

Economic Integration and Its Effects on Hostile State Behavior: Evidence from the China-Taiwan Dyad 2003 - 2023

by

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I hereby declare that the present MA thesis is exclusively my own work based on my research and analysis. All external data sources and information is appropriately referenced with in-text citations and in the bibliography.

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Abstract

Political relations between China and Taiwan have steadily declined in recent years. At the same time, Taiwan was economically integrating with China for the better of two decades. Today, trade with China and Hong Kong makes up more than 38% of Taiwan's total exports. This development poses a paradox: why do small economies integrate economically with politically hostile states that threaten their existence? I hypothesise that the economic integration of China and Taiwan has led to political disintegration, which can be observed in the changes in state behaviour. In turn, this disintegration has caused a declining trend, leading to more hostile political and military action between the two economies. I test this assumption through the lens of commercial peace and economic integration theory in asymmetric rival dyads and by employing a series of multivariate regression (MVR) models at the state-month level for the period 2003 - 2023. The utilised hostility measure (dependent variable) is taken from the Integrated Crisis Early Warning System (ICEWS). The customs reports from China and Taiwan, and World Bank trade data provide economic integration variables (independent variables). This study finds empirical evidence that economic integration leads to political disintegration in the China-Taiwan dyad, but the interaction between economic integration and state behaviour is more nuanced. First, imports from China increase its intensity behaviour (friendlier actions). However, the exact opposite is occurring for exports, which has a much higher negative impact on China's behaviour. The same is true for exports to Hong Kong to a lesser extent. Scholars and policymakers should take an interest in these differentiated effects of economic integration on the intensity of bilateral state behaviour to address declining micro trends early on.

Keywords: Commercial peace, economic integration, asymmetric rival dyads, hostile state behaviour, China-Taiwan relations

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Abbreviations

CCP	Chinese Communist Party
DPP	Democratic Progressive Party (Taiwan)
EU	European Union
GDP	Gross Domestic Product
GFC	Global Financial Crisis
ICEWS	Integrated Crisis Early Warning System
KMT	Kuomintang
MID	Militarised Interstate Dispute
MVR	Multivariate Regression
OLS	Ordinary Least Squares Regression
TW	Taiwan
US	United States

Introduction

Relations across the Taiwan Strait seem to deteriorate steadily. Some even see a *Fourth Taiwan Strait Crisis* unfolding, as the Taiwan visit of the former United States (US) Speaker of the House has lasting effects on China-Taiwan relations (Lin et al. 2022; China Power 2022). The visit has caused policymakers across North America and Europe to sharpen their vocabulary regarding a possible militarised escalation between China and Taiwan. Additionally, Beijing steps up preventive actions against deeper political or economic engagements of any foreign government with Taipei (Teng 2023; Lau 2022). The Chinese Communist Party (CCP) views Taiwan as part of its sovereign territory and does not allow for any formal recognition of Taiwan's sovereignty. The government in Taipei, on the other hand, has refused to change the status quo that has persisted for decades (Maizland 2023). This conflict has not prevented the two economies from economically integrating over the past twenty years, through which their socio-economic ties got ever more entangled. At times, this process even happened informally and against the preferences of Taiwan's government (Ash and Kueh 1993, 734) and to a point where China and Hong Kong today receive 38.8% of its annual exports (Ministry of Finance 2023). This development is puzzling against the backdrop of declining relations between both administrations.

Indeed, waning relations between both governments can be seen with regard to the less Beijing-friendly Democratic Progressive Party (DPP) being in power in Taiwan since 2016. However, on average, relations have been declining for much longer and across administrations, as data from the Integrated Crisis Early Warning System (ICEWS) suggests (Boschee et al. 2023). At the same time, world leaders became disillusioned with their long-proposed mantras of peaceful co-existence due to the extended number of economic-, social-, and political ties within the international economy, as they went up in smoke on the morning of the 24. February when Russia invaded Ukraine. Before the conflict materialised for the first time in 2014, however, similar to China and Taiwan, both economies had seen high levels of economic exchange throughout the 2000s. Back then, trade volumes reached new record levels almost every year (OEC 2023). This process was guided by formal economic agreements (Vinokurov 2017). Although the Ukrainian case is very different from Taiwan, it shows that militarised interstate disputes (MID) can happen, despite sizable levels of economic integration and against the prepositions of commercial peace theory.

This presents us with a puzzle: Liberal market policies and free trade supposedly allow for increased economic integration, which in turn cause social-, political-, and economic ties

to deepen. Thereby economic integration decreases the risk of MID due to increased opportunity costs when waging war and due to changing preferences of stakeholders on both sides. However, for many pairs of economies (dyads), this appears not to be the case.¹ For some dyads, the answer to this puzzle seems somewhat more straightforward: Shifts in political power in country A trigger country B to take (military) action. For other dyads, political changes may not carry the same weight, which makes them more robust cases to study the effects of economic integration on hostile state behaviour. For example, as political relations between China and Taiwan decline, both continue to integrate economically. This poses the question of why small economies integrate economically with politically hostile states, that threaten their existence. For asymmetric rival dyads,² economic integration appears to lead to political disintegration. In turn, this disintegration causes a declining trend in inter-government relations, leading to more hostile political and military action between the two economies.

To investigate this paradox, this study will rely on two decades of primary monthly trading data from China and Taiwan and a comprehensive collection of over 290,000 political and military interactions between both economies for the period 2003 – 2023. The investigation dates back to the year in which China became Taiwan's most important trading partner in Asia (Jaw-Nian 2017). Empirically, I will conduct several ordinary least square (OLS) regressions for each economy, which I combine in a set of multivariate regression models (MVR). This methodology was advanced by Ray (2005), although I will follow a different approach in selecting and applying socio-political covariates. As all empirical models are based on probabilities, I will also discuss my statistical findings and their limitations comprehensively. I hereby contribute to two strands of the literature on commercial peace theory: One on the effects of economic integration on hostile state behaviour in asymmetric rival dyads and the other on the overall validity of commercial peace theory in the 21st century.

This paper is structured as follows: Next, I review the literature on the theoretical developments of commercial peace theory, China's rise, and the security aspects of trade dependencies in rival dyads. In Section 3, I present the theoretical framework of this study. Fourth, I lay out my case selection. Section 5 contains detailed information on my data, models, and methodology. In Section 6, I report my statistical results. I will discuss these findings in Section 7 and conclude with Section 8.

¹ The list of likely pairs of this character is by no means exhausted, other dyads include: North- and South Korea, Syria and Israel, or Cuba and the United States (Chan 2009) or Russia and Ukraine. However, not all of them are applicable with regards to the economic integration rationale.

² Asymmetry described the differences in political-, economic-, and military capabilities. Rivalry is defined as an increased level of competition in the international system, with higher chance of MID.

2. The changing discourse on peace-enhancing aspects of commerce

Proponents of liberal peace have studied the effects of commerce on war for a long time (Montesquieu 1989; Cobden 1835; Angell 1910). When history repeatedly proved them wrong, and after two fought World Wars, the focus shifted to democratic peace as the guiding principle to prevent MIDs (Rummel 1983; Levy 1988; Doyle 1983). The discourse finally peaked in the post-1989 era, under the United States (US) as a democratic hegemon and a proliferation of liberal trade policies (Gartzke 2007). Recently, however, even long-standing proponents of liberal peace have become increasingly disillusioned with the peace-enhancing aspects of economic relations (Soll 2022). When Russia began waging a full-out war against Ukraine in February 2022, most arguments about the conflict-preventive aspects of trade did not hold. Neither did economic tools, such as sanctions or trade embargos sizably (Cohen 2022).

Similarly, calls from major trading partners towards Beijing to condemn Russia's crimes in Ukraine or to stop the increasingly hostile and resolute rhetoric and military actions against Taiwan showed no effect. In response, lawmakers began to advocate for reducing economic dependencies as these were viewed as increasingly constraining to archive foreign policy objectives (von der Leyen 2023). Contrary to long-invoked notions such as the German liberal foreign policy principle of *Change through trade*, authoritarian regimes like China have profited from the economic integration with economically advanced democratic nations. At the same time, barely any progress was made in developing global democracy (Kefferpütz 2022). This process has not been occurring by chance. Indeed, scholars have been dealing with the global economic emergence of China and the security aspects of bilateral trade (inter)dependencies for much longer (Barbieri 2002). In the following, I will summarise the most important developments of these two aspects in the International Relations literature.

