A Risk-Averse Explanation on the Choice of National Identity:

Evidence from Taiwan

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**Abstract**

Why do some people in Taiwan consider themselves Taiwanese, while others see themselves as Chinese? The main explanation, which focuses on the military threat from China (Wu 2004; Chu 2004), fails to explain the sharp rise of Taiwanese identity in Taiwan since 2008, when China’s military threat was decreasing and cross-strait relations were improving due to a series of pro-China policies were introduced and implemented by President Ma Ying-jeou. On the contrary, by considering economic factors, we argue that the rising Taiwanese identity is a result of rational choices of individual who are in a declining economic situation. Theoretically, we introduce Quattrone and Tversky’s (1988) risk-averse explanation on individual behavior into the rationalist discussion about the choice of national identity (Hardin 1995). Accordingly, we identify that Taiwanese choose their identity by their economic gain or loss under cross-Strait economic integration, and a potentially declining economic situation will facilitate more people to choose Taiwanese as their national identity. By using survey data from Taiwan’s Election and Democratization Study, 2012 (TEDS 2012), we find significant support for our argument. This paper contributes to the literature of identity politics by reconsidering the dynamics of rationality in the choice of national identity.

Keywords: Taiwanese identity; Rationalist; Risk-averse rationality; Cross-Strait economic integration

**Introduction**

How and why do people choose their national identity? In terms of this question, scholars have found rationality plays an important role in identity politics (Hardin, 1995) and empirical evidence from India (Chandra, 2004; Wilkinson, 2005) and Africa (Posner, 2005) confirms individual rationality does affect personal choice of identity. Existing rationalist explanations, however, are based primarily on the experience of developing states, which leaves developed countries’ identity politics in such cases as Quebec, Catalonia, and Scotland underexplored. In fact, the identity politics in developed countries may be more serious than developing countries. Collective actions mobilized by national or regional identity in these countries become highly coordinated, leading to emerging movements for secession.

This paper attempts to fill this gap by reconsidering the dimensions of rationality. It employs Taiwan’s case to discuss how rationalist explanations would be applied to developed countries. Specifically, this paper discusses Taiwan’s identity politics with regards to risk-averse features of rationality. As any form of nationalism, Taiwanese identity is commonly thought of as a reaction of the long-term political separation from China. Students of Taiwanese politics argue that the Taiwanese people’s fear of Chinese communist rule has been a catalyst of the rise of a Taiwanese national identity. This assertion further proposes that the military threat from the Chinese communist party will stir an increasing anti-China emotion, pushing the formation of Taiwanese identity (Chu, 2004; Lin, 2001a, 2001b; Schubert, 2004; Wang and Liu, 2004). This commonly-held perspective, however, would be partially, if not totally, incorrect because it fails to hold true when evidence shows that amelioration of cross-Strait relations is not deterring a continuing rising of Taiwanese identity since 2008, when a pro-China president was elected (see Figure 1). As shown in Figure 1, the increase of Taiwanese identity (from 48.4% to 54.3%) from 2008 to 2012 is sharper than past decades. What explains the continuing rise of Taiwanese nationalism? Although scholars have identified this question (Muyard, 2012; Danielsen, 2012; Wu, 2012; Chen et al, 2012), the answer remains underexplored and less theorized. This paper attempts to demonstrate that Taiwanese identity formation is a risk-averse rational behavior of Taiwanese when facing cross-Strait economic integration. Economic rationality, rather than political dislike, can be a potential reason why people in Taiwan choose their national identity. In other words, when making choice of national identity, individuals in developed countries would be influenced more by economic threat than political emotions. This argument may be helpful for discovery of why identity politics is highly salient in developed countries, which confront a greater degree of economic regionalization or globalization.



**Figure 1 Change in Taiwan/China identity for 1992 to 2012**

Source: Election Study Center, NCCU, Taiwan <http://esc.nccu.edu.tw/modules/tinyd2/content/TaiwanChineseID.htm>

The remainder of this paper will be organized as follows. The following section introduces and reviews the existing explanations on the formation and rise of Taiwanese national identity. The third section discusses Hardin’s (1995) rational choice theory of national identity and incorporates risk-aversion framing approach into his model. By using a risk-averse approach, this paper then discusses the effects of individual risk in cross-Strait economic integration on Taiwanese personal choice of national identity. After generating hypotheses, these hypotheses will be tested for their empirical validity in the fourth section. The final section provides conclusions and some theoretical implications derived from the empirical results.

