

Economic Interdependence and Political Integration Between Taiwan and Mainland China: A Critical Review

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The booming economic relations between Taiwan and mainland China has been one of the most prominent phenomena in the Asia Pacific region. Although direct trade is still prohibited by the Taiwanese government, indirect trade through Hong Kong and illegal economic transactions between Taiwan and mainland China have been conducted by the profit-seeking Taiwanese business community regardless of legal restrictions. The flourishing cross-Straits economic link has not only decreased political confrontation between the two sides, but also influenced Taiwan and mainland China's long-term economic development. Hence, researchers have begun to delve into the emerging types of economic integration between the two sides, and their impacts on future political unification. From the neo functionalists and interdependence theorists' perspectives, political integration through economic interaction might be a natural and feasible development across the Taiwan Strait.

This article provides a less optimistic view of economic interdependence between Taiwan and mainland China. After analyzing current cross-Straits economic interactions, the author points out that many obstacles to economic integration between Taiwan and mainland China remain. Furthermore, the linkage between economic interaction and political cooperation is quite loose. Struggle for power and competition for survival are still two key factors in analyzing the booming cross-Straits interactions.

I. Economic Interdependence Across the Taiwan Strait

In analyzing international political economy, interdependence theorists emphasize the impact of international economic flows on autonomous state actions. Scholars such as Robert Keohane and Joseph Nye argue that the most important change since World War II has been the decline in the role and significance of the nation state. The "shrinking of the world" has been caused by the emergence of interdependence (Keohane and Nye, 1977: Chapter 2). An important characteristic of the transnationalist view is the

premise that recent decades have seen a growing degree of interdependence among nations in both the political and economic spheres. Transnationalists see this increase in interdependence as incongruent with the traditional assumption of the state-centric model of international political economy. The argument that interdependence has undermined the state's effective sovereignty has been most fully elaborated in economic transactions. International capital flow has made it more difficult for national governments to manage their own economies independently. Policies can be nullified by new international transactions over which national decision makers have no control. Hence, domestic and foreign economic policies have become closely linked, and the notion of national interest has become increasingly difficult to use effectively¹.

Economic transactions between Taiwan and mainland China have grown at an astonishing speed in the past nine years. When Taiwan first opened indirect trade in 1987, Taiwan's export value to mainland China was US \$1.2 billion. It reached US \$19.4 billion in 1995, a growth factor of 16 times. When indirect investment to mainland China was allowed in 1991, US \$3.4 billion was invested in various projects. In 1995, investment value reached US \$5.7 billion. (*Liang An Ching Chi Tung Chi Yueh Pao*, 1996: 24, 28). Table 1 illustrates the growth of cross-Straits trade and investment since 1981.

In the early economic transaction stages, investments and trade were conducted by small-scale Taiwanese businesses concentrating in mainland China's coastal areas. Investments are now gradually extending from the coast toward inland provinces, and from the South to the North. For example, since 1993, Jiangsu has become the Chinese province with the largest number of Taiwan-funded enterprises (*Wen Hui Pao (Hong Kong)*, August 17, 1995: A3). The scale of investment has changed from small to medium and large-sized. For new projects, the size of the average investment has increased. In June and July this year, the average investment value per project reached 6 million and 11 million US dollars, almost three and five times as much as the previous year (*Kong Shang Shih Pao*, July 8, 1996: 2). In addition, Taiwan has become mainland China's fourth largest trading partner, behind Japan, Hong Kong, and the U.S.. Taiwan is also the second largest investor on the mainland behind Hong Kong (*Lien Ho Pao*, July 27, 1995: 18).

Besides the quantitative change, the level of Taiwanese investment has changed from the simple transfer of outdated equipment to the use of completely new production lines, and from labor-intensive assembly and processing industries to capital-intensive industries. In the 1980s, Taiwanese businessmen mainly engaged in quick-return, short-term projects in rented factory premises. In recent years, they have tended to make long-term investments with a duration of 20 to 30 years, such as the mainland's infrastructure projects and raw material industries (*Kong Shang Shih Pao*, July 8, 1996: 2).

