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# Cross-Strait Relations and the Way Forward: Observations from a European Integration Perspective

Stefan FLEISCHAUER

**Abstract:** The new policy platform in Taiwan of economic liberalization toward the Chinese mainland which was inaugurated by President Ma Ying-jeou (Ma Yingjiu) in 2008 has been the source of both expectation and anxiety. While some observers believe that this policy of rapprochement will usher in an era of cross-Strait prosperity and peace, others are concerned about Taiwan's de facto sovereignty as well as the negative economic impacts that the liberalization policy might entail. In particular, it has often been claimed (or feared) that the liberalization process will lead to some form of political integration between the two sides of the Taiwan Strait. In this article, I wish to offer some insights into the current state of cross-Strait interactions derived from the European integration process.

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**Keywords:** Taiwan, cross-Strait relations, integration, ECFA, economic liberalization

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## Introduction: New Developments in Cross-Strait Exchange since 2008

For several decades, the relationship between Taiwan and mainland China has been characterized by a peculiar imbalance between political and economic involvement. Economically speaking, both sides have become increasingly interdependent since the late 1980s, when Taiwanese entrepreneurs began to seek business opportunities on the other side of the Strait in great numbers, often attracted by cheap labour costs and a favourable investment environment. It has been estimated that, today, more than one million Taiwanese have taken up permanent residency on the mainland, a considerable proportion of the island's 23-million-strong population. At the same time, trade has grown at a breathtaking pace, with China now absorbing more than 40 per cent of the island's exports.

In the political sphere, however, exchange between the two former archenemies has remained a delicate and often awkward matter. As early as 1992, at the instigation of Taiwanese President Lee Teng-hui (Li Denghui), both sides endeavoured to establish “unofficial” communication channels through the semi-official Strait Exchange Foundation (SEF, Taiwan) and the Association for Relations Across the Taiwan Strait (ARATS, mainland China), with the aim of negotiating solutions to some of the new issues that had emerged, such as the establishment of postal services, the delineation of fishery rights, the verification of official documents, and the like. However, these so-called “Koo–Wang Talks” were somewhat premature and ill-fated, and so were effectively discontinued with only disappointing results in 1998. Both sides had been unable to find a solution to the thorny topic of Taiwan's contested sovereignty and by the late 1990s – and in particular after Lee Teng-hui expressed his view that a “special state-to-state relationship” existed between Taiwan and mainland China and the inauguration of Chen Shuibian (Chen Shuibian) in 2000 – cross-Strait relations had reached a new freezing point.

In recent years, things have taken a dramatic turn again. As early as 2005, the Kuomintang (KMT, Guomindang) propagated a policy of liberalization toward the Chinese mainland as one of its major policy goals. In April of that year, honorary KMT chairman Lien Chan (Lian Zhan) became the first of a number of high-ranking KMT officials to visit the mainland, and his meeting with Chinese President Hu Jintao was

portrayed as a historic step toward a new approach in cross-Strait relations.

Since Ma Ying-jeou's (Ma Yingjiu) inauguration in 2008, the pace of liberalization has increased considerably. Contacts between the semi-official SEF (Taiwan) and ARATS (China) were again resumed in June 2008, and subsequent talks led to a total of 16 bilateral agreements and one declaration in areas such as direct air and sea links, tourism, intellectual property rights, judicial assistance and a Memorandum of Understanding on financial supervision. With the signing of the Economic Cooperation Framework Agreement (ECFA) in June 2010, it appeared that cross-Strait relations were about to enter a stage of unprecedented harmonization and rapprochement.

Not surprisingly, the government's pro-China policy has not met with unequivocal support, and the question of how to deal with the growing interdependence across the Taiwan Strait has become a hotly contested issue within Taiwanese society and politics. It is not an overstatement to say that no other topic has dominated public debate to such a degree.

Theoretically speaking, there are numerous ways to conceptualize the process. Following the Taiwanese government's stance of "merely discussing economics, not involving Taiwan Independence or Reunification, no belittling [of the ROC]" (只談經濟，不涉統獨，不矮化, *zhi tan jingji, bu she tongdu, bu aihua*) (ECFA no year), we can take a purely economic-centred approach. The debate then becomes rather one-dimensional and consists mainly of computing huge amounts of data to determine, for example, who will be the winners and losers in the process and how the government can avert or minimize the negative impacts on Taiwan's economy. The debate will likely be highly controversial. Adherents of liberal economic theory will claim that free trade is, of course, always beneficial; the more, the better, since each side is then better able to exploit its comparative economic advantage. Scholars with a more critical disposition, by contrast, will focus on topics like social justice and will call into question a policy which benefits big business, while causing harm to small enterprises and the interests of labour. Such discourses are not particular to cross-Strait relations, but are rather essential to debates on globalization in general.

While such purely economic deliberations are certainly important and, indeed, vital for both policy-makers and the larger public to assess the liberalization policies in terms of economic interests, I believe that

this limited approach might prevent us from raising more challenging and no less important questions. After all, while it might be possible (and at times even rewarding) to separate economics and politics intellectually, the two spheres are intrinsically intertwined in reality. It is almost commonplace to state that every step toward closer economic interdependence will necessarily entail political ramifications, a truism that applies to all projects of economic free trade arrangements, and even more so in a politically sensitive region such as Taiwan–China.

