

# *Why Is Economic Integration Unlikely in Greater China?*

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## Introduction

In the last two decades of twentieth century, the interactions among Taiwan, Hong Kong, and mainland China have undergone an extensive change, moving from an intensified confrontation to a closer economic exchange. After Taipei<sup>1</sup> legalized travel and visit to the mainland in November 1987, it opened up new economic opportunities for both sides of the Strait.<sup>2</sup> This change aroused plenty of discussions, and one is whether the three economies can integrate into an integrated Greater China<sup>3</sup>. The great volume of trade across the strait and the huge amount of inward investment by Taiwanese entrepreneurs create the dense economic relationship which supposes to be beneficial to the further integration. In view of this, many scholars and political elites in this region convey their optimistic speculations by the discourse of Greater China.<sup>4</sup> The usages of terms such as “Greater China,” “Chinese Economic Area,” “Common Chinese Market,” or “South China Economic Sphere”<sup>5</sup> all reflect these scholars’ eager expectation. However, the concerns for each side’s security, sovereignty, and domestic politics hinder such development, and the expected spillover from economic corporation into a higher level of integration has not appeared yet. In this paper, I would like to argue that the current economic interaction and the given cultural similarity cannot even lead to economic integration

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<sup>1</sup> In this article, I refer Taipei to the government of Taiwan or the Government of Republic of China (ROC); and Beijing to that of mainland China or of People’s Republic of China (PRC).

<sup>2</sup> Earlier in October 1987, PRC State Council promulgated the “Measures Governing Taiwan Compatriots’ Family Visits and Trips to the Mainland.” In November 2, 1987, after the process of legislation, Taiwan people were allowed to pay family visits to the mainland.

<sup>3</sup> In this article, I refer “Greater China” to the three economies, including Hong Kong, Taiwan, and Mainland China. I use this term neutrally to embrace the three economies, which is different from the propositional discourses of Greater China that I will mention later.

<sup>4</sup> For example, Kenichi Ohmae, a Japanese business strategist, optimistically speculates that Taiwan and Mainland will integrate into the United States of Chunghwa before 2005. See 大前研一，中華聯邦，台北，2003。The other well-known discourses can refer to Chu-Yuan Cheng (鄭竹園: 1988)，臺灣經驗與中國重建，一九八九年，臺北聯經出版。Cheng proposed the three economies should integrate into a common market, and other famous scholars, such as Kao, Charles H.C.(高希均)and Liu, Tai-Ying(劉泰英), also made a similar discourse.

<sup>5</sup> Bouteiller, Eric, The Emergence of Greater China as an Economic Force, Journal of Strategic Management, Vol. 28, February 1995, pp.56

in the absence of political understanding.

While comparative advantages coming from economic complementarity<sup>6</sup> provides the initial impetus for integration, geographic proximity reduces transport cost and cultural affinity reduces transaction cost in investment and technology transfer.<sup>7</sup> With all these facilitating factors being present here, in the study of regional integration, many scholars identified that the Chinese case features the high economic complementarity and cultural affinities, but political confrontation at the same time. However, fundamental sovereignty and identity issues are the main differences with the other successful experiences in economic integration, such as Europe and North America. In the first part of this paper, I would like to apply Keohane and Nye's rhetoric, interdependence, to discuss that great volume of trade and investment cross the Strait do not imply interdependence here. Since interdependence is the necessary base for economic integration, the possible scenario of integration is unlikely. But even if the ongoing trend can lead us to cross the threshold of interdependence, the political concerns still can undermine further institutionalization. And in the second part, I would like to focus on the cultural affinity which is supposed to be a plus for integration. But due to political considerations, what we have are perceived hostility and alienated identification, and these outcomes reverse the plus to a minus for integration. In the third part, I would like to emphasize on that contested sovereignty, identity, and security tensions which can be seen as the prerequisites for the progress of economic integration. According to Joanne Gowa, security matters, however, enlightened by David Laitin's study on leadership, I argue that the government/leader's political concerns towards sovereignty and identity can play the most important role in hindering the progress of negotiation, furthermore, the future process of integration. In my conclusion, I would like to conclude that since the political issue, especially sovereignty and identity issues, are not settled down yet, it is too optimistic to expect the spillover effect that brings the current thriving economic interaction into a more institutionalized economic integration in Greater China region.

## **I. Economic Integration and Interdependence**

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<sup>6</sup> Mainland China has comparative advantage on labor-intensive industry, where Taiwan has advantage on capital-intensive industry.

<sup>7</sup> Bolt, Paul J, *China and Southeast Asia's Ethnic Chinese*, 2000, pp.87

What we can observe in Greater China are the high volume of trade and a large amount of capital flow, which I will prove later. And some of the studies mistake this thriving economic interaction as a process of economic integration; even see it as an interchangeable outcome. However, these discourses are inadequate in discussing the definition of integration.<sup>8</sup> According to Robert Keohane and Joseph Nye, they argued that *volume of economic transactions* between the units is equivalent to neither interdependence nor economic integration. But how can we distinguish interdependence and integration? First of all, I would like to introduce the definitions of each term.

Bela Balassa proposes to define economic integration *as a process* and *as a state of affairs*. Regarded as a process, it encompasses measures designed to abolish discrimination between economic units belonging to different national states, for example the removal of trade barriers. Viewed as a state of affairs, it can be represented by the absence of various forms of discrimination between national economies, including free-trade area, customs union, common market, economic union, and complete economic integration.<sup>9</sup> According to Keohane and Nye, interdependence means mutual dependence, and in world politics, it refers to situation characterized by reciprocal effects among countries or among actors in different countries.<sup>10</sup> Before we unpack the deeper contents of Keohane and Nye's new rhetoric of interdependence, we can easily tell the difference between two by "institutionalization." Integration takes place within an institutional framework, and can thus be seen as an attempt to formalize existing patterns of interdependence. As George Crane argues, interdependence does not guarantee integration, or say, interdependence appears to be a necessary, though not sufficient, condition for successful integration.<sup>11</sup> Because interdependence is a basis for integration, but may also arise opposing political forces which could undermine integration. Therefore, we can conclude that interdependence and integration are not interchangeable, where interdependence provides a necessary basis for institutionalized integration, however, not necessarily guarantee the emergence of integration.

After clarifying the difference between integration and interdependence, our next task is to bring in Keohane and Nye's theory in order to argue that the current economic transaction in Greater China may

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<sup>8</sup> For example, in Robert Ash and Y. Kueh's *Economic within Greater China*, the authors mentioned that China, Hong Kong, and Taiwan had already achieved remarkable degree of economic integration. See Ash, Robert and Y. Kueh, *Economic within Greater China: Trade and Investment Flows between China, Hong Kong, and Taiwan*, The China Quarterly, 1993, pp.711

<sup>9</sup> Bela Balassa, *The Theory of Economic Integration*, 1961, pp.1-2

<sup>10</sup> Keohane, Robert and Nye, Joseph, *Power and Interdependence*, 2001, pp7-8

<sup>11</sup> Crane, George, *China and Taiwan*, *International Affairs*, v.69, pp707

be beneficial for further economic integration but does not warrant that the existence of interdependence and the later appearance of economic integration.

Keohane and Nye suggest two dimensions of interdependence: sensitivity and vulnerability to measure the degree of interdependence.<sup>12</sup> As they point out,

Sensitivity involves degrees of responsiveness within a policy framework—how quickly do changes in one country bring costly changes in another, and how great are the costly effects? It is measured not merely by the volume of flows across borders but also by the costly effects of changes in transactions on the societies or government..... The vulnerability dimension of interdependence rests on the relative availability and costliness if the alternatives that various actors face.