Table 1. Taiwan's Trade and Investment with Mainland China

Units: US \$millions		
Year	Taiwan's Exports to Mainland China	Taiwanese Investment in Mainland China
1981	384.8	
1982	194.5	
1983	201.4	
1984	425.5	
1985	986.8	
1986	811.3	
1987	1,226.5	
1988	2,242.2	
1989	3,331.9	
1990	4,394.6	
1991	7,493.5	3,450
1992	10,547.6	5,547
1993	13,993.1	9,970
1994	16,022.5	5,397
1995	19,433.8	5,777

Source: *Liang An Ching Chi Tung Chi Yue Pao (Monthly Report of Cross-Straits Economic Relations)* (Taipei: Mainland Affairs Council, March, 1996), p. 24, 28.

To sum up, cross-Straits economic links have grown quantitatively and qualitatively in the past few years. Although political rivalry still exists, the close economic relations raises the question of economic interdependence and integration between the two sides. From the functionalists' perspective, this unique economic relationship may finally ease political tensions and lay the foundation for future political cooperation and the unification of Taiwan and mainland China.

II. Taiwan-Mainland China Relations — Toward Economic Integration?

Before any kind of political unification, economic integration between Taiwan and mainland China, plus middleman Hong Kong, would be a logical first step. The creation of the Greater China Economic Circle (GCEC) has its economic benefits and strategic necessities. The economic rationale for the integration of the GCEC lies essentially in the complementarity of factor endowments throughout the region, including coastal China and the southern provinces of Guangdong and Fujian, plus Taiwan and Hong Kong. In recent years, the continued economic expansion of Hong Kong and Taiwan has been constrained by shortages of land and labor, and associated pressures

on rents and wages. In contrast to the unemployment rate in these regions of well under 2 percent, the idle labor force in Guangdong and Fujian grew by 2.85 and 3.35 percent respectively during the second half of the 1980s. Such figures mean access to cheap labor and land for overseas entrepreneurs who are prepared to re-locate their operations in southern China².

The need for economic integration between Taiwan and mainland China has also been promoted by the regionalization of economic relations in the post-Cold-War era. Hegemony can no longer depend only on nuclear predominance; leadership depends on the ability to provide stable international monetary, financial, and trade conditions in the new world order. This so-called "gloeconomics" will replace geopolitics in the global struggle for power (Dell, 1987). In the post-Cold-War world, the international economy is divided into three large blocs: Western Europe, North America, and East Asia. Together, they account for more than 80 percent of the world GNP (Anderson and Blackhurst, 1993: 7). With the formation of the North American Free Trade Agreement (NAFTA) and the creation of the European Union (EU), a kind of "managed liberalization" of these two regions has emerged. In East Asia, a Greater Chinese economy may emerge to balance the hegemonic attempt of the economic giant Japan in dominating economic developments in this rising region.

A more optimistic view of the GCEC involves the creation of a Chinese Common Market. As Chu-yuan Cheng argues, once the common market is founded, it may result in the following developments:

(1) Elimination of all trade barriers. Trade between Taiwan and mainland China will change from the current indirect trade to direct trade. Air traffic and cargo shipments will be carried directly across the Strait.

(2) Guarantee of all investments in mainland China. Not only will investors receive full protection from the PRC, but profits earned in mainland China will be able to be transferred outward without any restrictions.

(3) Stabilization of the exchange rate between Renminbi and Taiwan dollars and Hong Kong dollars.

(4) Allowance of free flow of capital and commodities but restrictions on movements of labor and personnel because of the small size of Hong Kong and Taiwan.

(5) The formation of transnational corporations in the fields of petrochemicals, aerospace, computers and telecommunication, ship-building, etc., in which members of the Chinese Common Market have comparative advantages.

(6) Joint explorations of natural resources in mainland China's interior regions, joint operations in scientific research, and joint prevention of environmental deterioration (Cheng, 1994).

How large will the GCEC's economic scale be? The combined foreign trade value of the Chinese economic region comprising mainland China, Taiwan and Hong Kong topped that of Japan in 1993. Foreign trade of the

GCEC accounted for 8.5 percent of the world's total, surpassing Japan's 8.04 percent (*Japan Economic Newswire*, November 11, 1994). Using the current GNP and growth rate of Taiwan, Hong Kong and mainland China in the past ten years as the base, James Hsiung estimates that in the year 2010, the combined GNP of the GCEC will total 17.4 percent of the world's GNP. If we include the complementary and interactive effects among these three economies, the GNP will be larger than the combined volume and surpass Japan's share of 19.4 percent (Hsiung, 1993: 4).