**The Rise of Taiwanese Identity**

The existing explanation on the rise of Taiwanese identity mainly focuses on China’s military threat toward Taiwan. Military threat from Communist China is long-term considered as a force that facilitates anti-China emotions and thus Taiwanese identity. Scholars argue that the Taiwanese identity was growing and becoming prominent under the political separation between Taiwan and China in 1949 (Lynch, 2002; Wu, 2004; Chu, 2004; Wang and Liu, 2004; Chu, 1997).

The theoretical argument of China’s military threat on the rise of Taiwanese identity can be called the “elite politics contingent theory” (Wu, 2004: 620), which stemmed from long-term historical anti-China sentiment and the political competition in Taiwan’s politics. Anti-China sentiment was formed since Kuomintang (KMT) ruled Taiwan in 1949. When the KMT retreated to Taiwan, it brought several hundred thousand soldiers into this island. From then on, Mainlanders became the dominant group (though not the largest)[[1]](#footnote-1). The KMT prohibited the usage of local dialects in Taiwanese daily life. The only language that could be used was official Chinese. Students had to learn much of China’s geography and history, but not Taiwan’s. In addition, the adversary relationships between KMT and Chinese Communist Party (CCP) led to frequent military conflicts in 1950s. Such external and internal environments, which generate a political and cultural separation between Taiwan and China, influence Taiwanese start to consider mainlanders are *they* but not *we*. In fact, anti-China and anti-KMT sentiment has been planted in Feb 28 event in 1947. In Feb 28 event, a conflict between Taiwanese local residents and the ruling government, KMT violently suppressed the unrest, resulting in a massacre of numerous civilians. After Feb 28 event, the anti-KMT sentiment grew and widely spread throughout most of Taiwan’s local residents (Hsieh, 2005: 13-16)[[2]](#footnote-2). This sentiment did not vanish after the retreat of the KMT from mainland China to Taiwan. Quite the reverse; the KMT’s adoption a more repressive rule, which has been called the White Terror, in order to retain its political survival broke the local residents’ hope of the greatness of being Chinese. Even if the KMT employed a variety of measures to promote a “Great China identity,” for making local residents accept the view that both Taiwan and the Chinese mainland were part of China and that China was their motherland (Wang and Liu, 2004: 572), the separation between Mainlander and Taiwanese had been rooted in Taiwan’s society by the middle of the twenty century.

In addition, political competition among elites after democratization has deepened China’s threat effect. For example, Lee Teng-hui, as a native Taiwanese president, opened the political opportunities to the mass in order to fight against the mainlander political elites in KMT to retain his political survival (Lin, 2001). By doing so, Lee himself supported the emerging Taiwanese nationalism and anti-China emotions, as proved in his exclamation of independence of Taiwan from China after he finished his presidency in 2000 (Dreyer, 2003: 7). In addition, oversea elites facilitate the rise of Taiwanese identity. The hidden Taiwanese national identity was refurbished by many oversea journals and magazines (Lynch, 2002: 571-573). Since the public atmosphere in Taiwan had changed and public communication was not monopolized by the state machine, Taiwanese identity began to distinguish itself. In addition, according to Lynch’s interviews, oversea students who received more knowledge and ideologies about liberalism, democracy and nationalism contributed to the emerging Taiwanese nationalism. These students eventually become part of activist in democratization and nationalization movement (Lynch, 2002: 560-566).

The history seems to support that China’s military threat effects the rise of Taiwanese identity. The strongest evidence is the sharp rise of Taiwanese identity in 1996, when Taiwan was holding its first direct presidential election. Nevertheless, not until 2000, when Chen sui-bian, the leader of the pro-independence party DPP, came to power, did the problem of Taiwanese identity became a serious issue. Scholars have argued that the cause of radical rising Taiwanese identity after Chen’s being elected is the emotional counterforce against China’s frequent threats. Schubert (2004) examines the principle parties’ mainland policies approaches in Taiwan, either pro-dependence or pro-unification, and found most of them support the rising of Taiwanese identity. A linkage of the issue of unification or dependence to Taiwanese identity is obvious, he argued, and “ [China’s] threat of invasion in conjunction with electoral politics may push Taiwan further down the road of nation-building… (Schubert, 2004: 553).” Wang and Liu (2004) hold the same perspective as well. Their survey data shows that Taiwanese who backed independence from China were more prone to have Taiwanese identity. In other words, once China’s threat was elevating, Taiwanese identity and the supports for independence increased simultaneously.