In short, sensitivity is an estimate of short-term costs imposed from without, and vulnerability measured the costs imposed from without after adjustment policies have been enacted.<sup>13</sup> Since we want to know the possibility of economic integration in Greater China, its necessary condition—interdependence should be examined. Therefore, we can apply these two indicators (sensitivity and vulnerability) and discuss the two aspects: trade and investment for examining the degree of interdependence between Taiwan and mainland China.

### 1. *Trade*

With the end of military posture and the Deng Xiaoping's "Open Door Policy" in the late 1970s, the trade relationship across the Taiwan Strait expanded accordingly.<sup>14</sup> In November 1987, Taipei Legalized travel and visit to the mainland for Taiwan citizens, and this policy shift opened up new economic opportunities. In 2002, total two way trade via Hong Kong exceed US\$12 billion, up from about US\$553 million in 1984.<sup>15</sup> The volume of trade is extremely high, and firms on both sides would be hurt by a disruption in trade; but according to George Crane's analysis, national adjustment costs are

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<sup>12</sup> Keohane, Robert and Nye, Joseph, *Interdependence and Integration*, pp368

<sup>13</sup> Keohane, Robert, and Nye, Joseph, *Power and Interdependence*, pp11-19

<sup>14</sup> Here I refer the end to Deng's announcement of "Message to Taiwan Compatriot," which initiated the peaceful approach as a guideline to deal with the Taiwan Problem. "Open Door Policy" is a crucial part of his Reform policy to open Chinese market not only to socialist countries but also to capitalists'.

<sup>15</sup> See Figure1, from Mainland Affairs Council, Republic of China: <http://www.mac.gov.tw>

manageable, which represents the expansion of trade has not yet fostered vulnerability.<sup>16</sup> If we look up the data more carefully, it is easy to find out that Mainland China's exports to Taiwan only accounts for about two percent of its total exports in 2002, and makes up a rather small fraction (around 6%) of Taiwan's total imports.<sup>17</sup> These two facts represent that Taiwan is not an important market to mainland goods, and mainland is not an important supplier for Taiwan.<sup>18</sup> While the cross-Strait trade is shut down, mainland can definitely endure the costs for policy adjustment. While Taiwan may have a hard time to find another market to replace mainland China; mainland can still easily find out other export markets to replace Taiwan. Thus, what we can observe is a high degree of asymmetry relationship, or more specifically, there is only Taiwan's over-dependence to mainland China and seldom vulnerability is imposed to mainland China. This is the reason why I argue there is only rather low level of interdependence in the absence of mainland's vulnerability.

**Figure1**

**Table 3 Cross-Strait Indirect Trade Volume Via Hong Kong** Unit : US\$ Million

Year	Taiwan to Mainland	Compared with the same period of last year(%)	Mainland to Taiwan	Compared with the same period of last year(%)	Total
1984	425.5	170.7	127.8	42.9	553.2
1985	986.8	131.4	115.9	-9.5	1102.7
1986	811.3	-17.8	144.2	24.4	955.6
1987	1226.5	51.2	288.9	100.4	1515.5
1988	2242.2	82.8	478.7	65.7	2720.9
1989	2896.5	29.2	586.9	22.6	3483.4
1990	3278.3	13.2	765.4	30.4	4043.6
1991	4667.2	42.4	1126.0	47.1	5793.1
1992	6287.9	34.7	1119.0	-0.6	7406.9
1993	7585.4	20.6	1103.6	-1.4	8689.0
1994	8517.2	12.3	1292.3	17.1	9809.5
1995	9882.8	16.0	1574.2	21.8	11457.0
1996	9717.6	-1.7	1582.4	0.5	11300.0
1997	9715.1	0.0	1743.8	10.2	11458.9
1998	8364.1	-13.9	1654.9	-5.1	10019.0
1999	8174.9	-2.3	1628.2	-1.6	9803.1
2000	9593.1	17.3	1980.5	21.6	11573.6
2001	8811.5	-8.1	1693.3	-14.5	10504.8
2002 Jan.	633.4	2.6	144.3	4.1	777.7
2002 Feb.	550.2	-19.9	110.7	-15.6	660.9
2002 Mar.	862.4	15.8	147.5	-5.6	1009.9
2002 Apr.	830.3	9.7	139.6	-10.0	969.9
2002 May.	888.9	11.0	152.3	-0.8	1041.3
2002 Jun.	833.2	27.1	127.0	4.2	960.2
2002 Jul.	938.2	18.1	142.0	4.3	1080.2
2002 Aug.	921.1	17.8	147.9	6.4	1069.1
2002 Sept.	1017.4	20.5	139.6	8.5	1157.0
2002 Oct.	983.7	27.2	151.6	-1.1	1135.3
2002 Nov.	961.6	36.7	149.2	6.7	1,110.77
2002 Dec.	902.4	36.6	158.7	32.1	1,061.09
2002 Jan-Dec	10,322.7	17.0	1,710.6	0.9	12,033.38

Source: Hong Kong Customs

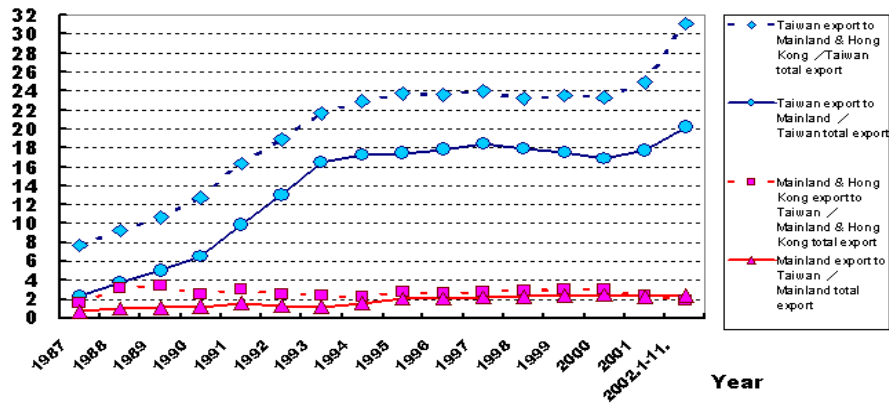
<sup>16</sup> Crane, George T., "China and Taiwan: Not yet 'Greater China'," International Affairs 69, issue 4, Oct.1993, pp.709

<sup>17</sup> See Figure2 and 3, from Mainland Affairs Council, Republic of China: <http://www.mac.gov.tw>

<sup>18</sup> Crane, George T., "China and Taiwan: Not yet 'Greater China'," International Affairs 69, issue 4, Oct.1993, pp.709

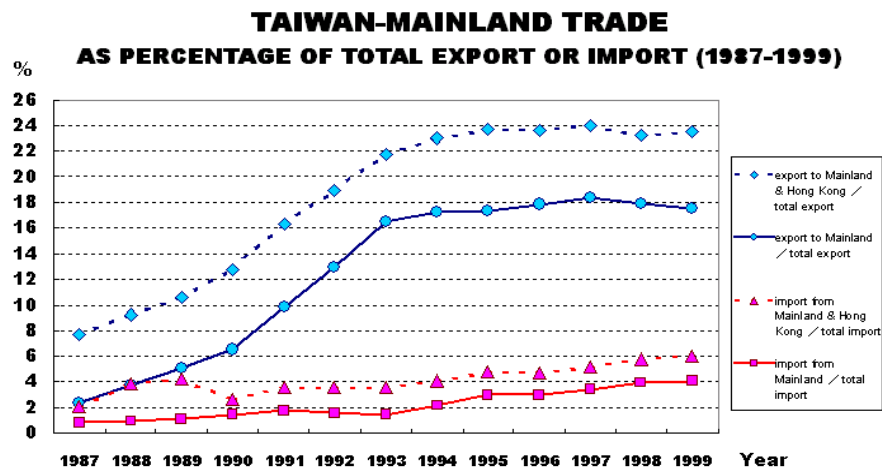
Figure2

### EXPORT DEPENDENCE ACROSS THE TAIWAN STRAIT (1987-2002 Nov.)



Sources: Monthly Statistics of Exports and Imports of Taiwan Area, Ministry of Finance, Taiwan, R.O.C., November 2002.  
Hong Kong External Trade, Census and Statistics Department, Hong Kong, December 2001.  
Cross-Strait Economic Statistics Monthly, Mainland Affairs Council, Executive Yuan, R.O.C., November 2002.  
 Graph: Department of Economic Affairs, Mainland Affairs Council, Executive Yuan, R.O.C., February 2003  
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Figure3



