Erasmus University Rotterdam

Erasmus School of Economics

Bachelor Thesis International Economics and Business Economics

Assessing the Impact of Import Exposure on Trust in EU Institutions: An Instrumental Variable Approach

Student Name: Matei Cristian Cate

Student ID Number: 617778

Supervisor: Prof. Aksel Erbahar

Second assessor: Prof. Josse Delfgauw

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Abstract: This study examines the impact of trade exposure on trust in EU institutions. Using a Two-Stage Least Squares (2SLS) methodology to address potential endogeneity, the research analyzes regional import exposure data from Eurostat and survey data on the level of public trust in the EU from the Eurobarometer. Contrary to expectations based on existing literature, the results indicate no significant causal relationship between import exposure and trust in EU institutions. However, higher GDP growth is found to positively affect trust, while higher disposable income unexpectedly decreases it. Robustness checks confirm the stability of these findings, underlining the complex interaction between economic factors and political trust.

1. Introduction

Understanding how economic factors influence political trust is crucial for the stability and cohesion of the European Union (EU). Thus, the research question of this study is "*What is the effect of trade exposure on the trust in the EU institutions?*". This investigation is crucial because the EU operates under a common trade policy framework established by Article 113 of the Treaty of Rome (1957). In this context, the European Commission can implement protectionist measures in case different regions are exposed to import competition from outside of the EU. Having this in mind, this research hypothesizes that regions with higher import competition will show varying levels of trust in the EU, reflecting the political response to economic vulnerability.

The academic relevance of this research lies in its potential to fill some gaps in the existing literature on the issue. Previous studies, such as those by Autor et al. (2020) and Colantone and Stanig (2016), have demonstrated that regions exposed to higher import competition, particularly from China, tend to support protectionist and nationalist policies. De Vries and Edwards (2009) further highlight that right-wing nationalist parties in Europe often adopt eurosceptic rhetoric, thus implying that regions with greater import exposure might be more skeptical of EU institutions.

Methodologically, this research uses the 2SLS technique to manage potential endogeneity between trade exposure and trust in EU institutions. It incorporates a dataset that includes regional import exposure measures and survey data on public trust in the EU, collected from Eurostat and Eurobarometer, respectively, as well as data on various control variables and IVs. The results indicate no significant causal relationship between import exposure and trust in EU institutions, contrary to the initial hypothesis that is based on existing literature. However, the study also finds that higher GDP growth positively affects trust in the EU, while higher disposable income surprisingly decreases it. Robustness checks, including alternative instrumental variables and placebo tests, confirm the stability of these findings. However, these results should be interpreted in the context of numerous limitations explained in detail in the last section.

2. Literature Review

This section addresses the relevant literature related to this research paper, starting with key academic papers that investigated a similar relationship as the one studied in this thesis and continuing with literature that investigated the dynamics behind the dependent and independent variables of this research, respectively the trust in EU institutions and the exposure to imports. Lastly, it elaborates on the academic findings supporting the use of various control variables in this research.

To begin with, according to Kayser (2007), despite the vast academic literature on economic globalization, only a small part focuses directly on the relationship between international trade and political attitudes. However, there is enough academic work in the field to guide us in the process of this research. One such work is represented by Autor et al. (2020), which investigates the electoral consequences of rising trade exposure, specifically examining how increased imports from China have influenced political polarization in the United States. The authors analyze how regions more exposed to Chinese imports exhibit significant shifts in voting patterns, moving towards more polarized political positions. The paper uses data on trade exposure and electoral outcomes to demonstrate that areas with higher levels of import competition saw increased support for extreme political candidates and parties. A similar finding was shown by Colantone and Stanig (2018), who demonstrated that voters in Western Europe, particularly those from areas facing heightened competition from Chinese imports, often support more protectionist and nationalist policies. On a similar note, Dippel et al. (2022) show that in the case of Germany, exposure to imports from low-wage countries increased the support for nationalist parties between 1987 and 2009, while increasing exports had the opposite effect. In addition, Colantone et al. (2018a) investigated the economic factors behind the Brexit vote, particularly focusing on the impact of import competition from China. The authors show that regions more affected by Chinese imports exhibited higher support for Brexit, thus underlining the link between trade and political outcomes. What makes these papers extremely relevant for this research is the observation that right-wing nationalist parties in Europe commonly adopt eurosceptic rhetoric (De Vries and Edwards, 2009). Thus, this would make us anticipate that regions with greater exposure to imports would support more the

nationalist parties, which might exhibit more skepticism toward the activities of European institutions.

There are also more classical texts that explore the impact of international economic integration on politics. Rogowski (1989) highlights how trade interacts with factor endowments to structure political cleavages. Rogowski argues that changes in a country's exposure to international trade lead to predictable shifts in domestic political coalitions. These shifts are based on how different groups, defined by their factor endowments, gain or lose from trade. Moreover, Gourevich (1986) demonstrates how different institutional and political arrangements lead to varied responses to common economic shocks. The author also emphasizes that economic conditions significantly influence political alignments and policy decisions, which could extend in this paper's case to the trust in governing bodies.

A key element to account for is the role of globalization as a potential driver for inequality and wages, as these can have a clear impact on the attitudes of individuals toward public institutions (Solt, 2008; Graham et al., 2002). For example, Brune and Garett (2005) argue that economic integration can exacerbate income disparities, but the extent of its impact largely depends on domestic policies and institutions. Their paper underlines the importance of government policies in mitigating the adverse effects of globalization on inequality. Similarly, Milanovic (2003) finds strong evidence that at low average income levels, the income share of the poor is smaller in countries that are more open to trade. On the other hand, Lawrence and Slaughter (1993) found that while international trade did affect American income levels in the 1980s, its impact was relatively moderate compared to other factors such as technological change.

Furthermore, Powel (1993) observes a phenomenon that is extremely important for understanding the results of this paper. When voters can clearly attribute economic conditions to the actions of the government, they are more likely to reward or punish incumbents based on economic performance. This perspective is particularly relevant for analyzing how import exposure and economic factors influence trust in EU institutions, as it suggests that the clarity of responsibility within the EU's political framework could affect how economic outcomes influence public trust.