However, from the economic perspective, intra-regional trade in the GCEC is still less than trade volume with outside countries. In 1992, the EC's intra-regional trade reached 63.4 percent, while the present NAFTA region reached 37.3 percent. In contrast, intra-regional trade in the GCEC constituted only 20.3 percent of the total trade volume (*Ching Chih Jih Pao (Economic Daily News)*, July 1, 1993). This low percentage means that after economic integration, benefits of economic complementarity will be replaced by the possible competition in the international market. Total foreign trade value after economic integration would unlikely reach the "combined" value of the three economic entities. Furthermore, China has shown a reluctance to play the role of labor and national resource provider, or as Chinese leaders put it, the so-called "colonial economy." The priorities for attracting foreign investment in mainland China's Ninth Five Year Plan will be basic industries, infrastructure, and capital-intensive industries (Chao-mu Lin, 1995: 12).

Internationally, the creation of the GCEC may arouse the fear of a "Chinese Gang" in neighboring nations such as Japan and ASEAN countries. Using A.K.F. Organski's theory of "rear-end collision," an equilibrium and balance of economic power increases the danger of economic wars by tempting both sides to believe that they may win. The closing of the gap provides a warning signal that the economic war may be imminent, rather than the comforting note that peace and stability are assured (Organski, 1958). Thus, the creation of a closed economic bloc may lead to economic instabilities instead of economic cooperation in the Asia-Pacific region as a whole.

Hence, from the precedent analysis, economic integration of "Greater China" is problematic from the economic perspective. As Peter Robson argues, the main difference between economic integration between developed countries and developing countries is that in the case of developing countries, prospective gains from integration are based on the "emergent" rationalization of productions rather than existing structures of production. Future gains or losses are unclear, and individual countries' production structures also continually change. It is difficult for participants to estimate accurately the impact of such far-reaching arrangements. Thus, successful integration among developing countries seems likely to call for a more deliberate approach of bargaining and negotiations than has been found in

advanced economies (Robson, 1984:151, 169). Deliberate bargaining and design is based on mutual trust and consensus building. Examining the current situation across the Taiwan Strait, these basic requirements are absent.

III. Critiques of Interdependence and Integration Between Taiwan and Mainland China

Economic integration is a special kind of arrangement that formalizes existing patterns of interdependence. Functionalists have long argued that successful collaboration in less contentious and more functional areas fosters mutual confidence and will gradually “spill over” to cooperation in the more politicized areas. Thus, “mundane” exchanges in trade and communication can be contagious, unleashing integrative forces that promote common expectations, institutions of interdependence, and joint decision making. At the same time, these forces undermine norms that assert exclusive national sovereignty or condone unilateral political action. Eventually, integration may lead to amalgamation³. However, if we examine current cross-Strait relations, the optimistic neo-liberal argument of political cooperation through economic interdependence comes under attack.

Critiques of “Spill -Over” Effects

Functionalists and neofunctionalists lack empirical evidence to support the “spill over” argument. In other words, the “linkage” between economic and cultural interaction and political cooperation and integration is ambiguous. The current cross-Strait situation shows that integration of “low politics” such as trade and communication does not necessarily radiate into the sphere of “high politics” such as national defense and national security. These issues are related to sovereignty and ideology, which are the core of national interests. The ground of negotiation and reconciliation for core national interests is very limited. Moreover, greater interactions do not necessarily lead to interdependence and multiple leadership which require coordination in both domestic and international affairs. Greater interconnectedness sometimes does not mean greater opportunities or benefits, but rather as resulting in inequitable distribution of rewards or as posing threats to national ethnic, language or religious identity. In brief, the “shrinking world” may result not in greater consensus and internationalism, but in heightened nationalism and drives to extend or protect autonomy.