In this paper, I wish to offer some observations that might shed some light on the political dimensions of cross-Strait interactions derived from various theories of European integration. It goes without saying that this will not amount to a comprehensive and exhaustive analysis of “integration” between China and Taiwan. “Integration”, as I will further elaborate below, is a nearly limitless field of enquiry, which can be approached from a huge number of different perspectives and with many different aims in mind. My intentions, by contrast, are much more modest and limited. My main focus, as stated in the opening and closing sections, is the prospect of peace and stability. Further, I will elaborate on the different meanings of the term “integration” and the applicability of the European model to cross-Strait relations and then turn to those topics which, in my opinion, are of crucial importance to the current debate: contested sovereignty, regional leadership, institutionalization of the process, public opinion, regional stability and, finally, the limits of integration.

## “Dangerous Straits” No More – Peace through Trade?

As stated above, one of the main objectives of this article is to fathom the interplay between integration and peace and stability across the Taiwan Strait. This topic, I believe, is still timely and of utmost urgency. More than 50 years after the Chinese civil war essentially came to an end, the Taiwan Strait remains one of the most volatile security regions in the world. Despite the thawing of relations in recent years, the Chinese civil war has never been formally concluded, as no armistice or peace treaty has ever been signed and the Chinese mainland still claims the right to achieve unification with Taiwan by all means, including force, should the need arise.

However, there is a school of thought that claims that the foundation for a peaceful environment is not dependent on the forces of integration; indeed, it argues that trade alone will be quite sufficient to prevent military conflict. According to this line of reasoning, which might be termed the “liberal economic peace theorem”, the defusing of potential military tensions between Taiwan and China can be achieved solely through the deepening of economic exchange and interdependence, even in the absence of any form of economic integration taking hold. This liberal economic argument that “trade fosters peace” has been restated over centuries and can be traced back to time-honoured scholars such as Immanuel Kant, Thomas Paine and Adam Smith. In more recent times, the writings of Norman Angell, Richard Rosecrance and others have seized and elaborated upon the same topic.

On first glance, the liberal case appears straightforward enough: The resort to arms for resolving international conflicts, in particular under the conditions of modern warfare, causes a huge waste of a nation’s resources, especially if states are presented with the alternative of peaceful trade and economic exchange to achieve mutual benefits. As Richard Rosecrance stated,

Trading states recognize that they can do better through internal economic development sustained by a worldwide market for their goods and services than by trying to conquer and assimilate large tracts of land (Rosecrance 1986: 24–25).

Applied to cross-Strait relations, this assertion leads us to the pleasing proposition that the danger of war between Taiwan and the Chinese mainland is constantly decreasing. Faced with an ever-higher degree of trade, mutual investments and economic interdependence, the cost of severing trade relations, termed “opportunity costs” by David Baldwin (Baldwin 1980), would by far outweigh the potential gains achievable through military conquest. In short, in the aptly phrased words of Dale Copeland, trade pays more than war, so dependent states should prefer to “trade, not invade” (Copeland 1996: 8).

And yet, I believe that the liberal economic peace theorem, while intuitively plausible, is overly optimistic. Three counter-arguments can be advanced:

First, the liberals’ claim is hard to maintain in the face of historical evidence. On the one hand, for example, it has often been pointed out that the liberal assumption of “peace through economic exchange” is unable to offer a satisfactory explanation for the outbreak of the First

World War. In the early twentieth century, the major European powers had achieved a tremendous level of economic interdependence on a global scale, a period which has been accurately referred to as the first age of true globalization. And yet, the constraints of economic interdependence were obviously not strong enough to prevent European nations from going to war. On the other hand, the Cold War between the United States and the Soviet Union and their respective allies never turned into a hot war, despite the virtual absence of trade between the two blocs.

In defence of their original argument, liberal scholars have claimed that national leaders who resorted to war had simply been subjected to misperceptions and outmoded mindsets. In other words, while peaceful trade in an environment of economic interdependence was, from an objective-rational point of view, indeed by far preferable to military confrontation, national leaders were occasionally unable to understand and act upon this wisdom. Accordingly, Norman Angell, one of the foremost scholars in the field, described the liberal case as “not a plea for the impossibility of war [...] but for its futility” (Angell 1933: 59). This adjustment toward the normative and appellative, however, must seriously undermine the explanatory power of the liberal approach.

Second, it seems quite obvious that, based on the liberal peace logic, wars should not be happening at all. There can be no doubt that military confrontation constitutes the greatest waste of a nation’s resources imaginable, even if the level of economic interdependence between rivalling states should be comparatively low.

Finally, the liberal argument appears to assume that national leaders, when faced with the grim decision of war and peace, engage in some kind of mental cost-benefit analysis. When a certain threshold of expected economic losses – a threshold that is never clearly defined – is crossed, it is assumed that national leaders bury their bellicose predispositions and follow a path of rational and peaceful interaction instead. This, however, is just not how wars happen. Historical experience teaches us that, irrespective of rationality and economic considerations, states have gone and will continue to go to war whenever the issues at stake appear sufficiently important, and national sovereignty and honour, sadly, are precisely those issues most likely to foster conflict.

In short, I do not believe that regional security in the Taiwan Strait can be secured through trade alone, but that the process needs to be embedded into some form of integration, even though it must be con-

ceded that the very term “integration” is anything but clear, as it can carry many different meanings, a problem that will be addressed in the following section.