Subsequently, we examine the academic literature that explores the topic of trust in EU institutions. Armingeon et al. (2014) examine the significant decline in public trust in both national and EU institutions following the financial crisis of 2007-2008. The authors argue that economic downturns erode trust by increasing perceptions of governmental incompetence and inefficacy. Similarly, Roth et al. (2013) found that trust in both national and European institutions significantly declined during the crisis, but the decline was more pronounced for EU institutions. Another important observation comes from De Vries (2013), who states that support for the EU in Eastern Europe is more volatile and susceptible to economic conditions, whereas, in Western Europe, support is more stable but still influenced by economic performance and perceptions of EU effectiveness, highlighting the regional differences in the European Union. Furthermore, Muñoz et al. (2011) explore the dynamics of institutional trust within the context of the European Union's multilevel governance structure. Specifically, it examines whether trust in EU institutions is influenced by trust in national institutions or if it compensates for a lack of trust in national institutions. The authors show support for the hypothesis that individuals who trust their national institutions are also likely to trust EU institutions.

As previously stated, there is plenty of evidence in the literature that imports, especially imports from China, have declined manufacturing employment and wages in the US and Europe (Autor et al., 2013; Acemoglu et al., 2016; Pierce, 2016). However, one important mention is related to the possible heterogeneous effects of these imports on the labor market. Dauth et al. (2014) show that in Germany while import exposure led to job losses in certain manufacturing sectors, it also created employment opportunities in other sectors. Similarly, Hummels et al. (2014) find that offshoring leads to wage declines for low-skilled workers, while high-skilled workers experience wage gains. These observations highlight the differential impacts of global trade on different segments of the labor market. Nevertheless, Bloom et al. (2016) argued distinctively that firms facing greater import competition increased their investments in technology and innovation, which in turn improved productivity, suggesting that import exposure can drive positive changes through competitive pressure.

Following this, we review the literature that argues in favor of the inclusion of the four control variables added to the analysis: GDP growth, unemployment rate, population growth, and disposable household income. Firstly, according to Alesina and Wacziarg (1998), openness to trade (which includes import exposure) is associated with better economic outcomes, such as GDP growth. It implies that countries that engage more in international trade tend to experience higher GDP growth due to increased economic activity and efficiency. Similarly, Rodrik (1998) argues that more open economies often see faster GDP growth. In addition, Roth et al. (2013) find that better economic conditions (higher GDP growth) are associated with higher levels of public trust in both national and EU institutions. Secondly, academic literature also illustrates a clear link between unemployment rates and import exposure, as presented in the previously quoted work of Autor et al. (2013), but also in Dauth et al. (2014). In addition, Armingeon et al. (2014) indicate that rising unemployment rates have eroded public trust in national and EU democratic institutions, particularly during the European financial crisis.

Thirdly, population growth can also be considered a valid control variable because according to Bloom, Canning, and Flink (2011) demographic changes, including population growth, influence economic activities such as trade, by affecting labor supply and market size, thus impacting import exposure. Similarly, Feyrer (2007) analyzes the impact of demographic shifts, including population growth, on economic productivity and trade patterns, indicating that population changes can alter import demand. Regarding its effect on trust, Knack and Keefer (1997) find that rapid population growth can lead to social fragmentation, which negatively affects trust in institutions. Likewise, Rothstein and Stolle (2003) examine how demographic stability contributes to high levels of social trust, suggesting that rapid population growth can destabilize social networks and reduce trust. Lastly, Feenstra and Hanson (1996) have shown that disposable household income impacts import exposure by discussing how changes in income levels influence economic behaviors, such as spending and import patterns. Also, Helliwell and Putnam (2004) explore the relationship between economic well-being, including disposable income, and social trust, indicating that higher disposable income is associated with higher levels of trust.

3. Data

We now turn to the data section of the paper. The change in import exposure, the independent variable in this analysis, is calculated as a labor-share weighted import exposure following the methodology of Autor et al. (2020) and Colantone and Stanig (2016). Specifically, the change in import exposure is calculated as shown in the following equation.

$$Change\ in\ Import\ Exposure_{cr} = \sum_{j} \frac{Workers_{rj}}{Workers_{r}} * \frac{Change\_in\_Imports_{cj}}{Workers_{cj}}$$

This variable reflects the changes in import exposure experienced by a specific region *r* in country *c* between 2015 and 2021 due to imports from outside the EU, with the total shock being determined by summing the impacts across different industries j. $Workers_{rj}$ is the number of total workers in region *r* in industry *j* at the beginning of the sample period, $Workers_{r}$ is the total number of workers in region *r* across all industries in 2015 and $Workers_{cj}$ is the number of workers in country *c* and industry *j* in 2015. Also, $Change\_in\_Imports_{cj}$ is the change in imports from outside the EU to country *c* in industry *j* between 2015 and 2021. It should be noted that the term $\frac{Workers_{r_j}}{Workers_{r}}$ represents the weight of industry j in region r and it is suggestive for how important industry j is relative to all industries in region r. Moreover, $\frac{Change\_in\_Imports_{cj}}{Workers_{cj}}$ represents the change in imports from non-EU countries per worker in industry *j* in country *c*.

The fields of work represented by j are categorized into three distinct groups. This limited categorization is due to Eurostat's provision of import data aggregated into only three fields. The categories, based on their NACE codes, are defined as follows: (1) A, F, H to U, encompassing all NACE activities except for industry, wholesale and retail trade, and repair of motor vehicles and motorcycles; (2) B to E, representing industry; and (3) G, encompassing wholesale and retail trade, as well as the repair of motor vehicles and motorcycles. The countries *c* and the respective regions *r* included in this research are shown in Table 1. It should be noted that the regions included in this study are taken based on the NUTS-2 and NUTS-1 standards for referencing the administrative divisions of countries for statistical purposes (Eurostat, n.d.). The only countries for which the

regions were analyzed at a NUTS-1 level are Germany and Greece, the rest being analyzed at a NUTS-2 level. The reason for this is that the data set related to the outcome variable, which is explained further, did not include data at the NUTS-2 level for Germany and Greece, but only at the NUTS-1 level.

