Does Economic Integration Across the Taiwan Strait Make Military Conflict Less Likely?

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Deepening economic ties across the Taiwan Strait are widely believed by analysts and scholars to be a stabilizing force in cross-Strait political relations, at least on the margins. The logic behind this view is straightforward. By raising the costs of military conflict, economic exchange potentially encourages restraint in Beijing and Taipei. Over the longer term, increased contacts generated by growing economic linkages may also lay an “important foundation for political community” across the Taiwan Strait. Official US policy is to encourage cross-Strait economic integration for these reasons.

Within the broader international relations literature, however, the relationship between economic integration and military conflict continues to be a hotly debated topic, and liberal arguments that trade promotes peace remain controversial. A growing body of recent scholarship

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Deepening economic ties across the Taiwan Strait are widely believed by analysts and scholars to be a stabilizing force in cross-Strait political relations. Yet within the broader international relations literature, the relationship between economic interdependence and military conflict continues to be controversial. This article examines the impact of growing cross-Strait economic links on the likelihood of cross-Strait military conflict within the context of this broader literature. A description of three separate causal mechanisms—identified in the existing literature—through which economic ties could promote peace is followed by a discussion of how broadly these processes are operating in the Taiwan Strait case. Although the article does not rule out the possibility that economic integration across the Strait makes a military confrontation less likely, it shows that the evidence in support of such a proposition is ambiguous.
advances the debate by considering more closely the precise causal processes through which commerce could influence the propensity for military conflict between states. This focus on microfoundations has important implications for studies that are trying to ascertain whether economic integration will facilitate peace across the Taiwan Strait. Knowing that economic ties tend, on balance, to have a pacific effect is of only limited use when considering a particular case, since it is certain that sometimes economic ties fail to have such an effect: the outbreak of World War I, despite extensive trade ties among the major European powers at the time, is an obvious example. Without a clear specification of the causal mechanisms linking economic interdependence to a reduced likelihood of military violence, it is simply difficult to know whether or not the relationship across the Taiwan Strait resembles failures, like pre–World War I Europe, in that regard.

Existing studies in the international relations literature have derived at least three broad causal mechanisms through which growing bilateral economic ties can generate a reduced probability of military conflict between states. First, economic ties can act as a constraint on state behavior; the increased costs of military conflict in the presence of economic integration deter states from settling disputes using military force or engaging in provocative behavior that might invite military retaliation. Second, economic ties can, over time, change the goals that states pursue, so that they are less in conflict with the goals of other states; as such, the underlying hostilities that are at the root of military conflict can be reduced as economic integration deepens. Finally, economic integration can make it easier for states to signal their true level of resolve, thereby reducing the dangerous uncertainties that can lead to war in crisis situations. These three causal mechanisms are not mutually exclusive; rather, it may be that economic interdependence promotes peace through multiple channels.

The purpose of this essay is to reconsider, within the context of this broader international relations literature, whether growing Mainland China–Taiwan economic integration affects the likelihood of a cross-Strait military confrontation. Each of the causal mechanisms outlined above specifies a process, with observable implications, through which growing economic ties yield a reduced likelihood of military violence. I assess the extent to which these different causal processes are operating across the Taiwan Strait. My conclusions suggest that caution is warranted when considering the impact of economic integration on the prospects for cross-Strait peace. While it may be that economic in-
tegration across the Strait makes a military confrontation less likely, I show that the evidence in support of such a proposition remains quite ambiguous.

How Might Economic Interdependence Lead to Peace? Three Causal Arguments

The liberal argument that trade promotes peace has a long history, and a series of recent works by John R. Oneal and Bruce Russett have confirmed statistically that trade, along with democracy and international organizations (the “Kantian tripod”), is correlated with a reduced likelihood of military violence between countries. But the idea that economic ties facilitate peace remains controversial. Realist scholars sometimes note, for example, that bilateral economic ties typically represent only a small fraction of any two countries’ economies; this is especially the case with great powers, which typically have large internal markets and a wide array of trading partners. Economic ties are thus unlikely to have much of an impact on state behavior, particularly when great powers compete over important issues. Others argue that economic interdependence can actually provoke conflict because economic ties cause new frictions to develop between countries, and still others suggest that economic patterns are more likely a reflection of existing political relations than an important determinant of those relations. Meanwhile, a number of recent quantitative and carefully designed qualitative studies call into question on empirical grounds the commercial liberal argument.

As Edward Mansfield and Brian Pollins write, a growing number of studies are advancing the debate by focusing more squarely on the conditions under which economic ties have an effect. That is, they ask not if economic interdependence leads to peace but rather when it does, and thus focus on the variables that might intervene in the relationship between economic ties and conflict. This focus on boundary conditions serves to highlight the probability that economic integration does not always lead to pacific political relations. And given that the effect is not universal, if we are to have any ability to predict whether economic ties will have a pacific effect in a particular case—like the relationship across the Taiwan Strait—it becomes imperative to have a clear understanding of the microfoundations underlying any relationship that might exist between commerce and conflict. In other words, simply knowing that strong economic ties are present in a particular case should not convince
us that the likelihood of a military confrontation is therefore reduced in that case. Rather, it would be better to be able to observe whether or not the causal processes that link economic interdependence to a reduction in military violence are operating in that case. Existing studies have identified at least three non–mutually exclusive causal mechanisms through which economic interdependence can yield a reduced probability of military conflict.

First, economic ties can act as a constraint on state leaders. Because war is likely to be disruptive to trade and investment flows, the expected costs of war rise as international economic flows increase. Commercial disruptions can impart substantial adjustment costs on national economies; such disruptions could also be especially damaging to business interests with strong political clout. Leaders should therefore be less likely to risk military violence with countries with which their home state is integrated economically. These sorts of constraining effects may be more likely to take place in democracies, which provide actors who benefit from trade with clear paths through which to influence the political process; leaders in authoritarian states who draw support from internationalist economic interests may also be more susceptible to these effects.

