

# Prospects of Political Integration of China Mainland and Taiwan

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## Abstract

An analytical framework similar to the one used in econometric analysis was applied to estimate the probability that China mainland and Taiwan will be politically integrated within 30 years. Six explanatory variables are used. Given the author's judgment on the effect of each, the resulting probability of integration is less than one third. Room for disagreement on this conclusion is discussed. This paper is based on an invited keynote address presented on June 27 before an international conference on "The Integration of the Greater Chinese Economies" organized by the Chinese Economists Society held at the Hong Kong University of Science and Technology.

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It gives me great pleasure today to see all of you and to witness the Chinese Economists Society flourishing and playing an important role in promoting research and exchange of ideas in both sides of the Pacific. I recalled that your Society had its origin at a meeting at the home of Liang Heng in New York City in 1984 with about seven persons present. Two of the participants were Yu Dahai and Yang Xiaokai, both graduate students of Princeton. The group discussed the forming of a Young Chinese Economists Society. I was enthusiastic about the idea but Dahai that the word "Young" should be omitted because the members would surely not be young in the future. In 1985, the first meeting of the Society was held at the Chinese Consulate General in New York with some fifty persons attending. It is heartening to find the Society having grown so much in different directions, including the sponsorship of *China Economic Review*.

The topic of this conference is the integration of the Greater China economies with most papers devoted to economic integration. I would like to discuss with you a related topic “prospects of political integration of China Mainland and Taiwan.” I have chosen this topic for two reasons. First, members of this Society are interested in the topic not only because it is related to the theme of this conference but also because it is of concern to all Chinese people. Secondly I hope to demonstrate how methods of economic analysis can be applied to study this important question. You and I may come to different conclusions but I hope to convince you that we can apply the same analytical framework to study my chosen topic.

Before I begin, a brief review of the historical background is in order. Taiwan was a part of China until 1890 when the sovereignty was surrendered to Japan after China had been defeated in the Sino-Japanese War. The Japanese ruled Taiwan until 1945 when it was defeated in the Second World War, and sovereignty was returned to China. To my knowledge, the Taiwan population rejoiced when the island was returned to the motherland as they conceived it. Most people in Taiwan are offspring of immigrants from China. They share the same cultural heritage. When government officials took over Taiwan from the Japanese, some abused their power, as other government officials did when they recovered mainland China from the Japanese. They confiscated properties for their own economic gain. Some government officials took over commercial, industrial and residential properties previously controlled by the Japanese and used them to make money for themselves. They made government monopolies out of industrial and commercial enterprises to the exclusion of private economic interest, and pocketed a large part of the materials, outputs or profits.

In Taiwan, political conflict started from an incident in February 1947 when a female cigarette vendor and her two children were beaten, and later died, because she had protested the seizure of her cash and allegedly untaxed cigarettes. This led to demonstrations, and the government lost control and killed many protesters in March 1947. The government under Chiang Kai-shek became unpopular in Taiwan, as it became unpopular in the mainland because of similar misconduct of government officials. The

only difference is that when Shanghai government officials mistreated Shanghai residents, the government was to blame. When government officials from the mainland mistreated Taiwan residents, the blame went also to the mainlanders as a group, and to the mainland government conceived as an occupation force coming from outside. Hence many Taiwan residents do not want to be a part of China. The past misconduct of the PRC government has also contributed to this mistrust. Without going into a historical analysis in depth, we can understand that today many residents of Taiwan do not consider Taiwan as a part of China, as most members of the Chinese Economists Society would.

In recent years, representatives of the People's Republic of China have attempted to negotiate with representatives of Taiwan on the unification of the two political entities. There has been little progress because the government of Taiwan is not in favor of unification. Without going into the current state of negotiation or lack thereof, I would like to discuss with you the long-term prospects of political integration of the two regions.

Thinking as a quantitative economist I can translate the word “prospects” in the title of my talk into the word “probability.” “Political integration of Mainland China and Taiwan” can be considered an “event” as the term “event” is used in statistics. We are discussing the probability of an event. To define the event more precisely let us first specify the time. I propose to specify the event occurring within 30 years or by about 2030 as the subject of interest, although others may choose a different time frame for discussion. Note that the event “political integration” appears to me to be a discrete variable whereas “economic integration” is a continuous variable. Economic integration can be measured by an appropriate weighted average of several indices, such as the volume of trade and investment flows as percentages of outputs of the two economies. Political integration could also be defined as a continuous variable but most people are interested in whether some form of integration, however defined, will either take place or not. For the purpose of the present discussion I will not specify precisely a particular form of political integration and will accept any reasonable form that most of you would accept as political integration. Broadly defined, political integration means the existence of one political entity having some form of jurisdiction over both areas.