2.1 Rival dyads and security aspects of bilateral trade dependencies

In the international system, specific dyads are more prone to bilateral conflict than others. The study of these so-called rival dyads builds on the level of contingency between two administrations based on their former and current behaviour vis-à-vis each other. These dyads have been intensively studied (Goertz and Diehl 1995; Gartzke and Simon 1999; Geller 1993). Since most studies have focused on dyads that indeed have engaged in MIDs, the theoretical concepts were further developed to include asymmetric dyads, highlighting the differences in political systems and economic-, political- and military capabilities, and such pairs, that did

not engage in direct conflict yet (Thompson 2001; Klein, Goertz, and Diehl 2006). While these studies are crucial to analysing conflict potential between asymmetric rival dyads, they cannot fully account for the economic drivers of hostile behaviour.

Simultaneously, studies have investigated the (inter)dependencies of economic linkages (Barbieri and Schneider 1999; Barbieri 2002; Oneal and Russett 1999; Oneal and Russett 1997). However, these scholars are divided into two camps: One that broadly confirms the effects of commercial peace and the other, which rejects its impact in light of interdependence and systemic- and institutional heterogeneity between autocratic and democratic regimes (Gartzke 2007). Besides the security debate, scholars have also investigated the effects of economic integration within the greater China area (Ash and Kueh 1993; Chao 2003; Sung 2005) and specifically under security aspects (Kastner 2006; Pempel 2013). Still, these discourses have not been combined in a unified analysis that accounts for the effects of the economic integration on state behavior in asymmetric rivals, such as the China-Taiwan dyad.

To sum up, the literature on the economic integration of rival dyads and China's rise has left a significant knowledge gap within the academic discourse on commercial peace. To fill this gap is essential for two reasons. First, suppose China follows suit on its claims over Taiwan and escalates a military conflict. In this case, as seen with Russia's actions towards Ukraine, it will be necessary to understand which factors have indeed fueled China's behaviour and possibly constrained Taiwan's actions. As known today, economic factors played a key role in Russia's preparations leading up to the war in 2022. Likewise, understanding which bilateral economic drivers affect state behaviour in the China-Taiwan dyad is important to policymakers and academics studying asymmetric rival dyads. Second, the changes in liberal narratives and perceptions of commercial peace since 2022 warrant new research considering those assumptions' renewed failure. The shifting discourse is also likely to open new pathways to studying the effects of commerce on security, which this work will contribute to.

2.2 China's economic rise in global trade

Over the past twenty years, a rich body of scholarly work on China's global economic activity has been produced. However, the literature on China's global rise is not unified. Instead, it consists of diverse contributions focusing on regional- and sectoral linkages. Many scholars have investigated China's regional activity (Alden 2005; Brautigam 2011; Shinn and Eisenman 2012; Hamashita 2013). Still, these authors are divided over the question of which effect China's economic rise has on the development of these—often much smaller—economies, with

some arguing for mostly positive effects (Bräutigam and Knack 2004; Sautman and Hairong 2007), while others are more critical of the Chinese approach to economic cooperation and its impact on political outcomes (Barma and Ratner 2006; Struver 2014).

More focused studies dealt with the general aspects of China's trade activity (Rotberg 2009; Ademola, Bankole, and Adewuyi 2016; Filippini and Molini 2003). Others have analysed Chinese foreign direct investment in advanced economies (Kratz et al. 2019; Globerman and Shapiro 2009). These studies mainly investigate the sectoral effects of mergers & acquisitions activity. Similarly, studies of China's neighbourhood in Asia have addressed broader regional or sectoral issues (Katsigris et al. 2004; Gaulier, Lemoine, and Ünal-Kesenci 2007; Pauly et al. 2014). However, dyadic case studies on the effects of economic dependencies on foreign policy preferences and state behaviour have received comparably little attention in studying China's emergence (Zha 2015; Leng 2018). While these studies help us better understand how China interacts with its economic partners on a broader scale, the literature still leaves a significant knowledge gap in understanding how bilateral economic linkages induce or affect dependencies on the Chinese government and economy, thus influencing state behaviour. Investigating these bilateral linkages is essential to (re)assess the power of commercial peace on asymmetric economic dyads that carry a higher MID potential. The subsequent analysis will fill this gap regarding the effects of economic ties on possible conflict drivers.

This section has discussed the scholarly contributions to liberal peace theory, the discourses on the effects of commerce on security, and the risks of economic dependencies in light of China's rise. In the next section, I will map out the underlying theoretical framework for this study.

3. Theoretical Framework

This section presents the underlying theoretical framework of this study. I first name the key assumptions of liberal commercial peace theory. Next, I introduce a definition of economic integration. As this study further investigates the effect of one theory on the other, I will distil my hypothesis at the end of this section.

As discussed in Section 2, the discourse on the peace-enhancing aspects of trade, most prominently promoted through *commercial peace theory*, have been challenged and refuted several times throughout the 20th and early 21st century. Still, it shaped the foreign policy of some of the most powerful economies in the international system (Gartzke and Zhang 2015).

The primary assumption of this theory is that trade—especially economic (inter)dependence—increases the opportunity cost of fighting as economies are widely entangled (Copeland 1996; Hegre, Oneal, and Russett 2010). Especially the accumulation of commercial interest groups develops constraints for each respective administration. However, these constraints may only occur in democratic states (Schumpeter 1942; Mousseau 2000). Nevertheless, since Taiwan is China's fourth largest trading partner and biggest investor, China is also facing severe opportunity costs when waging war with Taiwan (General Administrations of Customs of China 2023). Furthermore, commercial peace can be archived through credible communication, which can only be undertaken through credible reassurance and commitment, for which economic relations are a popular tool (Chan 2009). Therefore, it can be assumed that commercial peace could be archived by increased economic ties between both economies, namely through economic integration.

Economic integration can have very much different effects based on the development status of an economy. While it can help export-oriented developing economies to facilitate regional integration (Balassa and Stoutjesdijk 1975), as was the case for China and Taiwan throughout the second half of the 20th century, it may lead to political disintegration in a way that nurtures political separatism in advanced economies. For example, Alesina et al. (1997, 24–26) show that this is indeed the case for the peaceful breakup of Czechoslovakia, which generated two relatively small new economies. The authors give another example of political disintegration, which is quite similar to what lies at the centre of China-Taiwan hostiles. The German reunification in the 1990s brought up a scale of economic costs to Germans, which has led citizens in both economies to question the reunification (1997, 26). Therefore, despite salient economic integration and strong cultural- and societal ties (Rösch et al. 1981, 541–42), the pure (economic) tradeoffs of constitutional reunification spurred political discontent in both economies. Furthermore, decades of political separation and high variation in geographical- and family-history (identity) proximity within both economies³ have caused diverse regionally-developed stereotypes and thus formed factors for political disintegration that persist even 30 years after reunification (Regev 2020).

³ For the German example, this may be well illustrated by the missing family-ties and long distance to the inner-German border from the very West or South of Germany. For the China-Taiwan dyad, this effect is even more pronounced, as Germany is about 3.7% the size of China. At the point of reunification, the German Democratic Republic (GDR) had a population 23% the size of the Federal Republic of Germany. In comparison, Taiwan today has about 1.8% as many citizens as China. This means, that remaining family ties may be much thinner, causing more personal distance and thus stereotypes, which fuel political disintegration in the China-Taiwan dyad further.

How the effects of economic integration materialise is also contingent on the relative capabilities of each economy within a dyad.⁴ Symmetric rivals face a more level playing field compared to their asymmetric counterparts. This difference causes the latter to develop heterogeneous tradeoffs and thus preferences for both economic integration and political disintegration in each economy. In the case of Taiwan, rejecting or engaging in trade with China leads to sizable opportunity costs for the Taiwanese administration. Therefore, it may decide to follow an ‘economics first’ strategy (Benson and Niou 2007, as cited in Chan 2009, 446). On the other hand, China has been building economic and military capabilities in size, making economic and material tradeoffs less salient in its bilateral economic integration with Taiwan and regarding the outcome of a possible military escalation. Therefore, the development status of an economy, together with its distinct economic and military capabilities, defines the asymmetry within a dyad. This also applies to the degree of commerce relations: Whereas standard definitions of economic integration incorporate multiple levels, from a free-trade area to a fully integrated economic union (Balassa 1961), this study will examine the degree of integration before full institutional economic integration. While China and Taiwan did consolidate their formal integration with the Cross-Straits Economic Cooperation Framework in 2010, it was mainly through the prior increased private trade activity (integration) that took place despite the absence of a cooperation framework and the existing government restrictions (Ash and Kueh 1993, 720–22).

