

## **Integration and Disintegration: European Theories and Experiences in the Light of China-Taiwan Relations**

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### **Abstract**

This paper attempts to look at the connection between political and economic integration in the cross-Strait relations, while also referring in many cases to the European experience and theories of the European integration. One of the main conclusions of the paper is that economic globalisation does not lead to political integration of the two polities. Modern theories of labour division and their conclusions on the distribution of economic gains underline that a peaceful free trade environment without major political conflicts endorses the formation of smaller political entities and this environment basically contributes to healthy competition among these countries and to diversity of political and economic regimes.

**Keywords:** *political economy, economic integration, political integration, Taiwan, China, international relations*

**JEL classification:** *F15, F52, H41, H56*

## 1. Introduction

Why do we have different nations and countries? What are the dominant forces behind the formation of a new country? Is economic or political integration more decisive in this respect? These questions are basic in political economics. For a very long time, it seemed to be evident that economic integration was the prevailing, leading force behind the integration process.<sup>1</sup> However, the European experience demonstrates that no clear answers can be given, since the right answer can be more dependent on the external environment than on the internal forces of the integration. Political integration and commitment to identity can be more relevant in “bad times” being characterized by wars and protectionism; however, “good times” – peace and free trade – reinforce the salience of economic integration, highlighting the economic benefits of the process.

The paper aims to investigate the connection between political and economic integration, in particular in connection with small economies and countries. The reason why small countries require special attention relates to the costs of running a small country. Some analysts suggest that democratization and hereby formation of smaller polities where policies are closer to the public are facilitated by increasing economic integration. According to this approach, secessions are easier in times of growing economic interconnectedness. To put it in other words, the level of economic integration determines the possible number of countries/nations. The more successful the integration of world economy is, the more likely it is to form a new entity (country) since the costs of “maintaining” small countries or economies become lower. As Alesina-Spolare put it: “The equilibrium number of countries is increasing with the amount of international economic integration.” (Alesina and Spolaore, 1997: 1028)

Emphasis of the paper is put on the connection between political and economic integration in the cross-Strait relations.

- What are the circumstances under which economic integration between political entities can support political integration? More importantly, what are the circumstances that impede the formation of a self-reinforcing circle between economic and political integration.
  - In this regard, theories and experiences of European integration and assumptions of the classic and neoclassic economics are to be referred to.
- Are there other mechanisms in functioning? Can mechanisms be distinguished which lead to divergence rather than to convergence between the Republic of China (Taiwan) and People's Republic of China (Mainland China)?
  - In this case, the endogenous growth theory and theories regarding the break-up or formation of nations, the European experiences, and the new trade theory are to be referred to.

## **2. Costs and Benefits of a Small Economy and a Small Democracy**

### ***2.1. The Costs of Security***

The traditional concept which emphasizes the salience of security is provided by Charles Tilly (Tilly, 1985: 170). He contends that a clear connection between war making and state making can be found. Tilly outlines a sequence of events starting from war making, required to hold off competitors, through acquisition of capital (necessary to wage wars) to providing protection. He clearly points out the connection between protection and state making which requires the monopoly of power. However, his arguments have their strong limitations in a world of growing economic interdependence and globalisation. In the 21st century it would be an oversimplification to reduce the state's role to military protection, but the logic of this argument can be applied and it can be developed further in the following way: the modern state not only

provides military security and protection but many other kinds of protection, services (the rule of law, education, health system, infrastructure, separation of powers through a system of balances and checks, in other words democracy) which legitimate state making and the existence of the state.

Tilly's attempt to classify the activities of states seem to be outdated especially looking at the European Union (EU), but it can be adapted easily when analysing the Ukrainian conflict or looking at the break-up of Yugoslavia where war and state even today seem to be the integrated parts of the same process. Anyway, the approach to find correlation between the cost of activities (war making, state making, protection, and acquisition of capital) and the organisational surplus to be found in the state can also be utilised in our analysis.

Tilly's original approach emphasized the connection between the making of wars and the formation of states; however, this approach is not a novelty. This perspective can be traced to Machiavelli, Bismarck's "iron and blood" speech or to the Roman historians. This approach utilizes "the fear of enemy" argument which points out that fear is the most effective motive in the formation and unification of a nation. In the 21st century, however, it is more than obvious that protection of citizens is not the only service provided by the state and therefore an academic analysis must include references to the economic aspects as well. Even Tilly refers in his later work to other factors as well. In his *Coercion, capital, and European states, AD 990-1990*,<sup>2</sup> he also incorporates the effects of economic globalisation (Tilly, 2000: 5-6).