## The Meaning of Integration

It is quite self-evident that the answer to the question “Is integration in a given region happening?” depends largely on how we define “integration” in the first place. The possible answers to this question are manifold, and it has often been argued that much of the scholarly debate revolving around integration in Europe and elsewhere is attributable to the fact that no two people mean precisely the same thing by the term. Furthermore, many approaches to the study of integration are overburdened with normative, rather than descriptive-analytical, content. As early as 1972, David Puchala lamented that

we have all too often found international integration discussed in terms of what it should be and what it should be leading toward rather than in terms of what it really is and is actually leading toward [...]. I should think that those of us in the field would rather be embarrassed at the fact that after fifteen years of effort we are still uncertain about what it is we are studying (Puchala 1972: 268).

Generally speaking, the following dimensions of “integration” have been distinguished:

- integration as a process (any discernible development toward closer cooperation) or as a final state (such as Karl Deutsch’s “security communities”, or various federal arrangements);
- integration comprising negative steps (removal of trade barriers, such as tariffs and import limitations) or positive steps (pro-active policies of cooperation and joint decision-making);
- formal integration (political agreements embedded in formal treaties or institutions) or informal integration (development of informal norms and rules that govern the actors’ behaviour); and
- political integration or economic integration.

Furthermore, scholars have suggested distinguishing five stages to assess the density of integration achieved within a given region. Regional integration, accordingly, falls into one of the following categories: Free Trade Area (FTA), Customs Union, Common Market, Economic Union, or Political Union. According to this classification, most regional agree-



ments have remained at the stage of FTA and only a very few, such as the European Union or Mercosur, have reached a higher level of development (El-Agraa 1994). Leo Lindberg, in turn, offered a more general definition of the term, describing integration as “the development of devices and processes for arriving at collective decisions by means other than autonomous action by national governments” (Lindberg 1963: 5-6).

In regard to the present and future of cross-Strait relations, it is no easy matter to lay down pragmatically the minimum requirements that need to be fulfilled before we would come to the conclusion that some form of “integration” has been achieved. A yardstick of integration that demands the emergence of strong and independent supranational institutions, like in the European Union, would obviously be far too ambitious and we would be in danger of missing much of the integrative momentum. At the same time, I believe that the mere removal of trade barriers would hardly be sufficient to fit the bill. After all, with such a “weak” requirement for integration in mind, one could easily argue that all of the more than 300 regional and bilateral free trade agreements in force today entail some kind of “integration”. Indeed, it can be observed that the proliferation of FTAs has been particularly pronounced in East Asia; in a process that has been termed the “Asian Noodle Bowl”, the number of FTAs has increased from only three in 2000 to over 60 in 2012 (Baldwin 2007; Kawai and Wignaraja 2011; Loewen 2009). If we assume that all those numerous, overlapping, multi-level trends toward trade liberalization are indications of “integration”, the term would then be in danger of losing all analytical meaning. Even though the notions of globalization, economic interdependence and integration are clearly related, it is still important to keep them analytically separate.

In addition, integration is a phenomenon which, depending on the focus of research, may be presumed to emerge in many fields, and the potential indicators of it, as well as the ways to measure and evaluate it, are therefore nearly inexhaustible: the mass media, academic and religious exchange, foreign policy coordination (or the lack thereof), linguistic alignments, strategies of young professionals seeking job opportunities in foreign countries, exchange in the area of sports and NGOs, tourism, and even consumers’ preferences in pop music and fashion. There is almost no aspect of life which could not serve, in one way or another, as a reference point for “integration” (and, predictably, each indicator could again be called into question).

While those factors, which may be roughly termed “informal” or “societal” integration, certainly present interesting and challenging fields of academic enquiry, they are of no immediate concern for my contemplations. I will, instead, limit my observations to those fields which I believe to be of greatest import and which, based on the European integration experience, constitute the core of integrative forces: the economy, as well as possible spill-over effects into the wider field of politics. Consequently, I will use the term “integration” in the sense of states’ efforts to provide formal and common rules, regulations, and policies to a region, with a special focus on the economic realm. I will follow Walter Mattli’s approach in arguing that these efforts

may be viewed as an attempt to internalize externalities that cross borders within a group of countries. The cost of these externalities increases as new technologies raise the potential for gain from market exchange, thus increasing the payoffs to regional rules, regulations, and policies (Mattli 1999: 3).

Both the extent and success of integration will need to be observed and qualified on a case-by-case basis. Integration, in that respect, may be likened to “art” – something difficult to define, but we will know it when we see it.

## Can We Compare European Integration with Cross-Strait Relations?

Any scholarly enquiry into the feasibility of regional integration is confronted with the challenge that virtually all reasoning about integration was originally developed within the specific socio-political and cultural context of post-war Western Europe. Ever since the beginning of the European project in the early 1950s, scholars of the political and social sciences (above all, Ernst Haas, Philippe Schmitter, James Caporaso, Roger Hansen, Stanley Hoffman and Andrew Moravcsik, to name but a few) have wondered about the driving forces behind this integrative momentum. Virtually dozens of explanations have been offered and tested at various times, and yet the debate is far from concluded.

Despite the fact that all the leading theories of European integration claimed to capture universal truths about state behaviour, many scholars have argued that the level of integration achieved in Europe, both in quality and quantity, could not possibly be paralleled by any other region

in the world, and that the *sui generis* European Union has transcended the realm of traditional international regimes. Consequently, scholars of the “comparative politics” school have argued that the European Union today should be conceptualized not as an international regime, but rather as a polity in its own right and that meaningful comparison should be directed toward governance issues in other federalist states such as Switzerland, the United States or Germany (Armstrong and Bulmer 1998). The upshot of this so-called “n=1” problem, in short, was that the European Union, due to its uniqueness, could no longer be depicted by conventional theories of international relations, but rather required an isolated field of “European Studies”.