The explanations that focus on China’s military threat, however, may be flawed both theoretically and practically. Theoretically, it neither shows the real, inherent cause of identity formation nor does it tell us what mechanism is in the relation between elites and mass behavior. Why should Taiwanese residents believe they have to choose Taiwanese identity against China? Is any other choice available? The answer is yes. According to survey data, the largest identity change is not the transformation from Chinese to Taiwanese, but that from Chinese to both (Chinese and also Taiwanese)[[3]](#footnote-3). Therefore, it seems that the inner mechanism is important, but the political competition and military threat argument fails to make it clear. Practically, its prediction seems to be wrong after the KMT’s return to power in 2008. As Wu (2004: 620) points out: ”the fact that Chen Shui-bian won 2004 presidential election dashed the best opportunity to test this theory that sees the rise of Taiwanese nationalism as the result of government engineering orchestrated by top political leaders.” Now we have an excellent opportunity to test this argument and have enough evidence to falsify China’s military threat theory. Since 2008, the pro-unification party, and amelioration of cross-strait relations did not lessen the pace of the increase of people who hold Taiwanese identity. On the contrary, Taiwanese identity seems to increase more sharply in KMT rule after 2008 than in DDP rule. Therefore, the theory has encountered limitation in predicting the formation and change of Taiwanese identity.

Other theoretical attempts turn their foci into the social factors: one concerned with the historical culture and psychological affinity (Huang, Liu and Chang, 2004) and the other with emphasis on the individual basis of Taiwanese identity (Wu, 2005). In terms of the psychological affinity, Huang et al. (2004) argued that rising Taiwanese identity is not a random phenomenon. Rather, certain groups are more inclined to identify that they are Taiwanese instead of Chinese. Distinguishing by language, in Taiwan there are three groups: Mingnan, Hakka, and Mainlander. In Huang et al.’s study, those in the Mingnan group are more inclined to hold Taiwanese identity than those in Mainlander group[[4]](#footnote-4) (Hsieh, 2005). They attribute this to social representations of history since the Mingnan group was the largest group in Taiwan and suffered more loss than any other group under authoritarian rule. The historical grievances have become shared memories within Mingnan group and affect Taiwanese political identity of today (Huang et al. 2004: 151). This approach, what they called social representation of history, is quite interesting because they considered the complex of identity problem in Taiwan. Their argument, however, encountered the same problem as the elite politics theory: an indirect explanation of the identity formation and change. If the cause was the Mingnan group’s suffering of loss, why did not they develop the strong Taiwanese identity under Japan’s rule in the nineteen-twenty centuries (Fong, 2000)? Furthermore, the causal mechanism within their theory in essence is not historical but rational. It basically is a rational choice explanation that Mingnan group lost more than other groups so that they are inclined to believe they are Taiwanese. But this effect might not be quite clear since the memory of loss could be less salient now.

In finding whether the economy matters in Taiwanese identity, Wu’s preliminary study is a forerunner by asking a classic question: was the change of Taiwanese identity a choice of romance or that of bread? Using panel data collected in 1998 and 2000, Wu finds the affective bond seems to be more significant than economic interest in predicting the change of Taiwanese identity (Wu, 2004: 27-33). Nevertheless, a number of problems arose in his hypothesis testing. First, the explanatory variables were problematic: using the stance of pro-unification or pro-independence to evaluate whether individual is a nationalist cannot well evaluate the affective bond; using the questionnaire that asks people “some people think the unification can continues Taiwan’s growing economy” is not an effective way to evaluate individual rationality because this question has nothing to do with an individual’s interest, but more likely to do with personal judgment on the Taiwanese economy. The problem has seriously weakened his model. Chen et al. (2012), whose research furthers Wu’s argument, find evidence that the Taiwanese identity is affected by both emotional and rational considerations. By using survey data from 2008 to 2010, they argue that generation, provincial division, educational level, party identity, a pro-independence or pro-unity position, and evaluation of economy are related to Taiwanese identity choice. Although Chen et al.’s research provides sounder data and approaches to explain the formation of identity in Taiwan, this research does not establish an account to predict the rise of identity. In addition, their discussions fail to consider different aspects of rationality, such as loss and gain frame, and therefore provide less theoretical implications.

In sum, the existing explanations on the rise of Taiwanese identity remain undertheorized. As argued above, there is no satisfying answer about the rise of Taiwanese identity. To make a better explanation requires a more deliberation about theorizing the inherent mechanisms which can explain individual choice of national identity. For this purpose, the next section introduces rationalist explanation of identity formation and then discusses how economic integration would affect individual choice of national identity.

**Theoretical Argument**

**Rationalist explanation of the choice of identity**

To understand the formation of Taiwanese identity, one plausible way is to evaluate individual choice of identity. Most previous notions attempts to explain Taiwanese identity focus only on the structural effects, but do not really touch upon the individual level, although the subject they hope to explain is on the individual level. Generally speaking, there are three approaches for explaining national identity formation: constructivist, psychological, and rationalist approaches. Yet, they probably are not mutually exclusive to the extent that scholars have argued. This section will simply review the three approaches and determine whether there is a possible integration of these approaches to explain the formation of Taiwanese identities.