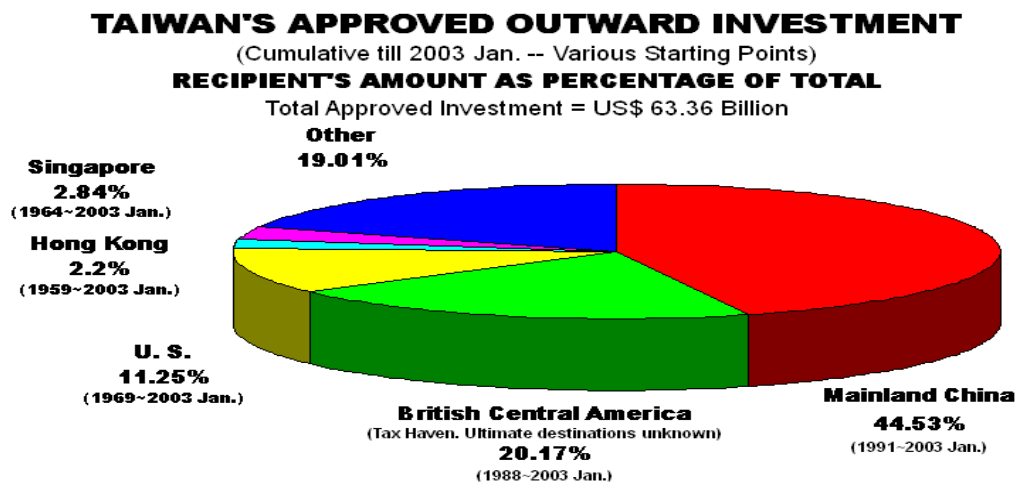
Sources: Monthly Statistics of Exports and Imports of Taiwan Area, Ministry of Finance, Taiwan, R.O.C., January 2000.  
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## 2. Investment

In 1979, mainland China announced an Open Door policy, selectively invited foreigners to invest in mainland China. Four Special Economic Zones (SEZs) were created along China's coast—Three in

Guangdong province next to Hong Kong and one in Fujian province across the straits from Taiwan. The SEZs explicitly welcomed investment and sought to attract potential investors, particularly overseas Chinese, with tax incentives, foreign exchange provisions, and a decided lack of regulation.<sup>19</sup> Thus, Taiwanese direct investment began with small-scale enterprises in SEZs in the early 1980s. However, due to the Taipei's restriction and mainland's policy uncertainties, the amount of inward investment was rather low then.<sup>20</sup> After 1987, again, Taiwan investors can visit and travel in mainland, coming with that Beijing promulgated new and privileged regulations for Taiwan compatriots, the inward investment increased.<sup>21</sup> Taiwanese enterprises investing in mainland are due to the identical language, the former network<sup>22</sup>, the low wage, cheap raw materials, and big market.<sup>23</sup> The accumulated investment by Taiwanese enterprises in mainland reached US\$12 billion in 1998.<sup>24</sup> But again, although Taiwan approved outward investment to mainland exceeds 44 percent of total recipients' amount, Taiwan's foreign direct investment (FDI) accounts only 7.43 percent of the total amount that Beijing contracted.<sup>25</sup>

Figure4



<sup>19</sup> Spar, Debora, China: The Great Awakening, Harvard, 1997, p. 10

<sup>20</sup> It means Taiwanese invests in mainland China.

<sup>21</sup> Crane, George T., "China and Taiwan: Not yet 'Greater China'," International Affairs 69, issue 4, Oct.1993, pp.711

<sup>22</sup> The network here I refer to is that many Taiwan investors have relatives in mainland China.

<sup>23</sup> In 1993, the International Monetary Fund changed the way in which it calculated its national output statistics. Overnight, mainland China became the world's third-largest economy, with the per capita income of \$1600 and a total economy of \$1.7 trillion. See Debora Spar, China: The Great Awakening, Harvard, 1997, p.1.

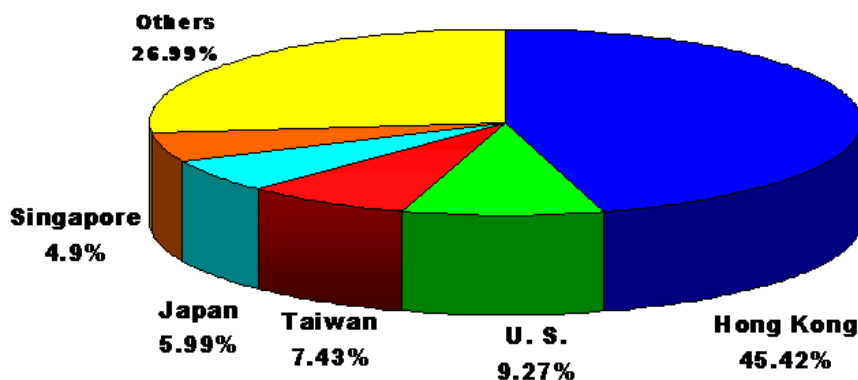
<sup>24</sup> Source: the website of Mainland Affairs Council in Taiwan.

<sup>25</sup> See Figure4 and 5, from Mainland Affairs Council, Republic of China: <http://www.mac.gov.tw>

FDI is important to mainland China. The Foreign Sector is a major source of its domestic economic growth. Joint ventures and foreign subsidiaries are also major exporters, contributing to mainland China's international payment position.<sup>26</sup> If all foreign investment were abridged, China must be affected. Since Taiwan capital to the huge mainland is merely accounted for a small fraction, the retreat of Taiwan enterprises would not seriously threaten the current economic growth of mainland China. Taiwan capital can be offset by alternative sources if foreign investment, such as Japan, South Korea, and it can avoid vulnerability only if Beijing acts prudently toward the other investors.<sup>27</sup> But to Taiwan, some scholars believe that it can tolerate the costs even mainland market is closed. If China were off limits the firms would probably move to other low-cost countries in East Asia, such as Malaysia and Vietnam.<sup>28</sup> Therefore, the vulnerability is not so obvious in the investment case either.

Figure5

**PRC CONTRACTED FOREIGN DIRECT INVESTMENT**  
**(Cumulative till 2002 Sep., Total Amount: US\$ 813.67 Billion)**



Sources: Intertrade, Ministry of Foreign Trade and Economic Cooperation, PRC, November 2002.

Graph: Department of Economic Affairs, Mainland Affairs Council, Executive Yuan, R.O.C., February 2003.

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From above, we can get a conclusion that according to the dimensions proposed by Keohane and Nye, the current interdependence between the two economies is rather modest. Although the sensitivity may

<sup>26</sup> Crane, George T., "China and Taiwan: Not yet 'Greater China'," *International Affairs* 69, issue 4, Oct.1993, pp.711.

<sup>27</sup> *Ibid.*, pp 712.