It is evident that Europe differs markedly from the case of Taiwan–China, and it would be an easy task to point out a large number of differences between these two regions, such as the size and numbers of actors involved (six founding members of the European Community (EC), compared to two actors in cross-Strait relations); differences in the socio-political make-up (democratic states in Europe, compared with socialist China and democratic Taiwan); the diverging cultural and historic backgrounds of the two regions; contested sovereignty (a topic that will be discussed in greater detail below), and many more. A simple adaptation of European integration theory to a completely different regional setting such as Taiwan–China would, in the word of James Caporaso, “yield incorrect predictions not because the theory is wrong but because it is the wrong theory” (Caporaso 1999: 163).

Without doubt, to choose a comparative approach is a delicate undertaking; even the very term “comparison” can be misleading. While the general wisdom holds that you cannot compare apples to oranges, it is likewise true that only those things which are intrinsically different provide the material for interesting comparison (after all, why would one compare apples to apples?). Stated simply, while employing the term “comparison”, we do not necessarily assume a high degree of sameness between two things. A comparative enquiry can likewise lead us to recognize differences and to better understand how and why those differences matter. Of course, it can hardly be expected that the European prototype will be duplicated in cross-Strait relations. And yet, I still believe that Europe, the one region in the world where integration has been most successful and has progressed for the longest time, can provide some valuable insights into cross-Strait relations, lessons which would be foolish to disregard.

## Integration in a Region of Contested Sovereignty

At first glance, the most serious objection that must be raised regarding the feasibility of integration in cross-Strait relations is undoubtedly the topic of contested sovereignty. In all fairness, it must be admitted that the various theories of European integration will not be able to provide an answer to that problem, for the simple reason that those theories were not designed to explain integration in such a regional setting. Furthermore, the few examples of sovereignty-related issues between present and prospective EU member states (Cyprus–Turkey and Slovenia–Croatia) do not give us much reason for optimism, but rather seem to confirm the suspicion that sovereignty disputes might indeed pose an insurmountable obstacle to integration. In the case of the Republic of Cyprus, an EU member state since 2004, the sovereignty dispute concerns the status of the northern part of the island where the “Turkish Republic of Northern Cyprus” was established after a military intervention by Turkey in 1974. This Northern Republic is recognized only by Turkey, while the rest of the international community accepts the Republic of Cyprus’ sovereignty claim over the entire island. The dispute between Croatia and Slovenia, the latter having joined the EU in 2007, revolved around a stretch of ocean in the Bay of Piran, originally claimed by both sides. The conflict was not resolved until June 2010, when a proposed settlement was accepted by both countries through referenda. Those sovereignty disputes have posed, and in the case of Turkey continue to pose, tremendous obstacles for the admission of both Turkey and Croatia into the EU.

The case of Taiwan–China, however, differs markedly from our common understanding of disputed sovereignty. The two sides’ diverging positions do not involve any manifest claims over disputed territory with, for example, the mainland maintaining that Taiwan’s offshore islands should rightfully belong to the People’s Republic of China (PRC), rather than the Republic of China (ROC) on Taiwan. Instead, the two sides differ in their interpretation of Taiwan’s international status with regard to “One China” and what, precisely, this “One China” means. In this respect, as Zhang Yazhong has pointed out, the situation might be compared to the state of affairs between East and West Germany from 1949 to 1990 (Zhang 2000). Put differently, there can be no doubt that the Taiwanese authorities are perfectly capable of exercising effective political control over the territories under their *de facto* jurisdiction, a

fact implicitly recognized even by Beijing. Dennis Hickey made the interesting observation that

China's leadership stresses that it opposes the *de jure* independence of Taiwan. Until recently, no Chinese leader dared utter the term as it implied recognition of Taiwan's *de facto* independence from the mainland (Hickey 2009: 42).

The two sides need not necessarily find an ultimate solution to the problem of contested sovereignty in order to engage in cross-Strait negotiations, however. If some kind of *modus vivendi* were to be established that would allow both parties to recognize the other's effective jurisdiction and thereby accept the respective counterpart as a legitimate negotiation partner, this would be sufficient. It can be argued that this process has already started.

However, there can be little doubt that the negotiation process will frequently be affected and impaired by the two sides' vigilance about national sovereignty.

First, for both Taiwan and mainland China, the bottom line of negotiations will, as far as can be predicted, remain in very close proximity to the state of affairs as it stands today. This means that both sides will have very little scope of action for departing from the status quo of cross-Strait relations enshrined in the ambiguous "1992 Consensus". This impediment will, in particular, become apparent in negotiations about issues of a non-economic nature, such as certain judicial matters or the installment of conflict resolution mechanisms. Since integration at the initial stage cannot provide a solution to this problem, a lot will depend on the two sides' ability and willingness to set aside the topic of contested sovereignty and, in particular, to refrain from taking advantage of those dissonances in order to affect public opinion. For negotiations to succeed, it is imperative that some form of "technocratic" policy style prevail – that is, a mode of interactions shaped by technical expertise, professional competence, and sober pragmatism: a policy style which will, in the words of Ernst Haas, permit "the economic technician [to] play his role within the shelter of the politicians' support" (Haas 1958: 232). This observation does not imply that such a "technocratic" policy style is necessarily appropriate, or even desirable, for cross-Strait interactions. Indeed, it may be viewed (and, in the case of Europe, has frequently been criticized) as quite undemocratic in essence. And yet, some scholars still claim that for integration to succeed, inter-state negotiations

are dependent on a certain degree of “insulation” from the daily clamour of public debate.