## **2.2. *The Costs of Public Goods***

The costs of public goods depend on the following factors: (a) *size*, (b) *nature of political institutions*, (c) *openness of economy* and (d) *distribution of economic gains*.

(a) *Size*. From the economic perspective one of the most comprehensive literature reviews is provided by Spolaore (Spolaore, 2009). He starts his line of reasoning with the importance of size contending that larger nations spend less on their government and public goods per capita, whereas the coordination costs tend to rise in larger states due to increasing heterogeneity. He argues that it is less costly to provide public services to a population of a large country because of the homogeneity of preferences which can be secured easier (economies of scale). But on the other hand, there is also the assumption that the larger the country becomes the more heterogeneity of preferences can be found, along with increasing heterogeneity costs. Thus there must be equilibrium between the cost and benefits with regard to the size of the nation/country<sup>3</sup>. Based on this formal logic it can be concluded: “When economies of scale become more prominent compared to heterogeneity costs, larger political systems are likely to emerge. In contrast, a drop in the benefits from size or an increase in heterogeneity costs will bring about political disintegration.” (Spolaore, 2009: 4)

(b) *Nature of political institutions*. But what are the public goods besides security? Public goods or services of advanced, modern states include a well-functioning legal and justice system, enforcement of human rights and rights of minorities, the provision of public health services, high-quality education, good infrastructure and protection against catastrophes. The provision of these services is dependent on political institutions. When analysing the East-Asian region, access to all of them is only provided in democratic, open societies (South Korea, Taiwan), access to some of them (public health, infrastructure, education, protection against natural disasters) is provided even in non-democratic but economically open societies (China). Only a few of them can be accessed in totalitarian states

with closed economies (North Korea). Therefore it can be argued that trade-off between costs and benefits of the country size depends on the nature of the political institutions (democratic or non-democratic). But how is a rationale to be provided for this? One may reasonably argue that in authoritarian regimes preferences of the public are much less important than in democracies, where governments want to be re-elected and try to pursue policies which are more or less in line with the main preferences of the public. That is the reason why the heterogeneity costs become more important in democratic societies.

- (c) *Openness of economy.* The trade-off between benefits and costs of country size depends on the “nature” of the political institutions as well. But it is clearly also a function of a country’s openness and integration into the world economy. That simple reason for this is that because of the structure of the global economy, the optimal size of the market today far exceeds the average size of national markets. Globalisation and economic integration have contributed to reduce the costs of the maintenance of a small economy. After the Second World War (WW2), but in particular from the 1990s, liberalisation of international trade and investments have brought about a world economic order in which small countries could prosper pursuing free trade policies. (The creation of the single market in Europe made an important contribution to this process. Needless to say that Taiwan is democratic and it has a very open economy and both features could contribute to reduce the cost of the small country size. Economic openness, including economic cooperation with Mainland China, has greatly helped reduce the economic costs and to increase political benefits.)
- (d) *Distribution of economic gains.* Bolton *et al.* attempts to contrast the different models to explain the connections between political and

economic integration (Bolton *et al.*, 1996: 697-705). They also remind us of the question who are the winners and the losers of unification or separation. In a system where the decision on sovereignty is taken through democratic procedures the majority of the population only votes for unification/separation if the benefits are clear (Bolton *et al.*, 1996: 698). In the European Union, because of the remaining differences in income, wealth, government policies, and a huge variety of local advantages/disadvantages it is highly unlikely to find a common pool of the preferences of the European voters which could push countries forward towards unification. In the case of Taiwan the same can be stated and the median Taiwanese voters will only support unification if they clearly see the economic and political benefits.

### ***2.3. An Overview of the Literature***

According to Bolton *et al.*, the general perspective to be found in the literature is that unification provides gains in terms of the provision of public services, but it reduces the ability of countries to provide the most optimal selection of public services and goods for their citizens. Bolton *et al.* undertakes a review of the literature with regard to the connection between political integration and economic integration. Table 1 illustrates their findings as well as their model.

There are two important conclusions which can be drawn based on these models:

1. There are clear economic gains of running a larger economy, but in larger economies, the political costs tend to rise.
2. Alesina-Spoloare contend that the economic gains depend on geography while Bolton *et al.* puts the emphasis on differences in income and wealth.