<sup>28</sup> *Ibid.*, pp 712.



exist, vulnerability has yet to be so clear. Each side could manage the costs of adjustment while the economic exchange stops. However, once the volume of economic transaction grows steadily and continuously in this region, the sensitivity and vulnerability interdependence may be deepened. Therefore, from the data we have just seen, this trend of interaction going on in Greater China, that is, the increasing vulnerability appears on both sides. With the present trends, the interdependence will deepen and institution frameworks might emerge in the future. However, political factors always hinder the process of further institutionalization and complicate the economic logic. For example, both sides have negated the initiations of low-level economic integration, such as free trade area and customs union.<sup>29</sup> Also, there are several policies that negatively hamper the further interactions such as Lee Teng-hui's "don't haste, be patient" policy—an investment regulation policy. I would like to elaborate this issue in the third part.

In summary, firstly, Taiwan and mainland China only have high volume of economic transaction of trade and investment, and which does not imply the high level of interdependence. Thus, the basis for economic integration has not yet been built. In another word, the volume of transaction can not guarantee the existence of interdependence, and therefore, economic integration cannot be expected if we only look at the amount of trade and investment. Secondly, given the trend of economic interaction, which is helpful for crossing the threshold of interdependence, political concerns can easily undermine the process of institutionalization or complicate the further interactions that make the integration unlikely.

## II. Cultural Affinities and Integration

Although Taiwan and mainland are de facto two different polities, they do share the same Chinese culture. The cleavage in 1949 was the outcome of Chinese civil war and resulted from the diverse political ideologies, and it was not to do with the Chinese culture.<sup>30</sup> Both sides claimed that they are

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<sup>29</sup> Deng Xiao-Ping, the leader of mainland China expressed that this issue should not be discussed in mainland China. See Chu-Yuan Cheng, China Times, 1989. (鄭竹園, 鄧小平為什麼不願談大中華經濟圈, 中國時報, 1989, 二月四日) In Taiwan Kuomintang claimed the discourse is the plot of mainland China. See Zhen-an Xie (1989) pp7. (謝振安, 台海兩岸經濟整合可能性之研究, 淡江大學/國際關係與戰略研究所, 1989)

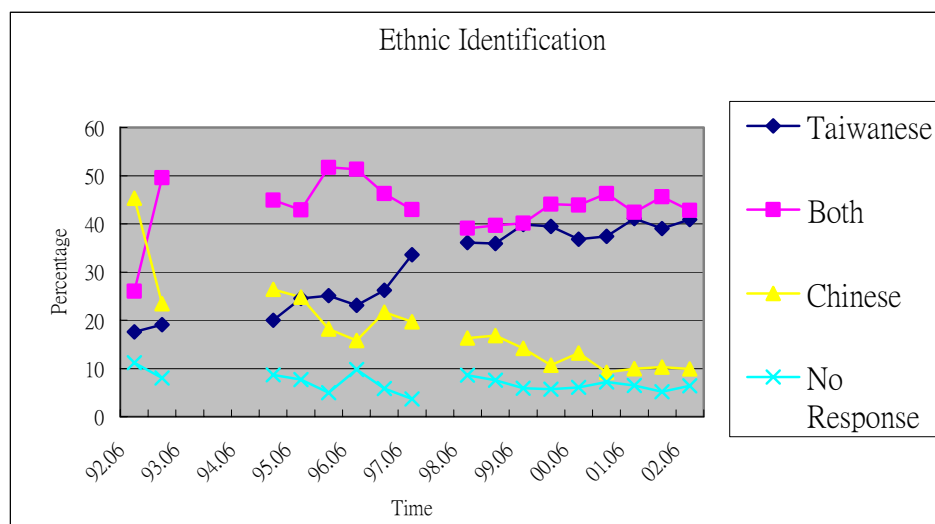
<sup>30</sup> I would like to explain the controversy between Communist Party and Kuomintang was coming from the different ways to react the western challenge in the early 20<sup>th</sup> century.

the rightful heir of Chinese tradition.<sup>31</sup> The Chinese cultural affinities suppose to be a plus to economic integration, since there is no difficulty for communication or business,<sup>32</sup> and can prevent the misunderstanding. Moreover, the cumulative number of visitors cross the strait exceeded 28 million person-trips by 2002.<sup>33</sup> Thus, adding with this dense social exchange, an intimate relationship should be expected. However, as a split country, Chinese on the both side of Strait do have a lot of misunderstanding and mistrust to the counter part. Although identical culture is undebatable, from Taiwan's public opinion survey, we can see Taiwan people's alienation in Chinese ethnic identity with mainland people are more and more relevant. And I would like to ascribe this circumstance to both sides' political concerns. Thus, cultural affinity is so vulnerable that it can be distorted. And finally, the plus for integration turns into a minus.

In the following part, I would like to elaborate the proposition that even if culture affinity is a fact, it can be constructed into alienation and hostility by the political concerns. And which turns the plus for integration into a minus.

### 1. Ethnic identification

**Figure6**



<sup>31</sup> Under Kuomintang rule, Taiwan claimed to be the true guardian of Chinese civilization, due to the better preserved and developed traditional Chinese culture, for example the writing system in Taiwan is traditional Chinese.

<sup>32</sup> For Example, Chinese on both sides share China's infamous "Guanxi-based Economy"—Investors are able to get financing on the basis of local political ties rather than on any real notion of creditworthiness. See Debora Spar, *China: The Great Awakening*, Harvard, 1997, p11.

<sup>33</sup> Source: Mainland Affairs Council, Republic of China: <http://www.mac.gov.tw>

According to MAC's (Mainland Affairs Council in Taiwan) public opinion survey in 2002, when asked about their identity, 40.9% of the respondents say they are "Taiwanese." Another 42.8% consider themselves "both Taiwanese and Chinese," and 9.9% say "Chinese."<sup>34</sup> Comparing with the previous survey, done by Election Study Center (National Chengchi University), the percentage of identifying themselves "non-Chinese" is getting higher. Since there are three options, those who identify themselves "Taiwanese" do not recognize them Chinese. Otherwise, they can choose the "Both" option. In 1992 poll, only 17.6 percent citizens in Taiwan chose "Taiwanese" option, but in last year (2002), the number is up to 40.9 percent. Thus, this fact means that less and less people in Taiwan choose the options which contain Chinese identification and recognize the ethnic and cultural ties with mainland China.<sup>35</sup>

One of the explanations is that in the late 1990s, "Chinese" has been given more political meaning in Taiwan. In the early 90s, it was no doubt that "China" refer to Taipei and "Communist China" to Beijing.<sup>36</sup> This consensus in Taiwan is constructed by Kuomintang (KMT)—the ruling party then, in order to define the relationship between Taipei and Beijing, and also to underline Taipei as the only legitimate government in China. Although according to the Constitution of Republic of China, Taipei supposes to be consistent with the former position that recognizes itself a part of "China"<sup>37</sup>. Nevertheless, with the promotion of pro-independent parties and advocates, in recent years more politicians and media, even government officials in Taiwan use "China" to refer mainland China, and put an unequal sign between Taiwan and China in order to highlight the independent idiosyncrasy of Taiwan. Once this discourse becomes a majority's "fact," people in Taiwan tend to avoid identifying themselves Chinese in order to clarify that they are not the citizens of Communist China. Soon or later, the boundary between political definition and ethnical definition blurred, and finally political concerns

<sup>34</sup> Source: Mainland Affairs Council, Republic of China: <http://www.mac.gov.tw>

<sup>35</sup> See Figure6, source from Election Study Center, Chengchi University. <http://www2.nccu.edu.tw/~s00/> (國立政治大學選舉研究中心重要政治態度分佈趨勢圖) Graphed by Thomas Chang.

<sup>36</sup> Here I refer to "in Taiwan."