Economic interdependence has not brought about a more optimistic sense of national unification in Taiwan. While trade volume between Taiwan and mainland China has maintained constant growth, public opinion toward unification has not followed the trends of economic interaction. According to various public opinion polls since 1989, Taiwanese favoring political unifi-

cation with mainland China have not exceeded 30 percent of the population, with the majority supporting the “status quo” instead of early independence or unification. Figure 1 and 2 displays the sharp contrast between economic interaction trends and public opinion. If the functionalist theories of “spill over” effects stand, support of unification should rise as the trade maintains constant growth. The relatively flat curves indicates that there are other factors influencing interdependence and integration between the two sides of Taiwan Strait. These factors include the desire of being recognized as an autonomous political entity among the public, domestic political and partisan competition, and the impact of mainland China’s suppression of Taiwan’s participation in the international community. These factors, combined with interdependence and cooperation in non-political areas, have collectively shaped public opinion regarding the political integration of Taiwan.

Economic Interdependence vs. Economic Dependence

Functionalists and neofunctionalists place special attention on the quantity of communication, cultural exchange, and trade transactions to analyze the interdependence between Taiwan and mainland China (Chan, 1994). However, quantitative transactions are “prerequisites” of interdependence but not the same as interdependence. As John Garnett correctly indicates, interdependence is a description of the “quality,” not the quantity of

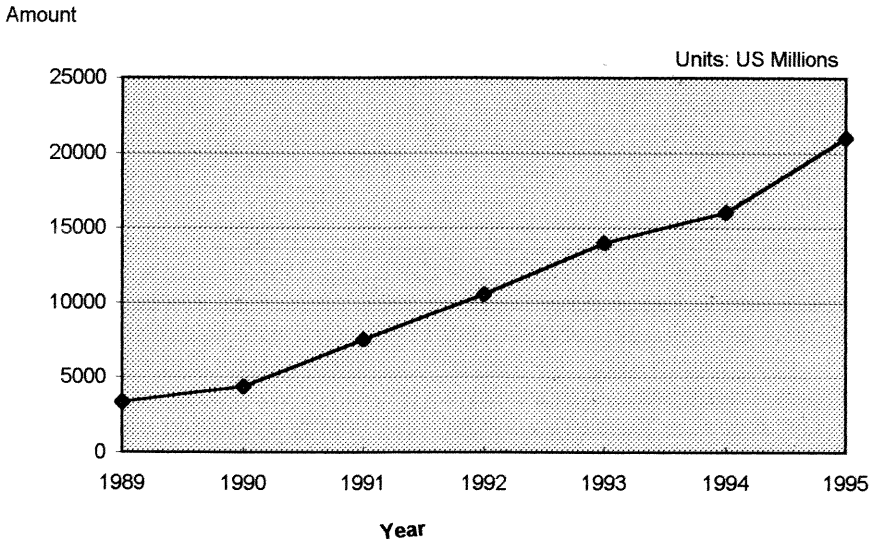


Fig. 1. The Growth of Trade Between Taiwan and Mainland China.
 Source: Liang An Ching Chi Tung Chi Yue Pao, (Monthly Report of Cross-Straits Economic Relations), (Taipei: Mainland Affairs Council, March 1996), p. 24.

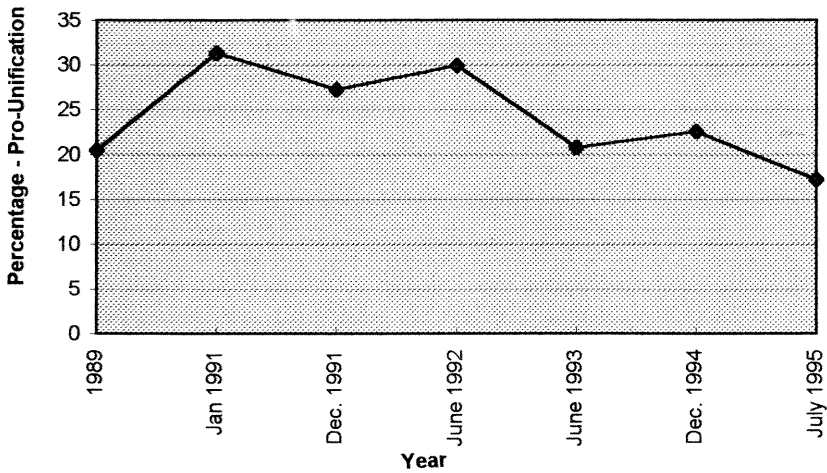


Fig. 2. Taiwan's Public Opinion Polls Toward Unification.
Source: Opinion Poll Data, Mainland Affairs Committee, 1993 & 1995.