A second, less prominent, causal argument suggests that commercial integration can transform state preferences. Here, international economic ties push issues that previously had threatened to spark war down the hierarchy of state goals. On the one hand, when two states have a high level of economic integration, actors within their respective societies will come into greater contact with each other and will interact on a much larger scale. In this environment, they may come to view their interests as shared and to see prior goals as less important than before. Leaders, in turn, will over time respond to these transformed societal preferences. On the other hand, international economic ties can spark coalitional change at the domestic level, because groups with a vested interest in foreign economic ties grow larger and more powerful than before. These groups, in turn, are less likely to value foreign policy goals, like territorial expansion, that can propel countries into military conflict. If economic integration is extensive, these prointernational coalitions will grow large and will have the ability to influence state goals and perhaps effect a change in the makeup of the governing coalition itself. Military conflict then becomes less likely not simply because it is more costly (as seen in constraint arguments), but because coalitional change yields new leaders that place less emphasis on the clashing goals that had threatened to lead to war to begin with.
A third causal argument, relatively new, focuses on the added information that can be communicated in the presence of economic integration. The argument is an effort to deduce a causal link between commerce and military conflict in a way that is consistent with bargaining models of war. In these models, disputes sometimes escalate to military confrontations because it is difficult for the states involved to know how committed the other side is to the issues at hand. As such, each side has an incentive to overstate its commitment—or resolve—in the hope that the other side will concede more than it otherwise might; in other words, both sides have incentives to bluff. Wars can occur when one state believes the other to be bluffing, when in fact the other state is highly resolved.

Consider a hypothetical example concerning the Taiwan Strait. Clearly, no Chinese leader wishes Taiwan to become independent. Unfortunately, it is difficult for leaders in Taiwan to determine just how resolute Beijing is on the issue; whether they mean it or not, all Chinese leaders have a strong incentive to say that they will fight a war to block Taiwanese independence so as to deter the island from choosing that path. Suppose, now, that a leader in Taiwan believes Beijing to be bluffing—knowing it has an incentive to do so—and goes ahead and declares independence. If China was actually sincere in making the threat—meaning that Beijing is in fact highly resolved to check Taiwan independence—then the declaration of independence provokes a war. War arises in this scenario because it is difficult for Beijing to credibly communicate its true level of resolve on the independence issue. The outcome is clearly suboptimal: both sides would have been better off had Beijing found a way to communicate its true level of resolve credibly, since war is costly.

To overcome this problem, states that are truly resolute try to signal that resolve by demonstrating a willingness to pay costs in order to achieve a favorable outcome. By sending costly signals, states convey information; since states that lack resolve are by definition unwilling to pay costs to achieve a favorable bargaining outcome, a willingness to send costly signals increases the likelihood that a country will be perceived as resolute, rather than as bluffing. Economic signaling arguments that link economic interdependence to peace suggest that high levels of economic integration make it easier for countries to send costly signals that allow them to communicate resolve credibly. Absent economic integration, nonmilitary signals are relatively uninformative because verbal threats or economic sanctions are cheap, meaning a state that is bluffing could issue such signals at relatively little cost. As economic integration deepens on a bilateral level, however, it becomes
possible for a country to impose economic sanctions that are costly. Integration into global markets more generally means that a country’s tough talk is no longer cheap, because it scares international investors away. Economic integration, then, gives states more ways to demonstrate their true level of resolve in a credible fashion without having to resort to military action, thus reducing the likelihood that a war would arise because one state miscalculates the resolve of another.

Each of these three causal pathways linking economic interdependence to peace suggests a mechanism through which growing economic interaction across the Taiwan Strait could reduce the likelihood of a cross-Strait military confrontation. But is there any evidence that one or more of these causal processes are actually at work in Mainland China–Taiwan relations? If so, then we might feel more confident that growing economic integration is indeed a stabilizing force in the cross-Strait relationship. However, if such evidence is lacking, then a more cautious attitude would be warranted. I consider the issue more systematically in the sections that follow.

Do Economic Ties Act as a Constraint in Cross-Strait Relations?

The constraint argument suggests that, as economic integration across the Taiwan Strait deepens, leaders in both Beijing and Taipei should become more hesitant in pursuing policies that might trigger a strong response from the other side, because they become more sensitive to the economic consequences of conflict. Though the argument should apply—perhaps by varying degrees—to both sides, space limitations lead me to focus here on Taiwan. My choice of Taiwan, rather than the Mainland, is driven by a theoretical expectation that constraining effects should be more prevalent in Taipei, for at least two reasons. First, asymmetries in cross-Strait economic relations suggest that Taiwan’s economy should be more sensitive to disruption than Mainland China’s. Cross-Strait trade represents a much larger share of Taiwan’s economy simply because China’s economy is much larger. Moreover, while Taiwan’s approved direct investments in China now represent more than two-thirds of the island’s total outward direct investment flows, those same investments represent less than 15 percent of the foreign direct investment flowing into China. Second, some recent studies suggest that constraining effects are most likely to occur within democracies. As Christopher Gelpi and Joseph
Grieco write, because democratic leaders are accountable to large select- orates, “it is especially in democracies that the delivery of a public policy success such as economic growth is likely to play an important role in affecting the tenure of leaders.” There is thus reason to believe that, if cross-Strait economic integration does indeed act as a constraint in cross-Strait political relations, these constraining effects should be especially evident in Taiwanese policy (though a more extensive study would ideally consider both Beijing and Taipei in this regard, as in principle the constraint argument clearly applies—at least to some extent—to both).

An initial, cursory examination suggests that the constraint logic does not mesh well with some broad trends in the cross-Strait relationship. As Yun-han Chu has written, cross-Strait relations represent a “perplexing duality” characterized by “the concurrent processes of economic convergence and political divergence”; such dichotomous tendencies, moreover, have only intensified since Chu made those observations. At the root of cross-Strait political tensions is the issue of Taiwan’s sovereign status. Beijing views reunification as a core long-term objective and has threatened to go to war to prevent legal Taiwan independence. But recent Taiwanese leaders—including both current president Chen Shui-bian and former president Lee Teng-hui—have, since the early 1990s, been more assertive of Taiwan’s sovereign status, and Mainland Chinese leaders worry that their ultimate aim is independence. Such assertiveness has occurred despite rapidly growing cross-Strait economic integration since the late 1980s (see Figure 1).