Second, whereas contestations about economic issues are competitive in nature, controversies about sovereignty can be thought of as mutually exclusive. In the field of economics, each side will enter negotiations with a “best solution” in mind, but will be willing to accommodate the demands of the opposite side in order to secure a deal which represents an improvement, as compared to a non-agreement. A win-win situation is likely, even though the relative gains will be contested. Diverging positions about Taiwan’s sovereignty, by contrast, more closely resemble a zero-sum game, since any gain for one side must be to the disadvantage of the other and it is hard to see how a win-win situation might be accomplished.

Finally, while economic negotiations will be based on sober calculations of tangible profits, the two sides’ dispute over sovereignty will, occasionally, show a much more irrational disposition. What is at stake is not only Taiwan’s de facto independence or each side’s respective adherence to the “One China” principle, but the very perception that either of those maxims might be compromised. It is quite conceivable that negotiations will be impeded by sovereignty issues which for all intents and purposes do not imply any actual deprivations, but which still have an impact on the perceived national honour. Due to this high degree of subjectivity, the element of sovereignty is difficult to operationalize in a stringent manner, since irrational behaviour, by definition, does not lend itself to stringent analysis, which must assume that the actors are behaving rationally.

## Regional Integration and Regional Leadership

Many scholars claim that a successful integration project relies heavily on the presence of a leading country in the region. The argument, most compellingly advanced by Walter Mattli, maintains that any integration project is faced with the problem of distributional conflicts. Even though the absolute gains of integration must always be pareto-efficient, there will still be losers and winners in relative terms. A “benevolent hegemon” in the region, which has a particular stake in the integration scheme succeeding, can ease the resulting conflicts over the distribution of gains. As Walter Mattli wrote,

Such a country serves as a focal point in the coordination of rules, regulation, and policies; it may also help to ease tensions that arise from the inequitable distribution of gains from integration – for example, through side payments. Contested institutional leadership or the absence of leadership makes coordination games very difficult to resolve (Mattli 1999: 42).

In Europe, this role of a “regional paymaster” was, it is argued, shouldered by Germany, which explains why this country provided and continues to provide by far the greatest financial contributions to the European Union in terms of direct transfer payments, which are far out of proportion, even in relation to Germany’s relative economic strength.

It should be emphasized that this assumption of regional leadership, which necessarily implies a certain degree of inequality amongst the actors, does not violate the basic principles of integrative reasoning. Indeed, scholars of the “New Regionalism School” have even argued that virtually all successful projects of regional integration are promoted and guided by “great powers” attempting to further their political and geo-strategic, rather than economic, ambitions. As Hao Pei-chih pointed out,

For great powers in particular, the trade creation and trade diversion effects of regional economic cooperation are negligible [...]. In addition to the traditional trade and economic interests, great powers tend to value the political dimensions of regional economic cooperation and its non-economic factors. Sometimes, political reasons have been more important than economic reasons for initiating RTAs [regional trade agreements] (Hao 2009: 175).

In the context of cross-Strait relations, there can be little doubt that this role of “regional leader” might apply to mainland China, rather than Taiwan. The differences in market size alone are enormous: In 2011, the PRC’s gross domestic product (GDP) of 7.29 trillion USD made China the second-largest economy in the world, second only to the US and 16 times larger than Taiwan, which ranked 26<sup>th</sup> in the world that year with a GDP of 466 billion USD (IMF 2012). At the same time, the patterns of economic exchange are clearly asymmetrical in nature, as the former director of Taiwan’s Council for Economic Planning and Development of the Executive Yuan, Prof. Chen Tain-Jy, pointed out (Interview 1). While more than 40 per cent of Taiwan’s exports go to the Chinese market (including Hong Kong), the PRC’s exports to Taiwan account for no more than 2.3 per cent of China’s total export trade. Consequently, the

direct economic impact of liberalization policies across the Taiwan Strait will be marginal for China.

In short, due to its much larger market size and “One China” ideology, China might be both tempted and obliged to don the cloak of regional leadership with regard to Taiwan and to accept the responsibilities and opportunities arising from that claim.

Based on this premise of “regional leadership”, it can be expected that the Chinese mainland will be prepared to offer substantial economic benefits to Taiwan in return for continued negotiations and, ideally, the latter’s acknowledgement of Chinese supremacy (Womack 2009). Indeed, most observers concur that cross-Strait negotiations to date have clearly been beneficial to Taiwan, much more so than to mainland China. Based on ECFA’s “early harvest list” announced in June 2010, selected industries and services enjoyed preferential treatment immediately after the implementation of ECFA on 1 January 2011. While mainland China agreed to lower the tariffs on 539 items, affecting 16.14 per cent of Taiwan’s total exports to China, the respective number of lower tariffs for goods from China to Taiwan was 267 items, comprising no more than 10.53 per cent of China’s exports.

