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**THE SECURITY CONSEQUENCES OF CHINA-TAIWAN ECONOMIC INTEGRATION**

Prior to the election of Ma Ying-jeou as Taiwan’s president in 2008, the phrase “hot economics, cold politics” succinctly summarized the nature of the China-Taiwan relationship. Despite hostile political relations and occasional crises, economic ties grew rapidly beginning in the late 1980s; by the early 2000s China had become Taiwan’s largest trading partner. Since Ma’s election, however, the political relationship has improved dramatically. The two sides are engaged in regular dialogue, and have reached numerous agreements on such issues as direct flights across the Taiwan Strait and allowing Chinese tourists to visit Taiwan; both sides have even indicated some interest in trying to reach a peace accord.

Whether the détente in cross-Strait relations is a permanent thaw, or merely a temporary warming, remains unclear. The People’s Republic of China (PRC) continues to modernize its military capabilities, and it has not reduced the large number of missiles deployed in range of Taiwan. Taiwan president Ma Ying-jeou’s approval ratings have been weak, meaning the island’s future political direction is uncertain. Given this uncertainty, the impact of deepening cross-Strait economic integration on cross-Strait security relations remains an important topic. My comments briefly address two issues. First, I consider whether deepening economic integration helps to reduce the likelihood of a future military confrontation in the Taiwan Strait. Second, I ask whether China-Taiwan economic integration makes it more likely that Taiwan will eventually choose political unification with the PRC.

**DOES CHINA-TAIWAN ECONOMIC INTEGRATION MAKE A CROSS-STRAIT MILITARY CONFLICT LESS LIKELY?**

Economic integration is widely believed to have a stabilizing impact on cross-Strait security relations, and my reading of US policy is that it has generally been supportive of cross-Strait economic exchange for this reason. This idea—that economic integration across the Taiwan Strait would help stabilize the relationship—is grounded in a large body of literature that examines the relationship between international trade and military conflict in a broadly international context. While this topic remains controversial, it is my judgment that the preponderance of the evidence in this literature is on the side of those who argue that trade does indeed tend, all else equal, to reduce conflict between countries.

Applying these findings to a specific case like China-Taiwan relations, however, is problematic. For instance, it is possible that the Taiwan Strait is simply an exception to a broader pattern. There have certainly been other cases where military conflict emerged despite considerable economic ties: the case of World War I in Europe is an example in this regard. To assess whether economic integration affects the likelihood of military conflict in a specific case like the Taiwan Strait, it is important to examine whether the specific processes through which economic ties could affect conflict are actually playing out in that case.

With this in mind, it is possible to identify at least three such processes through which China-Taiwan economic integration could indeed lead to a reduced danger of military conflict in the Taiwan Strait.

First, economic integration raises the costs of military conflict for both sides; at a minimum, serious military conflict would most likely lead to a prolonged interruption in cross-Strait trade, and it is easy to imagine more dire, and long-term, consequences. As the costs of military conflict increase, it is possible that leaders on both sides will be more cautious about using force or adopting policies that could risk escalation.

Second, economic integration can potentially foster a transformation in the policy preferences of the two governments—especially in Taiwan, which is much more dependent on the relationship. In particular, a growing number of Taiwanese have a clear economic stake in a stable cross-Strait relationship. This point does not apply only to those businesses with investments in China and their employees. Rather, a growing percentage of Taiwanese likely recognize that Taiwan's general economic fortunes have become deeply intertwined with the PRC's. In turn, actors in Taiwan who benefit from cross-Strait economic exchange may be less likely to support candidates who will emphasize sovereignty-related issues, fearing that such candidates will provoke conflict with Beijing. Economic integration, in other words, may facilitate some convergence in the preferences governments in Taipei and Beijing have over sovereignty-related issues; conflict, in turn, could become less likely as the two sides come to share similar—or at least less divergent—underlying preferences.

