Robustness test

The previously empirical result reveals a gap between the GDP per capita of Fujian and that of synthetic Fujian. Is this gap really caused by the tension of cross-Taiwan Strait relations in China or just by chance? The robustness check will give an answer to this question.

The robustness check in this context is permutation test which is similar to rank test in statistics. The purpose is to test the statistical significance of our results.

For example, are there any other provinces shows a gap between GDP per capital and synthetic GDP per capita when these provinces are viewed as treatment group respectively? In other words, what is the probability of appearing the same large gap as Fujian province does? To answer these questions, we iteratively apply the synthetic control method to estimate the impact of cross-Taiwan Strait tension on every other province. Before doing this test, we need exclude the provinces that do not fit the original data before 2001 well. The gap after the treatment may not be caused by the treatment, but by the bad fitness before the treatment. Therefore, we exclude the provinces whose MSPE before 2011 are larger than 100. Finally, we obtain 22 provinces as potential control groups here[5].

Figure 3 shows the results of permutation test. Each province is viewed as treatment group each time and the gap between GDP per capita and synthetic GDP per capita is drawn respectively. We find that the largest negative gap is Fujian province, which means the probability of estimating a gap of the magnitude of the gap for Fujian under a random permutation of the treatment in our data is 1/22. In other words, the previous result is statistically significant at 4.5% or so.

[5]The dropped provinces include Tianjin, InnerMongolia, Heilongjiang, Shanghai, Hainan, Guizhou, Ningxia and Tibet.

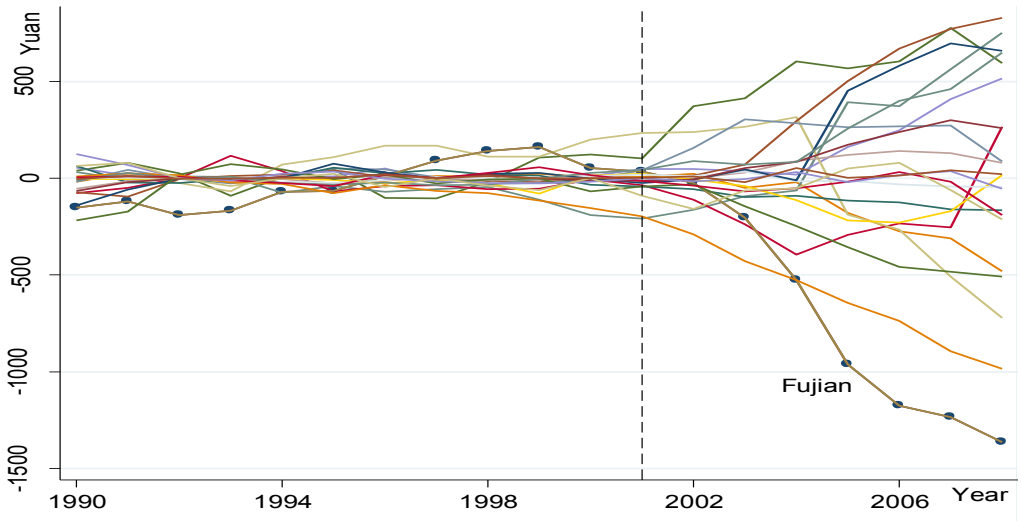

FIGURE 3. GAP BETWEEN GDP PER CAPITA AND SYNTHETIC GDP PER CAPITA (MPSE<100)

Source: Author calcuation

Furthermore, we calculate the ratio of MSPE after 2001 to MSPE before 2001. The main advantage here is that it avoids the subjective choice of cutoff for the exclusion of ill-fitting provinces. If the final result is convincing, then the MSPE before 2001 should be small and the MSPE after 2001 should be large, which means the ratio will be larger. Figure 4 shows the result of permutation test. The ratio of MSPE after 2001 to MSPE before 2001 of Fujian stands out in the figure. The MSPE of post cross-Taiwan Straittension period is about 16 times the MSPE of the pre cross-Taiwan Straittension period.

No control province achieves such a large ratio. If the treatment is assigned at random in the data, the probability of obtaining a ratio of MSPE after 2001 to MSPE before 2001 as large as Fujian is 1/30. In other word, the null hypothesis that political instability has no influence on economic development can be rejected and the result does not change its magnitude 96.7% of the time in 100 random resampling.