To sum up, commercial peace may be achieved through economic integration. But whether economic integration acts as a catalysator rather than an inhibitor of such peace is contingent on scope conditions. These conditions are an uneven distribution of each economy's relative economic, political, and military capabilities, contrary tradeoffs for engaging or rejecting commercial interactions between both sides and the changes in the shared identity of citizens on each side of the dyad. Furthermore, if economic integration does not facilitate peace, it inevitably spurs political disintegration. Based on these economic frames, I hypothesise that the economic integration of China and Taiwan has led to a state of political disintegration, which can be observed in the changes in state behaviour.⁵ In turn, this disintegration has caused a declining trend in inter-administration relations, leading to more hostile political and military action between the two economies. The China-Taiwan dyad can furthermore be seen as one of

⁴ (Alesina, Spolaore, and Wacziarg 1997) appear to be at odds with their assumptions about a possibly more politically disintegrated European Union, which has very much integrated on all levels of governance since 1997. Therefore, regional integration of various countries seems to take a more consolidating path, whereas bilateral integration spurs political disintegration.

⁵ That is the changes in levels of hostile or friendly (inter)action.

the most extreme cases of asymmetric rivals in the international economy, which has not yet engaged in direct MID. Next, I will explain why this is.

4. Case Selection

This section presents the central case for the subsequent statistical analysis. I will first explain why the China-Taiwan dyad is a representative sample to investigate whether commercial peace can be applied to asymmetric rival dyads in the 21st century based on the laid-out scope conditions in Section 3. Second, I describe how the relations between China and Taiwan have become more contentious in recent years, making a more in-depth analysis necessary to understand how less-critical rival dyads may adapt their economic relationships to influence and circumvent declining political relations.

Over the past two decades, China has built an exceptional global economic network. Today, it has become the biggest trading partner of over 120 nations (Green 2023). Unsurprisingly, this list comprises most small economies within Asia. What is surprising, to some extent, though, is the size and speed in which trade relations with Taiwan have been developing. Figure 1 shows Taiwan's imports and exports from and to China and Hong Kong. Up until April 2008, especially exports to China have seen almost exponential growth. This development stopped during and after the Global Financial Crisis (GFC), but monthly export volumes continued to be high at around 5 bn. to 7.9 bn. US\$ up until January 2016, when volumes again began rising to 10 bn. US\$ in July 2018 and approximately 11.8 bn. in 2021. Hong Kong shows similar developments, although somewhat more linear. Since 2022, trade between China/Hong Kong and Taiwan has been declining. Still, China has been the first destination for Taiwanese foreign direct investments for over 30 years (An and Yeh 2020, 3). Therefore, Taiwan developed a visible economic dependency on China's internal market to generate revenue, and since many Taiwanese production facilities were built there. On the other hand, Taiwan is only in seventh place on China's list of top trading partners and the first one in terms of trade-deficit-producing economies (Morrison 2019). Thus, the economic tradeoffs of engaging in MID are heavily unevenly distributed, to the disadvantage of Taiwan.

These economic developments and the skewed trade activity are essential to this study, as they highlight a paradox for commercial peace assumptions: Over the entire period, bilateral

relations between China and Taiwan have been marked by 13 major events,⁶ of which only five were considered positive (marked on the x-axis in Figure 1). The positive events occurred during relatively stagnating economic activity between April 2005 and November 2015.⁷ This situation may well be attributed to the aftermath of the GFC.⁸ Still, it does not explain why most strictly adverse events occur before or during rapid growth, as is the case for China's introduction of the Anti-Secession Law in March 2006 or after the DPP won the presidential election in January 2016 and until August 2022. Furthermore, while China follows its foreign policy objective of political reunification with Taiwan. However, citizens on the island continue to develop a distinct Taiwanese identity away from their predominantly historical Han Chinese roots (NCCU 2023), another central scope condition for political disintegration.

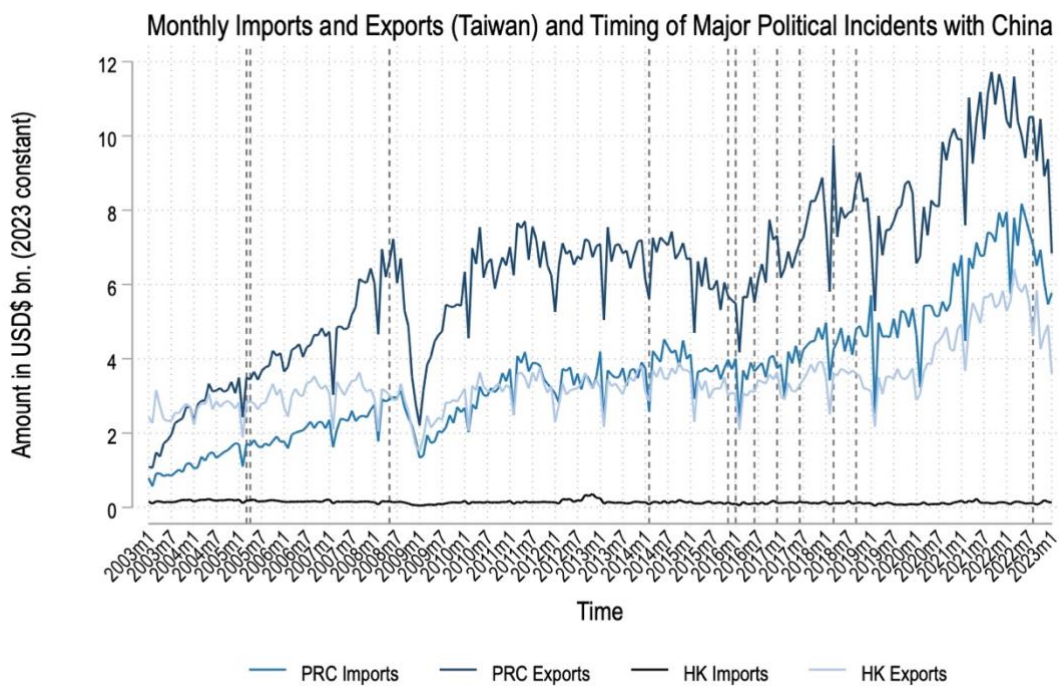


Figure 1: Taiwan's monthly trade with China and Hong Kong 2003 – 2023. Note: Each line on the x-axis is a major incident. Events from April 2005 to November 2015 represent a positive incident.

⁶ These events include, the Anti-Secession Law, the 'historical' CCP-Kuomintang meeting in Singapore, the cross-strait Economic Cooperation Framework Agreement, the election of Tsai Ing-wen (DPP), President Trump's phone call with President Tsai, US arms-sale plans, and the US Speaker of the House visit to Taiwan. For more events, see (Murdoch and Richardson 2008).

⁷ Except for the meeting between the CCP and Taiwanese Kuomintang (KMT) in April 2005, after which trade volumes more than doubled. However, the KMT was not in power at this point. Therefore, this event has little explanatory power for the ongoing analysis.

⁸ For similar developments in trade activity for Taiwan's five biggest trading partners after China and Hong Kong, see Appendix A3.

Therefore, the China-Taiwan dyad builds a strong representative case to investigate the effects of economic integration on hostile state behaviour in asymmetric rival dyads, as it meets all scope conditions. China and Taiwan are also one of the most contentious pairs at this point in time. Suppose the statistical analysis shows significant effects of commerce on state behaviour, even in this very contradictor case for commercial peace assumptions. Then, the theory may apply to any other dyad of similar character. How I will approach to unpack this case will be shown in the following Section 5.

5. Data and Methodology

This section will present the applied data and provide information on the data collection- and transformation process. I will specify the main models used for my statistical analysis and describe the methodology of the following empirical strategy in detail.

5.1 Data

I collected data for twenty years from 01/2003 to 01/2023. This period was chosen because it provides the most recent and longest-possible date range for freely available and fully validated data. It is furthermore the year when China officially overtook Japan as Taiwan's biggest trading partner in the region (compare Figure 5, in Jaw-Nian 2017) and when trading volumes began growing exponentially (compare Figure 1). Moreover, I gathered data at the month level to further increase the number of observations (N=241).