Third, cross-Strait economic integration makes it easier for Beijing to coerce Taiwan or to signal resolve credibly without resorting to military measures. Leaders in Taiwan may have some uncertainty concerning PRC resolve to use military force should Taiwan take concrete steps to formalize its sovereign status; PRC threats in this regard are inherently suspect since talk is relatively cheap. War could result if Taiwan concludes a truly resolved PRC is bluffing. But economic integration gives Beijing a way to communicate its resolve more credibly if Taipei tests that resolve: in particular, China can impose economic sanctions, which demonstrate a willingness to pay high costs to block Taiwan independence. In essence, economic integration may reduce the likelihood of war because it provides Beijing with ways to punish Taiwan without needing to resort to military violence.

Some of these processes may be unfolding in the Taiwan Strait. For instance, the average Taiwan voter is quite pragmatic on sovereignty related issues. This pragmatism is revealed in surveys which show that a substantial majority of Taiwan voters support maintaining the status

quo in cross-strait relations. Likewise, while a substantial majority of voters would support an independent Taiwan if peace with the PRC could be maintained, an equally large majority would oppose independence if it were to provoke a PRC attack. I suspect that this pragmatism in part arises because voters believe that war would be incredibly costly for Taiwan, and I also suspect that deepening cross-Strait economic ties help to reinforce this belief. So, the perceived increasing costs of war may help to induce a cautious attitude at the level of individual Taiwan voters, and this, in turn, probably makes it harder than it otherwise might be for politicians strongly committed to independence to be elected to Taiwan's presidency. In other words, economic integration may reduce—at least marginally—the extent to which the PRC and Taiwan are pursuing divergent foreign policy objectives.

Yet there is also reason to be at least somewhat skeptical about how deeply entrenched the causal processes linking increased economic integration to a reduced likelihood of military conflict actually are in the Taiwan Strait. For example, though economic ties may be contributing to a sense of pragmatism among Taiwan's voters, there is little evidence to suggest a deeper transformation in the fundamental preferences held by most Taiwanese on cross-Strait sovereignty issues. I will return to this point momentarily when discussing whether cross-Strait economic integration affects the prospects for political integration.

Likewise, it is quite possible that economic integration can actually be destabilizing in certain contexts. For instance, if economic integration does indeed raise the costs of war for Beijing, then a Taiwan president may be tempted to “push the envelope” on sovereignty issues farther than he otherwise might. At a minimum, economic integration may be less stabilizing when Taiwan is led by a president unhappy with the status quo in cross-Strait relations than is the case if Taiwan is led by a president generally content with the status quo.

Finally, while the possibility of economic coercion does give Beijing a way to punish Taiwan without firing a shot, economic sanctions could also backfire. For instance, economic sanctions would most seriously hurt actors in Taiwan that already have a direct stake in the cross-Strait relationship (such as businesses with mainland investments) and as such tend to be more skeptical of Taiwan policies that could be destabilizing. Punishing these sorts of actors could be especially damaging to Beijing's long-term goals in Taiwan, as it would in essence alienate a constituency that tends to support stable cross-Strait relations to begin with. If Beijing calculates that economic sanctions might backfire by further alienating Taiwan's population without leading to changed Taiwan behavior, then it is unlikely the PRC would utilize economic sanctions as a way to signal resolve prior to initiating military conflict.

### **DOES ECONOMIC INTEGRATION MAKE POLITICAL UNIFICATION MORE LIKELY?**

For some of the same reasons I am somewhat skeptical that cross-Strait economic integration is having a major effect on the prospects for military conflict in the Taiwan Strait, I am also skeptical that cross-Strait economic integration makes political unification any more likely.

I think there are two plausible mechanisms through which growing cross-Strait economic ties could influence the likelihood of China-Taiwan political unification. First, to return to an earlier

point, economic integration might enhance China's coercive capacity over Taiwan. That is, by opening the possibility of threatening or imposing economic sanctions, it may be more feasible for Beijing to coerce Taiwan into a unification bargain. Second, economic integration could lead to changed preferences among societal actors in Taiwan, so that there is more demand for unification. Economic integration, for instance, could conceivably lead individuals in Taiwan to identify more with China. Or, alternatively, individuals and businesses could come to view unification as essential to a stable cross-Strait economic relationship. However, my sense is that economic integration is unlikely to lead to unification through either of these processes, at least in the foreseeable future.