During the 1990s, President Lee Teng-hui embarked on “a concerted effort to establish a separate international identity” for Taiwan, a policy that became especially clear when Lee took a highly publicized trip to Cornell University in 1995—which in turn precipitated a serious crisis in cross-Strait relations. Lee risked another crisis in 1999 when he announced that prior changes to the Republic of China (ROC) constitution established the Beijing-Taipei relationship as “state-to-state, or at least special state-to-state relations.” The move provoked outrage in Beijing, which viewed the announcement as a step toward formalizing Taiwan’s de facto independent status. Cross-Strait relations initially stabilized after the election of Democratic Progressive Party (DPP) candidate Chen Shui-bian as Taiwanese president in spring 2000: at his inauguration, Chen announced that his administration would follow a policy of “5 No’s,” which included no official independence for Taiwan, no public referendum on the issue of independence, no change in the ROC’s name, no adding the “special state-to-state” relations formula into the
ROC constitution, and no scrapping of the National Unification Council (which had been established in the early 1990s). However, Chen’s policies toward China grew more provocative over time, even as bilateral economic ties expanded extremely rapidly after 2001. In 2002, for example, Chen suggested a formula for cross-Strait relations—one country on each side of the Strait (yi bian, yi guo)—which appeared to go farther in asserting the island’s sovereignty than Lee’s state-to-state argument that had enraged Beijing in 1999. Chen’s decision to hold a referendum on issues relating to Taiwan’s national security at the same time as the 2004 Taiwan presidential election (which ultimately failed), his announced intention to revise the ROC constitution, and more recently his termination of Taiwan’s National Unification Council have likewise been viewed by Beijing as highly provocative.

On the surface, these trends seem to call into question the extent to which growing cross-Strait economic ties act as a constraint on Taiwanese policymakers. Unfortunately, the absence of a counterfactual makes it nearly impossible to draw meaningful inference from these broad trends. In the context of a single case, it is not feasible to hold all else constant while assessing the marginal effect of growing economic ties; as such, Taiwan’s policies are consistent with multiple explanations. For example, it

**Figure 1  Trade and Investment Flows Across the Taiwan Strait**

Note: This figure is based on official Taiwanese statistics, available from the Mainland Affairs Council (www.mac.gov.tw). Investment numbers likely underreport actual flows by a substantial margin, since much Taiwanese investment in China is not reported to the Taiwan government.
is possible that Taiwan’s policies are more consistent with the constraint argument than they appear at first glance. Indeed, it may be that a newly democratic Taiwan would have been even more forceful in asserting its sovereignty had it not been for the constraining influence of economic integration with China. Meanwhile, it is also conceivable that economic integration has the effect of making Taiwan’s policies more provocative from Beijing’s standpoint: since economic integration raises the costs of military conflict for both Taiwan and Mainland China, Taiwanese leaders know that Beijing will be less willing to resort to force, and as such the island can get away with more.

To sort through these different possibilities, it would be useful, as Norrin Ripsman and Jean-Marc Blanchard write, to consider the willingness of Taiwan “decision makers to run the risk of war in moments of heightened crisis.” Is there any evidence that Taiwan’s leaders, during moments of heightened tensions, have tempered their policies toward Beijing out of worry that a cross-Strait military confrontation would be detrimental to the cross-Strait economic relationship? Or, alternatively, is there evidence that they have completely disregarded such concerns? I focus here on one episode in particular: Lee Teng-hui’s July 1999 characterization of cross-Strait relations as “special state-to-state.”

Chinese officials reacted strongly to Lee’s announcement, emphasizing that Lee was “playing with fire.” Chinese president Jiang Zemin, in a telephone conversation with US president Bill Clinton, warned that Lee’s statement was “a very dangerous step . . . toward splitting the country,” that he should “rein in at the edge of the precipice,” and that Beijing would not abandon the possibility that it would resolve the issue with military force. China put its ground forces on heightened combat readiness beginning July 13; at the same time, Mainland fighters began conducting more frequent air exercises near the Taiwan Strait. The Chinese navy also conducted exercises during August and September. China clearly hoped to signal to Lee that his new formulation for cross-Strait relations was risking a military confrontation with the Mainland.

However, rather than back down in the face of Beijing’s response, Lee stuck with his new formulation. In Lee’s public statements, there is no indication that he viewed cross-Strait economic ties as a constraint or that he was deterred by the potential economic losses that Taiwan would suffer if the crisis were to escalate to armed conflict. In fact, Lee was openly dismissive of the possibility his actions would lead to a military conflict; when asked by reporters in August 1999 whether military conflict was likely, Lee smiled and said “Don’t worry!” The chairman
of Taiwan’s Mainland Affairs Council at the time, Su Chi, likewise does not mention the cross-Strait economic relationship as a constraining factor in his own recent account of the episode.  

Interestingly, to the extent that Taiwanese officials referenced the economic consequences of a military confrontation with China at all during this crisis, it was to emphasize the economic costs that Mainland China—not Taiwan—would pay. For example, Lee highlighted China’s economic problems as he downplayed the chances Beijing would “willy-nilly take action against Taiwan.” Taiwan’s defense minister at the time, Tang Fei, similarly argued that for the Mainland, “using force would be a last resort, because [China is] concerned about international pressure and economic growth.” These sorts of comments suggest that increasing cross-Strait economic integration—because it increases the costs of war for China—may actually encourage Taiwanese leaders to adopt more provocative policies than they otherwise might. Indeed, since his presidency ended in 2000, Lee Teng-hui has been quite explicit in promoting this underlying logic: that increased costs of war for China allow Taiwan more leeway on the issue of the island’s sovereignty. For example, he has pushed for a new constitution and a change in the island’s official name, suggesting that a window of opportunity exists between now and 2010 to do so. Beijing, he argues, will be preoccupied with the 2008 Olympics and the 2010 Shanghai Expo, both of which are important to China’s economic prospects and international status; as such, it won’t dare start a war because doing so would be too costly.