The early historical studies on nationalism, which argue that nationalism stemmed from modernization and modernity, could be classified as constructivist (Anderson, 1983; Gellner, 1983). But constructivism that specifically focuses on the individual level is hard to establish because this approach is methodologically based on structural or contextual effects such as cultures, positions, roles and histories. Therefore, Nagel (1994) offers an explanation of the construction of identity based on both structure and agency, what he believed was a “dialectic played out by ethnic groups and the larger society (Nagel, 1994: 152).”

 On the contrary, psychological approaches argue that individual choice of certain identity is due to the demands of self-esteem. This approach indicates that groups can provide their members with positive self-esteem and members were encouraged to promote their image of the groups to which they were supposed to belong. In this situation, in-group favoritism against other groups emerges (Tajfel, 1970). This indicates that individuals identify themselves by their psychological needs. Therefore, according to this approach, an Asian immigrant in America is more likely to identify herself as an American because the self-esteem will be more efficiently provided by the American identification rather than the Asian identification. The psychological rewards will be offered when she comes back to her hometown and compares the self-esteem provided by her origin ethnicity. Under this condition, we might be able to argue that nationalism is more likely to happen when one has a reference group in relation to the group in which he/she is currently embedded. Indeed, social identity theory has argued that social groups provide members with social identities and due to the desire to maintain positive self-esteem is a fundamental human motivation. As a result, individuals would disparage other groups to enhance their self-evaluation (Monroe, Hankin and Van Vechten, 2000: 434).

The psychological approach could be the most commonly used explanation to help explain a primordial view of identity. The primordial view of identity inclines one to make an analogy of family to nationalism (Conner, 1993; Horowitz, 2005), and family would be the most basic organization that provides individuals self-esteem. This view, however, may not be able to explain why self-esteem comes first, but group formation comes later. The picture the psychological approach shows is a snapshot. Even in Tajfel’s famous experiments, he would only control the presence or absence of groups to determine if group favoritism exists. What is questionable here is that, though arguable, self-esteem is not the original demand of human beings. Rather, self-esteem might be a secondary demand after the core interest such as survival or economic interest. Of course, we could argue that many decisions are made by a thought of self-esteem—suicide bombers, for example. But the main question might not be whether it is self-esteem, but whether self-esteem was put in the bomber’s first preference, that is, self-interest. Thus, as Hardin argues, searching the psychological effect is likely to be less helpful than trying to regulate the conditions that give incentive for it (Hardin, 1995: 9).

In terms of preference, rationalists have argued that nationalism is an action about individual rational choice. Rational choice approaches point out that one chooses an identity based on their rational gains. For example, individuals expect patronage, private goods and special treatment distinct from other groups. In other words, group privileges lead to the boundary of identities as well as to individual choice of identities. Hardin is representative of this approach in explaining national identity formation. He argues that nationalism is essentially a personal choice that relies on ones’ rationality. Self-interest tendency is always ranked first in individual preference, which is based on past experiences. As Hardin puts it (1995: 47):

The rational choice account of ethnic, nationalist, or other group loyalty will be compelling if (1) It often happens that self-interest and group identification are congruent and if (2) actions that are costly to the individual but beneficial to the group or nation are increasingly less likely the higher the individual costs.

Although early historical cases seem to be evidence that support Hardin’s argument, such as Quebec nationalism (Hechter, 1987) or india’s ethnic identity formation (Chandra, 2004), the rational approach that Hardin advocates might only be partially true in reality. We see many cases that cannot be simply explained by looking for gains, such as a suicide bomber who seems to gain nothing and sacrifice everything. This is not to say Hardin is wrong. On the contrary, what is important is that Hardin’s rational approach may not be in direct contradiction to constructivist and psychological approach.

First, as Hardin also indicates, rationality is based on individual past experience or histories. This means rationality itself is not complete but only works simultaneously when integrated to personal context. Sometimes individual rationality might be an obstacle to formation of nationalism in terms of the context. In Taiwan, for example, the native people are benefited by their identification of “aboriginal people.” They can have extra credit when taking governmental examinations, such as public servant examinations, and also are qualified to pay less tuition in college, and so on. With these benefits, why should they have to identify themselves as Taiwanese instead Natives?