**Table 1** Explanations of the Connection between Political and Economic Integration

	Casella/ Feinstein (1990)	Wei (1991)		Alesina/Spolaore (1995)	Bolton/ Roland (1995)
The nature of political institutions	Democratic political institutions	Democratic political institutions	Not democratic political institutions	Democratic political institutions	Democratic political institutions
Does political integration provide economic gains?	Yes	Yes	Yes, only economic gains are important	Yes, but economic gains depend on differences in geographical position	Yes, but economic gains depend on differences in income and wealth
Are there political costs involved?	Yes, the larger the nation the greater the political costs of unification	Yes, the political costs are in terms of greater inefficiency	No, political costs are not important	Yes, but economic gains depend on the differences in geographical position	Yes, but economic gains depend on differences in income and wealth
Sequencing of political costs and economic gains	At higher level of economic development, economic gains become smaller	At higher level of economic development, economic gains become greater			

Source: Author's own compilation based on Bolton *et al.* (1996: 700-702).



3. None of these explanations, however, refer to the distribution of the benefits. The unequal distribution of gains might lead to diverging economic processes blocking the political integration process. In economics a great part of the literature focuses on the long-term effects of economic integration and opinions are divided. (See Section 3.)
4. These models focus on the question of whether political integration can lead to economic benefits. The reverse of the question in the case of Taiwan is more important: can economic integration lead to political integration or unification between two political entities? From this perspective the theories of European integration are of importance. (See Section 5.)

### **3. New Theories of Economic Integration**

There are different approaches among scholars with regard to the effects of integration. This debate is very clear when it comes to the assessment of the economic effects of international trade. The first scholar who pointed out the benefits of international trade was Adam Smith at the end of the 18th century. And this approach was not disputed until the WW2 which may not surprise us, because trade then occurred mainly between different countries and this trade was comprised of not homogenous products.<sup>4</sup> (However, even in this period, there were policies and theories restricting free trade; Friedrich List and Alexander Hamilton attempted to provide a general theoretic support for this approach.)

That is why the theory of comparative advantages could explain international trade properly and it could provide a rationale to the possible effects of international trade. However, after WW2, protectionist practices began spreading, in particular in Latin America, and in the communist bloc. These countries attempted to build a broad

industrial base relying on import-substitution, on restraints of free trade and on forced capital accumulation. The latter practice was typical in Eastern European countries. After the collapse of the Soviet Union, and the economic transformation and opening up of East Asian and Eastern European countries, free trade became the mainstream approach again. Neoliberal trade policies spread across the world economy leading to the substantial reduction of tariffs and other barriers to trade. Along with the return of free trade policies international trade has undergone a deep transformation.

But the international trade of the 21st century cannot be explained anymore by the simple theory of comparative advantages, which mainly focuses on differences in resources, productivity and labour. There are new approaches which put an emphasis on other important considerations as well (economies of scale, economies of scope; the emergence of global supply chains, and the importance of state intervention, development policies etc.)

1. The new trade theory of Paul Krugman highlights the importance of economies of scale and that of the intra-industry trade which mainly takes place among advanced countries (Krugman, 2008: 335-348).
2. The new trade theory can be interpreted as a compilation of theories emerging after Krugman's ground-breaking work which focused on monopolistic competition and increasing return to scale.
3. Economies of scope or efficiencies of product diversification can be utilized only when they are based on common and recurrent know-how and technology.
4. The Porter model stresses external or economies of agglomeration which can derive from skilled labour, top infrastructure, local advantages, firm rivalry and good governance etc. (Porter, 2008: 1-18).

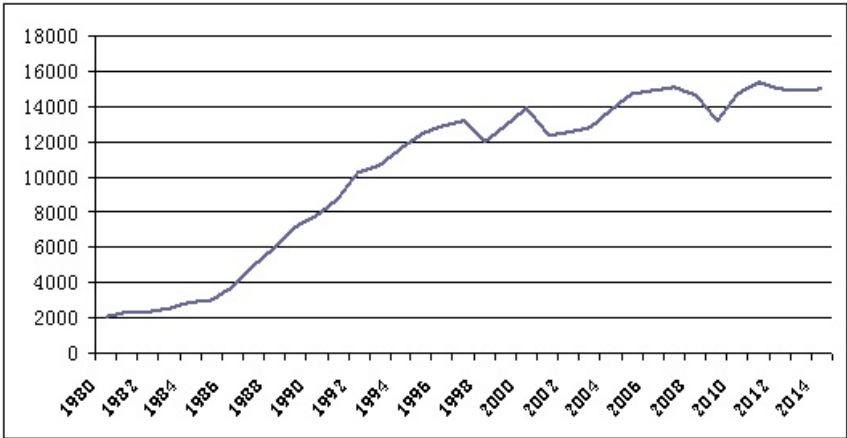
5. The success of the four Asian tigers was based on a practice of state intervention which became known as the theory of the developmental state later. A general overview is provided by Shigehisa Kasahara (Kasahara, 2013: 1-23). Even today, state intervention has been part of the business life, distorting free trade and redistributing economic gains among countries.