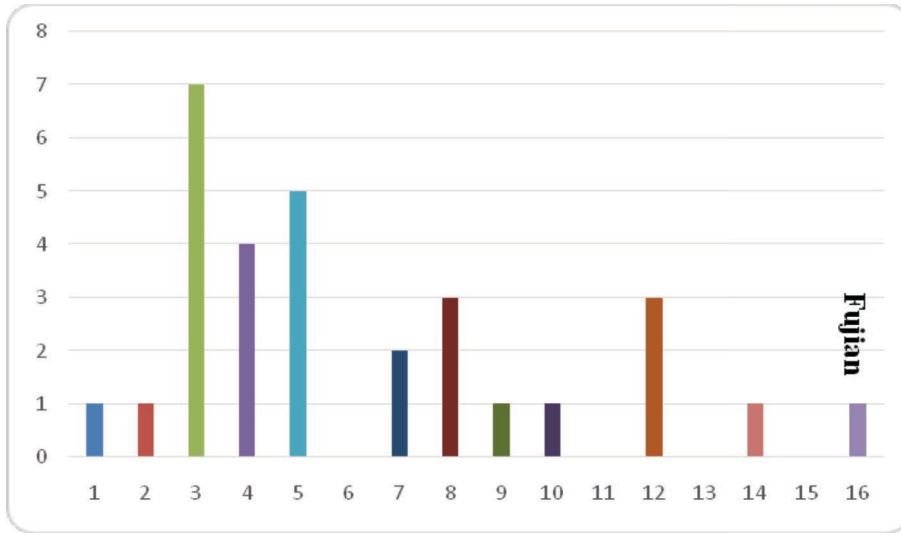

FIGURE 4. DISTRIBUTION OF MPSE(AFTER 2001)/MPSE(BEFORE 2001)

Source: Author calculation

V. FURTHER DISCUSSION

It is stated in the introduction that when the turning point is set to be 1996, we find that the gap between FDI of Fujian and FDI of synthetic Fujian. Actually, the political instability has a direct impact on the investment especially foreign investment. Through this channel the political instability affects the economic development. In this section, the channel of the influence of political instability on economic development is investigated. The model specification is similar with the above except the dependent variable becomes FDI.

Considering that Chinese people's liberation army held a military maneuver near Taiwan Strait in 1995 and 1996 respectively, 1996 is set to be a turning point. Fujian province is a treatment group once again. The estimation result is shown in figure 5.

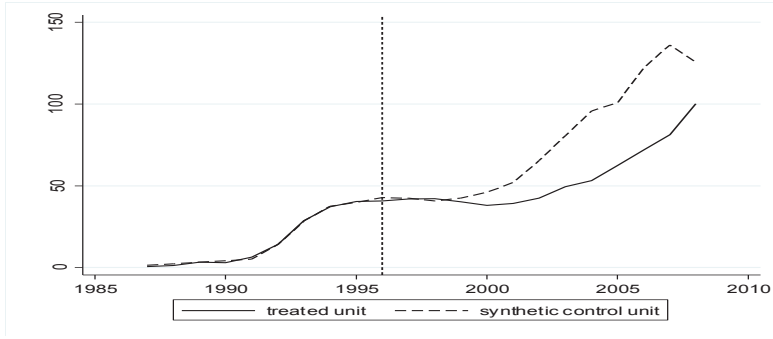

FIGURE 5. FDI: FUJIAN VS SYNTHETIC FUJIAN

Source: Author calculation

Figure 5 displays the empirical result obtained bysynthetic control method. The potential control groups include 26 provinces in China[6]. Table 2 shows the estimated weights by synthetic control method. Shandong has the largest weight 0.463. Guangdong, Hainan, Jiangsu and Inner Mongolia have the weights of 0.194, 0.117, 0.14 and 0.086 respectively. The others are 0s. Before 1996, the synthetic data fits the actual data quite well. This implies that the combination of Shandong, Guangdong, Hainan, Jiangsu and Inner Mongolia could be used as a control group for Fujianif there is no change in political situation.