In addition, Hardin defines rationality as “a standard view of self-interest” and also argues that “rational choice is that it is overwhelmingly present- and future-oriented (Hardin, 1995: 21). This assertion is correct. Yet he also advocates a benefit-driven rational choice as do most rationalists. This might be not the case. Rational considerations do not only include the gains, they also include costs, that is, losses. As political psychological researchers have indicated, individuals are not only risk seeking, but also risk averse and loss averse (Quattrone and Tversky, 1988; Levy, 1996). In Quattrone and Tversky’s experiment, the authors test when individuals will make their choice even though the benefit is totally the same (for example, the change from 100 to 200 and from 2100 to 2200) and find that the reference point is so important for framing their choices. Furthermore, in terms of value function in rationality, they find losses loom larger than gains[[5]](#footnote-5).

**Figure 2 Value function in Rational Choice**

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Source: Quattrone and Tversky, 1988, p.721.

Expected losses are conducive to a wider application of rational choice approach to more contexts. It also can show a more complete picture about human psychological nature about rationality. For example, if a person does not choose an identity that would potentially benefit her, we do not have to hastily jump into conclusion that it is irrational. In contrast, we might be able to find individual evaluation of risk or cost that can help to explain how her decision is made.

In addition, in terms of rational choice approach, the finding that rationality is reference dependent help identify that it does not totally contrast to other two approaches. This combination of approaches has been used by scholars, who advocates bounded rationality (Simon, 1985). The risk-averse approach particularly is widely used in foreign policy analysis (Levy, 1992, 1997; McDermott, 2004; Berejikian and Early, 2013). For example, Berejikian and Early find that American decision makers are loss-averse in trade bargaining, under which they are more likely to back down in pursuing gain rather in avoiding loss. This approach, however, has not been widely used in studying identity politics. One closer example is Varshney’s differentiation of value and instrumental rationality (Varshney, 2003). In his work, Varshney argues that value rationality such as dignity, self-respect, and recognition are better for understanding the formation of nationalism than self-interest motivation. Nevertheless, he does not focus on the frame of gain or loss. Generally, risk-averse explanations can be particularly helpful for our understating of the dynamics of the rational choice of national identity. In applying this approach to understanding how Taiwanese identity forms, we are further to discuss how cross-strait economic integration will affect formation of Taiwanese identity.

**Economic integration, economic threat and identity politics in Taiwan**

How is Taiwanese identity affected by individual rationality? To answer this question, we argue that personal economic position under economic integration between Taiwan and China provides a clue. Indeed, some scholars have concerned the relationship between a closer cross-Strait economic interaction and the increasing Taiwanese identity (Muyard, 2012; Wu, 2012; Wu, 2010). Since the late 1980s, Taiwan’s economic integration with China has grown. From 1989 to 2010, the total trade flows between Taiwan and China has increased US$ 142.9 billion (Muyard, 2012: 169). In 2010, Taiwan and China signed the Economic Cooperation Framework Agreement (ECFA), which opened the cross-Strait free trade and investment market. The ECFA deepened cross-Strait economic integration in a way that provides greater interaction of businesses, capitals and human resources.

Despite the increasing economic interaction, most Taiwanese did not share the benefits from the economic integration between Taiwan and China (Muyard, 2012). For Taiwanese, the most serious problem seems to be unemployment. Although Taiwan’s economy has grown dramatically since 1970, it encountered unemployment problems over time. In Figure 3, we see that since 1990, and in particular after 1996, the unemployment rate has increased. While the KMT government believes that cross-Strait economic interaction will help improve Taiwan’s economic performance, the opposition party DPP has disputed that the interaction is one of the reasons leading to social inequality. Moreover, workers’ wages reportedly have stagnated for over a decade since 2000.

Source: directorate-general of budget accounting and statistics executive Yuan. <http://www.dgbas.gov.tw/mp.asp?mp=1>

Indeed, not all social strata share the fruit of economic development and integration. Some are threatened by external trade while some are benefited. In other words, the economic integration between Taiwan and China has created winners and losers (Muyard, 2012; Lin, 2012). Just as trade theory predicts that international trade will benefit the sector in which one country has a comparative advantage at the expense of the sector in which the country does not have comparative advantage, the open trade and investment between Taiwan and China have benefited the capital-intensive classes at the expense of laborers’ interests (Hiscox, 2001; Dollar and Kraay, 2004; Freeman, 2010). Particularly, China absorbs considerable investment from Taiwan, and labor-intensive industries moved to China to enjoy the benefits of lower labor costs. Cross-Strait economic integration directly resulted in decreasing salary and job opportunities for Taiwan’s working class, while increasing the benefits and opportunities for upper and upper-middle classes, professionals and businessmen, leading to a gradual polarizing income distribution (Muyard, 2012: 174). Lin (2012) empirically demonstrates the class inequality and how the inequality influences class attitudes to cross-Strait interaction. He provides strong evidence that the working class are worse off under cross-Strait trade, and therefore are less supportive of the economic integration between China and Taiwan. On the contrary, capitalists and business managers support cross-Strait trade because of their benefits and increasing income. This inequality, as Muyard (2012: 179-180) argues, may “generate divergent national and group interests” and “feed nationalisms.”