Chinese concessions to Taiwan’s economic demands, however, will be neither inexhaustible nor unconditional. First, the mainland will have a bottom line of what can be offered economically and will be under pressure to fulfil certain minimal expectations from domestic economic interests. Second, Chinese patience and generosity might quickly run low if the mainland receives or believes it will receive insufficient political pay-offs from its tolerant economic approach. Recent incidents, such as the controversial removal of Taiwan’s national flag from a public display area at the London Olympic Games, most likely at the instigation of China, can provide an indication of the mainland’s sensibilities on this topic (*Taipei Times* 2012b).

This basic configuration will, without doubt, present a difficult and delicate negotiating environment for the Taiwanese leadership that will need to be handled with a great amount of foresight and caution.

## Institutional “Locking-in” of Agreements

With regard to the European integration process, many scholars have argued that the creation of institutions, whether they be supra-national entities such as the EC or binding commitments enshrined in treaties,



“are best explained as efforts by governments to constrain and control one another – in game-theoretical language, by their effort to enhance the credibility of commitments” (Moravcsik 1998: 9).

Two points deserve special attention: First, this instrument of “locking in” agreements is employed by states not only to control one another. In democratic societies, governments also aim for an institutional “lock-in” in order to constrain foreign policy choices for future governments in case of a change of power. In other words, the basic precepts of a country’s foreign policy orientation are being isolated from the democratic process. For cross-Strait relations, the basic concept of “locking in” foreign policy preferences is certainly of greatest relevancy to the decision-making process in Taiwan, where cross-Strait policy is a matter of fierce partisan and ideological contestation. In the past, the opposition parties of the “Green” camp, the Democratic Progressive Party (DPP) and the Taiwan Solidarity Union (TSU), have made it abundantly clear that the current *modus vivendi* between mainland China and Taiwan, the “1992 Consensus”, is no more than an informal understanding reached between the Chinese Communist Party (CCP) and the KMT, but never endorsed by the opposition. Even though the newly elected DPP party chairman, Su Tseng-chang (Su Zhenchang), has recently proclaimed that the opposition should seek creative ways of engaging China with “a flexible attitude” (*Taipei Times* 2012a), the picture remains mixed. The longstanding “Taiwan independence” agenda of the DPP is still adamantly upheld by the powerful “New Tide” faction within the party, and there can be little doubt that this mindset will leave an imprint on the overall orientation of the opposition with regard to cross-Strait exchange.

This consideration will, in all probability, serve as a very strong incentive for pro-integration forces on both sides. Both the KMT government and mainland Chinese officials in charge of formulating cross-Strait policies are very much aware that a change of government in Taipei, which might bring into power a new leadership with pronounced reservations about cross-Strait engagement, could call into question all the achievements of the past; such are the woes and wonders of democratic societies.

Both mainland China and a KMT-led Taiwanese government will therefore be eager to cast their agreements into a permanent and stable form. In this context, it might also be expected that the timing of institutional agreements will show a certain correlation to major elections in

Taiwan. By contrast, China might be rather reluctant to enter into institutionalized arrangements with a DPP government, and instead might pin its hopes on a return to power of a more China-friendly leadership in Taiwan. This does not imply that the integration process will come to a complete standstill (or even reversal) in the case of a DPP takeover in the future. The signing of major treaties, however, might be delayed.

Second, the strength of institutions will be considerably diminished if states have the freedom to “exit”. Exit options present states with the choice of retracting from previous commitments, and thereby retarding or even reversing the integration process. The decisive point, however, concerns the question of not only whether such exit options are formally introduced, but also whether they represent a practical, viable choice for policy-makers. For even if the agreements between China and Taiwan should allow for such a possibility, as ECFA indeed does, it is quite feasible that the political and economic costs of “exiting” would be too high to be considered seriously. With regard to the European Union, where the choice of “exiting” was, quite interestingly, not formally introduced until the Lisbon Treaty came into effect on 1 December 2009, Paul Pierson observed that,

when actors adapt to the new rules of the game by making extensive commitments based on the expectation that these rules will continue, previous decisions may “lock in” member states to policy options that they would not now choose to initiate. Put another way, social adaptation to EC institutions and policies drastically increases the cost of exit from existing arrangements for member states. Rather than reflecting the benefits of institutionalized exchange, continuing integration could easily reflect the rising costs of “non-Europe” (Pierson 1998: 42–43).

Having stated that, the opposite of course might also be true. In the absence of effective sanction mechanisms, states might choose to forestall the integration process by simple non-compliance to previous commitments if the political and economic costs seemed acceptable, even if such an option was not included or was even specifically precluded in the original agreements.

Mainland China will therefore strive to make the agreements “waterproof” – that is, to raise the costs of exiting to a degree that this option seems no longer viable. The leadership in Taiwan, by contrast, will need to weight its options with great caution. The policy-makers responsible for cross-Strait policy are, from their subjective estimation, certainly

acting with the best intentions for the safety and welfare of the country, and will therefore be likewise inclined to ensure the durability of agreements. Considering the widespread public opposition and suspicion, however, a policy of irreversibly committing the island to a course of deepened engagement with China might easily be branded as treason, as “selling out” Taiwan to the mainland, which, in turn, would diminish the KMT’s prospects for re-election.

## Regional Integration and Public Opinion – Schelling’s Paradox of Weakness

Since the Ma administration took office in May 2008, the pursuit of liberalization policies toward the Chinese mainland has ranked as one of the country’s top foreign policy goals. Since the contact between the semi-official institutions of the SEF (Taiwan) and the ARATS (China), which had been discontinued in 1999, was resumed in June 2008, cross-strait relations have experienced a tremendous transition that only few observers would have thought possible. While those changes have been most tangible in the economic realm, in particular, after the signing of ECFA in 2010, the new dynamics of Taiwan–China interactions have left their mark on virtually all spheres of life. Never before in history have relations between the two former rivals become intertwined to such a degree; this represents a historic process that will most likely continue for some time to come.