TABLE 2. WEIGHTS IN SYNTHETIC FUJIAN

Region	Weight	Region	Weight	Region	Weight
Beijing	0	Zhejiang	0	Chongqing	—
Tianjin	0	Anhui	0	Sichuan	0
Hebei	0	Jiangxi	0	Guizhou	0
Shanxi	0	Shandong	0.463	Yunnan	0
Inner Mongolia	0.086	Henan	0	Tibet	—
Liaoning	0	Hubei	0	Shaanxi	0
Jilin	0	Hunan	0	Gansu	0
Heilongjiang	0	Guangdong	0.194	Qinghai	—
Shanghai	0	Guangxi	0	Ningxia	0
Jiangsu	0.14	Hainan	0.117	Xinjiang	—

Source: Author calculation

However, the gap between actual FDI in Fujian and synthetic FDI emerges after 1996. The synthetic FDI is much smaller. This means that the tension of cross-Strait Taiwan after 1996 has an adverse effect on FDI in Fujian. The result reveals the loss of FDI in Fujian is about 2.48 billion dollars from 1996 to 2008.

[6] Because of the data missing problem, Qinghai, Ningxia and Tibet are dropped in the analysis.

Moreover, we calculate the ratio of MSPE after 1996 to MSPE before 1996. Figure 6 shows the result. We find that the ratio of MSPE after 1996 to MSPE before 1996 of Fujian stands out in the figure. The MSPE after 1996 is about 43 times the MSPE before 1996. No other province achieves such a large ratio. If the treatment is assigned at random in the data, the probability of obtaining this ratio as large as Fujian is 1/27. This implies that we can refuse the null hypothesis that cross-strait tension has no effect on FDI in Fujian at 3.7% statistical significance.

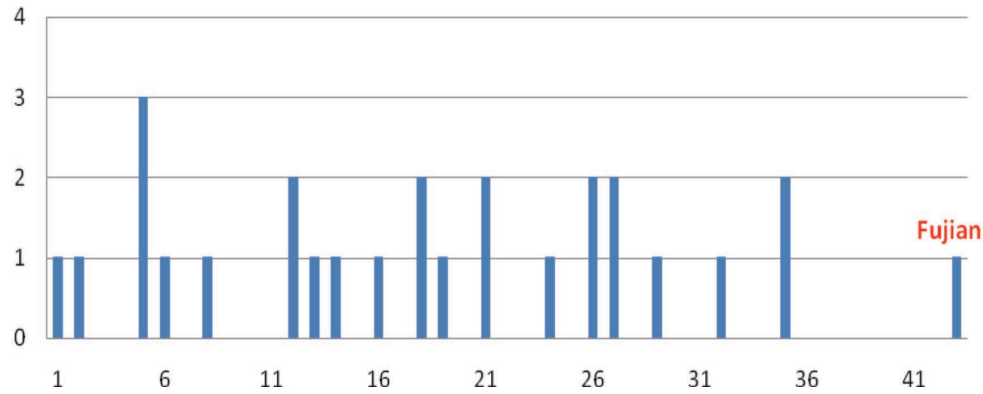

FIGURE 6. DISTRIBUTION OF MPSE(AFTER1996)/MPSE(BEFORE 1996)

Source: Author calculation

VI. CONCLUSION

Comparative case study is widely used in social science. However, there is a difficult about how to choose a suitable control group and how to catch the causal effect. We cannot find an identical individual standing for the treatment group. The pool of potential control groups provides a change to find a suitable representative even if each control group predicts the treatment group badly. The synthetic control method utilizes the pool of potential control groups, and thus calculates the weights of each potential control group under certain rules. By using these weights, an applicable control group is generated. It is a kind of completely data driven method utilizing the information of the existing data.

This paper uses the synthetic control method to study the influence of political risk on economy through a case of China, and more importantly the mechanism behind such influence. Taiwanese independence activists try to divide the country, and thus make the political situation deteriorative, which will increase the investment risk in Fujian province. As a result, if Taiwanese independence activists becomes a ruling party, then the political instability emerges, which will raise the perceived level of investment risk in both mainland China and Taiwan. Especially, Fujian the closest province near Taiwan is affected mostly. This provides a natural experiment to conduct our research.