Having specified our topic as the probability of a certain event, I need to specify a model to determine the probability. Standard econometric models to determine the probability of an event have come to mind. In contrast with regression models that explain continuous random variables, we have models that determine the probability of an event as a function of some independent variables. Two such models are probit and logit models. In each case, a linear function of the independent variables is formed. The probability is obtained by transforming the value of this linear function to a point in the interval between zero and one using a cumulative normal mapping or a logit mapping as the case may be. Can such a model be applied to determine the probability of political integration of mainland China and Taiwan? Yes and no. Yes, the model can be used as a framework of analysis in bringing in the important explanatory variables and evaluating the effect of each variable on the probability. No, the model cannot be estimated by standard statistical methods.

The main difference between predicting an event in econometrics and predicting a political or historical event is that the former can be viewed as the outcome of a repetitive random process whereas the latter is a unique event. For example, when the logit model is used to determine the probability of a certain family buying a car, the statistician can use a sample of many families and estimate the parameters of the model by observing the relation between car purchase and selected family and automobile characteristics. In the present case of determining the probability of the unique historical event of political integration there are no other cases to observe as in the case of statistical sampling. In other words, we cannot rely on sample observations from a given population.

However, we can still proceed to specify the important variables or factors that determine the probability of political integration within thirty years. Economists can differ in the selection of the most important factors and in evaluating the effect of each factor on the probability of integration. For discussion let me suggest the following list of most important factors:

$X_1$  = use of military force by the PRC government

$X_2$  = use of non-military pressure by the PRC government

$X_3$  = improvement of economic conditions in mainland China

$X_4$  = improvement of the political system in the mainland

$X_5$  = economic and political development of Taiwan

$X_6$  = economic and cultural exchanges that promote political integration

You are welcome to add to and subtract from this list, but the above suffices for our discussion of this topic. Please note that the effects of these factors may not be linear. Interactions of the factors may be important, but for the sake of simplicity I will discuss mainly the effects of these factors entering linearly. The first two will result in an involuntary integration whereas the remaining four will lead to a voluntary integration.

Consider first the possibility of use of force by the PRC. Treat  $X_1$  as a discrete variable, with a value 1 representing the use of force and zero representing not using it. Although the PRC government has not ruled out the use of force for the purpose of unification (its terminology), many observers deem this unlikely for several reasons. First, there will be repercussions from the international community. Second, objections from the Taiwan population would make a unification achieved by force not worth the cost. Third, the PRC government has many other important tasks to perform, including modernizing the Chinese economy and political system, that would prevent it from engaging in such a risky military project. Even if  $X_1$  takes the value 1, its coefficient may be small. That is, its effect on increasing the chance of a political integration may be small.

Second, consider the use of non-military pressure including efforts to isolate Taiwan diplomatically or enforcing some form of economic blockade. Its coefficient may not be large because the positive effect of applying pressure is partly balanced by the negative effect of resentment and resistance. However the effect of this variable has to be taken into account. Some observers believe that its effect on the probability of political integration is substantial.

Third, concerning the improvement of economic conditions in the mainland let us consider the value of the variable and the size of its coefficient. The value is probably large. In less than thirty years China will almost surely become an economic power. In Chow (2002) I forecast that by the year 2020 the total output of China measured in 1998 US dollars, as calculated in World Bank (2000, table 1, p. 230), will equal or exceed that of the United States. In thirty years the per capita real income of several provinces of China will be larger than that of Taiwan. There might be disagreement on relative per capita real incomes in the two economies, but most observers can agree that many parts of China will be richer than Taiwan. Even today, a comparison of the economic standards of Shanghai and Taipei can suggest what is to come in the future. At least, the relative poverty of China in the past will no longer be a hindrance to political integration. On the contrary, the economic wealth of mainland China, and with it the international status of the Chinese, will be so improved as to make a resident of Taiwan proud to be a Chinese. All this amounts to saying that  $X_3$  will be large.