Table 1: Countries and Regions

Country	NUTS Code of Regions
Czech Republic	CZ01, CZ02, CZ03, CZ04, CZ05, CZ06, CZ07, CZ08
Denmark	DK01, DK02, DK03, DK04, DK05
Finland	FI19, FI1B, FI1C, FI1D
Germany	DE1, DE2, DE4, DE7, DE8, DE9, DEA, DEB, DED, DEE, DEF, DEG
Greece	EL3, EL4, EL5, EL6
Italy	ITC1, ITC3, ITC4, ITF1, ITF3, ITF4, ITF5, ITF6, ITG1, ITG2, ITH1, ITH2, ITH3, ITH4, ITH5, ITI1, ITI2, ITI3, ITI4
Latvia	LV00
Netherlands	NL11, NL12, NL13, NL21, NL22, NL23, NL31, NL32 NL33, NL34, NL41, NL42
Portugalia	PT11, PT16, PT17
Romania	RO11, RO12, RO21, RO22, RO31, RO32, RO42
Slovakia	SK02, SK03, SK04
Slovenia	SI03, SI04
Spain	ES11, ES12, ES13, ES21, ES22, ES23, ES24, ES30, ES41, ES42, ES43, ES51,

	ES52, ES53, ES61, ES62
	ES70
Sweden	SE11, SE12, SE21, SE22,
	SE23, SE31, SE32, SE33

Note: The table depicts the final selection of countries and NUTS regions of the study. Column 1 presents the names of the countries and column 2 illustrates the NUTS code of the regions included in the sample.

The dependent variable of this study is represented by the level of trust in the EU. The data is based on the surveys titled "Public opinion in the EU regions" (Eurobarometer, 2015 and 2021). This series of surveys aims to assess the views of EU citizens from all 194 individual regions across the 27 EU Member States. For this research, the responses to the questions "Could you please tell me if you tend to trust or tend not to trust the European Union?" and "How old are you?" were taken as relevant for the outcome and the robustness check, respectively. The variable "trust in the EU" which is used as an outcome variable for this study, represents the share of respondents in a particular region that responded that they trust the European Union. Moreover, the variable "age" represents the proportion of respondents aged between 25 and 39 who were residing in that region.

A significant point that has not yet been addressed is the timeframe selected for this study. The choice of 2015 and 2021 as the timespan for this research was made as a compromise between several considerations. First, the surveys referenced were conducted in 2024, 2021, 2018, 2015, and 2013, which restricted the flexibility in adjusting the years analyzed. Additionally, variables related to imports, workers, and other factors were not yet available for the year 2024. Also, the NUTS classification of regions has undergone continuous changes over time, implying that earlier years would require dropping more observations due to inconsistencies in regional classifications. However, this research also aims to capture the long-term structural changes in public opinion arising from prolonged economic exposure to global trade shifts, as suggested by Autor et al. (2013) and Colantone and Stanig (2018). Therefore, given these factors, the timespan of 2015 and 2021 was considered optimal.

Further, as this study uses an Instrumental Variable, it is important to elaborate on how the data was collected for it. The main IV used in this research is represented by the

import shock calculated using the change in imports from China to the USA, however, a similar IV is also presented in the Robustness section, using the change in imports from Japan to the USA. Specifically, the import shock is calculated as a labor-share weighted import shock, as shown in this equation.

$$Import\ Shock_{cr} = \sum_{j} \frac{Workers_{rj}}{Workers_{r}} * \frac{Change\_in\_US\_Imports\_from\_China_{j}}{Workers_{cj}}$$

As in the case of the change in import exposure, the variables $Workers_{rj}$, $Workers_{r}$, and $Workers_{cj}$ represent the labor supply of the various regions, countries, and industries at the beginning of the sample period in the data set. Moreover, the variable $Change\_in\_US\_Imports\_from\_China_{j}$ is, as the name suggests, the change in imports from China to the USA in industry *j* between 2015 and 2021. The amount of imports from China to the USA is taken from the BEA Interactive Data Application (n.d.), which includes data regarding trade in the USA from 1999 onwards. An issue with this source is that the trade categories are not classified according to the European NACE standards, which made difficult the split of the various domains presented in the American data source according to the European NACE standards. However, based on the detailed description of the various domains, a split in the three fields of work was done, mimicking the categories of the variable j explained previously.

As presented next in the Empirical Strategy section, control variables are included in this study to account for other factors that might influence the dependent variable. The control variables used in this study are GDP growth, Change in Unemployment Rate, Change in Disposable Income, and Population Growth. GDP growth is calculated as the percentual change between the GDP in 2015 and 2021 in the respective region. The change in the unemployment rate is calculated similarly, as the percentual change between the unemployment rate in 2015 and 2021. Also, the change in disposable income for private households is the change in the total household income left after adding wages, property income received, and subtracting property income paid, along with the redistribution of income in cash for the average household. One important note is that for this variable the data presented in Eurostat (n.d.) was given only at the NUTS-2 level, therefore the values for the regions in Germany and Greece, which in our data set are at a NUTS-1 level, are the results of an aggregation of the NUTS-2 regions by giving

them weights based on the population of those regions relative to the overall population of the NUTS-1 region they are part of. Lastly, the variable population growth is the percentual change in population for the respective region.