Sunanda Sen puts the major change in the free trade doctrine like this: “In the meantime, the rigid framework of trade theory started being questioned from different quarters. In a major departure from old trade theories, attempts were made in the new trade theory (NTT) literature to introduce the scale economies in production. A major point raised in these modifications included the impact of increasing returns to scale on the pattern as well as on the mutual benefits from international trade.” (Sen, 2010: 6)

The theory of comparative advantages and its modifications suggest an equal distribution of economic gains of international trade in the long run. These new theories underline the case for unequal distribution of economic gains, and as a result, these approaches do not take an equilibrium process for granted. Another source of unequal distribution of gains can be explained by monopolies, and protectionist trade policies as well.

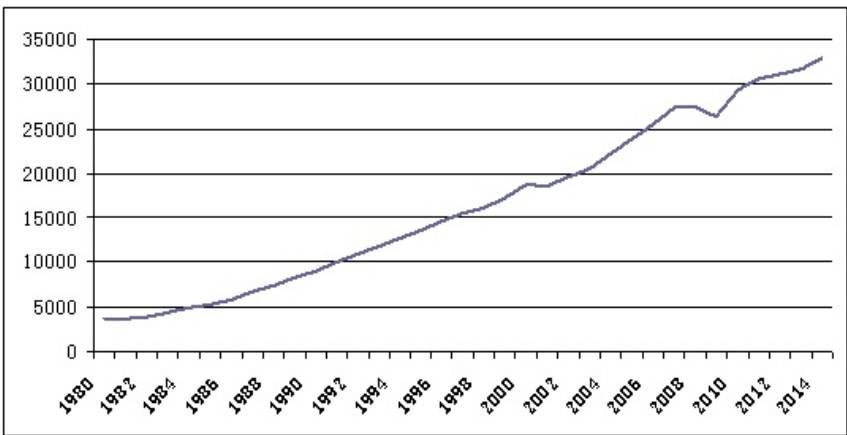
According to these theories, economic integration does not benefit every partner equally. This is an important lesson in the European perspective but also in the assessment of the economic integration between Taiwan and China. If gains are not distributed equally leading to diverging economic development paths in China and Taiwan, the commitment to strengthen political cooperation may become weaker and weaker. (See Figure 1 and Figure 2.)

**Figure 1** Difference between GDP per capita of Taiwan and China (current prices, in US dollars), 1980-2014



Source: Author's own compilation, based on IMF database.

**Figure 2** Difference between GDP per capita of Taiwan and China (PPP, in US dollars), 1980-2014



Source: Author's own compilation, based on IMF database.

So the question is not only whether economic integration is beneficial to every partner, but how the benefits are distributed geographically and in time. This paper contends that the Bolton/Roland model (1995) ought to be supplemented by the aspect of how the local and temporal distribution of economic gains can affect the political integration process. The model could be summarized as in Table 2.

The model assumes that political integration definitely leads to clear economic gains, but their scale and distribution depend on differences in income and wealth, which determine the local competitiveness. Local advantages and policies pursued by governments influence competitiveness as well. And obviously, openness to international trade and investments can transform the structure of the economy leading to improving or worsening competitiveness. These explanations stress why more wealthy regions might benefit much more from economic integration and cooperation under certain circumstances and as a logical consequence, why economic integration does not necessarily induce political integration. In the cross-Strait relations, research must include the analysis of economic convergence and/or divergence between the two countries.

#### **4. The European Experience and the Theories of European Integration**

The most fundamental European experience is the dichotomy of integration and fragmentation processes which has brought about a mixture of diversity and integrity in Europe.<sup>5</sup> This continent is a more or less coherent region in political, economic and cultural terms, but it has never been under the control and governance of a centralized political power.<sup>6</sup> As a consequence of fragmentation, wars had characterized the history of Europe throughout the centuries, but the internal political and economic competition had led to great accomplishments in technology,