Consider first the possibility that the PRC might use economic coercion as a means to maneuver Taiwan into some sort of unification deal. As Taiwan's economy has become more integrated with the PRC, it is certainly the case that China could cause a great deal of pain in Taiwan through the use of economic sanctions. Taiwan's Mainland Affairs Council estimates, for instance, that trade with mainland China accounts for over 22 percent of Taiwan's total trade, and exports to China account for over 30 percent of Taiwan's total exports. Furthermore, roughly two-thirds of Taiwan's approved outward direct investment flows to mainland China.

But it is important to recognize that the PRC would also face significant constraints in any effort to compel unification through the use of economic sanctions. Obviously, extensive economic sanctions would impose costs on the PRC as well as Taiwan. Some of these costs would be direct, such as lost trade and investment linkages vis-à-vis Taiwan. Others would be indirect, such as harm done to China's other bilateral relations. I doubt, for instance, that the US would simply stand by if Taiwan were subjected to broad-scale economic sanctions or an economic blockade. Perhaps more importantly, and as I noted before, it is by no means clear that Taiwan would react to economic sanctions by capitulating to PRC demands. Sanctions would potentially alienate the very actors whom Beijing would most need to acquiesce to PRC control: those who already have a stake in stable cross-Strait relations. And sanctions would confirm the worst fears of Taiwanese who suspect that China does not have Taiwan's best interests at heart. Finally, while Beijing has shown some willingness to politicize cross-Strait economic ties—such as harassment of pro-Democratic Progressive Party businesses in China after the 2000 and 2004 Taiwan elections—these efforts seem to me to be quite limited and of questionable success. In sum, I don't believe deepening cross-Strait economic ties make it much more likely that the PRC will be able to coerce Taiwan into some sort of unification bargain.

A second possibility is that growing cross-Strait economic ties will ultimately lead to increased demands in Taiwan for political unification. For instance, it is conceivable that deepening economic ties—and the ancillary growth in cross-Strait contacts and communications—will lead a growing number of Taiwanese to identify more with China and to see themselves increasingly as Chinese. Alternatively, Taiwan's voters and businesses might start to make a more pragmatic calculation that Taiwan's economic future is fundamentally tied to China, and unification ultimately offers the best way to guarantee continued stability and prosperity. Yet well-known trends in Taiwan public opinion again call into question whether these sorts of processes are taking—or are likely in the future to take—hold.

For example, despite deepening economic ties, the percentage of Taiwanese citizens who self-identify as Taiwanese rather than as Chinese or both Chinese and Taiwanese has continued to grow; in recent surveys, those identifying solely as Taiwanese outnumber those placing themselves in the other two categories combined. Similarly, various surveys suggest extremely limited support in Taiwan for unification, again despite burgeoning economic ties. Support for China's proposed one country, two systems framework has been consistently minimal. Recent surveys suggest that even when presented with a hypothetical future scenario where social, political and economic conditions on the Mainland and in Taiwan are similar, most Taiwanese voters still oppose unification. In short, economic integration does not appear to be having a transformative effect on Taiwanese public opinion relating to Taiwan's status and identity. Perhaps support for unification would be even lower if it weren't for deepening cross-Strait economic ties, but support is quite limited as it is.

## **CONCLUSION**

In summary, the United States should not be too complacent about the implications of cross-Strait economic integration for the prospects for military conflict in the Taiwan Strait. While it is possible that economic ties could reduce the danger of conflict—and there are several plausible ways this could happen—there is at least some reason to be skeptical that the specific causal processes that could link trade to a reduced danger of conflict are actually playing out in this case. With that said, I do not believe that economic integration across the Taiwan Strait is on balance a bad thing (at least from the standpoint of its security-related implications). I certainly don't think it makes military conflict any more likely. Moreover, I don't believe that economic integration has clear implications for the likelihood of eventual political unification between China and Taiwan. As such, I do not believe that China-Taiwan economic integration is inconsistent with current US policy toward Taiwan.