Table 2 depicts both the source, as well as the measuring unit and scale of all the variables included in our models. As previously stated, the change in trust in the EU is collected from the surveys titled "Public opinion in the EU regions" from the Eurobarometer (n.d.) and is given in percentages. However, to facilitate a better interpretation of the coefficients in the regressions presented in the Results and Robustness Checks sections, these numbers were multiplied by 10000. Furthermore, the change in import exposure is computed using the imports from outside the EU, which are measured in *thousands of Euros*, and using a labor-share weight, which is measured in $\frac{1}{thousand\ workers}$, thus the final measuring unit of the variable is $\frac{Euros}{Worker}$. Similarly, the change in import exposure (Japan) is computed using only the imports from Japan, measured in thousands of Euros, and the same labor-share weight as previously, resulting in the final measuring unit of $\frac{Euros}{Worker}$. The Import Shocks from China and Japan are calculated using the change in imports from China and Japan to the US, which are measured in Millions of Dollars, and using a labor-share weight which is measured in $\frac{1}{thousand\ workers}$, therefore resulting in a final measuring unit of $\frac{thousand\ dollars}{worker}$. GDP growth, the change in unemployment rate, the change in disposable income, and population growth are measured in percentage and are collected from Eurostat. Lastly, the variable "age", which is the change in the proportion of 25–39-year-olds, is measured as well in percentages, however, it is collected from the same Eurobarometer (n.d.) surveys as the trust in the EU.

Table 2: Data sources overview

Variable	Source	Measuring Unit
Change in Trust in the EU	Eurobarometer	Percentage*1000
Change in Import Exposure	Eurostat	Euros/ worker
Change in Import Exposure (Japan)	Eurostat	Euros/ worker

Import Shock from China	BEA Interactive Data Application and Eurostat	Thousand dollars/ worker
Import Shock from Japan	BEA Interactive Data Application and Eurostat	Thousand dollars/ worker
GDP Growth	Eurostat	Percentage
Change in Unemployment Rate	Eurostat	Percentage
Change in Disposable Income	Eurostat	Percentage
Population Growth	Eurostat	Percentage
Age	Eurobarometer	Percentage

Note: Table 2 depicts the sources and the measurement units of the variables present in the study. Column (1) presents the names of the variables, column (2) shows the sources of the respective variables, and column (3) illustrates the measuring units.

4. Empirical Strategy

To analyze the data described earlier, the study uses, from a methodological point of view, an Instrumental Variable (IV). In this context, an IV is a third variable that is linked to import exposure but not influenced by factors affecting the trust in the EU directly. This method is chosen to eliminate endogeneity, as import exposure could be influenced by hidden factors that also affect trust in the EU. Using an IV helps manage this issue by finding a variable that correlates with import exposure but isn't directly tied to trust in the EU, aside from its impact through import exposure.

Specifically, this research uses the Two-Stage Least Squares (2SLS) method, which is a specific implementation of the IV regression. It is a two-stage method in which the endogenous variable, import exposure in this case, is regressed on the instrumental variable in the first stage. In the second stage, the predicted values from the first stage (marked in the equation with a hat) are used as an instrument for the endogenous variable in the main regression of interest (import exposure on the trust in the EU). The two formal equations are shown below:

$$Change\ in\ Import\ Exposure_{cr} = \alpha_0 + \beta_1 * \text{Import Shock}_r + \beta_2 * \text{GDP Growth}_r + \beta_3 * \text{Change in Unemployment Rate}_r + \beta_4 * \text{Change in Disposable Income}_r + \beta_5 * \text{Population Growth}_r + u_r$$

$$Trust\ in\ the\ EU_r = \alpha_0 + \beta_1 * \text{Change in Import Exposure\^{}}_r + \beta_2 * \text{GDP Growth}_r + \beta_3 * \text{Change in Unemployment Rate}_r + \beta_4 * \text{Change in Disposable Income}_r + \beta_5 * \text{Population Growth}_r + u_r$$

As shown in the equations, control variables are included in the regression model to account for other factors that might affect the dependent variable. By including these control variables, the analysis can more accurately estimate the true impact of import exposure by holding constant the effects of these factors. The control variables in this analysis are GDP growth, the change in unemployment rate, the change in disposable income, and population growth. Their inclusion is supported by both the academic literature, as discussed in the Literature Review section, and the VIF test, which ensures that there is no collinearity between them. Moreover, the subscript *r* represents the NUTS region of every observation and u_r represents the error term. Lastly, the coefficient of interest is β_1 from the second stage of the regression, as it provides the estimate of the causal impact of the endogenous variable (import exposure) on the dependent variable (trust in the EU), corrected for endogeneity bias.

To ensure the validity of our instrumental variable regression, we employ the Cragg-Donald F-statistic to assess the strength of our instruments. This statistic helps detect weaker instruments, which can lead to biased estimates. As a rule of thumb, a Cragg-Donald F-statistic value above 10 indicates strong instruments, providing a reliable basis for the IV regression. By using this test, we verify if our instruments, such as imports from China to the US, are sufficiently correlated with the endogenous regressors and are exogenous to the error terms.

Unfortunately, there are multiple potential sources of endogeneity. Firstly, reverse causality can be present, as the trust in the EU could influence import exposure. For example, regions with higher trust in the EU might have policies or attitudes that encourage more international trade, including imports. Furthermore, omitted variable

bias could also play a factor because there may be unobserved factors that affect both import exposure and trust in the EU. For example, elements like regional economic policies, historical trade relationships or political stability could influence both the level of imports and the trust in the EU. Lastly, misclassification of industries in subscript j for the IV could also contribute to endogeneity. As mentioned in the data section, the division into three aggregated types of NACE fields of activities for the IV was performed manually, based on the variable descriptions in the BEA Interactive Data Application (n.d.). Thus, this manual classification could introduce bias. A more detailed explanation on the potential drivers of endogeneity is presented in the last section of this study.

5.Results

Next, this section presents the main results of the research. Firstly, to illustrate a potential relationship between import exposure and trust in the EU, the following graph is plotted.