**Table 2** How Does Political Integration Affect Economic Gains?

The nature of political institutions	Democratic political institutions	Non-democratic political institutions
Does political integration provide economic gains?	Yes, but their extent depends on the following aspects: 1. differences in income and wealth 2. local advantages 3. government policies (developmental policies, trade policy etc.) 4. openness to world trade, investments	Yes, but their extent depends on the following aspects: 1. differences in income and wealth 2. local advantages 3. government policies (developmental policies, trade policy etc.) 4. openness to world trade, investments
Does political integration provide other gains?	Strengthening and weakening of national identity	Strengthening and weakening of national identity
Are there political costs involved?	The larger the nation the greater the political costs of the unification (due the greater inefficiency)	No, political costs are not important (no voters)
Temporal sequencing of political costs and economic gains	In a world of free trade policies, at higher level of economic development, economic gains become smaller  In a world of protectionism, at higher level of economic development, economic gains become larger	In a world of free trade policies, at higher level of economic development, economic gains become smaller  In a world of protectionism, at higher level of economic development, economic gains become larger

Source: Author's own compilation.

economy and politics.<sup>7</sup> This internal competition was one of the reasons why European countries were able to be part of the development of new technologies, solutions, ideas, etc. As European countries remained one of the core regions of economic development, they were all part of an economic division of labour in which resources, ideas, skilled labour and capital were allowed to flow between the countries freely. Additional components of the success were the consequent implementation of the rule of law, accountability of the elected governments and the formation of inclusive societies. After WW2 Western European countries – not least because of the deepening Cold War – reshaped their democracies, established a new kind of capitalism and laid down the foundations for successful future regional integration, the European Union.

During the Cold War, international trade between the two political blocs can be characterised as protectionist and the Soviet Union included there were only 25 countries in Europe, today there are 40 countries. Free trade practices were typical for the Western European countries of the EEC (European Economic Community), while restrictions of trade and not convertible domestic currencies dampened the trade among the socialist countries. (Although the COMECON (Council for Mutual Economic Assistance) played an important part in the development of regional trade, the lack of convertible currencies confined these countries to barter trade.)

In these decades Western European cooperation was supposed to be evolving into a full-scale European state. But after the collapse of the communist bloc the pressures leading to the European state disappeared. The forces of globalisation remained in place and pushed forward the economic cooperation of these countries but without creating a single political entity in Europe (the United States of Europe). Only a few pundits recognised the change in the nature of the integration. These changes explain why the establishment of the European Monetary Union

and the introduction of the euro did not lead to a full-fledged monetary and fiscal union among the Eurozone countries, not to speak of those remaining outside the Eurozone. The other important element to bear in mind is the big bang enlargement of 2004 which enhanced the already deep fragmentation of the EU and led to a more diverse Europe and undermined the prospects of a Single European state.

The European environment is obviously very different from the East-Asian one where different regional economic integrations are still in an embryonic condition. It is also evident that Asian development will not necessarily follow the European path, but it is important to underline that the EU has served as an institutional framework, which has supported peace among these countries. With the creation of the single market and the introduction of euro the EU has created a level playing field for economic cooperation as well. Referring to the concepts mentioned earlier, it is apparent that the EU has made a contribution to the “good times” (peace and free trade) which lessen the costs of the maintenance of smaller countries and nations, thereby the EU at the end of the Cold War created an environment in which economic integration supports political integration. The EU itself is far from being a state, despite the pooled sovereignty elements it has in different fields of cooperation – common agricultural policy, single market, common currency etc.

When it comes to the implementation of integration concepts which basically rely on European experiences, there are three main theories of European integration to be mentioned: neo-functionalism, federalism and inter-governmentalism. Neo-functionalism places emphasis on automatic spill-over effects which were generated by the economic integration and led to further integration of other areas. This theory was only able to explain the integration processes of the 1960s accurately.<sup>8</sup> In 2015, it is needless to say that neo-functionalism is not sufficient to



explain the changes taking place in Europe. In many cases *inter-governmentalism and neo-functionalism* are described as two very different and divergent theories of European integration. But they can also be interpreted as theories which are only capable of explaining either the dynamic or the static side of European integration.<sup>9</sup> Without a shadow of a doubt, inter-governmentalism was more accurate in explaining the processes and the political climate of the 1990s when major reforms could take place as a result of agreements made between European governments (Maastricht Treaty, Nice Treaty, Lisbon Treaty, etc.). But the theory failed to clarify and highlight the economic benefits and the final goal of European integration. Although *federalism* is able to provide a definite answer regarding the goal of integration – the “United States of Europa – USE” – it fails to find a feasible way of achieving it.