Lee’s statements clearly suggest that he believes economic factors do act as a constraint on the willingness of Chinese leaders to go to war. However, even if Lee is correct in this assessment, the effect on the underlying probability of war remains indeterminate: if Taiwan is willing to exploit an (economic interdependence–induced) increased reluctance to fight a war on the part of China by moving farther in the direction of independence, then the decrease in China’s resolve can be negated by increased dissatisfaction with Taiwan’s policies. Lee’s public statements suggest that he was quite willing to exploit perceived increases in China’s costs of war by pushing farther in the direction of independence than he otherwise might. This logic, incidentally, is not lost on Beijing: Mainland leaders appear to be quite aware that factors increasing the potential costs of war for China may also make it easier for Taiwan to drift toward independence. As such, they have tried to downplay the costs of war relative to the importance that they place on the Taiwan issue, declaring that they are willing to pay “any costs” to check Taiwan independence.
Nonetheless, I do not wish to overstate this point. I am certainly not suggesting that growing cross-Strait economic integration is a primary cause of Taiwan’s stance on the sovereignty issue; other factors, like domestic political dynamics in Taiwan, are far more important. Furthermore, I have only presented evidence from a single episode. It is not at all clear, for example, that current president Chen Shui-bian shares Lee’s views in this regard (I have uncovered no evidence that he does), and it is certain that the current leadership of the Kuomintang (KMT) does not; the following section considers events under Chen more fully in the context of transformation arguments.

More fundamentally, constraining effects can also rise indirectly in democracies, through voters who might punish leaders who endanger the economy by adopting risky foreign policies. Such an indirect constraint mechanism does not necessarily preclude leaders from occasionally ignoring international economic flows when making foreign policy decisions; rather, it suggests that such leaders are likely to be punished by voters in polls and elections. Over time, such a process should lead, on balance, to a less provocative foreign policy, though not necessarily in a linear fashion where growing economic ties lead directly to proportionately fewer provocations. And there is certainly some evidence that such a process could be under way in Taiwan: most Taiwanese are opposed to risk taking in relations with the Mainland, and voters have expressed considerable dissatisfaction with Chen Shui-bian’s recent cross-Strait policies. Ultimately, to dismiss with any confidence the argument that economic interdependence–induced constraints reduce the probability of a cross-Strait war, it would be necessary to show that Lee’s statements in 1999 and after are not an aberration. In isolation, Lee’s 1999 behavior only provides some reason for skepticism.

Mainland China-Taiwan Economic Relations and Prospects for Preference Transformation in Taiwan

The second causal mechanism linking economic integration to peace centers on preference transformation. The argument, if valid here, suggests that increasing economic integration between Mainland China and Taiwan should facilitate harmonization in the foreign policy objectives of leaders in Beijing and Taipei. That is, unlike constraint arguments, which assume static preferences but a changed cost/benefit structure, transformation arguments suggest that economic integration can yield changes in the preferences of foreign policy decisionmakers.
Such change might arise via broad public opinion shifts brought on by increasing societal contacts. Alternatively, cross-Strait commerce might empower new coalitions less interested in sovereignty issues and more interested in stability and trade. In this section, I focus on the Taiwan side for the same basic reasons I did when considering constraint arguments: since cross-Strait commerce represents a bigger portion of Taiwan’s economy than the Mainland’s, any transformative effects that arise are more likely to materialize in Taiwan first. As with the constraint logic described above, evidence of transformative effects in cross-Strait relations remains ambiguous.

Growing commercial relations across the Taiwan Strait have certainly led to greatly increased societal contacts between Mainland China and Taiwan, and some argue that these contacts lay the basis for future political reconciliation (and perhaps reunification). And as Chien-min Chao notes, economic exchanges to some extent “spilled over” into politics during the 1990s. Chao links the formation of Taiwan’s Straits Exchange Foundation and Beijing’s Association for Relations Across the Taiwan Strait, and their subsequent quasi-official negotiations in the early 1990s, to a need to manage growing cross-Strait exchanges. These sorts of political contacts, over time, can potentially have a transformative effect by facilitating a sense of shared community. Unfortunately, these talks ended abruptly after Lee issued his “special state-to-state” statement, and they have not resumed under the Chen administration.

Moreover, as Chao emphasizes, growing economic exchanges and personnel flows across the Taiwan Strait have not been correlated with increased public support in Taiwan for reunification with the Mainland. For example, most Taiwanese (approximately 61 percent) favored maintaining the status quo in cross-Strait relations when polled in 1997, and the same percentage held that position in 2004. At the same time, support for the Mainland’s “one country, two systems” formula has remained consistently low. Furthermore, the percentage of Taiwan citizens who consider themselves to be Taiwanese, and not Chinese, has grown in recent years. One poll discovered that in 1992, 26 percent of respondents considered themselves “Chinese,” 17 percent considered themselves “Taiwanese,” and 45 percent answered “both Chinese and Taiwanese.” By 2005, those answering “Chinese” had dropped to 7 percent, while those answering “Taiwanese” had risen to 47 percent, even more than those answering “both” (42 percent).

Of course, the same problems of making comparisons to a counterfactual, emphasized in the previous section, apply here as well. Indeed,
it may be that burgeoning economic ties across the Taiwan Strait have slowed the development of a separate Taiwanese identity. This point is made by Yun-han Chu: though he concludes there is little evidence that economic integration is transforming Taiwan public opinion in a decisive way toward a prounification consensus, he does argue that growing economic integration—and the changed image of China as a vibrant economy to which Taiwan’s future will be hitched—has acted as a brake on the growth in a separate Taiwan identity. And even though the percentage of Taiwan citizens self-identifying as exclusively “Taiwanese” has grown in recent years, most Taiwan citizens continue to oppose the adoption of policies that might trigger war with China (as noted in the previous section).