<sup>37</sup> Here the word "China" is an ethnic historical and cultural China, not a political one. And according to ROC constitution's Additional Articles 11 and heading, to meet the requisites of the nation prior to national unification.....Rights and obligations between the people of the Chinese mainland area and those of the free area, and the disposition of other related affairs may be specified by law, Taiwan is described as the free area which implies that it is a part of "China. See The Constitution of the Republic of China.  
<http://www.gio.gov.tw/taiwan-website/5-gp/yearbook/appendix3.htm>

invaded cultural domain. As a result, even given the cultural affinity, the political concern can still make the distortion possible. And this example is consistent with the proposition that political concerns dominate the identification issue.

## 2. *Perception of Beijing*

The second issue I would like to elaborate is that the perception of the counter part is so manageable by the political concerns. From MAC's survey in May 2003, 64.5 percent of the respondents believe that mainland authorities are unfriendly to the ROC government. Also, 44.4 percent believe that they are unfriendly to Taiwan people.<sup>38</sup> Mainland authorities' perceived hostility to Taiwan has not been on a downward trend with the economic and social exchanges, and it remains at a high level.

If we look at the data closely, we can observe that in several years, the perceived hostility is extremely high.<sup>39</sup> I would like to argue that each of them reflecting a crucial political event which is manipulated by Taipei or Beijing government. Such as, in July 1999, the "Special State-to-State Relations" which was proposed by Taiwanese President Lee Teng-hui and was used to describe the cross-strait relations tensed the relationship between Taipei and Beijing, and mounted the peak in August survey.<sup>40</sup> After Lee's statement, Beijing launched a series of "saber-rattling," and which resulted in the unusual high perceived hostility to people in Taiwan, moving from 47 percent in four months earlier to an unusual high 66.7 percent.<sup>41</sup> Another major event—the Taiwan Strait Missile Crisis in 1995 also made a historical high.<sup>42</sup> According to MAC's data, 68.8 percent of the respondents believed Beijing is hostile to people in Taiwan and 88 percent believed the hostility to government.

<sup>38</sup> Source: Mainland Affairs Council, Republic of China: <http://www.mac.gov.tw>

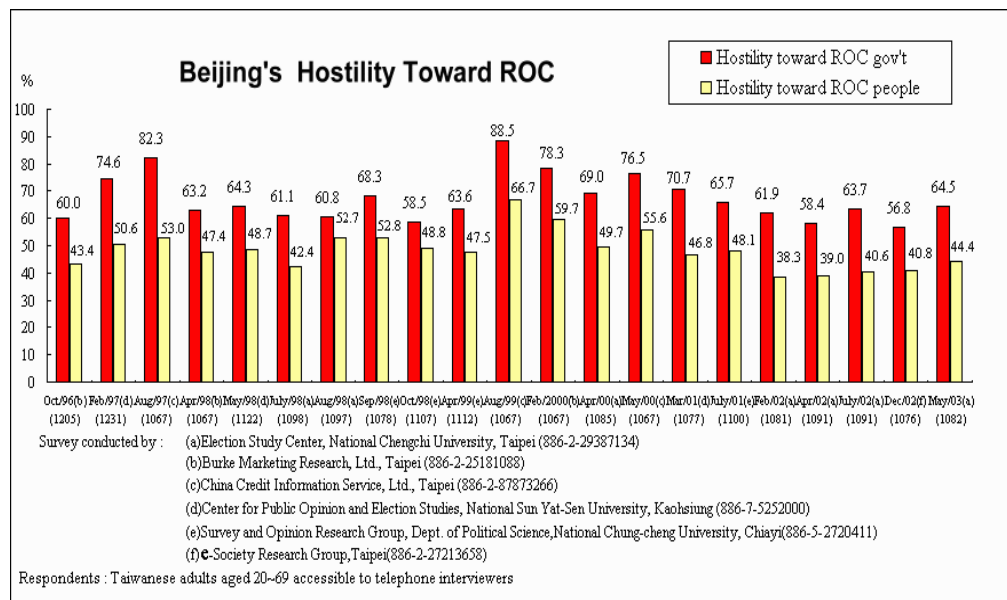
<sup>39</sup> See Figure 7, from Mainland Affairs Council, Republic of China: <http://www.mac.gov.tw>

<sup>40</sup> In July 9 1999, President Lee Teng-hui gave an interview to the delegation from the Deutsche Welle Radio in the Presidential Office. President Lee said that since 1991, when the ROC Constitution was amended, cross-strait relations had been defined as "state-to-state," or at least "a special state-to-state relationship." Cross-strait relations shall not be an internal relationship of "one China," in which it is a legal government vs. a rebel regime, or a central government vs. a local one. Refer to <http://www.mac.gov.tw>

<sup>41</sup> For example, in August 9 1999, the PRC Central Military Commission prepared for major high-tech live-fire exercise to be joined with a missile testfire at sea before the end of August, focusing on blockading the Taiwan Straits. In August 10, high-ranking PLA generals had been transferred to the command headquarters of the Nanjing military zone in preparation for a possible operation against Taiwan. In August 11, Beijing confirmed that the PRC has successfully test-fired a new long-range ground-to-ground guided missile, the DF-31, within the Mainland on August 2, the first testfire of this type. The missile was launched from Shanxi and the impact area was Xinjiang. See <http://www.mac.gov.tw>

<sup>42</sup> In July 7 1995, PRC military launched missile tests and fired ground-to-ground missiles from July 21 to 28 on the high seas of the East China Sea. Later it proceeded with the second wave of missile tests in August.

Figure 7



On the other hand, we can see an obvious low in October 1998. The successful and friendly “Koo-Wang Talk” re-launched in mainland China, which is the quasi-official channel of the highest level negotiation and had once been broken-up since President Lee visited the United States.<sup>43</sup> At that time, both parties’ bona fide intent for dialogue lowered the number of people who believe Beijing is hostile to Taiwan people and government.

In summary, though the progressing culture and social exchanges continue steadily across the Strait, and the shared Chinese culture has been rooted in both sides of the Strait, the nature-born affinities and manipulated ties remain vulnerable under the consideration of politics. Political concerns can control (even manage) the ethnic identification, while the political operation can dominate the counterpart’s perception as well. The supposed “plus” for economic integration is no longer a plus, but again, be reversed to “minus” by the political factors. And now, what we can see are not the closer ties across the Strait, but Taiwanese alienation and mainland’s perceived hostility on Taiwan people.

<sup>43</sup> SEF (Strait Exchange Foundation) Chairman Koo, led a delegation, arrived in mainland China to meet with ARATS (Association for Relations Across the Taiwan Strait) Chairman Wang. Later, Koo meets with PRC leaders Qian Qichen and Jiang Zemin.

### III. Political Issues and Integration

Political scientists have had an interest in political and economic integration for a relatively long time, and the thinking of those interested in integration has been influenced by federalism, neofunctionalism, neoinstitutionalism, intergovernmentalism, and realism.<sup>44</sup> However, many of these schools develop their theses without putting many efforts on the political concerns. For Example, the central thesis of neofunctionalism is that integration within one sector will tend to beget its own impetus and spread to other sectors.<sup>45</sup> This process can be named the spillover effect.<sup>46</sup> Ernst Haas speculated that once the process had been launched, social and economic groups would demand additional economic integration, and then new political interests groups emerge, and ultimately, political integration would be carried out.<sup>47</sup> Haas optimistically expected the process would be spontaneously evolved, but he seldom mention the role that political concerns play behind the progress.

Intergovernmentalism shares with neofunctionalism an emphasis on economic interests as the principle driving forces if integration, and like neoinstitutionalism, it stresses the importance of institution as a necessary means of facilitating and securing the integration process.<sup>48</sup> It further concentrates on the central role of national governments, on the importance powerful domestic economic interests, and on bargaining among governments over distributive and institutional issue.<sup>49</sup> Andrew Moravcsik, the leading Intergovernmentalism scholar, emphasizes on the governmental response to the increasing interdependence of national economies and the important role that international institutions play in solving the problems come with interdependence.<sup>50</sup> Therefore, the economic interests are the driving force for government to choose further integration. However, again, the political concern that has been left out of the picture by Moravcsik is what I want to underscore in this section.