The *main dependent variable*, named *intensity*, was sourced from the ICEWS database (Boschee et al. 2023). The authors provide daily data on state-related action, which they rate on a scale from -10 (negative) to +10 (positive), sourced from over 112 international and regional media outlets published in English, Spanish, and French.⁹ I gathered 290,126 individual intensity scores for the China-Taiwan dyad, which I aggregated to monthly averages. For the *main independent variables*, I relied on primary information from two administrations in China and Taiwan, which provide access to their economic data either very selectively or not at all. This uneven data availability posed a challenge to the data-gathering process,

⁹ Example events: -10(SourceCountry="China", TargetCountry="Taiwan", Event text="Use conventional military force"), +10 (SourceCountry="Taiwan", TargetCountry="China", Event text="Decl. truce, ceasefire"). For further explanation on methodology, please see (Schodt, Gerner, and Yilmaz 2012).

especially for the key variables, namely exports and imports from China and Taiwan. To overcome this issue, I sourced monthly trading data for China and Hong Kong from the World Bank's Open Data

Database (2023). For Taiwan, I relied on the official financial accounts from the Taiwan Bureau of Trade (2023). Next, I compared the reported trade flows between Taiwan and China and created an average measure for diverting accounts.¹¹ Both *imports* and *exports*, as well as *trade balance*, have been used as *main independent variables*. They were further used to calculate covariates, such as *trade dependence*, whose implications I will discuss at the end of this section.

Table 1 contains the summary statistics of all employed variables. I gathered covariates for Taiwan's five biggest trading

Table 1: Descriptive Statistics

Variable ¹⁰	N	Mean	SD	Min	Max
China Intensity	241	0.34	1.86	-4.07	4.42
Taiwan Intensity	241	1.24	1.24	-2.09	4.17
Trade Balance PRC	241	2.78	0.89	0.31	5.50
Trade Balance HK	241	3.23	0.84	1.45	6.28
Trade Balance Japan	241	-2.11	0.57	-3.37	-0.56
Trade Balance USA	241	0.86	0.70	-0.51	3.64
Trade Balance EU	241	0.19	0.41	-1.32	1.05
Trade Balance Singapore	241	0.68	0.38	-0.06	1.83
Trade Balance S.Korea	241	-0.41	0.34	-1.73	0.30
Imports PRC (log)	241	14.95	0.53	13.25	15.92
Exports PRC (log)	241	15.58	0.44	13.87	16.28
Imports HK (log)	241	11.78	0.33	10.56	12.80
Exports HK (log)	241	15.00	0.24	14.22	15.68
Imports Japan (log)	241	15.12	0.17	14.42	15.50
Exports Japan (log)	241	14.28	0.25	13.74	14.96
Imports USA (log)	241	14.61	0.27	13.66	15.27
Exports USA (log)	241	14.91	0.30	14.24	15.76
Imports EU (log)	241	14.49	0.31	13.67	15.28
Exports EU (log)	241	14.61	0.18	14.13	15.11
Imports Singapore (log)	241	13.26	0.37	12.12	14.05
Exports Singapore (log)	241	13.97	0.47	12.72	14.85
Imports S.Korea (log)	241	14.09	0.34	13.01	15.12
Exports S.Korea (log)	241	13.71	0.44	12.76	14.55
Trade dependency	241	75.03	15.7	21.14	100
GDP (log)	241	11.72	0.25	11.21	12.24
Population (log)	241	16.96	0.01	16.93	17.01
Ruling party (TW)	241	0.40	0.49	0	1
Presidential election (TW)	241	0.25	0.43	0	1
Xi Jinping in power	241	0.49	0.50	0	1
Xi ruling terms	241	0.74	0.83	0	2
Trade agreement	241	0.63	0.48	0	1

partners (Taiwan Bureau of Trade 2023). I also obtained population and economic indicators (GDP) from the Ministry of Economic Affairs of Taiwan (2023).¹² Dummies for Taiwan's ruling party, Taiwan presidential elections, President Xi Jinping being in power, completed terms of Xi Jinping, and the China-Taiwan trade agreement have been manually coded.

¹⁰ PRC (China), HK (Hong Kong), USA (United States of America), S.Korea (South Korea), EU (European Union), TW (Taiwan)

¹¹ I ran two additional models to measure the impact of the statistical discrepancy on my main models. Overall, the differences in reported trade flows between both economies did not lead to a sizable change of the statistical results.

¹² Since the escalation-potential by military means is currently only viable from China's side, the collected data on covariates such as other trading partners, population, was only collected for Taiwan.

5.2 Models

To measure the impact of economic integration on both Chinese and Taiwanese intensity vis-à-vis each other, I employ a series of multivariate regression models (MVR)

$$y_{ij} = \beta_0 + \beta_1 x_1 + \dots + \beta_n x_n + \varepsilon$$

where y is the intensity action of country i on country j and vice versa. β_0 denotes the intercept, $\beta_1 x_1$ is the main independent variable, which is trade balance for Model (1) and (2) and PRC exports and imports for Model (3) and (4). $\beta_n x_n$ represents all remaining covariates, as listed in Table 1. ε is the error term and includes all unobserved effects. To control for unobserved heterogeneity in these models, I add fixed effects to Models 3 and 4

$$y_{ij} = \beta_0 + \beta_1 x_1 + \dots + \beta_n x_n + \gamma_t + \varepsilon$$

where γ_t represents monthly fixed effects. In a final step, I report robust standard errors in all four models.

5.3 Methodology

This paper estimates the effects of economic integration on the intensity behaviour of a rival dyad (Geller 1993). Specifically, it provides an in-depth case analysis for rival dyads characterised by unequal capabilities (asymmetry), that is, political or military means to coerce the other, which has sparked rival perceptions in each respective administration (Thompson 2001).

As laid out in Section 3, I will analyse the China-Taiwan dyad and utilise aggregated daily ICEWS data to create a monthly mean for intensity scoring, which ranges in its transformed value from -4.07 to +4.42 for actions of China vis-à-vis Taiwan and -2.09 to +4.17 for any action Taiwan took towards China. The converted intensity score will serve as the main dependent variable. While these averages can already be read as indicative of at least more volatile behaviour of China, it does not warrant sufficient information to draw further inferences. However, with over 290,000 underlying distinct data points, it is a strong empirical measure to estimate changes in political and military state behaviour. To identify the main independent variables, I applied a more diversified approach to estimate the level of economic integration between China and Taiwan. As both economies have only signed a small number

of economic agreements, the most significant being the Cross-Straits Economic Cooperation Framework (CSECFA 2010), apart from some sectoral- and regional accords, I sourced trading data for China-Taiwan ex- and imports, as a pre-measure of economic integration. I log-transformed the values and calculated the trade balance for the concerned period to make the variables less sensitive to outliers. These three variables serve as the basis of my regression analysis.

To test more comprehensively for economic integration, I calculated an additional measure *trade dependency*, that is PRC-Taiwan Trade Volume/Taiwan GDP (compare Gartzke and Li 2003).¹³ I added national development indicators such as GDP and population as covariates to my models after log-transforming them. For further context, I added ex- and import data for Taiwan's six biggest trading partners after China (also log-transformed). These countries are Hong Kong, Japan, the US, Singapore, South Korea, and the EU. Due to restrictive legislation in Taiwan, most trade with Hong Kong, especially Taiwanese exports, has been intended for re-export to China. Sung (2005, 142) highlights this issue when working with customs data for the greater China economic region. Therefore, instead of calculating a combined and possibly further skewed estimate of trade data between China and Taiwan, I use both economies in my analysis to estimate the effects of economic integration with China and Hong Kong on intensity behaviour.

6. Analysis

In this section, I will present my main results and describe them in turn. While the focus will be on four MVR models, I will also provide initial information on unconditional correlations in my dataset, which guide the subsequent analysis. Finally, I will describe the distribution of the employed intensity measure before discussing the empirical validity of my findings by presenting the applied robustness checks.

6.1 Results

Before discussing my main results, this paragraph will report unconditional correlations for the intensity score and the applied economic integration measures.¹⁴ As expected, both intensity

¹³ I did not calculate trade interdependence, as this measure does not correspond well to asymmetric rival dyads.

¹⁴ For full correlation matrix, see Appendix A1.

scores for China and Taiwan are strongly positively correlated ($r = .81$). Thus, unsurprisingly, one economy's action appears to influence the other. This association serves as an orientation for the following correlations: Taiwan-China trade balances show marginal negative correlations for China ($r = -.024$) and Taiwan ($r = -.017$), while Taiwan-Hong Kong trade balances are strongly negatively correlated with intensity action for China ($r = -.48$) and Taiwan ($r = -.44$).¹⁵ The same is true for all trade balances with major trading partners, except the EU, which shows a positive correlation with both intensity scores. Furthermore, Taiwan's trade dependence on China appears to be positively correlated with both intensity scores ($r = .36$). Overall, it can therefore be assumed that there is an association between intensity action and various levels of economic integration.