Thus, according to the discussions above, we argue that Taiwanese identity politics is influenced by the potential threat from economic integration between Taiwan and China. Individual rationality in the evaluation of losses and gains from cross-Strait economic integration becomes important in personal choice of national identity. Because of economic gains and losses, which are related to the personal position in the cross-Strait market under economic integration, the loss-domain and gain-domain affects the formation of Taiwanese identity. Based on the economic threat and risk-aversion explanation, one hypothesis concerning rational behavior in choosing national identity can be made:

$Hypothesis\_{1}$: Individuals who are threatened by cross-Strait economic integration are more likely to choose their identity as Taiwanese while individuals who benefit from the economic integration are more likely to choose their identity as Chinese.

Moreover, according to theories regarding risk-aversion as discussed above, losses loom larger than gains. Therefore, individuals will be more strongly maintain their choice in a loss domain rather than in a gain domain. This is also considered a loss-aversion principle of rational choice. As the utility function shown in Figure 2, those facing losses have sharper cost-benefit calculations than those facing gains. In other words, people are more loss-averse than gain-pursuing. Based on this principle, one additional hypothesis can be made.

$Hypothesis\_{2}$: The effect of economic losses will be stronger than the effect of economic gains on individual choice of national identity.

The two hypotheses allow us to test how individual economic rationality will affect the choice of national identity. They also allow us to empirically observe how rationality works in identity politics. The following section uses Taiwanese survey data to test the two hypotheses.

**Data and Methods**

We use Taiwan’s Election and Democracy Study: The Survey of the Presidential and Legislative Elections, 2012 (TEDS2012) cross-sectional dataset to test our hypotheses. TEDS2012 is a large national survey conducted in 2012, which contains the key variables of our study. We generate an *ordinal* variable as our dependent variable by using the survey data. The reason for viewing the choice of Taiwanese identity as ordinal is that national identity in essence is an ideological expression, which can be analysis by a political spectrum. This is particularly true in Taiwan. Identity politics in Taiwan paralleled with ideological politics when it comes to the issue about independence or unification. Thus, the choice of national identity can be drawn as a spectrum, which range from the choice of Taiwanese to the choice of Chinese. To do so, in the dependent variable, the choice of Taiwanese identity is coded as 1, the choice of both Taiwanese and Chinese is coded as 2 and the choice of Chinese identity is coded as 3. In the dataset, 1033 respondents (58.20%) choose Taiwanese identity, 669 (37.69%) choose both and 73 (4.11%) identify as Chinese. Since the dependent variable is ordinal, an ordered probit model will be used[[6]](#footnote-6).

**Independent Variable**

Our hypotheses proposed that individual choices of national identity are dependent on their individual economic situation. In other words, economic loss or gain will affect personal choice of national identity. As we have discussed in preceding sections, we identify economic integration between Taiwan and China as a factor that Taiwanese people choosing their identity. To measure this factor, we code individual evaluation of *personal* economic situation under cross-Strait economic integration as independent variable. This variable is coded from the questionnaire in TEDS2012 dataset that asked people to evaluate their own economic situation after signing cross-Strait Economic Cooperation Framework Agreement (ECFA). The original coding rule in TEDS2012 codes 1 as getting better, 2 as getting worse and 3 as staying about the same. We recode 2 as staying about the same and 3 as getting worse to present an ordinal reference. Other responses—refuse to answer, it is hard to say, no opinion and don’t know—are coded as a missing value. In the data, 6.5% (109) respondents evaluated their economic situations are getting better, 83.1% (1387) answered staying about the same, and 10.4% (173) answered getting worse.

**Control Variables**

Several control variables are also included in the empirical analysis. Previous studies in Taiwanese identity politics have found that party identity matters (Chen et al. 2012). Since our independent variable is a personal evaluation of economic gain or loss, it is possible that personal policy preference is affected by its party identity and not rational calculation. Consider this situation, we include a dichotomous variable, *Party in Power*, that measure whether or not the respondent’s party identification is the governing party. If their preferred party is in power, coded as 1, and if not, coded as 0. Because in 2012, the governing party is KMT, which is a pro-China party, we expect this variable will be positive to our dependent variable.