The end of the Cold War and deepening and speeding up the global economic interconnectedness are the drivers of change in Europe, and these drivers deeply affect the integration process of the European countries, in particular of the EU-members. The next question which the paper looks at is how the same drivers have changed the dynamic of the China-Taiwan relations.

## **5. Lessons for Taiwan**

Why are there nations and countries? How do countries and nations form and break up? What are the centrifugal and centripetal forces in play? Is it true that economic integration leads to political integration or is there no automatic correlation at all? Does economic integration bring about the convergence or divergence of societies?

Theoretically, these could be the most fundamental questions to be raised when looking into the integration process of the two sides of the Taiwan Strait. Basically, there are three traditional schools of thought

offering answers to how economic and political integration across the Taiwan Strait are connected (Chao, 2003: 280).

1. The *cultural integration* theory stresses the salience of language, the relevance of culture, and the importance of shared customs and traditions. This school basically states that the unification of two countries is a process which logically follows from the dominance of cultural forces. The view which puts an emphasis on culture has a long tradition in the political sciences. After the collapse of the Soviet Union, Samuel Huntington contended that the majority of political conflicts would emerge due to the cultural junctures, while political and economic causes would be less important in the future (Huntington, 1997: 20). Culture and language are inevitably important elements of national identity; however, there are arguments to the contrary as well:

- A handful of European examples vividly demonstrate that different national identities can evolve in a very short period of time from which it follows that they are not necessarily linked to culture and language, which are more constant variables. Austria, Scotland, Ireland, Switzerland – these countries have each shared a common language with another nation. Needless to say that there are some Eastern European countries too, where different national identities can hardly be explained by the trifle linguistic, cultural or religious differences that exist between specific ethnicities.
- The term *culture* also includes the political culture of any given society. In this respect, after the transition in the early 1990s, Taiwan has developed democratic institutions and a democratic political culture as well. So today, Taiwan and Mainland China have entirely different cultures; moreover, it can be argued that the two countries can be found at the opposite ends of the same spectrum. Chao puts it like this: “From Taipei’s perspective, the contrast is culturally

reinforced by the more participant political culture emerging in Taiwan, as opposed to the subject political culture that is still dominant in the PRC.” (Chao, 2003: 291)

2. Another line of reasoning highlights that being a rising economic and political power, Mainland China would weaken smaller Asian nations and countries of the Asian-Pacific region and would make them more and more dependent on its mercy. This *political integration* argument assumes that the inevitable rise of China will continue in terms of politics, economy, and even military potential. No doubt, the key issue is the economic development of Mainland China. There are 3 basic dilemmas arising in this context.

- The first dilemma is whether the rise is indeed inevitable. According to Cs. Moldicz: “The so-called middle income country trap poses long-term threats to the Chinese economy unless the capacity of the Chinese political elite to continue political and economic reforms improves. (Aging population, eroding competitiveness due to increasing labour wages, growing social tensions, weak rule of law, political tensions caused by surging inequality within the society, etc. present threats to the Chinese economy in the long term.)” (Moldicz, 2015: 17)
- Even though the answer was yes, another question still remains: Is it certain that this economic rise or solid economic strength will lead to unification or maybe there are elements which will slow down or stop the rise of Mainland China. Earlier examples can be pointed out where the rise of a political power did not impede secession. (See Russia-Ukraine, Germany-Austria, Czech Republic-Slovakia examples.)
- The third dilemma is that economic theories do not support the concept of political integration/unification stemming from an increased level of economic integration due to the increasingly

unequal distribution of economic gains among the economic partners.

3. The third school of thought stresses *the relationship between economic and political integration*. The argument, initially formulated by Ernst Haas (1961), points out that economic integration (customs union) creates new political and economic pressures (spill-overs) for further economic integration. According to the neofunctionalist school, economic integration would ultimately spill over into political integration. In the case of the Taiwan Strait, it is more than obvious that the spill-over mechanisms, which are able to describe the European integration process of the 1960s, do not work. It is partly because of the lack of customs union between Taiwan and Mainland China, but also because the historic framework is very different. After World War II tensions between the two countries were attributed to the principle of indivisibility of sovereignty. Under these circumstances, the delegation of sovereignty, which is an inherent element of the European integration process, is hardly conceivable even today. Haas defines spill-over as: "... policies made pursuant to an initial task and grant of power can be made really only if the task itself is expanded, as reflected in compromises among the states interested in the task." (Haas, 1961: 368) Can these compromises be realistically achieved by the two states involved?