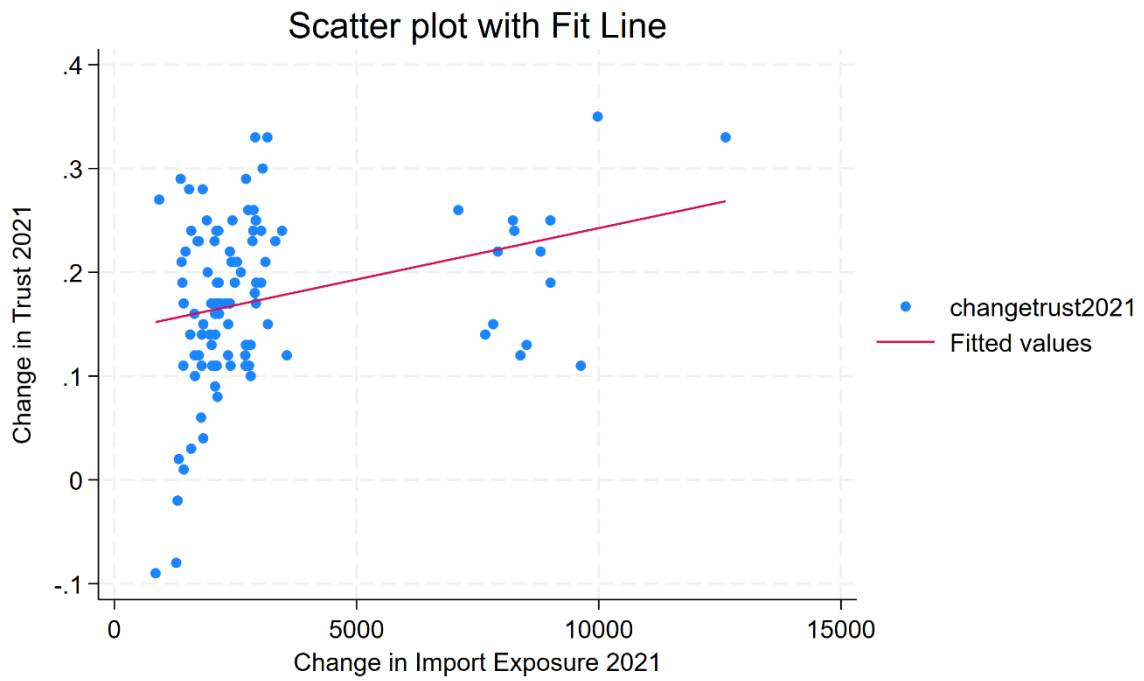

Figure 1: The Relationship Between Import Exposure and Trust in the EU

Notes: Figure 1 illustrates a scatter plot with a fit line that shows the relationship between the change in import exposure and the change in trust in EU institutions between 2015 and 2021. Each blue dot

represents a region, with the x-axis showing import exposure changes and the y-axis showing trust changes. The red line indicates a slight positive trend, suggesting regions with higher import exposure may see a slight increase in trust. However, the wide spread of data points indicates this relationship is not strong and requires further statistical analysis to confirm its significance.

As the graph suggests, there seems to be a positive relationship between the two variables, however this figure only plays the role of an illustration and does not express a causal effect. Such an exemplification is shown in Table 3, which presents the results of two OLS regressions that have the change in trust in the EU as the dependent variable and the change in import exposure as the independent variable.

Table 3: Results of the OLS Regressions

	Trust in the EU (1)	Trust in the EU (2)
Change in Import Exposure	0.099***	0.086**
	(0.034)	(0.040)
GDP Growth		1854.19*
		(993.91)
Change in Unemployment Rate		-560.65
		(349.06)
Population Growth		5627.35**
		(2322.42)
Change in Disposable Income		-4825.65***
		(1287.31)
Constant	1435.74***	1820.98***
	(138.05)	(184.67)
R^2	0.084	0.285
Observations	105	105

Note: Table 3 presents the results of the OLS regressions analyzing the impact of various factors on trust in the EU. Column (1) shows the regression without control variables and column (2) includes control variables. It should be noted that the change in trust in the EU was originally given in percentages, however, to facilitate a better interpretation of the coefficients, these numbers were multiplied by 10000. Moreover, the parentheses "(...)" represent the heteroskedasticity-robust standard errors and one star * is associated with a P-value <0.10, two stars** are associated with a P-value<0.05 and three stars*** are associated with a P-value<0.01. It should be noted that the total number of observations is 105.

Column 1 represents the OLS regression without control variables, and it displays, as in Figure 1, a significant positive relationship between the level of trust in the EU and the change in import exposure, though the effect size is very small. When looking at column 2, the coefficient of import exposure is slightly less significant but still positive. Moreover, adding controls variables increases the R^2 with 20 percentage points, suggesting that the second model, with more predictors, explains a significantly greater portion of the variance in trust in the EU compared than the first model. In the second regression, GDP Growth has a significant positive sign, suggesting that the level of trust in EU increases as the regional GDP increases. The coefficient for the unemployment rate is not statistically significant; nevertheless, its negative sign suggests a potential inverse relationship with the dependent variable. Additionally, Population Growth and Disposable Income show significant coefficients, implying a positive and a negative relationship with the dependent variable, respectively. However, as previously stated in the Empirical Strategy, we cannot interpret these results from the OLS regressions as causal, therefore it is necessary to employ a Two-Stage Least Squares (2SLS) method.

Table 4: First-Stage Regression

	Change in Import Exposure (1)	Change in Import Exposure (2)
Import Shock	74.15**	64.74**
	(38.42)	(28.44)
GDP Growth		-6033.70*
		(3157.45)
Change in Unemployment Rate		-3712.34***
		(998.37)
Population Growth		26471.89***
		(5831.59)
Change in Disposable Income		10511.53**
		(4969.03)
Constant	2501.53***	735.7831
	(322.23)	(572.08)

R^2	0.089	0.315
Observations	105	105

Note: Table 4 presents the results of the first-stage regression in the Two-Stage Least Squares (2SLS) analysis, examining the determinants of change in import exposure. Column (1) shows the regression without control variables, while column (2) includes control variables such as GDP growth, change in unemployment rate, population growth, and disposable income. Moreover, the parentheses "(...)" represent the heteroskedasticity-robust standard errors and one star * is associated with a P-value <0.10, two stars ** are associated with a P-value <0.05, and three stars *** are associated with a P-value <0.01. It should be noted that the total number of observations is 105.