So far, I argued that economic transaction and cultural affinity does not guarantee further institutionalized economic integration. Thriving economic interaction “may” lead to interdependence

<sup>44</sup> Gilpin, Robert, *Global Political Economy*, (2001):348-349.

<sup>45</sup> Tranholm-Mikkelsen, Jeppe, “Neofunctionalism: Obstinate or Obsolete?” *Millennium*, 20(1): 4.

<sup>46</sup> In neo-functional literature, there is no one exact definition of this term. However, adopted from Stephen George, Tranholm-Mikkelsen proposes that the concept of spillover can be known from three aspects: functional spillover, political spillover, and cultivated spillover.

<sup>47</sup> Gilpin, Robert, *Global Political Economy*, (2001):351.

<sup>48</sup> *Ibid.*, pp354

<sup>49</sup> *Ibid.*, pp354

<sup>50</sup> Moravcsik, Andrew, *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*, Chapter One.

and the later economic integration, as Moravcsik expected. However, this trend can always be interrupted by political factors. And the given culture affinity and continuous social exchange which should be a “plus” for integration can easily be reversed by politicians as well. In the following, I would like to elaborate further the role of political factors in hindering the beneficial trends for integration.

### ***III.1 Political concerns overwhelm the economic and social trends***

The first proposition is that political concerns overwhelm the economic and social trends. From above, we know that the economic and social trends encourage the further exchange across the Strait. But some of the dilemmas that Taipei government and people in Taiwan face are quite obvious. Those following dilemmas/concerns are the evidences that government does intervene the continue exchange trends, and would finally hamper these favorable trends evolving to the possible integration.

#### **1.(i) Fear of Over-Dependence—Maintaining the Regulation**

First, the benefit of high economic complementarity and the enormous mainland market give Taiwan incentives to have more economic interaction either on trade or investment. Many labor-intensive sunset sectors in Taiwan, such as foot wears and toys that are feeling the pressure of rising wages in Taiwan want to move their factories to the low-wages mainland. And even high-tech industries want to invest in mainland for gaining more market shares in this huge market. However, if present trends continue, both sides understand it will deepen interdependence and make the economic rationale for integration more prominent. In another word, it raises both sides’ vulnerability and makes Taiwan more and more dependent to mainland China. Thus, where Beijing wants to encourage more Taiwanese capital investing in mainland and use it as leverage to blackmail Taipei for asking the administration to concede in the other issues, such as unification issue, Taipei is for sure reluctant to reduce restriction and regulation for investment on mainland in order not to be so over-dependence.

For fear of over-dependence on mainland china, Taipei applies policy regulations and appeals persuasion to discourage more enterprise investing in mainland. For cutting off the further economic ties, Taipei started to propagandize the danger of “hollowization” in 1990s, urge those target industries not to move to mainland preventing from hollow out its domestic industries. They were also concerned that stronger economic relations across the Strait will lead to the emergence of pro-mainland interest

groups that will seek to advance their interest at the expense of Taiwan.<sup>51</sup> In the 1990s, Taiwanese president Lee Teng-hui pushed “no haste, be patient” policy to restrict the over \$50 million projects and high-tech and infrastructure investments on mainland China.<sup>52</sup> At the same time, Taiwan government encouraged business to “Go South” to invest in Southeast Asia, in order to lessen the over-dependent on mainland.

In Summary, for fear of over-dependence on mainland and being blackmailed by Beijing, Taipei maintains the regulation for investing in mainland. This is the first evidence that political concern interrupts the favorable trend for integration.

### 1.(ii) Fear of a Closer Tie—Raising the Costs

Second, more visitors and investors traveling across the Strait make it clear that if there were direct flight across the Strait that would decrease the costs for either social or economic exchange. In 2002, over 28 million person-trips visitors travel across the Strait, however, there is no direct flight between mainland and Taiwan, and all the visitors have to transit in Hong Kong. If the direct flights fly between mainland and Taiwan, averagely, travelers can save at least three hours for each trip. However, in order to prevent the closer exchange and the emergence of pro-mainland interests groups, Taipei remains reluctant to concede in the negotiation of direct flight. Taipei always worried that Taiwanese could be fooled by mainland’s “Two-pronged Campaign,”<sup>53</sup> and be taken advantage by Communist Party, or even be brain-washed by communism. As a result, in response to Taiwan people’s request and legislators’ initiation, Taipei government can only allow some expedience policies. And this is why so far there is “Special Project for the Return of Taiwanese Businessmen in the Mainland during the Lunar New Year”<sup>54</sup>, and “mini-three links”<sup>55</sup> but not the “direct Three-Links.”<sup>56</sup>

<sup>51</sup> Rowley, Chris and Mark Lewis, *Greater China Political Economy, Inward Investment and Business Culture*, 1996, pp. 40.

<sup>52</sup> Although Chen Shui-Bian abandoned the “no haste be patient” policy and implement the new “Proactive liberalization with effective management” policy, the government is still impose many limitation, for example, the investment liberalization for wafer foundries remain in a small-scale.

<sup>53</sup> The Two-pronged Campaign: One soft prong aims at winning the hearts of Taiwanese people, and one hard prong seeks to put appropriate pressure on Taipei to accept Beijing’s precondition on resumption of cross-strait talks, and eventually Beijing’s term on unification. Lin, Chong-Pin, *Beijing’s Agile Tactics on Taiwan*, 2002, p.12-13

<sup>54</sup> In order to assist the Taiwanese businessmen in the Mainland in solving the problem of not being able to buy airplane tickets for flights back to Taiwan during the Lunar New Year holidays the Executive Yuan has approved the implementation of the “Special Project for the Return of Taiwanese Businessmen in the Mainland During the Lunar New Year” to allow Taiwanese airline companies to operate chartered flights between the Mainland and Taiwan with stopovers in Hong Kong and Macao to take Taiwanese businessmen and their family members back to Taiwan during the Lunar New Year. At the same time, Taiwanese businessmen are also allowed, on a special case basis, to return to Taiwan for the Lunar New Year



### 1.(iii)Fear of Insecurity—Restricting the Interaction

Taiwan always fears of open market to mainland China, and this concern is consistent with Joanne Gowa's conclusion. Gowa argues that the play of power politics is an inexorable element of any agreement to open international markets, because of the "security externalities" that trade produces.<sup>57</sup> Trade enhances the potential military power of any country that engages in it. On the other hand, the real-income gains that motivate free trade are also the source of the security externalities that can either impede or facilitate trade: Trade with an adversary produces a security diseconomy; trade with an ally produces a positive externality.<sup>58</sup> Gowa's security diseconomy can highlight the dilemma that Taipei is facing now. Should Taipei open its market to its adversary—mainland China for the sake of profit, or it should sacrifice money for the reason of security? Although the existence of security problem is still debatable, Taipei does always use this rhetoric to cool down the over-heated cross-Straits economic transaction.

The security concern of direct mainland aircraft and how to orientate the position of flights between two polities also become the obstructions for future direct transportation links. Taiwan always claims that the direct flight would do harm to its national security, for example, the direct flight would affect Taiwan's air defense, impose more burden to national defense, and challenge the safety of sea transportation.<sup>59</sup> However, to what extent does direct flight affect the national security is needed to be studied and evaluated.