*None of the above-mentioned theories* can offer proper explanations as to how the mechanism of economic cooperation between the two countries will affect the political integration in the long run. None of them can reliably predict how this process affects the unification/independence question and each of them is loaded with oversimplifications. But *what are the realities* then which influence this process?

### **5.1. Taiwan-China Relations**

First, there is a growing economic cooperation or integration between the two countries, in particular in trade and investment. Since 2011, the Economic Cooperation Framework Agreement (ECFA) between the People's Republic China (Mainland China) and the Republic of China (Taiwan) has boosted trade and investment relations. This successful cooperation has been one of the reasons why Taiwan, relying on the rapid Chinese economic growth, could avoid falling into severe economic recession after the Global Financial Crisis of 2008-2009.

Secondly, despite growing cooperation, the two economies have complementary structures, which enable them to reap some of the benefits of economic cooperation. But this builds on the mobility of capital and the mobility of goods much more than on the mobility of labour and services. So it is far from being a full-fledged economic integration similar to the one in the case of the EU.

Thirdly, the end of the Cold War theoretically reduced the risk of military conflicts between Taiwan and Mainland China, but the political and economic rise of China and the US policy which aims to contain China in the Asia-Pacific region have led to mounting tension in the region. (See the 1995-1996 Taiwan Strait Crisis or the territorial disputes in the South China Sea.)

Fourthly, neither the lower level of conflicts brings about unification automatically. It only offers a peaceful way of settling controversial issues between the two parties. Moreover, according to mainstream analyses, peaceful times do not favour unification; to put it more generally, they do not lead to the formation of larger countries. It is argued that the reason for this lies in increasing economic integration, which makes the "maintenance" of smaller economies and countries cheaper.

## **5.2. The Domestic Environment**

When it comes to Taiwanese approaches to independence/unification it is important to stress that compared to Mainland China, Taiwan is a very homogenous political entity despite the cultural and linguistic diversity of the island. The country is an economically more equal society where democracy secures the diverse public services/goods provided by the state. Therefore Taiwanese governments are theoretically able to pursue policies which are close to the preferences of the voters, while liberalization in world trade and investments flows reduces the costs of running its relatively small economy. These factors clearly give a boost to those who oppose any kind of future unification process.

Let us take a view of the different factors of independence/unification from a Taiwanese perspective.

1. *The size of the economy.* For the time being, Taiwan's economy has the size of the Belgian economy (490 billion USD in 2014). Moreover, adding the performance of Taiwanese firms in China, "Chiawan" generates around 700 billion USD, which equals the size of the Turkish economy or that of South Korea (Lee-Makiyama and Messerlin, 2014: 3).
2. *The size of the government.* As mentioned earlier, according to the literature, the greater the size of the government compared to the population, the more costly it is to build a standing army. At this point, Tilly refers to Brandenburg-Prussia. This aspect is certainly relevant for Taiwan, because its army is relatively strong compared to the size of its population; however, the assistance of the United States has contributed effectively to counterbalance Mainland China which could reduce the costs of the strong army.
3. *Homogeneity.* According to the theories, the more fragmented the country is the easier it is to conquer the political entity. Democracies usually do not have difficulties to maintain coherence in terms of

socioeconomic homogeneity. The term socioeconomic homogeneity can be measured by the Gini indicator and other indicators which cover application of the rule of law, extent of social security and social protection etc. Taiwan has achieved a high socioeconomic homogeneity, in particular if taking into account how small the Taiwanese state is.

4. *Resources*. The smaller the scale and scope of the resources to tap and the more closed the economy is, the more costly it is to maintain state activities. In the case of Taiwan, it is obvious that its open economy can offset the negative effect of the scarcity of natural resources (land), and the scarcity of energy (oil, gas, coal etc.). It is no surprise that Taiwanese economic policy aims at maintaining the economic openness of the country. This can be backed up by statistics as well; according to the Index of Economic Freedom, Taiwan's economy is the 14th freest economy in the world.
5. *The protection provided by the state to its citizens*. The greater the extent and range of protection provided by the state to its citizens, the more costly it is to maintain the system. According to the Index of Economic Freedom, the Taiwanese government spending reached only 20.7% of the GDP in 2014. The size of the Taiwanese government is very limited, especially if one considers the development of the economy. (Advanced economies usually have a much higher level of government spending; however, Taiwan fits well into the group of fast-growing, East Asian countries – Singapore, China, the Philippines, Indonesia – especially where the state is small.)