the relationship between states in terms of mutual dependence. Whether an increasing number of transactions between states produces greater interdependence will depend entirely on the nature of transactions (Garnett, 1992: 74-75). In other words, the "nature" of transactions implies first, whether these ties are costly to break, and second, whether the interdependence relationship is "asymmetric." Asymmetric interdependence may increase the vulnerability of the weaker side instead of enhancing mutual benefits.

Taiwan's economic relations with mainland China are currently asymmetric, as its economic dependence on the mainland has been on the rise in the past few years. Table 2 shows the economic interdependence between Taiwan and mainland China since 1981. As the data shows, the degree of dependence of Taiwanese exports on the Chinese market has far surpassed the "warning line" of 10 percent set up by the Ministry of Economic Affairs. Table 3 illustrates the ratio of Taiwan's trade surplus with mainland China to Taiwan's total international trade surplus. Without the trade surplus with mainland China, Taiwan's international trade would have a deficit instead of a surplus since 1993. Since trade and investments with mainland China are vital to Taiwan's economic development, economic transaction with mainland China is a relationship which is costly to break.

The fact that Taiwan's economy has greatly depended on the China market bestows on mainland China the political leverage to manipulate Taiwan's domestic economy. As Kenneth Waltz argues, the word "interdependence" obscures the inequalities of national capability under the mistaken belief that "all states are playing the same game." All states are definitely not playing the same game. A state that is heavily involved in the international economy, but cannot shift to relative autarky, is vulnerable, and

Table 2. Economic Interdependence Between Taiwan and China

Year	Units: Percentage			
	Share of Exports to Mainland China in Taiwan's Total Exports	Share of Trade with Mainland China in Taiwan's Total Trade	Share of Exports to Taiwan in Mainland China's Total Exports	Share of Trade with Taiwan in Mainland China's Total Trade
1981	1.70	1.05	0.34	1.04
1982	0.88	0.68	0.38	0.64
1983	0.80	0.64	0.40	0.67
1984	1.40	1.06	0.49	1.03
1985	3.21	2.17	0.42	1.58
1986	2.04	1.49	0.47	1.29
1987	2.28	1.71	0.73	2.06
1988	3.70	2.47	1.01	2.65
1989	5.03	3.31	1.12	3.51
1990	6.54	4.23	1.23	4.47
1991	9.84	6.20	1.57	6.35
1992	12.95	7.60	1.32	7.05
1993	16.47	9.32	1.20	7.71
1994	17.22	10.02	1.54	7.55
1995	17.40	10.46	2.08	8.02

Source: *Liang An Ching Chi Tung Chi Yue Pao (Monthly Report of Cross-Straits Economic Relations)* (Taipei: Mainland Affairs Council, March, 1996), p. 27.

its trade partners may be in a strong position to exercise political leverage on it (Waltz, 1970: 205-223). Trade could become a direct source of power, and provide an alternative to war by its own method of coercion in relations between sovereign nations. Thus, this foreign trade "influence effect" can lead to a relationship of political dependence and influence between states (Hirschman, 1969: 15).

Taiwan's economic dependence on mainland China has increased its political vulnerability. In examining mainland China's economic policies toward Taiwan, the political usage of attracting Taiwanese trade and investment becomes quite obvious. In 1988, the State Council promulgated a set of 22 measures to encourage investments from Taiwan. These measures contain all the special inducements offered to foreign investors in general, but go further. For example, Taiwan investors are allowed to sell stock in projects, rent government-owned factories, and take over and operate state enterprises by guaranteeing a certain amount of earnings to the state and keeping the rest. Taiwanese investors can appoint relatives on mainland China as agents to manage their projects, and there is no time limit on their