How about its coefficient? My own assessment is that it may only be moderate in size. It is one thing for Canadians to recognize the relative economic wealth of the United States. It is another for Canada and the United States to become politically integrated in one form or another. You can use your own judgment to decide whether an economically advanced China can provide sufficient attraction to the Taiwan government and people to forge a political union.

Fourth, how about improvement in the political system in China? Political modernization can be expected to make further progress. A new generation of political

leaders may have a more modern perspective in improving the political system. Let us take an optimistic view that the system will be so improved, in thirty years, as to satisfy the people of Taiwan that it is a good system. If one takes a less optimistic view, one would not include this variable as an important factor contributing to future political integration and we do not need to discuss it any further. Even under the optimistic view, will the probability of political integration be much increased? My assessment of the size of the coefficient is again somewhat moderate. The fact that the population of one region approves of the political system of another is not sufficient to forge a political integration.

Fifth, consider the economic and political development of Taiwan. One can expect substantial progress in both within the next thirty years, if past performance is any guide. Would improvement in the economy and in the political system be a positive factor for political integration with mainland China? The answer seems to be negative. Such developments in Taiwan only help its population form its own identity.

Six, further economic integration and more cultural exchanges may contribute to political integration. Economic integration is the subject of this conference. In this occasion I may mention a proposal which I made to the top leadership of China to promote economic integration by unilaterally opening up direct transport between the two sides of the Taiwan Strait. I suggested that there was no need to negotiate with Taiwan and the PRC government alone could achieve this opening. The PRC government only needs to announce that it welcomes all forms of transport to come directly to China mainland. If international airlines are allowed to fly directly from Taipei to Shanghai and other cities, it will be very difficult if not impossible for the Taiwan government to stop them. (On July 5, PRC Vice Premier Qian announced that all ports of China are open and that the opening of direct transport and communication need not involve negotiations of the two governments.) At present we all expect economic integration to continue in a rapid pace in the future. Therefore the size of this variable is expected to increase further. However the value of its coefficient may be only moderate. People in Taiwan will be friendly to the people in the mainland and have strong economic ties and cultural relations with the latter, but politically they may prefer to be on their own.

To summarize the above discussion, there are two sets of forces at work. The first is by military force or non-military pressure exercised by the PRC government. The second is through voluntary means. The first set of forces seems unlikely to take place or to succeed. That leaves us with the second. I have looked at four components of voluntary cooperation, all positive developments. These four variables can be sizable, but their effects on increasing the probability of political integration appear to me to be limited. Hence the probability of political integration within thirty years is not high, say less than one third. This result is highly subjective, depending on the values of several important variables and the values of their coefficients which I specify. Others can reasonably disagree on the values of some of the coefficients which I have assigned. However, the analytical framework presented is useful in focusing our thinking on the important factors and isolating points of possible disagreement for further scrutiny. Since my analysis is preliminary and not well researched, I much welcome critical comments and suggestions for improvement.

Before I end this discussion I should point out the limitations of the method of analysis proposed above for the purpose of predicting unique historical events. In particular two limitations should be stressed. First the method relies heavily on the judgment of the forecaster. Not only the list of important factors depends on judgment, but the values of the variables and their coefficients are also subjectively determined. This is in contrast with the use of econometrics where sample observations can be used to estimate the coefficients. Here judgment is relied upon to assess the effect of each variable. A forecaster with good judgment can assess the effect more accurately. In our example, two persons may have different opinions concerning the effect of further economic integration and cultural exchanges on the prospect of political integration. Even when econometric method is used to make economic forecasts, two econometricians can also disagree on the size of the effect of a certain explanatory variable on a dependent variable because their models, data or methods of econometric analysis are different.

The second limitation is that factors beyond our imagination may occur and affect the outcome of what we wish to predict. It is not easy to list all the important factors covering a period of thirty years given only the historical perspective that we possess today. Something unexpected can easily happen. For example, a strong and able political leader in Taiwan may see the benefits of political integration with China mainland and may be able to convince the Taiwan population to forget the misconduct of past governments in the mainland and to follow his course. Similarly an able and enlightened political leader in China may try to use inducement rather than pressure or threat to convince the Taiwan government and people that it is to their self interest to be politically integrated with China mainland. Possible inducement may include helping Taiwan to become a member of the United Nations, and allowing the president of Taiwan, under suitable circumstances, to become the president of a united China. Even in the case of a prediction based on a sample from a probabilistic data generating process, the prediction can be wrong because of structural change in the process. Structural change can happen in the prediction of unique historical events as well.

## **References**

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