## 6. Conclusions

To sum it up, Taiwan today possesses all economic, political and cultural characteristics needed to be a full-fledged independent country. This is no surprise, as the country has been independent since after WW2; however, this full independence belonged to a political entity which did not focus on Taiwanese, but on Chinese identity. Taiwan lost its United Nations seat in 1971 and the diplomatic recognition of Mainland China by most of the countries (One-China Policy) was a backlash for Taiwan. The change could be interpreted as a shift into worse conditions, hence room for political and economic manoeuvre has been constrained; however, it also provided an opportunity to form and crystallize its own political and cultural identity – the Taiwanese identity – necessary to form a political entity.

As it can be concluded from this article, economic globalisation does not lead Taiwan back to the One-China state solution, as many fear (or hope). Moreover, economic globalisation and deeper economic cooperation with China does not support economic convergence between the economies, but more analysis based on statistics are required to back up this theoretical approach.

The paper also referred in many cases to the European experience and theories of the European integration. These references underlined that a peaceful free trade environment without major political conflicts endorses the formation of smaller political entities and this environment basically contributes to healthy competition among these countries and to the diversity of political and economic regimes which are democratic and capitalist at the same time.

In the very long run, diversity and competition have been the keys to European successes. Taking these arguments into account, it could be argued that Taiwan's independence would be beneficial for the Greater Chinese Area, not only for Taiwan, but even for China.



## Notes

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1. Prussia faced a similar question in the 19th century. Having established a customs union with the German states, the country took it for granted that economic integration would subsequently lead to political union. However, when tensions between the Habsburg Empire and Prussia erupted, some of the former allies joined the other camp. (Desmond, 2014: 13-14)
  2. First edition in 1990, but published several times afterwards.
  3. Needless to say that nation does not necessarily coincide with country.
  4. Colonized countries exported natural resources, agricultural products to advanced countries whose export consisted of industrial goods.
  5. There are types of concepts which focus on the diversities of the EU. The “two- or multi-speed Europe” is used to refer to the fact that some of the member states are delayed in the integration process while other countries cooperate at an earlier point in time. The concept is often referred as a *temporal* one. In the concepts of “Europe of concentric circles” or “core Europe”, emphasis is placed on the creation of a federal union with only a few members. In this approach differences are not temporal and the *spatial nature* of the integration is underlined because only core countries are in a position to make decisions concerning the political union. The conceptualization “Europe à la carte” is a theoretical approach in which the *sectoral* differentiation is put in the limelight. Another version of these is

the concept of “differentiated integration”, which describes the European Union in a more complex way. Sectoral, temporal, and spatial aspects are not sufficient to describe the diversity of the EU. There are of course other suggestions of completion of this concept too. Transcending Alexander Stubb’s three way classification (temporal-spatial-sectoral), Holzinger and Schimmelfing suggest that this concept should “be distinguished along six dimensions: (1) permanent v. temporary differentiation; (2) territorial v. purely functional differentiation; (3) differentiation across nation states v. multi-level differentiation; (4) differentiation takes place within the EU treaties v. outside the EU treaties; (5) decision-making at EU level v. at regime level; (6) only for member states v. also for non-member states/areas outside the EU territory.” (Holzinger and Schimmelfennig 2012: 294)

6. There have been several attempts to centralize Europe, but neither the Roman Empire nor the Soviet Union was able to extend its power to the entire continent.
7. Outstanding historian Niall Ferguson in his book *Civilization: The West and the rest* writes of this puzzle of the history: “For some reason, beginning in the late fifteenth century, the little states of Western Europe with their bastardized linguistic borrowings from Latin (and a little Greek), their religion derived from the teachings of a Jew from Nazareth and their intellectual debts to Oriental mathematics, astronomy and technology produced a civilization capable of not only conquering the great Oriental empires and subjugating Africa, the Americas and Australasia, but also converting peoples all over the world to the Western way of life – a conversion achieved ultimately more by the word than by the sword.” (Ferguson, 2011: 18)
8. Sandholtz and Sweet claimed: “By the early 1990s neofunctionalism was virtually extinct. In the common narrative, De Gaulle’s empty chair, the Luxembourg compromise, and the failure of ambitious integration plans in

the early 1970s refuted the Neo-functionalism expectation that integration would be a relatively steady process, in which market integration and the building of policy-making competence at the EU level would go hand-in-hand.” (Sandholtz and Sweet, 2010: 3)

9. Gehring puts it the following way: “A closer look at the existing divide reveals that it is made up of two interrelated aspects. At the theoretical level a static and state-centered theory is juxtaposed with a dynamic theory emphasizing the role of supranational and non-state actors.” (Gehring, 1996: 226)

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