Those developments, however, have been the source of both expectation and anxiety within the wider populace. Many of Taiwan’s inhabitants regard the drive toward closer cross-strait interaction with a considerable amount of reluctance and suspicion, and fear that the very survival of the island as a *de facto* sovereign nation might be in jeopardy. The opposition parties, in turn, have made every effort to capitalize on those well-grounded anxieties.

As can be witnessed in the context of the European experience, integrative policies are often faced with considerable dissatisfaction and suspicion on the part of the wider public. This negative attitude was frequently observed in countries applying for membership of the European Union. Some countries that submitted the membership application for public referendum were able to secure only a slim majority for EU admission. For instance, in Malta, 48 per cent of the electorate opposed EU membership. However, it could generally be observed that outright

rejection of the Union subsided over time, after the benefits of EU membership (particularly in terms of agrarian subsidies) became apparent. This was, for example, true in the case of Poland: While almost half of the population (47 per cent) initially opposed Poland's admission to the EU, this country is now one of the greatest beneficiaries of EU subsidies, and the Union, as a consequence, now enjoys overwhelming public support in Poland. But even in established EU member states, the deepening of the Union through major treaties has not always been widely popular. In those countries where major EU treaties were decided by general referenda, they were often rejected by the electorate (such as in Denmark and Switzerland in 1992, Norway in 1994, France in 2005, and Ireland in 2008).

However, it is quite intriguing to observe that some countries deliberately take advantage of their citizens' negative attitudes toward EU empowerment and use it as leverage in the inter-state bargaining process. This phenomenon is expressed by "Schelling's paradox of weakness" (König, Finke, and Daimer 2005), which assumes that governments whose hands are tied by skeptical domestic public opinion actually enjoy more bargaining power (within the Union) to derive more benefits from the negotiating process.

For the Chinese mainland, the question of public opinion is, of course, largely irrelevant. Even though the so-called "Taiwan question" has served as an important source of legitimacy for the regime and a preeminent rallying point for nationalistic sentiments, the political leadership in mainland China is not obliged to subject its decisions to public scrutiny in the same manner that politicians in democratic societies are. In contrast, this "paradox of weakness" might be of some relevance in the case of Taiwan. Some observers have claimed that cross-Strait negotiations have been considerably influenced by the opposition's high degree of suspicion and reservation regarding the government's pro-China policy. In an interview with the author, the deputy director of the Macroeconomic Forecasting Center at TIER, Gordon Sun, claimed that many of the economic benefits secured by the Taiwanese side had precisely been due to the mainland's concern about widespread public opposition on Taiwan. As Sun maintained, "The DPP did play an enormously important role – the role of the 'bad guy' (黑臉, *bei lian*), even though they were not even at the negotiation table" (Interview 2).

However, many critics claim that the Ma administration has failed to make use of this strategic tool to its full extent, since negotiations on

ECFA have not been subject to sufficient public debate and scrutiny. For instance, from a strategic point of view, a public referendum on ECFA, which is vehemently demanded by large parts of the political opposition, could certainly have merit, despite the fact that it would probably fail to overcome the high thresholds set down by Taiwan's Referendum Act (Lin 2004). In the eyes of many critics of ECFA, the government has so far failed to give maximum exposure to the public controversy surrounding this agreement, thereby presenting an outlet for opponents to voice their dissent, which in turn could persuade the Chinese mainland to offer even more economic benefits to Taiwan.

## Integration and Regional Stability

It is a widely undisputed fact that regional integration presents one possible solution to security concerns within a potentially unstable region. Accordingly, it has often been argued that, after the traumatizing experience of the Second World War, European integration was partly promoted by states' desire to prevent future German and/ or Soviet aggression, and that the safeguarding of an enduring peace had been very much at the forefront of integration proponents' considerations (Eilstrup-Sangiovanni and Verdier 2005). This element of ensuring stability, or put negatively, preventing military conflict, is likewise of highest saliency in the context of Taiwan–China relations, arguably much more so than in the European experience.

From Taiwan's perspective, this point hardly begs further explanation. Mainland China has never renounced the use of force as a legitimate means to bring Taiwan back into the fold of one united China and has recently made considerable efforts to prepare for this eventuality. In recent years, the People's Liberation Army (PLA) has made tremendous efforts to modernize and reconfigure its military capabilities, foremost in those branches of service that are considered essential for maritime and amphibious warfare. Since 2007, the budget of the PLA has increased by roughly 18 per cent annually, totalling an estimated 607 billion CNY (106.4 billion USD) in 2012. Military experts, however, have claimed that even those estimates might still be much too low, since the PLA, like the armed forces in many large countries, is reluctant to disclose the true amount of its military spending (Global Security Org 2012). Since there are no obvious potential enemies in the region that might threaten China's shores, many observers have concluded that China is indeed prepar-

ing her armed forces for a military conquest of Taiwan. The topic most widely discussed by the Taiwanese public is the ever-increasing deployment of Chinese short- and middle-range missiles targeting the island. According to a report from the Mainland Affairs Council, the number of those missiles had exceeded 1,500 in 2009 (*Taipei Times* 2009). Even though Taiwan has recently acquired new military hardware to counter the PLA's armament, it seems inevitable that the military balance in the Taiwan Strait will increasingly tilt in China's favour in the future. For Taiwan, the pursuit of some sort of understanding with the mainland that serves to enhance its national security is therefore of obvious significance.