Table 3. Taiwan's Trade Surplus with China in Total Trade Surplus

Units: US \$Millions

Year	Taiwan's Trade Surplus with Mainland China	Taiwan's Internation Trade Surplus	Percentage
1987	\$937.6	\$18,695.37	5.01%
1988	\$1,763.5	\$10,994.56	16.03%
1989	\$2,745.0	\$14,038.63	19.55%
1990	\$3,629.2	\$12,498.44	29.03%
1991	\$6,367.6	\$13,317.76	47.80%
1992	\$9,428.6	\$9,493.70	99.31%
1993	\$12,889.5	\$7,800.00	165.25%
1994	\$14,163.8	\$7,700.00	183.94%
1995	\$16,342.4	\$8,120.00	201.26%

Sources: (1) *Liang An Ching Chi Tung Chi Yue Pao (Monthly Report of Cross-Straits Economic Relations)* (Taipei: Mainland Affairs Council, March, 1996), p. 24.
 (2) *Chung Hua Min Kuo Taiwan Di Chu Chin Chu Kou Mao I Yueh Pao (Monthly Statistics of Exports and Imports, Taiwan Area)* (Taipei, Ministry of Finance) February, 1996, p. 16, 65.

projects; they can also buy and sell real estate and leave such acquired property to heirs (*Foreign Broadcast Information Service-China*, 1989: 72; Clough, 1993: 42).

Chinese authorities have tried to use such preferential treatment to achieve their political goals. At the PRC's 1990 National Working Conference on Taiwan Affairs, policy statements such as "promote political integration through economic exchange," "raise popular pressure on the government of Taiwan," and "lead to the unification with the motherland" were openly made regarding cross-Straits economic relations (Yen, 1991: 59). Premier Li Peng further indicated in the "Government Report" that the PRC's main goal was to use economic interaction as an instrument to promote the "three links"⁴ with Taiwan; achieving the "three links" will be a breakthrough in China's unification under the "one country, two systems" formula (Chen, 1994: 58). In brief, Taiwan's economic dependence has bestowed on mainland China a powerful tool of political intervention. This special kind of "interdependence" has also put Taiwan in a vulnerable situation, rather than mutually benefited cross-Strait economic interaction.

Unification through Integration or Incorporation

One important presumption of interdependence theorists is that units in the international systems are treated as equal entities or sovereign states.

Among these equal states, economic interactions and the rise of non-state sectors such as multinational corporations and international organizations increase the “complex interdependence.” Military and security issues no longer play a dominant role in the international agenda, except in “life and death” issues. Under this interdependence framework, states in an anarchical context are “rational egoists” and do not care whether partners achieve or lose gains (Grieco, 1993: 126). The major constraints on the operation in mixed-interest international situation is the problem of Cheating. Hence, interdependence theorists argue that in treating the problem of international anarchy, a central agency to enforce promises and solve cheating problems is needed. The establishment of an “international regime” serves to regularize cooperation, reduce transaction costs, and provide institutional support for multilateral policies.

However, if units in the international system are not on an equal basis, or one unit is obviously weaker than another, the main problem for weaker states is “survival” instead of cooperation. As Joseph Grieco argues:

States are positional, not atomistic, in character. Most significantly, state positionality may constrain the willingness of states to cooperate. States fear that their partners will achieve relatively greater gains; that, as a result, the partner will surge ahead of them in relative capabilities; and, finally, that their increasingly powerful partner in the present could become all the more formidable at some point in the future (Grieco, 1993: 126).

The “partner” which Taiwan faces in interdependence is the rising economic power of mainland China. Taiwan’s relative power in this system and its survival in the international community are its core interests. For great powers, the problem of cooperation in anarchy is that states may fail to achieve it. The worst possible outcome is a lost opportunity. However, Taiwan’s efforts to cooperate entail these dangers plus the much greater risk that cooperation might someday result in lost independence or security.

Hence, a closer economic relationship creates a situation of peaceful co-existence, but political integration through economic interaction seems to be a remote goal. From Beijing’s perspective, economic integration with Taiwan is a kind of “domestic cooperation among different regions,” instead of “international integration among sovereign states” (Jin Hungfan, 1993: 6). In Beijing’s “White Paper of Taiwan Policy” released in mid-1993, it clearly rejected all the proposals raised by Taipei to participate in the international arena, including “dual recognition,” “two Chinas,” “one China, two seats,” and “one China, one Taiwan.” (*The Taiwan Problem and China’s Unification*, Beijing, 1994: 229-248) From mainland China’s perspective, Taiwan is a province of the PRC, not a political entity enjoying equal international status with the PRC; the central government under the “one country, two systems”

formula is located in Beijing. Hence, the basic presumption of international integration — integration among sovereign states — has been rejected.