Concerning trade balances in my statistical analysis in Table 2, this assumption can only be observed for commerce with Hong Kong and the intensity behaviour of China. A one-unit trade balance increase reduces China's intensity score by -0.499 units (Model 1). This effect is even stronger when adding monthly fixed effects (Model 2), which reduces the intensity score of China by -0.527. This is a large effect, considering the intensity range ($\sim -4, +4$) and trade volumes between Taiwan and Hong Kong of 2.1 bn. to 6.2 bn. US\$ since 2003. For the intensity score of Taiwan as well as the Taiwan-China trade balance, I only find marginal effects. Furthermore, these are not statistically significant and will thus not be further considered for this study.

Table 2: Multivariate Regression Models 1 & 2

Variables	(1) Intensity PRC	(1) Intensity TW	(2) Intensity PRC	(2) Intensity TW
TB PRC (bn.)	-0.095 (0.436)	-0.111 (0.324)	0.027 (0.468)	-0.058 (0.344)
TB HK (bn.)	-0.499** (0.198)	-0.080 (0.147)	-0.527** (0.251)	-0.023 (0.184)
Controls	Yes	Yes	Yes	Yes
FE	No	No	Yes	Yes
Constant	-641.953** (263.402)	-476.088** (195.787)	-575.186** (278.039)	-466.890** (204.225)
Observations	241	241	241	241
R-squared	0.676	0.599	0.681	0.614

Note: Standard errors in parentheses, *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

¹⁵ Exports and imports show similar correlations, with only HK imports to Taiwan being positively correlated. This correlation should be treated with caution, as values are close to zero (comp. Figure 1).

To further differentiate the effects of economic integration, Table 3 contains coefficients for Taiwan's exports and imports to and from China and Hong Kong. China's intensity behaviour strongly correlates with exports and imports ($p < 0.01$). Imports show a positive correlation, where a one-percent increase in logged imports causes a 5.06-unit increase in intensity behaviour. In other words, the CCP tends to undertake more positive action towards Taiwan the more market access China gets. This effect is even stronger when adding fixed effects (5.488). However, the exact opposite is true for exports to China: A one-percent increase in (logged) exports causes the CCPs intensity behaviour to decline by a factor of -6.56 and Taiwan's intensity score to decrease by -2.94. Adding monthly fixed effects, this effect is higher for China's behaviour (-6.91) while it reduces Taiwan's intensity to -2.69. Since Taiwan's scoring is also less pronounced at a significance level of only $p < 0.1$, we cannot say if these changes occur due to the customs exchange by chance. The results show that the drivers of Chinese intensity behaviour due to economic integration are manifold and contrary to each other. Similarly, a one-percent increase in exports to Hong Kong reduces China's intensity behaviour by -2.41 units (-2.21 with fixed effects).

Table 3: Multivariate Regression Models 3 & 4

Variables	(3) Intensity PRC	(3) Intensity TW	(4) Intensity PRC	(4) Intensity TW
Imp PRC (log)	5.060*** (1.510)	1.287 (1.100)	5.488*** (1.862)	0.892 (1.347)
Exp PRC (log)	-6.556*** (2.026)	-2.936** (1.476)	-6.909*** (2.145)	-2.685* (1.552)
Imp HK (log)	0.371 (0.322)	-0.303 (0.235)	0.286 (0.356)	-0.468* (0.258)
Exp HK (log)	-2.411*** (0.829)	-0.496 (0.604)	-2.208** (0.946)	-0.146 (0.685)
Controls	Yes	Yes	Yes	Yes
FE	No	No	Yes	Yes
Constant	-473.185 (325.821)	-419.983* (237.336)	-448.036 (357.478)	-467.977* (258.639)
Observations	241	241	241	241
R-squared	0.705	0.649	0.710	0.659

Note: Standard errors in parentheses, *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

These findings confirm that exports to Hong Kong are indeed associated with exports to China and the resulting changes in intensity behaviour. Thus, my models provide evidence for reduced political relations due to increased economic integration. Moreover, the asymmetric relationship in rival dyads appears to cause the administration of the stronger economy to become more assertive when it warrants the smaller economy more access to its internal

market. On the other hand, can we observe that more imports from China to Taiwan appear to soften the CCPs stance. Therefore, trade exchanges may have a more profound effect on hostile state behaviour than is shown through widely-used (inter)dependence measures (Barbieri and Schneider 1999; Barbieri 2002; Russett and Oneal 2001). This aspect is even further amplified by regional economic disintegration, shown through the positive effects of Taiwan's imports from Japan on Chinese intensity, where a one-percent increase in logged imports from Japan led to a 3.77 ($p<0.01$) unit increase in Chinese intensity behaviour. In contrast, Taiwan's intensity increases by 2.4 units ($p<0.05$). Similarly, a one-percent increase in logged exports caused an intensity increase of 2.14 ($p<0.1$) and 2.18 ($p<0.05$) units, respectively. The opposite can be observed for Taiwan's (one-percent increased) imports from the US, which caused Chinese intensity to decrease by -1.72 ($p<0.05$) and a reduction in Taiwan's intensity by -1.8 ($p<0.01$) units. As both Japan and China build a symmetric rival dyad with China, respectively, there appears to be a strong regional variation in the effects of economic disintegration a smaller economy can pursue within an asymmetric rival dyad.

Lastly, Table 4 reports regression results for all covariates. These controls are essential to the analysis, as they show that while economic variables do cause the most substantial effects on the intensity scores of both countries, further political (domestic) forces drive the behaviour of each respective administration. I will describe these variables in turn.

Table 4: Multivariate Regression Models: Covariates

Variables	(1) Intensity PRC	(1) Intensity TW	(2) Intensity PRC	(2) Intensity TW	(3) Intensity PRC	(3) Intensity TW	(4) Intensity PRC	(4) Intensity TW
Trade depends.	0.022 (0.055)	0.033 (0.041)	0.013 (0.059)	0.034 (0.044)	0.143*** (0.046)	0.058* (0.033)	0.151*** (0.048)	0.057 (0.035)
Trade agrmnt.	-0.528 (0.382)	-0.338 (0.284)	-0.523 (0.400)	-0.310 (0.294)	-0.614 (0.425)	-0.598* (0.310)	-0.580 (0.443)	-0.520 (0.321)
Pop (log)	38.267** (16.102)	28.608** (11.968)	34.250** (17.066)	28.328** (12.536)	29.606 (18.907)	25.254* (13.772)	28.442 (20.601)	27.988* (14.905)
GDP (log)	-0.562 (1.587)	-0.707 (1.179)	-0.433 (1.823)	-1.099 (1.339)	0.634 (1.669)	-1.370 (1.216)	-0.364 (2.190)	-1.527 (1.585)
Pol. Party TW	2.243*** (0.220)	1.102*** (0.164)	2.252*** (0.226)	1.105*** (0.166)	1.950*** (0.270)	1.025*** (0.197)	1.890*** (0.289)	1.016*** (0.209)
Pres. Elec. TW	-0.565*** (0.170)	-0.291** (0.126)	-0.557*** (0.174)	-0.272** (0.128)	-0.601*** (0.178)	-0.170 (0.130)	-0.585*** (0.183)	-0.168 (0.132)
Xi Nr. Terms	-0.339 (0.330)	-0.896*** (0.245)	-0.347 (0.348)	-0.913*** (0.256)	-0.209 (0.356)	-0.875*** (0.260)	-0.105 (0.392)	-0.842*** (0.284)
Xi in Power	0.040 (0.450)	0.728** (0.334)	0.097 (0.469)	0.794** (0.345)	0.205 (0.486)	0.948*** (0.354)	0.233 (0.513)	0.965*** (0.371)
FE	No	No	Yes	Yes	No	No	Yes	Yes
Constant	-641.953** (263.402)	-476.088** (195.787)	-575.186** (278.039)	-466.890** (204.225)	-473.185 (325.821)	-419.983* (237.336)	-448.036 (357.478)	-467.977* (258.639)
Observations	241	241	241	241	241	241	241	241
R-squared	0.676	0.599	0.681	0.614	0.705	0.649	0.710	0.659

Note: Standard errors in parentheses, *** $p<0.01$, ** $p<0.05$, * $p<0.1$

First, as previously stated, trade dependence does indeed affect intensity behaviour positively. However, when analysing exports and imports, this effect is only marginal and statistically significant for Chinese behaviour (Models 3 & 4). Surprisingly, the signing of the Cross-Straits Economic Cooperation Framework negatively impacted both economies' intensity. While these results are not statistically significant, they indicate a sizable decline in both scores after the framework was enacted in June 2010. Since trade dependence increases intensity scoring while the trade agreement reduces it, this could mean that this specific economic agreement has had either minimal impact on the actual (official and illicit) trade exchanges or that most of the variation in trade dependency was developed in the absence of the agreement.