We find that even if there are lots of preferential policies, there is indeed an economic loss measured by GDP per capita in Fujian province after 2000. This implies that an increase of

political risk has a negative impact on economy. The accumulated loss of GDP per capita of Fujian province is estimated to be 711US Dollar from 2001 to 2008. Even more importantly, the influence mechanism of political instability on economy is investigated. The foreign direct investment in Fujian province also gets loss due to the tension of cross-Taiwan Strait relation. The loss of FDI in Fujian is about 2.48 billion dollars from 1996 to 2008, which is the key reason for the loss in GDP per capita compared with the case of no change in political risk. In sum, the paper provides a case of China to illustrate the influence of political risk on economic development and the mechanism of political risk on economy.

VII. REFERENCES

Abadie, Alberto,and Sofia Dermisi."Is Terrorism Eroding Agglomeration Economies in Central Business Districts? Lessons from the Office Real Estate Market in Downtown Chicago."*Journal of Urban Economics* 64, no.2(2008): 451-463.

Abadie, Alberto, and others. "Synthetic Control Methods for Comparative Case Studies: Estimating the Effect of California's Tobacco Control Program."*Journal of the American Statistical Association* 105, no.409 (2010): 493-505.

Abadie, Alberto, and Javier Gardeazabal. "The Economic Costs of Conflict: A Case Study of the Basque Country." *American Economic Review* 93, no.1 (2003): 113-132.

Alesina, Alberto, and Roberto Perotti."Income Distribution, Political Instability, and Investment."*European Economic Review* 40, no.6(1996): 1203-1228.

Bertrand, Marianne, and others. "How much should we trust differences-in-differences estimates?." *Quarterly Journal of Economics* 119, no.1 (2004): 249-275.

Card, David. "The Impact of the Mariel Boatlift on the Miami Labor Market."*Industrial and Labor Relations Review* 43, no.2,(1990): 245-257.

Card, David, and Alan B. Krueger. "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania."*American Economic Review*84, no.5 (1994): 772-793.

Chan, Yyue-cheong, and John Wei."Political Risk and Stock Price Volatility: The Case of Hong Kong."*Pacific-Basin Finance Journal* 4, no2-3(1996): 259-275.

Devereux, Michael B., and Jean-François Wen. "Political instability, capital taxation, and growth." *European Economic Review* 42, no.9 (1998): 1635-1651.

Enders, Walter, and Todd Sandler. "Terrorism and foreign direct investment in Spain and Greece." *Kyklos* 49, no.3 (1996): 331-352.

Jong-A-Pin, Richard. "On the Measurement of Political Instability and its Impact on Economic Growth."*European Journal of Political Economy* 25, no.1(2009), pp.15-29.

Sun, Qian, and others."Determinants of Foreign Direct Investment Across China."*Journal of International Money and Finance* 21, no.1(2002): 79-113.

Svensson, Jakob."Investment, Property Rights and Political Instability: Theory and Evidence."*European Economic Review*, 42, no.7(1998): 1317-1341.

POLITIČKI RIZIK I EKONOMSKI RAZVOJ – STUDIJA SLUČAJA KINE

SAŽETAK

Nesigurnost uzrokovana političkom nestabilnošću utječe na rizik ulaganja te tako utječe i na ulaganja, posebice strana, koja su u uskoj vezi s ekonomskim razvojem. Ovaj rad istražuje cijenu političke nestabilnosti na primjeru tenzija na dvije strane tajvanskog tjesnaca u Kini. Koristi se sintetička metoda kontrole za analizu problema uzrokovanog kontrafaktičkom analizom u studiji slučaja. Napeta situacija na dvije strane tajvanskog tjesnaca snažno utječe na ekonomski razvoj provincije Fujian radi geografskih karakteristika i ekonomskih veza. Empirijski rezultati otkrivaju da je gubitak BDP-a po glavi stanovnika u provinciji Fujian dosegao 711 USD od 2001. do 2008. Nadalje, izravna strana ulaganja u provinciju Fujian također podliježu negativnom utjecaju.

Ključne riječi: politički rizik; ekonomski razvoj; sintetička metoda kontrole; odnosi dvije strane tajvanskog tjesnaca


SVEUČILIŠTE JURJA DOBRILE U PULI
ODJEL ZA EKONOMIJU I TURIZAM
Dr. MIJO MIRKOVIĆ
UTEMELJEN 1960.