In addition, we also control several variables with regard to personal background (Rosenstone and Hansen 1993; Blais and St-Vincent 2011). First, we control the ethnic background of respondent’s father. *Mainlander* is a dichotomous variable which refers to whether or not respondent’s father came from mainland China after the Chinese Civil War. This variable is expected to increase probability that individuals choose their national identity as Chinese. Moreover, a person’s generational cohort is important in Taiwan’s identity politics as well. Previous studies have found that the younger generation is more likely to choose the ambiguous identity—both Taiwanese and Chinese (Chen et al. 2012; Chang and Wang, 2005; Le Pesant, 2011). The older generation, particularly those who experienced the Chinese Civil War in 1950s, is expected to choose Chinese as their identity. Therefore, we control include *Age* as a control variable. Personal education levels also could affect people’s political knowledge (McAllister, 2001) and thus influence their identity choice. For example, Hsieh (2005: 18) finds that better educated people’ attitude is more pro-China while low educated is more inclined to support Taiwanization. Thus, we create an ordinal variable to measure the educational level, which ranges from the lowest level of 1(illiteracy) to highest level of 13 (post-graduate educational). *Education Level* is expected to increase the probability of individual choice of Chinese identity. We also control the potential social contact effects. Social contact would affect individual attitude toward China, and in turn influence her identity choice. We create a dummy variable *China Experience* to measure social contact by seeing whether respondents or their family have business, investment or work in China. Finally, we control personal household income. Since it may be the income level that determines individual evaluation of economic situation, including this variable will avoid the problem that different income levels would have different baselines in evaluating their economic losses or gains.

**Result**

 Table 1 shows the results of our analysis. The result supports our hypotheses. First of all, we find empirical evidence that personal economic losses, compared to economic gains, in cross-Strait economic integration will increase the probability that individuals choose their identity as Taiwanese and people’s economic gains, in comparison to economic losses, increase the probability of their identification as Chinese, holding other variables on their means. Specifically, the evaluation of personal economic situation is negatively related to the choice of national identity, which suggests that people who think cross-Strait economic integration has worsened their economic situation are more likely to think themselves as Taiwanese, all else being equal. On the other hand, people who consider economic integration to have made their personal economic situation better have a higher probability of identifying as Chinese.

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| Table 1. Ordered Probit Estimate of Economic Loss and the Choice of National Identity |
|  | Model 1 | Model 2 |
| Position in Economic Integration | -.231(.104)\*\* | -.235 (.093)\*\* |
| Party in Power | 1.076(.097`)\*\*\* | 1.023(.088)\*\*\* |
| Mainlander | .373(.113)\*\*\* | .431(.107)\*\*\* |
| Age | .010(.003)\*\*\* | .009(.003)\*\*\* |
| Educational Level | .106(.040)\*\*\* | .039(.016)\*\* |
| China Experience | .015(.101) |  |
| Income | -.011(.015) |  |
| Cut1 | 1.093(.335) | 1.063(.325) |
| Cut2 | 2.996(.355) | 2.92(.342) |
|  | N= 1031Wald test (*df*=6) = 206.21Log pseudolikelihood = -728.317 | N= 1196Wald test (*df*=6) = 236.84Log pseudolikelihood = -850.730 |
| Note: The dependent variable is personal choice of national Identity: 1=Taiwanese, 2=Both Taiwanese and Chinese, 3=Chinese; Robust standard errors in parentheses. \* Significant at 10%, \*\*Significant at 5%, \*\*\*Significant at 1% |

The effects on identity choice of personal economic rationality are shown in figure 4 and figure 5. Comparing the two effects, we can see the stronger effect of economic losses on the choice of identity. In figure 4, the probability that people who are in an economic loss position under cross-Strait economic integration will choose Taiwanese identity is higher than those who are in a gain position, all else being equal. The predicted probability increases around 17% (46% to 63%). In contrast, in terms of the choice of identity as Chinese, people who are in a gain position will be more likely to choose Chinese than people who are in a loss position, but the effect is less prominent. The difference of the predicted probability is around .06% (.04 to .1).





 One potential caveat of the result could be that the major explanatory variable is sensitive to the two insignificant variables: China experience and income. In model 2, we drop the two variables and find the result remains robust, which the standard error decreases from .104 to .093 and p value become closer to .01 (.012). Meanwhile, other independent variables remain significant as well. Therefore, the result empirically supports our theoretical expectations rather robustly.

The control variables are in line with previous studies and our expectations. Party identity significantly increases to the individual choice of Chinese identity. Compared to those who do not support the incumbent party, people will be more likely to choose Chinese identity when their party is in power, all else being equal. In addition, the ethnic background of the father strongly increases individual choice of Chinese identity. People whose father came from China after 1949 are more likely to choose Chinese as their identity. The probability of choosing Taiwanese identity is increasing with older generations, which is consistent with previous studies (Chen et al. 2012). Individual educational level is significantly positive to people’s choice of national identity. In line with previous study (Hsieh, 2005), higher educated people are more likely to choose Chinese identity rather than Taiwanese identity, holding other variables in their means. China experience is positive to individual choice of national identity, but does not reach significance at 10%. Neither does income. People with lower household income are less likely to choose Chinese identity and more likely to choose Taiwanese identity than people with higher household income, but the effect does not significant.