In brief, Beijing's Taiwan policy is in reality a "unification policy," an attempt to incorporate Taiwan into its "motherland." Beijing's strategy is to press the Taiwanese government to open civilian interaction and political dialogue with mainland China, and block Taiwan's participation in all governmental international organizations under the status of an equal political entity. These "peaceful" means have been adopted with the hope that they will restrict Taiwan's alternatives for survival, leaving unification with the PRC as the only choice. In other words, promoting "interdependence" has been a necessary instrument in achieving the goal of "incorporation" by peaceful means. To resist Beijing's attempt of incorporation, Taipei has had to develop its own strategy of survival, including military build-up; thus, security issues have not decreased in importance in cross-Straits interaction as interdependence theorists might predict.

Under the framework of Beijing's unification policy, the two sides of the Taiwan Strait have generally stuck to the "one China" policy. Instead of declaring that Taiwan and mainland China are two different sovereign states, Taipei argues that the Republic of China's sovereignty overlaps with that of the PRC; Taipei and Beijing share China's sovereignty. In other words, "one China" is a cultural and historical concept, and its political definition varies according to different explanations from both sides. Under the "one China" principle, the two sides held a series of meetings, including the "Koo-Wang Talks" in 1993. In January 1995, PRC President Jiang Zemin reiterated the "one China policy" as the basis and pre-requisite of peaceful reunification. Under this principle, the two sides could discuss questions of mutual interest. Taiwan President Lee Teng-hui's visit to the United States and his promotion of the "Republic of China on Taiwan" have been regarded as actions that advocate "two Chinas" and "one China, one Taiwan." The PRC no longer tolerates the ambiguity of "one China," which it believes refers to the PRC. This leaves no room for negotiation and thus closed the door on the second round of Koo-Wang Talks scheduled for mid-1995.⁵

Hence, "one China" has become a "myth" or "ideology" to impose constraints on Taiwan's autonomous actions. From Beijing's perspective, without this bottom line, Taiwanese leaders may choose the road of independence and separate Taiwan from the motherland permanently, regardless of how close their economic relations are. In other words, political integration is not the outcome of economic interdependence, but an overall framework set up by the stronger side to constrain the weaker side's actions. In negotiations between Taiwan and China in the past few years, even non-political issues such as direct transportation⁶ and hijacker repatriation have been stuck on the sovereignty problem. In other words, political rivalries have created a "reverse spill-over" effect and thus impeded cooperation in non-political areas. This plain truth is that cross-Straits relations have

rejected the functionalist argument that the integration of “high politics” can be achieved through cooperation in “low politics.”

V. Conclusion

Interdependence and neo-liberal theorists indicate that in the post-Cold War world, security issues no longer play a dominant role in international affairs. Domestic politics and foreign policy have become closely linked, and the notion of national interest has become increasingly difficult to effectively use. Thus, they believe that closer economic transactions, the rise of non-state actors, and the declining importance of security concerns increase the chances of cooperation among nations. Like the realist tradition of international relations, interdependence theorists also presume that states are rational actors. Economic and cultural exchanges not only promote mutual understanding, but also create a network of interdependence. Based on careful calculation of multiple interests, nations are willing to cooperate under the framework of interdependence.

However, the presumption of rationality has its limitations. National rationality is constrained by two major forces: domestic political constellations, and distribution of power in the international system. Economic interdependence creates a peaceful situation for co-existence, but the above forces shape the patterns and trends of cooperation in international affairs.