The political controls have furthermore shown sizable effects on both intensity scores. Most important here is whether the Democratic Progressive Party (DPP) or the Kuomintang (KMT) are in power in Taiwan (Pol. Party TW). As this measure is a dummy, a change from DPP to KMT causes intensity scores to increase between 1.06 to 2.24 across all four models and both economies. This effect is unsurprising, as the KMT strives for political reunification with China and has acted as a facilitator in bilateral negotiations, even when not in power. The KMT is also an important factor in cross-Strait business relations and has historically built links with big Taiwanese businesses active in China (Wu 2016, 435). Similarly, a given year of presidential elections (Pres. Elec. TW) corresponds to decreased intensity scores across all models (with Models 3 & 4 showing insignificant results for Taiwan's intensity scoring). Finally, the amount of completed terms of China's President Xi Jinping corresponds negatively, with both intensity scores declining around -0.88 to -0.91 units for every one-unit increase in Xi's completed terms, of which there are three stages. These effects show that political and domestic factors do influence the intensity score of asymmetric rival dyads. However, they are not as profound as the economic integration variables.

6.2 Intensity scoring, systematic constraints, and changes over time

Next, I will discuss the intensity score distribution, systematic constraints due to heterogeneity, and its variation over time. While the employed MVR models have provided empirical evidence for my analysis, it is important to address how changes and constraints in intensity have happened over time and how much distance lies between both economies.

Figure 2 shows monthly mean intensity scores for every month from 2003 to 2023. Intensity scores steadily increased up until June 2010, which indicates better relations. This date coincides with the economic cooperation agreement between China and Taiwan coming

into effect, and the development is reversed for the period from July 2010 onwards. It can be further noted that Chinese intensity behaviour overall is more volatile and visibly lower than Taiwan's score. Moreover, Chinese behaviour shows higher volatility in the first period of the DPP being in power until 2008 and a narrower distribution of intensity scores at values mostly below zero after President Xi came to power and in the second DPP ruling cycle since 2016. However, Taiwan displays a more consistent distribution of its intensity behaviour, with a clear trend that reached new negative records after 2014, together with China.

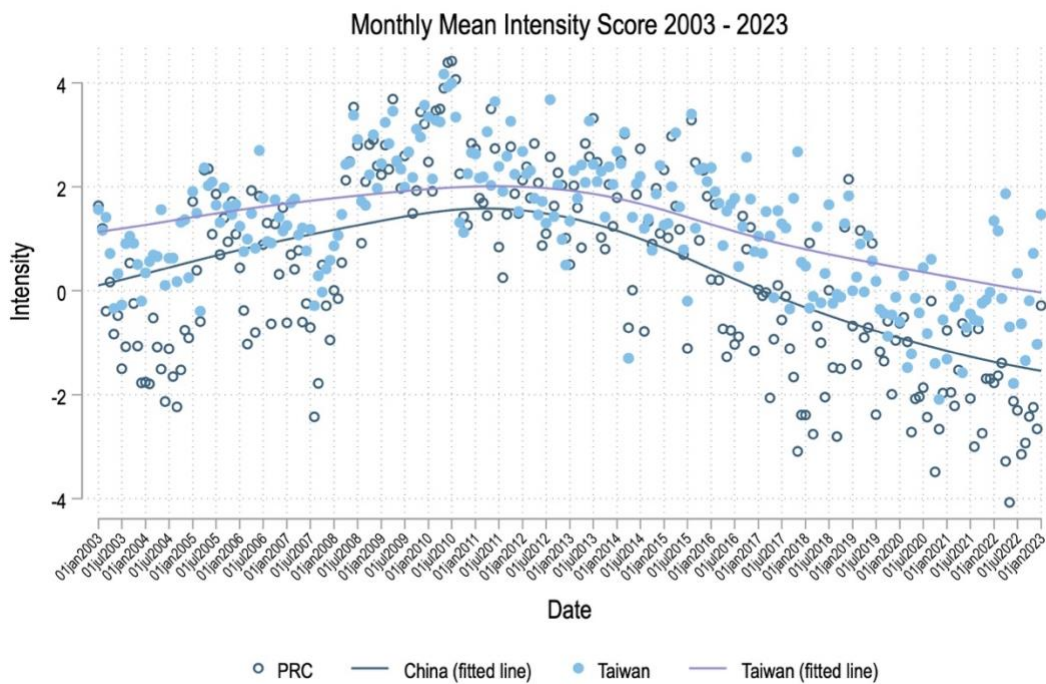


Figure 2: Distribution of aggregated intensity scoring. Note: Fitted lines represent moving averages.

As talk is cheap, as Chan (2009, 446) shows, authoritarian economies that do not face sizable backlash from their political power base can act much differently from their democratic counterparts. This aspect produces distinct preferences and constraints that are endogenous to each side of the dyad. Suppose regional elections are coming up in the south of Taiwan, historically a stronghold of the DPP, while the DPP runs for a third term in office in the same year or shortly after. This could lead to a situation in which Chinese intensity behaviour reaches visible lows (as shown for July 2007 – Feb 2008), while the DPP cannot enact the same level of intensity due to the negative effects this could have on regional election outcomes, as

displayed in November 2022 (Associated Press 2022). Therefore, declining intensity scores on both sides may be driven by only one side at any given time.¹⁶

Another aspect of the variation in behaviour is the intensity distance of both economies to each other in any given month. Figure 3 displays this distance in intensity action, with China representing the lower bound. The spread in intensity scores within each month for the observed period shows strong variations between both economies. Note here that times of higher intensity show a much lower variation than times of lower intensity. This dynamic supports my previous assumptions about one-sided limitations, or more precisely, the heterogeneity in constraints in autocracy-democracy dyads. While it is unclear what drives these major disparities, especially after the DPP's second ruling cycle after January 2016, I will address possible explanations in varying intensity behaviour in Section 7.

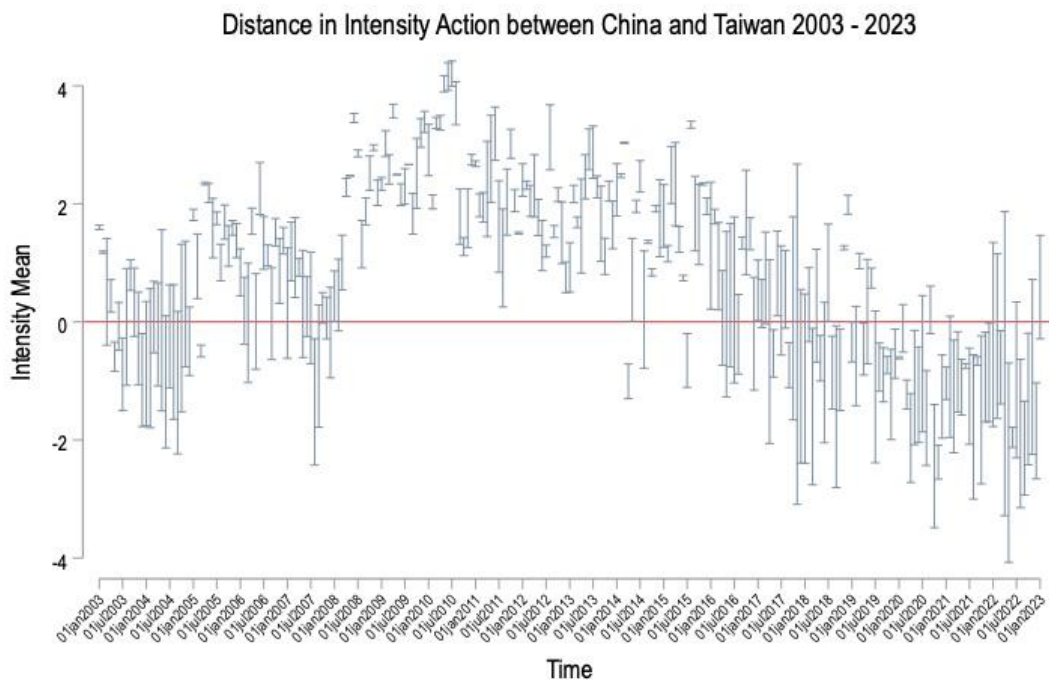


Figure 3: Intensity Distance. Note: The upper- and lower bounds show the distance in intensity action. Taiwan represents the upper bound, and China the lower bound.

¹⁶ It is important to note here, that the changes in intensity behavior in the ICEWS dataset would only be recorded for sizable statements, events, or actions of one side towards the other. This means, there may be unobserved accumulative behavior (micro accounts) in economy A that triggers the action of economy B, which in turn lets economy B engage in declining intensity activity, while economy A reacts (politically or militarily) more moderately, due to given constraints. This makes identifying which economy caused a specific event impossible and is therefore disregarded in this paper.