While evidence of broad economic interdependence-induced opinion shifts in Taiwan remains, in my opinion, quite limited, it is nonetheless clear that expanding cross-Strait economic ties have generated a growing constituency in Taiwan with a direct stake in the cross-Strait economic relationship. Moreover, this constituency has, by and large, advocated a foreign policy less confrontational toward China than that of the current Taiwan leadership. The Taiwanese government estimates that roughly 1 million Taiwanese—mostly businesspeople and their families—currently live in Mainland China, while a 2004 Ministry of Economic Affairs poll found that nearly 77 percent of Taiwan manufacturers have investments in Mainland China. A recent media poll likewise found that a majority of Taiwan-listed and over-the-counter companies surveyed had invested in Mainland China in 2002. The poll found that 80 percent of those surveyed believed that economic and political relations across the Taiwan Strait are closely related and that improved political relations are essential for Taiwan’s economy. Meanwhile, 73 percent supported resumption of cross-Strait talks under the rubric of the 1992 consensus.

Anecdotal evidence tells a similar story. Business leaders often emphasize the importance of maintaining good relations with the Mainland. After Chen’s 2004 reelection, a spokesman for the General Chamber of Commerce suggested that “empowered by the people’s mandate, President Chen should strive for better cross-Strait relations.” In the run-up to that election, numerous Taiwan businessmen in China expressed dissatisfaction with Chen’s confrontational cross-Strait policies, many emphasizing that Chen’s policies caused instability, which was bad for the economic relationship. Noting that many corporations backed Chen in 2000, the secretary-general of the Taiwan Businessmen’s Association in Dongguan (a popular investment locale for Taiwan
firms), concluded that “they made a mistake and they see that cross-Strait relations have only got worse in the past four years.”

Furthermore, as the constituency with a stake in the cross-Strait economic relationship has grown, politicians in Taiwan have appealed to that group more directly. In the 2000 presidential election campaign, all three main candidates—Chen Shui-bian, Lien Chan, and James Soong—promised to improve the cross-Strait political and economic environment. Chen, the least likely to take such a position given his party’s proindependence platform, told a group of Taiwan businesspeople with interests in China that “the two sides should cooperate on a reciprocal basis and remove the political factors hampering their economic development.” All three candidates emphasized that they would liberalize cross-Strait investment policies and strive to open direct links between the two economies. In 2004, the pan-blue ticket of Lien and Soong made even broader appeals: they promised, for example, to help build schools to educate the children of Taiwan businesspeople in China so that those children would have the same education as children in Taiwan.

Nevertheless, though Chen did liberalize investment policy early in his first term, he has continued to pursue a political agenda clearly at odds with Beijing, despite the opposition to that agenda from those with an economic stake in China. In a 2003 interview, Chen was blunt when asked about business demands for closer ties across the Taiwan Strait: “As for the welfare of some businessmen, or politicians, or individuals, these must absolutely come after the welfare of the overall nation.” In part because of his cross-Strait policies, Chen’s support in the business community was more tenuous in 2004, and he ran his reelection campaign without the backing of some prominent magnates who had supported him in 2000. Yet Chen’s campaign was still successful; indeed, he increased his vote share from under 40 percent in 2000 to over 50 percent in 2004. Chen succeeded in part because he was able to craft a winning coalition that included both those seeking to build a stronger Taiwanese identity and those who are threatened, economically, by growing commercial links with Mainland China. The same cross-Strait policies that have managed to alienate those with investments in China from Chen have likely served to increase his support among protectionist interests (such as farmers and relatively unskilled laborers) who are more concentrated in southern Taiwan.

Whether economic integration across the Taiwan Strait will effect a broader transformation in Taiwan’s foreign policy goals, bringing those objectives into greater harmony with Beijing’s own goals, remains un-
clear. However, growing economic ties have certainly generated a new constituency in Taiwanese politics that has a vested interest in cross-Strait stability and that favors foreign policy goals that are less at odds with Beijing than the goals of the Chen administration; this constituency, moreover, has clearly become an important component of the KMT-centered pan-blue coalition. Though Chen Shui-bian won re-election in 2004 while making only limited appeals to actors with a vested interest in China’s economy, as cross-Strait economic ties continue to develop, it is quite plausible that this constituency will become an indispensable component for future winning coalitions in Taiwan.

The Economic Signaling Argument in Cross-Strait Relations

The information effects of economic interdependence can potentially arise through two distinct processes. First, integration into global markets can make threats more costly, and hence more credible, by scaring off international investors. Second, economic interdependence, by making it possible to impose costly economic sanctions, gives policymakers a greater range of signals through which to demonstrate resolve without resorting to war. My focus here is on this second process, since it arises from bilateral economic flows rather than integration into global markets more generally. In the cross-Strait context, the argument proposes that economic integration reduces the likelihood of war because Mainland China now has the ability to impose very costly economic sanctions against Taiwan, giving it the capacity to display a high level of resolve; if it were not for extensive cross-Strait economic ties, Mainland China would have to rely on military force to signal a similar level of resolve. In other words, the argument does not predict that crises will necessarily be less likely as a result of economic integration. Rather, it suggests that when crises do emerge, they will be less likely to escalate to military conflict. An examination of Mainland China’s incentives and actual signaling behavior vis-à-vis Taiwan, however, provides reasons to be at least somewhat skeptical of the argument’s relevance in this case.

I have already described, briefly, Mainland China’s response to Lee Teng-hui’s two-states theory in 1999. Chinese leaders had responded in a similar fashion after Lee’s Cornell trip four years earlier. China undertook missile tests in the sea north of Taiwan in summer 1995 and in August and November staged two large-scale military exercises. In the
run-up to Taiwan’s first presidential election in early 1996, the Mainland undertook two more sets of military exercises, along with missile tests only 35 kilometers off the Taiwanese coast. In both 1995 and 1999, Chinese leaders canceled quasi-official talks scheduled to be held between the two sides. In early 2000, moreover, Beijing issued a strongly worded white paper that was highly critical of Lee Teng-hui. The paper also suggested that the island’s continued delay on reunification would be a legitimate cause of war, a possibility that had not been emphasized in previous statements on the matter. Both the 1995–1996 and the 1999–2000 episodes are representative of Beijing’s general efforts to signal a resolve to fight a war rather than accept a formally independent Taiwan.