But even from the perspective of the PRC, military capabilities should not be confused with political intentions, since the outbreak of open hostilities might lead to disastrous consequences. For even if we assume a military scenario ideally suited to the Chinese mainland – that is, a conflict where the PLA might enjoy a considerable technological and numerical advantage over its adversary, and where the US or other major powers might not intervene – the Taiwanese armed forces would certainly still be capable of inflicting tremendous damage. In this context, it is interesting to observe that Taiwan's strategy for a possible conflict with the mainland has apparently been subjected to significant changes in recent years. While Taiwan in the past had mostly focused on defensive measures to repel an anticipated invasion, the new defence strategy puts more emphasis on the development of deterrent capabilities to preclude or, if this should fail, avenge a Chinese attack. While the relative strength and capacity of the armed forces on both sides of the Taiwan Strait are, of course, treated as top secret (reliable information being therefore difficult to obtain), some observers claim that Taiwan has recently developed and deployed new short-range missiles (Xiongfeng II E) with a range of at least 800 kilometres (according to some sources, up to 1,500 kilometres), an operating range which would effectively target major cities along coastal provinces within China (DPA 2010). The possible implications of such a major cross-Strait conflict are almost beyond imagination and there is little doubt that China, even if victorious, would suffer enormously in terms of human lives lost, arrested economic development and damaged international reputation, even to the point where the very survival of the regime might be in danger. To illustrate the point, the reader might attempt to imagine what the consequences of a Taiwanese air force attack on targets on the Chinese mainland, or even

the mere threat of such an action, would be for the Shanghai stock market.

Disregarding frequent sabre-rattling, it is therefore reasonable to assume that the Chinese leadership would go to considerable lengths to avoid a major military confrontation. At the same time, China's political leaders have manoeuvred themselves into a rather delicate position. Over the last two decades, the CCP has strongly promoted nationalism as the new state ideology in order to compensate for the legitimacy deficit after the de facto failure of socialism. Taiwan, in this context, is of utmost significance. Due to the opacity of the decision-making procedures within the Chinese leadership, it is not easy to fathom the extent to which ultra-nationalist forces within the regime, in particular within the military, might be able to capitalize on the Taiwan issue in times of political crises. Chinese policy-makers, due to their own propagandistic machinations, might one day find themselves compelled to deliver on the demands of nationalist sentiments and could therefore, against their better judgement, be drawn into a conflict with Taiwan and possibly the United States.

In summary, for both China and Taiwan, the question of regional stability remains a volatile and vital issue. In order to reduce uncertainties and the danger of misperceptions, both have strong incentives to set up a cross-Strait framework of interaction which can foster mutual trust and predictability. I believe that this pivotal issue, which concerns the very survival of the state, will constitute one of the strongest motives for the pursuit of integrative policies.

## The Limits of Integration

Many scholars in Taiwan and China who write on the topic of integration tend to depict the process of integration as a new approach to finding an ultimate solution to the longstanding issue of contested sovereignty between Taiwan and mainland China, a perception also frequently expressed in the public media. This view is based on the expectation or concern that cross-Strait integration must necessarily lead to some type of political amalgamation, a Chinese–Taiwanese “super-state” capable of transcending and erasing national boundaries and antagonisms. To this end, the European Union is often portrayed as an example worthy of emulation.

I believe, however, that this notion is in danger of placing too great a burden on the potency of integrative forces. There is no guarantee that integration in Europe and between Taiwan and China will develop along similar paths, and it is quite feasible, even likely, that the integrative potential inherent in cross-Strait relations will carry the process no further than similar projects in North America (NAFTA) or Latin America (Mercosur), if that far at all.

But even if we assume that the density of integration between China and Taiwan will one day resemble that of the European Union (a region, after all, where integration has proceeded for more than 50 years), we might still question to what extent such a hypothetical “cross-Strait union” would satisfy the expectations of “One China” proponents. We should be cautious not to unduly glorify the European model. To be sure, the EU has fundamentally changed the rules of states’ interactions and the governance provided by supranational entities affects the daily lives of all of its citizens. And yet, it is evident that national sentiments and rivalries are far from being resolved. Recent occurrences in Greece and elsewhere have exposed the fragility of European unity, and every country, far from perceiving itself as a member of one united European family, continues to strive and compete for national gains and benefits. European integration, furthermore, has progressed almost exclusively in the wider field of economics, including monetary and regulative policies. In regard to what might be termed the “core” of state sovereignty – above all, internal and external security, but also external relations and diplomacy – there has been little to no progress. The idealistic concept of the “United States of Europe” has remained an unattainable utopia.

In summary, I believe that integration between China and Taiwan will serve to elevate mutual trust and predictability. Strong supranational actors may or may not evolve. Most importantly, the process, if successful, will almost certainly decrease the danger of military confrontation. However, if there is one important lesson that we can learn from the European experience, it is the realization that the nation-state will be neither replaced nor superseded, but will remain the major focus in structuring human affairs, commanding and pooling citizens’ loyalties and expectations. Consequently, the issue of contested sovereignty, with all its potential dangers and uncertainties, will continue to haunt cross-Strait relations for some time.



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