The table above presents the results of the first stage regression of the 2SLS. The first column represents the first stage regression without control variables and the second column illustrates it with additional control variables. As mentioned in the previous section, one key assumption when using an IV is that the instrument must have a clear and strong effect on the change in import exposure. As the table above shows, for both regressions, the coefficient of the IV has a significant and positive sign. Therefore, with the help of both academic literature and the statistical results of this analysis we can state that the import shock from China has a strong effect on the import exposure. Moreover, what is important to note is that the coefficients of all control variables at this stage have a significant effect. However, to ensure that there is no collinearity between them, we employ a VIF test, which measures the extent of correlation between predictors in a regression model. As shown in this table, all VIF Values are below 5, with the mention that population growth and the change in disposable income are close to 1, meaning that there is little correlation between all the control variables.

Table 5: VIF Test

Variable	VIF
GDP Growth	3.70
Change in Unemployment Rate	3.54
Population Growth	1.10
Change in Disposable Income	1.09

Note: This table displays the Variance Inflation Factor (VIF) values for the control variables used in the regression analysis. All VIF values are below 5, indicating that multicollinearity is not a significant concern in this model.

Subsequently, the results of the 2SLS Regression with the Import Shock based on the change in imports from China to the US are outlined. Table 6 reveals the results of the 2SLS Regression. Column 1 shows the results of the final regression without control

variables, whereas Column 2 illustrates them including control variables. Extremely importantly, in both columns, the coefficient of the Change in Import Exposure is insignificant. This suggests that, according to this study's methodology, there is no clear effect of import exposure on the regional level of trust in the EU. It should also be noted that the coefficients of unemployment rate and population growth are also insignificant, making their interpretation not possible. However, the coefficients of GDP Growth and Disposable Income are extremely significant, thus it can be stated that an increase in GDP Growth is associated with an increase in trust in the EU, and a decrease in disposable income raises the level of trust, the latter being at odds with the previously quoted literature (Helliwell and Putnam, 2004). One last relevant result of this regression is represented by the Cragg-Donald F-statistic, which is in both cases less than 10. This outcome raises concerns about the reliability of the IV, but in the context of a significant first-stage, the results still remain relevant for the purpose of this research.

Table 6: Second Stage Regression

	Change in Trust in the EU (1)	Change in Trust in the EU (2)
Change in Import Exposure	0.164	0.175
	(0.822)	(0.111)
GDP Growth		2220.85**
		(1062.79)
Change in Unemployment Rate		-216.39
		(522.49)
Population Growth		3143.31
		(3558.23)
Change in Disposable Income		-5671.28***
		(1562.25)
Constant	1235.70***	1732.81***
	(281.23)	(206.94)
Cragg-Donald F-statistic	3.73	5.18
R^2	0.048	0.235

Observations	105	105

Note: Table 6 presents the results of the second stage regression in the Two-Stage Least Squares (2SLS) analysis, examining the effect of change in import exposure on trust in the EU. Column (1) shows the regression without control variables, while column (2) includes control variables such as GDP growth, change in unemployment rate, population growth, and disposable income. It should be noted that the change in trust in the EU was originally given in percentages, however, to facilitate a better interpretation of the coefficients, these numbers were multiplied by 10000. Moreover, the parentheses "(...)" represent the heteroskedasticity-robust standard errors and one star * is associated with a P-value <0.10, two stars ** are associated with a P-value <0.05, and three stars *** are associated with a P-value <0.01. It should be noted that the total number of observations is 105.

To sum up, the results of this study suggest that adding the quoted control variables removes part of the bias. Moreover, the Instrumental Variable is significant in the First-Stage, proving it as a good IV for this study. However, the 2SLS regression suggests that there is no clear impact of import exposure on the level of trust in the EU. These findings are challenged further in Robustness Section, where this methodology is put to test.

6. Robustness Checks

In this section, three robustness tests are presented. The first one is represented by a placebo test in which age is used as an outcome that should not be affected by import exposure to see if the IV is spuriously correlated with it. The second is exemplified by a 2SLS Regression that uses a different IV, more exactly the import shock caused by the change in imports from Japan to USA. The third one, uses the same IV as previously mentioned, but introduces a new measurement of import exposure based only on the change in Japanese imports to the EU.

Firstly, the placebo test uses, as stated, age as an outcome. More exactly, the variable represents the change in the proportion of people aged between 25 and 39 in all the regions observed between 2015 and 2021. The argument for using it in the placebo test is that age is a demographic variable that should not be influenced by regional import exposure, making it a suitable candidate for a placebo test. If the IV shows a significant correlation with age, this could indicate a problem with the IV's validity, as there is no logical reason for why import exposure would affect the age distribution of the population. The results of the 2SLS regression are shown in the table below.

Table 7: Second Stage of the 2SLS regression with age as outcome

	Change in proportion of people aged 25-39
	(1)
Change in Import	5.04e-06
Exposure	(1.41e-05)
Constant	-0.178
	(.051)
Cragg-Donald F-statistic	3.73
R^2	0
Observations	105

Notes: Table 7 presents the results of the second stage of the Two-Stage Least Squares (2SLS) regression, using the change in the proportion of people aged 25-39 as the outcome variable. The table includes the effect of change in import exposure and the constant term. Moreover, the parentheses "(...)" represent the heteroskedasticity-robust standard errors and one star * is associated with a P-value <0.10, two stars ** are associated with a P-value <0.05, and three stars *** are associated with a P-value <0.01. It should be noted that the total number of observations is 105.