In light of the economic signaling argument, however, what is most striking about Mainland China’s signaling behavior is the extent to which Beijing tries to avoid spillover into cross-Strait commercial relations. Even as cross-Strait relations declined drastically throughout the second half of 1995, China tried to assure Taiwanese investors that their rights and interests on the Mainland would not be affected. For example, Association for Relations Across the Taiwan Straits (ARATS) president Wang Daohan told Taiwan investors that “although political relations across the Taiwan Straits are strained, economic and trade cooperation . . . are not strained and are still developing.” Tang Shubei, then executive vice-chairman of ARATS, likewise noted that despite tensions, “Taiwan investors’ rights and interests on the Mainland are not affected in any way.” A similar pattern emerged during the 1999 crisis. Deputy director of the Taiwan Affairs Office Li Bingcai remarked, for example, that “no matter what happens . . . we will continue our unremitting efforts to promote the development of cross-Strait economic relations.” These sorts of assurances appear at least somewhat inconsistent with the economic signaling argument. Rather than take advantage of the increased opportunity afforded by economic integration to send credible signals by imposing or threatening economic sanctions, Beijing sent signals that emphasized military threats and exercises.

This pattern of separating economics from politics changed somewhat after Chen Shui-bian’s victory in the 2000 election. In the months following both the 2000 and the 2004 Taiwan presidential elections, Mainland officials targeted “green” Taiwanese businesses—that had supported Chen and the DPP—for harassment. In spring 2000, several prominent businesses that had supported Chen in the election faced unexpected audits and surprise inspections in China. After Chen’s win in the 2004 election, Mainland officials were somewhat
more explicit, warning that China “does not welcome” green businesses, while openly attacking one such business by name; the Chi Mei Corporation of prominent Chen supporter Hsu Wen-lung.\textsuperscript{71}

Nonetheless, while China’s behavior here suggests a greater willingness to interfere in the development of cross-Strait economic relations for political reasons, only a small number of prominent Chen supporters have been affected. Taiwan businesses in China generally denied that they faced increased harassment after Beijing’s 2004 warnings directed at green Taiwan investors.\textsuperscript{72} This view was echoed by the chairman of Taiwan’s Mainland Affairs Council, Joseph Wu, who emphasized in June 2004 that Beijing had “done little to harass” pro-DPP Taiwan businesses in China.\textsuperscript{73} Even the Chi Mei Corporation stressed that its operations were running normally in Mainland China.\textsuperscript{74} Certainly Beijing has given no indications that its criticism of green Taiwan businesses is a harbinger of a greater willingness to sanction Taiwan investors in order to signal resolve. To the contrary, top Mainland officials, in fall 2004, redoubled their efforts to reassure Taiwan businesses operating in China. Politburo Standing Committee member Jia Qinglin visited Taiwanese factories in Fujian province and encouraged local officials to protect the rights of those investors. Director of the Taiwan Affairs Office Chen Yunlin likewise emphasized the importance of cross-Strait economic ties: “We must step up co-operation to create better conditions for Taiwanese investment in the motherland.”\textsuperscript{75} Vice-premier Wu Yi expressed similar sentiments in her own trip to Fujian province in September.\textsuperscript{76}

What are we to make of Beijing’s general aversion to signaling resolve via economic sanctions against Taiwan? One possible interpretation of this behavior is both straightforward and consistent with the economic signaling argument. Sanctioning Taiwanese businesses would be extremely costly for Beijing. Sanctions would undermine an economic relationship from which China has benefited enormously and might also hamper China’s ability to attract investment from other locations. As such, China might view this signaling device as a last resort, something to be used only when war is imminent. Indeed, some Chinese analysts clearly view economic sanctions as a potentially useful coercive device that could be deployed instead of or prior to military force. For example, a 2004 China Daily article noted that several Taiwan affairs experts in China supported economic sanctions against Taiwan as a means to halt the island’s drift toward independence.\textsuperscript{77} A 2004 report issued by a Chinese Academy of Social Sciences Institute of Taiwan Studies analyst concluded that full-scale economic sanctions could paralyze Taiwan’s
Hu Angang, director of the Center for China Studies at Tsinghua University, recently echoed these sentiments by arguing that comprehensive economic sanctions could be used to block Taiwan independence: “We don’t need to attack [Taiwan]. We just need to suspend trade for one week.”

To the extent that Beijing views economic sanctions as a last-resort measure to signal resolve before undertaking a military attack, deepening economic ties make war less likely by making this last-resort signal more credible.

But a second interpretation strikes me as equally plausible: leaders in Beijing view economic sanctions against Taiwan as extremely unappealing not simply because they are costly and would damage China’s economy, but also because the nature of cross-Strait political relations makes economic sanctions counterproductive to Beijing’s cross-Strait policies. Beijing is not simply trying to deter Taiwanese independence. China’s long-term goal is reunification, and the actors in Taiwan who would be hurt most by economic sanctions—those businesses with a large stake in the China market—also happen to be, on balance, quite pragmatic on the issue of Taiwan’s sovereignty (as discussed in the previous section). Ultimately, if Beijing is going to achieve its goals vis-à-vis Taiwan, unless it hopes to conquer the island and rule it through coercion alone (which would be extraordinarily costly), it needs long-term allies there (or, if not allies, at least actors who might acquiesce to Mainland authority). Taiwan businesses with Mainland investments are the most obvious candidates, because they already have a stake in China.