Most of the countries would define security as the priority of its national interests. Therefore, security becomes the best reason (or excuse) for implementing certain policy. No matter how important role that security really plays among that issue, it remains one of the important reasons for Taipei to interrupt the ongoing exchange relationship. Therefore, from the evidences above, the political concerns again negate the favorable condition for integration. And which proves that before the political concerns

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holidays from Fujian Province via Kinmen and Matsu. See <http://www.mac.gov.tw>

<sup>55</sup> It is the policy of the direct shipping between the offshore islands of Kinmen and Matsu, and Mainland China, effective from January 1, 2001.

<sup>56</sup> The direct links in mail, transportation and trading

<sup>57</sup> Gowa, Joanne, *Allies, Adversaries and International Trade*, pp. 6

<sup>58</sup> *Ibid.* pp6

<sup>59</sup> 中華民國行政院大陸委員會(MAC), 大陸政策與兩岸關係答客問, 民國 87 年版。  
<http://www.mac.gov.tw/big5/rpir/880508.htm>

being solved, the trends cannot go on and lead to an ultimate economic integration.

### ***III.2 Sovereignty and identity issues dominate***

Since we see the sovereignty and identity disputes are existed, we still need to investigate that by what means these issues are presented and further influence the ongoing trends. My second proposition in this section is that sovereignty and identity issues are the dominant factors among the political concerns that hamper the process of integration in an explicit and an implicit way. First, explicitly, due to the two disputes, the negotiation channel for Taiwan and mainland China was disrupted, and which made the integration more and more irrelevant. And the second is the implicit way that I will discuss after elaborating the first explicit way.

Beijing and Taipei have a very diverse position on sovereignty issue. Beijing's policy is "One Country, Two System"<sup>60</sup>, which is federalism unification through a holistic approach starting from nominal integration without internal integration<sup>61</sup>; while Taipei's is still unconcluded. Taipei's position is different from time to time, and from leader to leader. Concerning the positions toward sovereignty, Beijing government does not recognize Taiwan's sovereignty, regarding it as "an integral part of China's territory, a province of China presently occupied by a rebel government with a secessionist agenda,"<sup>62</sup> while KMT<sup>63</sup> claims that Taiwan and mainland are two equal political entities under a ethnical, cultural, and historical China; and DPP (Democratic Progressive Party)<sup>64</sup> stand for the state-to-state relationship. KMT government's mainland policies are recognizing the "One-China principle"<sup>65</sup> consensus" which was formed in the "Koo-Wang Talks"<sup>66</sup> in 1993 and the Guideline of

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<sup>60</sup> One Country, Two Systems Policy proposed by Deng Xiaoping in 1979 is mainland China's guideline for its Taiwan Policy. The content of it is as following: "Deng Xiaoping's scientific concept of "one country, two systems" was advanced in light of Taiwan's realities. It both upholds China's state sovereignty and takes into full account the specific conditions of Taiwan. According to the concept of "one country, two systems", two systems will be practiced within the sovereign state of the People's Republic of China. On the premise of one China, the main body of the country will practice the socialist system, while the existing capitalist system and way of life in Taiwan will remain unchanged for a long period of time. This concept is highly flexible in that it both gives full expression to the principle of bringing about China's reunification and upholding its sovereignty and takes into full consideration the history and realities of Taiwan." Quoted from "A Policy of "One Country, Two Systems" on Taiwan", Ministry of Foreign Affairs of PRC. See <http://www.fmprc.gov.cn/eng/713.html>

<sup>61</sup> 高朗(Kao Lang),從整合理論探索兩岸整合的條件與困境,台北五南,(1999):57.

<sup>62</sup> Roy, Danny, Tensions in the Taiwan Strait, 2000 pp. 77-78.

<sup>63</sup> Kuomintang, the ruling party from 1947 to 2000

<sup>64</sup> Democratic Progressive Party, the current ruling party in Taiwan since 2000

<sup>65</sup> "one-China principle" is a consensus that there is only one-China but either side can explain the definition on its own, and it has to be distinguished from the general idea of "One China" policy.

<sup>66</sup> The meeting of the Association for Relations Across the Taiwan Straits (ARATS) and the Straits Exchange Foundation (SEF) chairmen, Koo and Wang, held in Singapore, 1993.

National Unification in 1991 which can be understood as neofunctionalism integration through a gradual approach. DPP government's policy bases on its "Resolution Regarding Taiwan's Future" amended in 1999 which recognizes the independent status quo, and proclaim that any change must be decided by all the residents of Taiwan by means of plebiscite. Therefore, the three parties have its own position and approach to the interpretation of sovereignty and the policy for future integration. The controversy among them complicates all the current negotiation and finally makes reconciliation impossible. Since there is no understanding of each party's position, the negotiation can not be launched. And as long as negotiation abridged, the process of institutionalization cannot be activated.

Beijing and Taipei have a very diverse position on national identity too. Beijing's national identity is Chinese, which is no need to question. However, in Taiwan, national identity remains controversial. Kuomintang and pro-unification supporters' tend to identify themselves both Chinese and Taiwanese. But DPP and pro-independence supporters' would identify themselves Taiwanese.

Again, my argument is that sovereignty and identity issues are presented in two ways. Explicitly, those are the obstacle for negotiation and institutionalization, as I mentioned above. And implicitly, his/her certain positions on sovereignty and national identity are embedded in policies and hinder the trends from leading to further integration. And how do the certain positions be internalized to policies? According to David Laitin, the learning of leadership could play this role.

In David Laitin's research of leadership, he tries to figure out that the reason for actors behaving differently than they did in the past in the process of regional integration. In the other words, he wants to know the how leadership plays a role in changing the direction from integration or disintegration. In his article, he discusses the relationship between leadership, skill, and learning. He firstly used Karl Duetsch's notion of learning, which is the development of new sets of attitudes and actions with respect to some motivating purpose.<sup>67</sup> And building on this notion, he conceives leadership as elite learning. Then he conceptualizes skill as the ability to learn productively with respect to long-range actor goals.<sup>68</sup> Therefore, he argues that the leader or the actor is seen to be pursuing certain long-range goals by formulating and pursuing shorter range goals. Over time, the actor may learn to pursue his goal more

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<sup>67</sup> Laitin, David and Ian Lustick, *Leadership: A Comparative Perspective*, International Organizations, volume 28, issue 1 (winter, 1974), pp89-90. See Karl Duetsch, *The Nerves of Government*, 1966, pp.167-76.

<sup>68</sup> Ibid. pp 90

efficiently, given his stock of resources, by manipulating his environment according to different strategies.<sup>69</sup>

Following his study, I would like to argue that the leader of Taiwan did undergo the learning cycle too. Taiwanese President Lee Teng-hui has his personal pro-independent belief and Taiwanese identity,<sup>70</sup> and he determines that his political entity cannot to have more connection (beneficial trends) in favor of future integration. Then the new policies created under his rule, which can be understood as learning, lead Taiwan to learn to behave differently from previous possible integration to a disintegrative direction.

Let me retrospect some history. In President Chiang Ching-Kuo's<sup>71</sup> last few years, he, the leader of Taiwan then, legalized travel and visit to the mainland in 1987, turning a new page in the relations across the Taiwan Straits. It was for sure that the attitude behind the policy is for facilitate interaction and exchange. Also, concerning the national identity, President Chiang's famous rhetoric "I am a Chinese, also a Taiwanese" clearly illustrates his national identity. The later "Ending Offensive Strategic Posture" in 1991, announced by President Lee Teng-hui, proclaiming an end to the Period of National Mobilization for Suppression of the Communist Rebellion, and pronouncing that the Taipei renounces the use of military force for the pursuit of national unification can be seen as the extension to the prior positive-attitude to integration. In the beginning years of President Lee, the ongoing policies set by former president facilitate the progress of integration. The Guideline of National Unification in 1991 is the guiding principle to the mainland policy, which help the formation of the "One-China principle" consensus and the "Koo-Wang Talks" in 1993. According to the participant of the policy-maker, the Guideline of National Unification is based on the idea of neofunctionalism and political development theory, which showed the further approval of the integration progress.<sup>72</sup> With the positive attitude of government, what we see is the dense economic exchange. Nevertheless, once President Lee's power consolidated, his identity and fundamental attitude toward sovereignty began to lead the policy. Nominally, there is consistency of the policies, however, from the recent talks of Lee, we can see that his idea is pro-independence of Taiwan and which is definitely the negative attitude to

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<sup>69</sup> Ibid. pp.91-92

<sup>70</sup> He proposed that Taiwan should abandon the Republic of China, the name of the country. See China Times, March 17, 2003.