The table clearly shows that the IV does not have an impact on the placebo outcome (age in this case), since age theoretically is not affected by changes in import exposure. Therefore, this insignificant result (with a P-value of 0.722) supports the validity of the chosen IV. In addition, we employ another robustness check by using a different IV, more exactly an import shock that is calculated based on the change in imports from Japan to the US. In this context, the alternative instrument is used to capture similar exogenous variation in import exposure to check the consistency of the results. As shown in the equation, the formula used to calculate this instrumental variable is extremely similar to the one used for the main IV of the study by using the same variables for labor supply.

$$Import\ Shock\ Japan_{cr} = \sum_{j} \frac{Workers_{rj}}{Workers_{r}} * \frac{Change\_in\_US\_Imports\_from\_Japan_{j}}{Workers_{cj}}$$

Table 8 illustrates the results of the First-Stage Regression of the 2SLS, with column 1 presenting the regression without control variables and column 2 including them. As it can be seen, the coefficient of the IV regression for both cases is statistically significant, meaning that it can be used as a predictor for the change in import exposure. Also, all

control variables are statistically significant in column 2, meaning that including them improves the predictability of the results.

Table 8: First-Stage of the 2SLS Regression with imports from Japan to US as IV

	Change in Import Exposure (1)	Change in Import Exposure (2)
Import Shock Japan	1610.77**	1521.10***
	(776.81)	(553.08)
GDP Growth		-6752.88**
		(3076.054)
Change in Unemployment Rate		-3633.45***
		(983.16)
Population Growth		26899***
		(5827.46)
Change in Disposable Income		11326.62**
		(4840.94)
Constant	2450.14***	659.67
	(323.84)	(549.94)
R^2	0.105	0.340
Observations	105	105

Note: Table 8 presents the results of the first stage of the Two-Stage Least Squares (2SLS) regression, using imports from Japan to the US as an instrumental variable (IV) for the change in import exposure. Column (1) shows the regression without control variables, while column (2) includes control variables such as GDP growth, change in unemployment rate, population growth, and disposable income. Moreover, the parentheses "(...)" represent the heteroskedasticity-robust standard errors and one star * is associated with a P-value <0.10, two stars ** are associated with a P-value <0.05, and three stars *** are associated with a P-value <0.01. It should be noted that the total number of observations is 105.

Furthermore, the restricted form (the second stage) is analyzed using the regressions from the table below. As it can be seen, in the case in which control variables are not included, the coefficient of the variable of interest is barely significant and when adding them, the coefficient becomes insignificant. This result supports the findings of the paper, that import exposure does not seem to have a clear effect on the level of trust in the EU, even when adding a different IV that captures a similar exogenous variation in import exposure.

Table 9: Second Stage of the 2SLS Regression with US imports from Japan as IV

	Change in Trust in the EU (1)	Change in Trust in the EU (2)
Change in Import Exposure	0.144*	0.134
	(0.079)	(0.107)
GDP Growth		2050.89**
		(1013.54)
Change in Unemployment Rate		-375.97
		(477.79)
Population Growth		4294.78
		(3330.64)
Change in Disposable Income		-5279.28***
		(1465.79)
Constant	1296.52***	1773.68***
	(271.49)	(210.72)
Cragg-Donald F-statistic	4.30	7.56
R^2	0.067	0.271
Observations	105	105

Note: Table 9 presents the results of the second stage of the Two-Stage Least Squares (2SLS) regression, using imports from Japan to the US as an instrumental variable (IV) for the change in import exposure, and examining its effect on trust in the EU. Column (1) shows the regression without control variables, while column (2) includes control variables such as GDP growth, change in unemployment rate, population growth, and disposable income. It should be noted that the change in trust in the EU was originally given in percentages, however, to facilitate a better interpretation of the coefficients, these numbers were multiplied by 10000. Moreover, the parentheses "(...)" represent the heteroskedasticity-robust standard errors and one star * is associated with a P-value <0.10, two stars ** are associated with a P-value <0.05, and three stars *** are associated with a P-value <0.01. It should be noted that the total number of observations is 105.

Lastly, as an ultimate robustness check, we keep the IV as the US imports from Japan, however we now recalculate the change in import exposure to include only the imports from Japan, rather than from all non-EU countries, to the respective European countries from our dataset. This last robustness check is implemented because it assesses the consistency and reliability of the results by isolating this specific trade relationship, thus reducing potential confounding effects from other non-EU trade partners and ensuring

that the observed effects are not driven by broader global trade dynamics. Before analyzing the results, it should be noted that it was not possible to do the same for the case of China, as Eurostat does not provide data related to the change in imports from China based on NACE activities. The following equation shows how the new change in import exposure was calculated.

$$Change\ in\ Import\ Exposure\ (Japan)_{cr} = \sum_{j} \frac{Workers_{rj}}{Workers_{r}} * \frac{Change\_in\_Imports\_from\_Japan_{cj}}{Workers_{cj}}$$

Table 10 illustrates the first-stage regression with the new change in import exposure and the imports from Japan to US as IV. The first-stage regression results suggest that the instrument (Import Shock Japan) is weak and does not significantly predict the change in import exposure from Japan, even when control variables are included. While GDP growth, population growth, and changes in disposable income are significant predictors, the low R-squared values and the non-significant instrument coefficient raise concerns about the validity of the instrument.

Table 10: First-Stage of the 2SLS Regression with imports from Japan to US as IV and the import exposure based on the change in imports from Japan

	Change in Import Exposure (Japan) (1)	Change in Import Exposure (Japan) (2)
Import Shock Japan	-7.96	-17.43
	(8.90)	(13.79)
GDP Growth		264.74**
		(111.24)
Change in Unemployment Rate		10.86
		(28.60)
Population Growth		-331.41**
		(134.90)
Change in Disposable Income		-258.36*
		(138.89)

Constant	29.30***	31.25**
	(6.91)	(12.79)
R^2	0.004	0.107
Observations	105	105

Note: Table 10 presents the results of the first stage of the Two-Stage Least Squares (2SLS) regression, using imports from Japan to the US as an instrumental variable (IV) for the change in import exposure based only on the change in imports from Japan. Column (1) shows the regression without control variables, while column (2) includes control variables such as GDP growth, change in unemployment rate, population growth, and disposable income. Moreover, the parentheses "(...)" represent the heteroskedasticity-robust standard errors and one star * is associated with a P-value <0.10, two stars ** are associated with a P-value <0.05, and three stars *** are associated with a P-value <0.01. It should be noted that the total number of observations is 105.