Indeed, it is clear that Beijing has promoted cross-Strait economic integration at least in part because it hopes to encourage the sorts of transformative effects discussed in the previous section. A slogan commonly used to describe Beijing’s strategy in this regard is to “peddle politics through business, to influence government through the people [yi shang cu zheng, yi min cu guan].” In other words, Beijing may be reluctant to signal resolve using economic sanctions in part because it hopes that economic ties will ultimately have a transformative—or at least a constraining—effect on Taiwan politics. And such reluctance could carry over into a serious crisis, even though such a crisis—if provoked by Taiwan—would indicate that economic ties had failed to achieve a transforming effect on Taiwanese politics. Given Beijing’s long-term goal of unification, Chinese leaders would have strong incentives to avoid antagonizing the Taiwan business community even in the
event of war. Viewed in this light, Beijing might well do its best to pro-
tect Taiwanese investors even if a war were to erupt in the Taiwan Strait. Of course, my discussion here is highly speculative. In the end, it is probably not possible to determine, definitively, whether the signaling logic applies in this case unless a serious cross-Strait crisis actually erupts. Only then would it be possible to observe whether Chinese leaders would in fact be willing to utilize economic sanctions as a means to signal their resolve before resorting to military force. But there is good reason to be at least somewhat skeptical that they would.

Conclusion

While increasing economic integration across the Taiwan Strait is typi-
cally viewed as a stabilizing force in Mainland China–Taiwan relations, my analysis here suggests that a more cautious attitude may be warranted. I have considered three distinct causal pathways through which growing economic ties could yield a reduced likelihood of military violence in cross-Strait relations. While I did not rule out any of the three causal pathways—and it is quite possible that one or more is in fact operating to reduce the probability of military conflict in the Tai-
wan Strait—neither did I find unambiguous evidence in favor of any of the three pathways.

First, I found reason to be skeptical that the constraining properties of economic interdependence are reducing the danger of military con-

flict in the Taiwan Strait. Indeed, some statements by former president Lee Teng-hui suggest that Taiwanese leaders may paradoxically be-
come marginally more willing to take a strong stance on the sover-
eignty issue as deeper economic integration increases the costs of mil-
tary conflict for both sides. However, my analysis did not rule out a constraining effect either: for example, in choosing to focus on Taiwan, I did not consider whether economic ties act as a constraint on Beijing. Moreover, I suggested that Lee’s behavior could have been an aberration, and it is also possible, of course, that constraining effects have be-
come more salient as economic ties have continued to develop during the Chen administration.

Meanwhile, though there is little reason to believe that cross-Strait economic ties have so far induced a transformation in the foreign pol-
icy goals of either China or Taiwan, there is some evidence that the causal processes that could produce such a transformation may be under way in Taiwan. Surging cross-Strait trade and investment flows
have generated a growing constituency in Taiwan that has a vested interest in cross-Strait peace and stability. Politicians, particularly from the pan-blue camp, have appealed directly to this constituency during election campaigns on the island. If the number of voters and businesses in Taiwan that have a stake in the cross-Strait economic relationship continues to grow, it may become more difficult for politicians who take a strong stance on the sovereignty issue to win future elections in Taiwan. Here too, however, caution is warranted. Many in Taiwan are also threatened by cross-Strait economic integration, and Chen Shui-bian was able to win the 2004 presidential campaign in part because he appealed to these voters. It is thus still too early to tell whether a new constituency benefiting from cross-Strait economic integration will become an essential part of future winning coalitions in Taiwanese politics. But while such an outcome is not inevitable, an economic interdependence-induced transformation in the goals of Taiwanese policymakers does appear to be a very plausible future possibility.

Finally, it is not clear that the causal mechanism specified in the bilateral version of the economic signaling argument—that economic ties make it possible to demonstrate resolve by imposing costly economic sanctions, thereby reducing uncertainty that could lead to war—is operative in the Taiwan Strait. Indeed, Mainland China has generally tried its best to avoid signaling resolve in a way that harms cross-Strait economic ties. It is possible, of course, that Beijing is simply reserving a signal like economic sanctions for a worst-case scenario as a last resort before turning to military force. If so, then economic ties are in fact a stabilizing force in cross-Strait relations for the reasons specified in the economic signaling argument. But it is not clear that China would ever use economic sanctions as a signal. While sanctions would undoubtedly be a strong signal that might lead Taiwan to back down in a crisis, such a signal would also harm—and likely alienate—Taiwanese actors in the business community, who tend to be least supportive of independence to begin with. As such, economic sanctions could be counterproductive to Beijing’s longer-term goal of reunification. In other words, it is quite plausible that Beijing would try to protect Taiwan businesses operating in China even in the event of a cross-Strait war; if so, the processes specified in the argument would not prevent military conflict in the Taiwan Strait.

This study seems to suggest that optimism concerning the stabilizing impact of economic integration on cross-Strait relations may be misplaced, but I do not wish to be overly pessimistic on this score. Though I found only limited evidence that any of the causal processes
linking economic integration to peace is currently operating in the Taiwan Strait, my analysis did not rule out any of these processes, and I also did not rule out the possibility that these effects will arise or become more pronounced in the future. It remains quite plausible, for example, that economic integration may come, over time, to have a transformative impact on Taiwanese politics—and hence on Taiwan’s foreign policy. Nonetheless, my analysis does suggest reason for caution; at a minimum, it should not be taken for granted that economic integration does indeed reduce the likelihood of a cross-Strait military confrontation.

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Notes

For helpful comments, I wish to thank Thomas Christensen, Stephan Haggard, Chad Rector, Xu Xin, and the anonymous reviewers.


3. Clark, “Growing Cross-Strait Economic Integration.”

4. In his April 2004 testimony on Taiwan before Congress, former assistant secretary of state James Kelly emphasized that “in the absence of a political dialogue, we encourage the two sides to increase bilateral interactions of
every sort. Clearly, there would be economic benefits for both sides by proceeding with direct aviation and shipping links. The increasing people-to-people contacts may also ease tensions.” Comments online at www.state.gov/p/eap/rls/rm/2004/31649.htm. In January 2006, a State Department spokesman summarized US policy as follows: “We support expansion of transportation and communication links across the Strait aimed at increasing political, economic, social and cultural exchanges with a view to increasing mutual understanding and diminishing the chances of miscommunication or misunderstanding.” See *Taipei Times*, February 1, 2006, p. 1.