 Overall, the empirical analysis supports our hypotheses. People in Taiwan who are in an economic loss position with regards to cross-Strait economic integration are more likely to choose their identity as Taiwanese, whereas people who are in an economic gain position are more likely to choose Chinese identity. The evidence also shows that the effect of economic loss is stronger than economic gain for the choice of national identity. Hence, the risk-averse explanation on the identity politics is supported by the empirical evidence.

**Concluding Remarks**

Identity politics have become significant in recent years, but discussions about this issue pay less attention to the emerging nationalism in developed countries. This paper offers a rationalist explanation to understand this phenomenon by empirically analyzing the case in Taiwan.

There are two contributions of this paper to existing literature. First, this paper rethinks the dynamics of rationalist argument of national identity and integrates risk-averse rationality into identity politics. It demonstrates that people in loss position are more likely to choose the identity that helps them avoid the economic risk. In other words, identity choice could be a “hedge” strategy in personal rationality. The second contribution is that this paper develops a framework to understand the rise of Taiwanese identity. Although it is believed that Taiwan’s identity politics is primarily formed by the threat from China, this threat is not necessarily a military one. Rather, economic threat can be a force to determine individual identity choice. As empirically demonstrated in this paper, people who are losing out to economic integration would be more likely to identify as Taiwanese rather than Chinese.

Future research can observe more cases to confirm this explanation, particularly identity politics in Europe, e.g. Scottish identity in U.K. or Basque identity in Spain. Indeed, a crude observation may see that the rise of Scottish identity could also be attributed to the cost-benefit calculation. Scotland started to enjoy the benefits from the North Sea Oil Field, which began to produce petroleum in 1970s. From then on, Scottish identity became more salient, which might be due to the fact that Scottish people did not equally share the benefits from the growing economy, pushing Scottish residents to pursue a strategy of independence from U.K, If this is the case, the risk-averse explanation may help to clarify why secessionism is stronger in economically affluent regions (Sorens, 2005; Jolly, 2010). Individual choice of regional identity could be a way to avoid the economic losses from spending the extra burdens to other regions. Quebec, Basque and Catalonia seem to be the cases in this regard.

Finally, our finding theoretically implicates a tension between economic integration and political regionalization. Economic integration, according to trade theory, will inevitably produce losers and winners. Losers might resist the economic force by utilizing political regionalization and the power of resistance will be stronger than the power of promotion. The tension may eventually lead to a convergence of national identity politics and class politics. Future studies can confirm this expectation by a broader framework that incorporates risk-averse explanations and class dynamics into identity politics.

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1. There were three main linguistic groups: the largest group is Mingnan, whose language is inherited from the Fujien immigrants. Fujien is the Chinese province that the most close to Taiwan. The second group is Hakka, the immigrants from Guandong, the southern province in China. The third, smallest group is native people. These three groups have various dialects and in early 18 century, they had serious fight to each other for land and resource. [↑](#footnote-ref-1)
2. “2/28 Event” now has become a symbol to refer to Taiwanese grievance under KMT’s repression. Therefore, in terms of party politics, 228 event is usually used by DDP in blaming KMT. For discussion of the 228 incident and the formation of a Taiwanese identity, see Edmondson, 2002 and Fleischauer, 2007. [↑](#footnote-ref-2)
3. This middle group was always called non-committed rationalist, and has large effect on Taiwanese politics. As Chu argued, “the existence of a large number of non-committed rationalists would, in the short run, mitigate the polarized conflict over national identity and could, over the long run, shift the political equilibrium in either direction (Chu, 2004:.487).” [↑](#footnote-ref-3)
4. Hsieh (2005) identifies a strong correlation between language ethnicity and national identity but also indicates they are not the same. Huang (2005) also indicates ethnicity of language groups and national identities in Taiwan identity politics refer to different dimensions. In his analysis, mainlander group has the most consistent perspective in national identity. Thus, according to Hsieh and Huang, national identity and language ethnicity should be separated conceptually. [↑](#footnote-ref-4)
5. In a sense, this concept of loss-aversion is similar to relative deprivation theory (Gurr, 1968 , 1970; Connor, 1977: 23). [↑](#footnote-ref-5)
6. We also run a multilogit model in order to be sure that our result does not change with the categorical dependent variable. The result shows no obvious difference in terms of our explanatory variables. [↑](#footnote-ref-6)