6.3 Robustness

Throughout my analysis, I have employed various measures to account for robustness in my main MVR models. In the following, I address these steps and explain how they validate my findings. First, I ran three different models with virtually the same information. Model 1 included the trade balance of Taiwan and China as the main independent variable and additional covariates for Taiwan's main trade partners. In Models 2 and 3, I exchanged these aggregates for log-transformed values for imports and exports. Statistically significant values from Model 1 (Hong Kong trade balance) indeed did not change sizably in Models 2 and 3. The same is true for changes from Model 2 to Model 3, where all statistically significant values, but most importantly the main independent variables and economic- and political covariates, only changed by decimals. Next, I calculated robust standard errors, as proposed by (Hayes and Cai 2007).¹⁷ Robust standard errors help determine if the homoscedastic assumptions of my OLS models are true. Homoscedasticity is given when the variance of the regression errors is constant. This means that the variance of the regression errors needs to be the same, regardless of the set of values of the used predictor variables. If this is not the case, we must assume that the variance in standard errors is unrelated to any predictor, making statistical inferences less viable (2007, 710). Standard errors in all models are slightly decreased, ruling out heteroscedasticity, which adds validity to my empirical study. It can be noted that some variables even turned significant ($p < 0.05$), which is the case for exports to China (Model 5), exports to Japan (Models 4 & 5), and population across all models.

This section has analysed the main results from my statistical models, discussed the distribution and systemic constraints of the intensity score, and checked for robustness in the statistical models. The following section will discuss the empirical findings and limitations of this study within the broader contributions to the political economy of state behaviour.

7. Discussion

This section discusses my empirical findings in a broader scholarly context. I will draw inferences from my case study to the overall developments and characteristics of commercial

¹⁷ As this adds a layer of conservative inference to my study, I report the robust standard errors for all my models in Appendix Table A4.

peace and economic integration within asymmetric rival dyads in the international economy. Additionally, I will present the limitations of this investigation and put them into perspective.

First, my empirical findings confirm earlier commercial peace assumptions about the particular case of China and Taiwan (McDonald 2009, 20). McDonald's study has focused on the risks arising from political changes within Taiwan, especially incentives for some politicians to push a pro-independence agenda. The author furthermore suggests that economic reforms are restraining China's actions while making less Beijing-favorable political shifts in Taiwan costly. Realists have followed up on these liberal dyadic notions, highlighting that politics do play a bigger role than economics (Mearsheimer 2018, 92). Indeed, domestic political changes affect state behaviour more consistently than any other covariate I tested for in my models (compare Table 4). This is true even in the absence of representative institutions, which liberals see as a major aspect of international politics to shape free trade interests (Moravcsik 1997, 553). What is more critical is that Taiwan's businesses developed these cross-strait economic ties due to the departure from Taiwan's 'developmental state' (Chan 2009, 441). This means that domestic (private) economic preferences have driven to build these ties in the presence of robust democratic institutions within Taiwan but at the cost of its security. As politicians followed these private preferences across party lines, the importance of politics was further diminished. This trend can be described as "‘perplexing duality’ characterised by ‘the concurrent processes of economic convergence and ‘political divergence’" (Kastner 2006, 325;334).

But why is security no concern to the business owners that fostered these strong cross-strait economic ties and thus caused such a degree of economic integration? As trade creates winners and losers (Rogowski 1990), the Taiwan Miracle¹⁸ has caused strong interest groups to develop within Taiwan. These interest groups, represented mainly by big export-oriented corporations, have used the dynamic economic characteristics within the Chinese market. There, land and labour are abundant relative to Taiwan's geographical size (Wong and Wu 2016, 8). More importantly, these ties allowed for economic signalling (Chan 2009, 446). In the 2004 Taiwan presidential election run-up, for example, Chinese officials began targeting DPP-friendly businesses, openly attacking them verbally and warning that China would not welcome them. While China did not follow up much on these threats, it illustrates how, early on, Chinese officials began using cross-strait economic ties to interact with—more precisely,

¹⁸ The Taiwan Miracle describes the period of rapid economic growth of Taiwan's economy from the early- to mid-1950s to the early 1980s (Gold 1986, 4).

interfere in—Taiwan. These signalling mechanisms are essential because they allow China and Taiwan to send messages without employing military force (Kastner 2006, 337–38). Others argue that the private-business-induced economic integration even empowered Taiwanese nongovernmental organisations to increase the societal ties between both economies, creating a security community (Deutsch as cited in Wang 2000, 123). Still, Taiwan appears to have traded economic prosperity with little advances in bilateral communication for most of its economic leverage and, thus, security (Appelbaum et al. 2018, 182).

In light of the laid-out scope conditions in Section 3, namely the uneven distribution of relative economic-, political-, and military capabilities of each economy, contrary tradeoffs for engaging or rejecting commercial interactions between both sides and the changes in the shared identity of citizens on each side of the dyad, I stated that if economic integration does not facilitate peace, it then inevitable spurs political disintegration. Indeed, for the China-Taiwan dyad, this factor can be observed. In turn, this means that while the scope conditions of economic integration in asymmetric rival dyads are applicable, their developments are more relevant than their mere existence. First, if relative economic-, political-, and military capabilities are unevenly distributed, it matters where the bigger weight lies. Commercial peace may not be warranted when the authoritarian (and hostile) economy has relative superiority. Second, if contrary tradeoffs for engaging or rejecting commercial interactions with the other economy exist—this condition is strongly related to the first condition—then increasing levels of hostility may be observed in only one side of a given dyad, despite overall declining political relations. Third, if changes in shared identity occur, political disintegration may be triggered, disregarding the degree of economic integration.¹⁹

So, which alternative explanations may apply to explain why Taiwan economically integrated with its politically hostile neighbour China? Looking at dyads inevitably leaves out much of the heterogeneity in the international economy. The Chinese and Taiwanese economies did not interact in a vacuum. They are deeply integrated into the global economy for the better of the past fifty decades. Both economies are heavily export-oriented, and the world depends on their sectoral expertise and manufacturing capacity within the global value chain system (Chinai and Nardo 2022, 9). Figure 4 shows the trade balance of Taiwan with its seven biggest trading partners. Trade with South Korea, lately the EU, and especially Japan causes significant trade deficits in Taiwan. This makes trading with these economies less beneficial for Taipei as

¹⁹ Changes in identity must be viewed as a very distinct characteristic of neighboring dyads. Another example may be the Russia-Ukraine and North- and South Korea dyads, or a possible Serbia-Kosovo pair.

it imports more goods and services than it can export. China and Hong Kong, on the other hand, have produced massive trade surpluses for Taiwan throughout the past twenty years. While trade with the USA and Singapore also produced small remnants for Taiwan, trade with both economies only added increasingly to Taiwan's balance sheet since 2019. Therefore, we can observe that Japan, as the other regional superpower in Asia, does not offer the same benefits as trading with China. This gives China a comparative advantage in Asia, as export functions as an essential driver of economic growth and thus state capabilities (Ghartey 1993, 1151). Similarly, neither the US nor the EU could offer the same advantages to Taiwan. This begs the question, how many more viable options Taiwan had other than economically integrating with China?

Indeed, Taiwan's alternative trading options were massively curbed by China's foreign policy, which seeks to prevent any state from more economic integration with Taiwan (Xu et al. 2022). To this day, China has done so quite effectively, with Taiwan having signed only three free trade agreements with Panama (2003), Guatemala (2005) and El Salvador and Honduras (2007) (International Trade Administration 2022). This is remarkable, as even strong economies within Asia, North America, and Europe have refrained from formalising their economic ties with Taiwan. Therefore, it is safe to assume that Taiwan, to some degree, had little alternative than to integrate with China economically. Even as opportunity costs for diverging from this process were rising and Taiwan's security was reduced, it could at least grow its economy further and build state capacity.