Domestic political and economic situation have major impacts on cross-Strait interdependence. In Taiwan, drives for independence and the desire of “Taiwanization” have collectively forced the executive branch to take more moderate strategies toward unification. In order to win public support, the ruling KMT has had to take the initiative and attempt to have Taiwan participate in the international community under the status of an independent political entity. Taipei’s bid to return to the United Nations and its hesitation to open direct trade and communication links can be regarded as moves intended for domestic consumption. On the other hand, in the post-Deng China, President Jiang Zemin will be just first among equals. He has had to conciliate the hard-liners and to take tougher policies toward Taiwan since Lee Teng-hui’s visit to the United States shocked the Zhongnanhai. Thus, domestic political development has limited the “rationality” of pursuing unification and integration on both sides of the Taiwan Strait. These domestic developments, plus the mainland’s nationalism and Taiwan’s desire for recognition, have greatly influenced the linkage between “low politics” such as cultural and economic cooperation and the “high politics” of political unification.

Besides the domestic constraints, the asymmetry of power between the two sides of Taiwan Strait places Taiwan in a inferior and vulnerable situation in the interaction process. As my preceding analysis indicates, mainland China’s strategy of political integration has been in essence an

attempt of political incorporation through economic interaction. Economic interdependence has been utilized as a tool to achieve this ultimate goal. Hence, contrary to the functionalist “spill-over effect” arguments, political incentives have created a “reverse spill-over effect” and influenced non-political issues in cross-Strait interaction.

To summarize, given the fact that economic interaction has created a situation in which Taiwan is economically dependent rather than interdependent with mainland China, political integration through economic cooperation, such as the creation of a “Greater China Economic Circle,” seems to be a remote goal. Mainland China still treats Taiwan as a renegade province rather than an equal political partner. Cooperation on non-political issues has created a peaceful situation of co-existence, but the PRC’s strong nationalist view of national unification and coercive policies have forced Taiwan to comply with the one-China policy. Hence, Taiwan’s “unification policy” has not stemmed purely from closer interaction in non-political areas, but has been in part a response to mainland China’s military and political pressure. This unique situation challenges the neo-liberal presumption of international peace among sovereign states through cooperation in “low politics.” For Taiwan, political and economic survival is a more urgent issue than national unification, and peace between the two sides will depend on political elites’ perception and calculations of power, as well as the outcome of hard bargainings across the Taiwan Strait. Interdependence theorists can give us insights on closer cross-Straits interactions in the post-Cold War, but realists’ arguments of power politics and the struggle of survival still provide a useful framework in analyzing conflicts and cooperation between the two sides of the Taiwan Strait.

Notes

1. For detailed discussions of the international constraints on state actions, see Janice Thomson and Stephen Krasner, “Global Transactions and the Consolidation of Sovereignty,” in James N. Rosenau ed., *Global Changes and Theoretical Challenges* (New York: Macmillan, 1989); Richard Rosecrance, *The Rise of Trading States* (New York: Basic Books, 1986).
2. Robert Ash and Y. Kueh, “Trade and Investment Flows Between China, Hong Kong, and Taiwan,” *China Quarterly*, No. 136, December, 1993, pp. 721-722. Numerous authors share the similar view of economic complementarity. See James Myers and Donald Puchala, “Greater China: Some American Reflections,” *Asian Affairs*, Vol. 21, No. 1, Spring, 1994; Murray Weidenbaum, “Greater China,” *Vital Speeches*, December 1, 1993; “The Rise of Greater China,” *Current*, December, 1993.
3. For the functionalist view of interdependence, see Ernst Hass, *The Uniting of Europe* (Stanford: Stanford University Press, 1957); David Mitrany, *A Working Peace System* (Chicago: Quadrangle, 1966); Robert

Keohane and Joseph Nye, *Power and Interdependence* (Boston, Little Brown, 1977).

4. "Three Links" refers to direct trade, direct postal service, and direct transportation.
5. After Lee's US visit, PRC launched a series of propaganda campaign against Lee's policy of "Republic of China on Taiwan". See *Xinhua Yuebao* (No. 9, September, 1995), pp. 63-73; "Lee's Cornell Speech Rapped on Chinese Press," *Beijing Review* (August 14-20, 1995), p. 12.
6. Under the current situation, direct naval and air transportation between Taiwan and China is still prohibited by the Taiwanese government. Since 1994, Taiwan began to establish the so-called "offshore" direct transportation center at the port of Kaohsiung and started a new round of negotiation with China on this issue.

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