Further, Table 11 illustrates the results of the second stage of the 2SLS regression. This second-stage regression indicates that the change in import exposure from Japan does not significantly affect trust in the EU, as evidenced by the non-significant coefficients for the main predictor in both models. The inclusion of control variables does not alter this conclusion. Additionally, the Cragg-Donald F-statistics are very low, indicating that the instrument is weak. These issues, together with the R-squared being close to zero, suggest that the IV estimates are likely biased and unreliable.

Table 11: Second Stage of the 2SLS Regression with US imports from Japan as IV and the import exposure based on the change in imports from Japan

	Change in Trust in the EU (1)	Change in Trust in the EU (2)
Change in Import Exposure (Japan)	-29.12 (53.81)	-11.68 (20.66)
GDP Growth		4240.09 (5041.75)
Change in Unemployment Rate		-735.74 (522.77)
Population Growth		4024.77 (7259.13)
Change in Disposable Income		-6781.35

		(5140.62)
Constant	2502.56*	2227.14***
	(1433.30)	(544.85)
Cragg-Donald F-statistic	0.80	1.60
R^2	0.000	0.000
Observations	105	105

Note: Table 11 presents the results of the second stage of the Two-Stage Least Squares (2SLS) regression, using imports from Japan to the US as an instrumental variable (IV) for the change in import exposure based on the change in imports from Japan, and examining its effect on trust in the EU. Column (1) shows the regression without control variables, while column (2) includes control variables such as GDP growth, change in unemployment rate, population growth, and disposable income. It should be noted that the change in trust in the EU was originally given in percentages, however, to facilitate a better interpretation of the coefficients, these numbers were multiplied by 10000. Moreover, the parentheses "(...)" represent the heteroskedasticity-robust standard errors and one star * is associated with a P-value <0.10, two stars ** are associated with a P-value <0.05, and three stars *** are associated with a P-value <0.01. It should be noted that the total number of observations is 105.

To conclude, the robustness checks support the main paper's conclusion that there is no significant relationship between import exposure and trust in EU institutions. However, the weak instrument problem and lack of explanatory power in the last model of this section highlight that broader global trade dynamics play a more significant role in the results than expected.

7.Discussion and Conclusion

This last section sums up the results of the paper, elaborates on the possible limitations and provides suggestions for future research. Firstly, it ought to be mentioned that the final results of the paper are surprising. As previously stated, the current literature would indicate a clear negative relationship between import exposure and the level of trust in governing institutions. As Autor et al. (2020) and Colantone and Stanig (2018) suggested, higher import competition should make workers support more protectionist and nationalist policies, illustrated in the support for Euroskeptic parties that promote an anti-EU rhetoric. This, however, cannot be derived from this paper’s results as the effect of import exposure on trust in the EU has shown to be insignificant.

A possible explanation for the results of the paper can be found with the help of the following papers. Powel (1993) suggests that the clarity of responsibility within the EU's political framework can influence how economic outcomes impact public trust.

Consequently, an insignificant result stems from the fact that European citizens do not distinctly attribute the economic situation to European policymakers. Moreover, De Vries (2013) states that the level of trust in the European Institutions is more dependent on the economic conditions in Eastern Europe than in Western Europe. Therefore, the lack of Eastern European countries like Poland, Croatia and Bulgaria in the sample could mean that the observations of this study are less responsive to economic performance.

Nonetheless, these results should be interpreted by taking into account the limitations of this paper. Firstly, the use of only three industries in the analysis is a significant limitation. This factor may obscure the specific impacts of import exposure on various sectors and their corresponding effects on trust in the EU. Secondly, the sample includes many regions from countries like Spain, Germany, and Italy, while other EU countries are underrepresented or missing. This disproportion could skew results and may not accurately reflect the broader EU context. Including more countries, like France, could provide a more balanced view.

In addition, potential omitted variable bias exists, as there could be other relevant factors influencing both import exposure and trust in the EU that are not accounted for. Additional control variables might help mitigate this bias but, as mentioned, including all relevant variables remains a challenge. Also, reverse causality could also play a role in this paper. Trust in the EU could also influence import exposure through the fact that regions with higher trust might also have policies or attitudes that encourage more international trade, including imports. To add, while the IV approach helps address endogeneity, there remain concerns about the validity of the IV. For instance, the use of import shocks from China and Japan as IVs might not fully capture the nuances of import exposure specific to each EU region. Lastly, the timeframe of 2015 to 2021 was chosen due to data availability, but it may not fully capture longer-term structural changes in public opinion due to import exposure. A longer timeframe could provide more insights into the persistent effects of trade exposure on political attitudes.

Bearing this in mind, it is important to draw the attention to suggestions for future studies. It would be insightful to use more precise units than the ones used in this research. For example, instead of using broad industry categories, it would be more

informative to use data on individual industries or even sub-industries. This could provide more detailed insights into how specific sectors are affected by import exposure. An additional example could be represented by including data at a more localized level, such as NUTS-3 regions instead of NUTS-1 or NUTS-2 regions. This finer regional breakdown can reveal more localized effects of import exposure on the level of trust in the EU.

Moreover, as mentioned, it would be beneficial to ensure a more balanced representation of regions across all EU countries, as it can improve the robustness and the external validity of the results. Also, as the timeframe of this study is only between 2015 and 2021, utilizing a longer timeframe would help capture the long-term effects of import exposure on trust in EU institutions. Lastly, developing a more refined IV to better capture exogenous variations in import exposure could improve the study's causal inference.

To sum up, the main findings of this research show that import exposure does not have a clear impact on trust in EU institutions. While initial results suggested a positive relationship, a more accurate method (2SLS) revealed no significant effect. The study did find that higher GDP growth boosts trust in the EU, whereas higher disposable income unexpectedly lowers it. These findings challenge previous studies that often suggest a negative impact of import competition on political trust, indicating that the relationship between economic factors and trust in the EU is more complex and needs further study.

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