10. See, for example, Ripsman and Blanchard, “Commercial Liberalism Under Fire.”


21. According to official Taiwan statistics (available on the Mainland Affairs Council Web page: www.mac.gov.tw), in 2004, the Taiwan government approved investments in China totaling US$6.94 billion, which represented 67 percent of the island’s total approved outward investment in that year, but only 11.5 percent of total foreign direct investment in China (which totaled over $60 billion in 2004).


24. On these dichotomous tendencies, see also Suisheng Zhao, “Economic Interdependence and Political Divergence: A Background Analysis of the Taiwan Strait Crisis,” in Zhao, *Across the Taiwan Strait*, pp. 21–40.


26. The DPP has since 1991 officially supported Taiwanese independence.

27. Though the questions asked in the referendum appeared innocuous, Beijing worries that direct referenda on national security issues may set a precedent for future referenda on Taiwanese independence. The referendum failed because it was widely boycotted by Taiwanese voters.


29. See, for example, “China’s Military Indignant over Taiwan Leader’s Remarks,” Xinhua News Agency, July 14, 1999.


33. Indeed, Su writes that the group responsible for crafting the two-states theory, of which he is highly critical, viewed cross-Strait exchanges—including economic exchanges—as harmful for Taiwan. As such, if the announcement of the two-states argument were to interfere with events such as Mainland envoy Wang Daohan’s approaching trip to Taiwan, this would not be a bad thing. See Su Chi, *Wei ji bian yuan: Cong liang guo luo dao yibian yiguo* (Taipei: Tianxia, 2003), p. 85.


37. The logic here parallels that developed in Morrow, “How Could Trade Affect Conflict?” and in Gartzke, Li, and Boehmer, “Economic Interdependence and International Conflict.”


39. I thank an anonymous reviewer for making this point.

40. For example, one recent study found that, while 72 percent of respondents support Taiwanese independence if it could be achieved peacefully, 73 percent are opposed if independence would trigger a war with China. See Emerson M. S. Nio, “Understanding Taiwan Independence and Its Policy Implications,”
Regarding voter unhappiness with Chen’s recent policies, one survey found that only 15 percent supported Chen Shui-bian’s 2006 decision to abolish the National Unification Council, while 57 percent were at least a little worried that the decision would cause increased tension in cross-Strait relations. Poll conducted by the local TV station TVBS, available online at www.tvbs.com.tw/FILE_DB/DL_DB/sophia_tsai/200602/sophia_tsai-20060209124200.pdf (accessed June 21, 2006). Meanwhile, Chen’s approval ratings began plummeting even before the first family became engulfed in scandal allegations. Robert Ross attributes recent public opinion and electoral setbacks for Chen and the DPP, and recent successes by the Nationalist Party (KMT), in part to the KMT’s willingness to engage the Mainland (in contrast to Chen’s continued provocations). See Robert Ross, “Taiwan’s Fading Independence Movement,” *Foreign Affairs* 85, no. 2 (2006): 141–148.

41. See, for example, Wang, “Taiwanese NGOs.”


43. Chao, “Economic Integration.”

44. Poll conducted for the Mainland Affairs Council (www.mac.gov.tw). The 61 percent who favored the status quo includes both those who say they want to maintain the status quo indefinitely and those who want to maintain the status quo for now and decide sometime in the future which path to pursue.

45. See “Changes in the Taiwanese/Chinese Identity of Taiwanese as Tracked in Surveys by the Election Study Center,” National Chengchi University, Taiwan, available at http://esc.nccu.edu.tw/eng/data/data03-2.htm. Chao ("Economic Integration") cites other polls that point to similar trends.

46. Yun-han Chu, “Taiwan’s National Identity Politics and the Prospect of Cross-Strait Relations,” *Asian Survey* 44, no. 4 (2004): 484–512. Chu notes that members of Taiwan’s younger generation are more likely than others to view themselves as both Chinese and Taiwanese: in 2002, for example, 58 percent of those under age thirty-five saw themselves as both Taiwanese and Chinese, compared to 35 percent who identified themselves only as Taiwanese.

47. See note 40.


51. “Business Dissatisfied with Government’s Mainland Policy,” Taipei Central News Agency. The 1992 consensus, supposedly reached in negotiations at Hong Kong, held that there was one China, but each side had its own interpretation as to what “one China” means. Chen Shui-bian’s government denies that such a consensus ever was reached.


56. South China Morning Post, March 12, 2000, p. 11.

57. The KMT-centered alliance in Taiwan politics is called the pan-blue coalition because the KMT’s flag is blue. The DPP-centered alliance, meanwhile, is called the pan-green coalition because the DPP’s flag is green.

58. The Lien-Soong campaign printed a pamphlet for Taishang (Taiwan businesses in China) that had a long list of promises.


62. See, for example, Ross, “Taiwan’s Fading Independence Movement.”

63. Integration into global markets can make threats more credible for reasons other than simply scaring investors. Gartzke and Li argue, for example, that China and Taiwan were able to avoid a military confrontation during the run-up to the 2000 Taiwan elections in part because the US Congress at the time was considering granting China permanent normal trading relations (PNTR) status as China prepared to enter the World Trade Organization. The authors argue that Chinese threats directed against Taiwan at the time would harm China’s image in the United States and hence make it less likely Congress would approve PNTR. This danger made the threats more costly and hence more credible to Taiwan. See Erik Gartzke and Quan Li, “How Globalization Can Reduce International Conflict,” in Nils Petter Gleditsch, Gerald Schneider, and Katherine Barbieri, eds., Globalization and Armed Conflict (New York: Rowman & Littlefield, 2003), pp. 123–140.


69. Why “green”? See note 57.


78. Ibid.


80. See, for example, Zhao, “Economic Interdependence and Political Divergence,” p. 27. See also Willy Wo-Lap Lam, “The Business of Reunification,” CNN.com, June 6, 2001 (http://archives.cnn.com/2001/WORLD/asiapcf/east/06/06/willy.reunif).