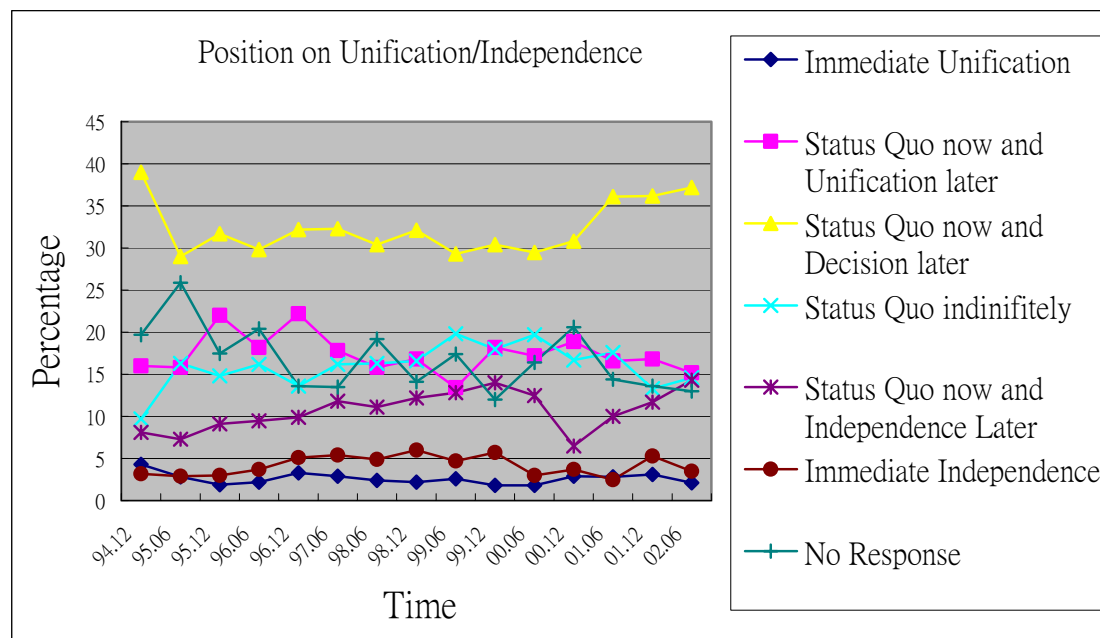
<sup>71</sup> ROC President, the leader of Taiwan, 1978-1988.

<sup>72</sup> According to Professor Tsai Cheng Wen (See 蔡政文，東西德經驗與兩岸的將來，政治科學論叢，民國八十一年十二月。).

integration.<sup>73</sup> Therefore, since 1995, we seldom see that the progress of integration and the fruitful interaction across the strait, which can be seen as the initial spillover effect, became futile. Later in 2000, DPP, the pro-independent party, became the ruling party in Taiwan. And in public opinion survey of this year, almost 21.6 percent of people in Taiwan express their position on the pro-independent options, including “maintaining the status quo and leading toward independence in the future” and “immediate independent”. Comparing with the previous survey in 1995, for the same question, only 10 percent of respondent chose these two options.<sup>74</sup> These numbers are the evidence that the national leader do successfully internalized his position on sovereignty issue to the public opinions. People in Taiwan thus become more and more pro-disintegration, and the alienation in culture has also been reinforced in the learning cycle.

As to the identity issue, under the rule of President Lee Tung-hui and Chen Shui-bian<sup>75</sup>, more and more people in Taiwan identify themselves only Taiwanese, as I mentioned in the section two.<sup>76</sup> Exclusive Taiwanese identity, which excludes the Chinese identity, is also been internalized to a great number of people in Taiwan by the promotion of leadership.

**Figure8**



<sup>73</sup> See Footnote 65

<sup>74</sup> See Figure8. Source from Election Study Center, Chengchi University <http://www2.nccu.edu.tw/~s00/> (國立政治大學選舉研究中心重要政治態度分佈趨勢圖) Graphed by Thomas Chang.

<sup>75</sup> Taiwanese President, and was elected in 2000.

<sup>76</sup> See Figure6.

As we can see, Taiwan experienced the learning cycle under the rule of President Lee Teng-hui. He, as a leader, over time, learns more productive sets of attitudes and actions with reference to his motivating purposes—disintegrated intention. Finally, he successfully leads his country and public opinions to be consistent with his own position toward identity and sovereignty issues. The pro-disintegration position is now embedded in policies and public opinion, and either one can have a great effect on obstructing the pro-integration trends.

In summary, the sovereignty and identity issues, on the one hand, explicitly complicate the negotiation and always dominate the political concerns; on the other hand, they can implicitly be concretized in the process of the learning of leadership. Since leader's own attitude to it can be carried out, he can manipulate the direction of integration. Therefore, leadership's attitude to national identity and sovereignty issue can dominate the policy. So now, our bottom line is that the two issues, national identity and sovereignty issue affect the political concerns explicitly and implicitly, where these concerns hinder the trends for integration.

## Conclusion

In this paper, I have five propositions that I would like to argue in total. First, the dense economic transaction does not imply the two economies have interdependence, since neither Taiwan nor mainland China appears vulnerable yet. Thus, the current condition does not meet the threshold for integration yet. However, the trend of continuous economic interaction can expedite the interdependence and provide future economic integration a necessary condition.

Second, though we have the trend of thriving economic interaction, as mentioned above, political concerns can undermine the process of institutionalization in economic relationship or complicate the further interactions across the strait.

Third, ongoing social exchange and Chinese culture affinity do not serve as a plus for economic

integration due to the perceived hostility and alienated identification which are manipulated and constructed by political concerns. On the contrary, the results become a minus for further integration.

Forth, even if the long term economic and social trends facilitate the future economic integration, they will still be overwhelmed by the political concerns. Top three excuses for intervening the trends are: preventing from over-dependence, avoiding being brain-washed and national security.

Fifth, the controversies of sovereignty and identity are two-folds. Explicitly, they are the invisible hands behind those political issues, and are the root for the disruption of cross-strait negotiation. Implicitly, they can be internalized in the learning process of leadership and then embedded in the national policies and public opinion that could be unfavorable to the further integration. In one word, national identity and sovereignty issue make the economic integration irrelevant in Greater China. Only if both sides' leadership and government have consensus to negotiate, to dialogue, and to accept the direction of integration, the further cooperation and integration are possible.

Therefore, to sum up the five propositions above, the bottom line is: the current economic interaction and cultural affinity cannot lead to economic integration in the absence of political understanding on sovereignty and national identity. Since the political issue, especially sovereignty and identity issues are not settled down yet; they will still obstruct the evolution of integration. And it is too optimistic to expect the spillover effect that starting from an economic interaction into a more institutionalized economic integration in Greater China region.

However, once Greater China economically integrates successful, with the third-largest economy, the explosive growth, and the biggest population, it does have significant implications in the East Asia, and even in the world. Therefore, this issue needs to be watched, concerned, and studied continuously.