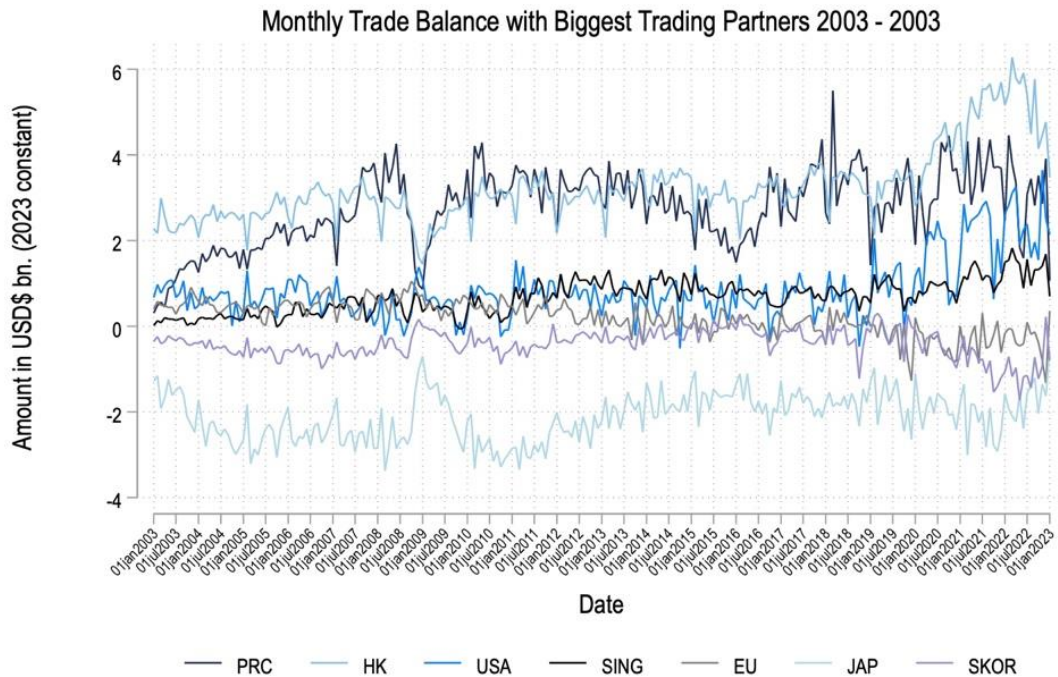


Figure 4: Taiwan trade balance with biggest partners

There is another point to make about Taiwan's alternatives. Some have argued that the cultural and geographical proximity has had an outsized effect on Taiwanese business owners, as they have continued to have strong cultural ties in China, which fostered individual exchange since the 1980s (Lan and Wu 2016, 734). This aspect should not be disregarded, as it not only contributes to the economic reasoning behind the economic integration of Taiwan and China but further allows for a cultural component in the economic integration, which focuses on public perceptions. While cross-Strait personal exchanges were increasing, and hostility towards Taiwanese citizens remained contingent on the hostility towards the Taiwanese government, the percentage of individuals who would prefer to keep the status quo indefinitely increased to 25%. In comparison, independence hovered at around 6% between 2003 to 2012 (Weng 2017, 372). These views have even consolidated over time, where deciding on the status quo as soon as possible declined from its peak of 38% in 2006 to around 28% in 2021, while an indefinite status quo was favoured by 27% that year (Global Taiwan Institute 2021). At the same time, a distinct Taiwanese identity appears to rise, while fewer people identify themselves as Chinese or both Chinese and Taiwanese simultaneously (NCCU 2023). This means that despite increased economic integration and higher personal exchanges, Taiwan's citizens have continued to develop a distinct identity very much different from China. Public opinions on the

status quo and independence may therefore be indicative of economic pragmatism within Taiwan's society.

As with opinion surveys, the question of measure does arise for econometric strategies. How data was collected, transformed, and then applied to my models can have outsized effects on the explanatory power of my study. As I proved the empirical validity of my models in Sections 6.2 and 6.3, I will address some concerns about the collected data and how I used it next. For my dependent variable, I relied on an AI-generated database, which gathered news reports from over 120 newspapers in three languages. A main critique point here may be that sources in traditional Chinese script are missing. This could skew the applied intensity measure, as information may be lost. However, I used daily data, which I aggregated to monthly average values. This means that every month may hold up to 64 distinct intensity reports on state behaviour. Even if, say, a single-digit amount of information was lost, the built averages likely reduced their impact on the overall scoring to marginal effects. These averages produced a value which should be very similar to the actual state behaviour. It can also be assumed that if there was an important (negative or positive) event, international news outlets would have picked up on this information, so that extreme scores would be included in the dataset. Furthermore, the English-language media outlets also include domestic newspapers from China, Taiwan, South Korea, Japan, and India, which further contributes to the soundness of the dataset, despite missing original-language sources. A concern that cannot be entirely overcome is how to rate the intensity of state behaviour. While the authors have developed a comprehensive methodology (Boschee et al. 2023), the measure remains a subjective construct and has to be treated as such.

For the independent variables, criticism may be more comprehensive. First, whenever working with data from China, its availability is a major concern to every study since China treats most of its data as a state secret. This factor applies to a certain degree to trade data, while customs reports used for this study were indeed available. Data availability was also no concern for Taiwan's export and import data for the study period from 2003 – 2023. However, it must be assumed that China and Taiwan over- and underreport certain values. Then, there is the issue of informal trade through Hong Kong, due to trading restrictions, which are in place in both economies. Even the built averages cannot fully account for these factors, although I was able to show that, at least within my models, there is no high variance in outcomes (see Footnote

5). We also must consider that statistical discrepancy²⁰ remains an evident issue to the statistical analysis. I sought to address this issue using log-transformed values for my second set of models. However, this may weaken the overall interpretability of the produced outcomes. Finally, research on the effects of economic integration and trade on state behaviour is not unified in its methodologies. Therefore, it is rather challenging to advance the current state of the art based on one of the introduced strategies.

This section has discussed my empirical findings within the theoretical context of my analysis. I have furthermore provided a discussion on alternative explanations of the effects of economic integration on state behaviour. Lastly, I have addressed concerns of measurement and analysis within my models. The following section will conclude.

8. Conclusion

In this section, I will recap the main findings of the previous analysis, answer my hypothesis, briefly discuss the generalizability of my case study, and give an outlook. This paper has analysed the impact of economic integration on state behaviour (intensity of actions) within the asymmetric China-Taiwan rival dyad. At the onset, I asked why small economies integrate economically with politically hostile states, that threaten their socio-economic system. I have argued that the economic integration of Taiwan and China has led to political disintegration, which can be observed in the changes in state behaviour. In turn, this disintegration has caused a declining trend, leading to more hostile action between the two economies. This study finds empirical evidence that this is indeed the case for the China-Taiwan dyad but that the interaction between economic integration and state behaviour is more nuanced. First, imports from China increase its intensity (friendlier actions). However, the exact opposite is happening for exports to China, which has a much higher negative impact on China's behaviour. While only about half as strong as exports to China, the same is true for exports to Hong Kong. This study could not obtain empirically valid results for the intensity behaviour of Taiwan. Still, the obtained values appear to show similar trends towards China. To conclude this dyadic study, the smaller economy appears to risk more hostile behaviour of the larger economy the more it exports to its counterpart. At the same time, imports seem to ease the intensity of political actions it may face.

²⁰ That is, the residual value found in the balance of payments accounts of all economies, after adding up all values within it.

Which implications may be drawn to the broader study of asymmetric rival dyads? As described in the introduction to my research, the Russia-Ukraine dyad builds a strong case against any of my findings. After all, we have seen that commercial peace did not prevail there. But political (and military) action is not a matter of numbers and mathematical reasoning, it is driven by the inherently irrational logic of the humans who undertake it. No statistical model or empirical strategy can determine, let alone draw inferences from, incoherent and inconclusive individual or state action that causes MID. For the generalizability of my study, this means that only the period in which commercial peace prevails is relevant to studying the effects of economic integration on state behaviour. By specifying the applicable range of analysis, my study has important implications for the study of these dyads. First, think of ‘pure’ symmetric rivals such as China and the US. As we have seen from the unfolding events between both economies during the Trump and Biden administrations, trade takes an outsized place in each administration’s reasoning, both within China and the US. But little academic and public debate has focused on the characteristics of single trade streams on their foreign policy rationales. Imports, exports, trade balances, and sectoral arguments have taken centre stage in concert. But scholars and policymakers should take an interest in the effects of single aspects of economic integration on the intensity of bilateral state behaviour to address declining micro trends early on. One example may be the rising notions of unfair Chinese exchange rate practices as early as 2010 (Palmer and Eckert 2010) to the escalated contemplations about the possibility of a (trade) war (Copeland 2022).

For asymmetric rivals, the picture looks very much different. As shown in the case of Taiwan, small economies have little chance to divert from economic integration with politically hostile states if these isolate them diplomatically. Then, they only can steer the pace and size of integration, to some degree, via their trade policies. At the same time, these economies are most often constrained by their differences in constitutional settings, which gives them a comparative disadvantage vis-à-vis their most often authoritarian counterparty. Think of the opposite case in the China-Japan dyad in the early 1990s. Back then, Japan had a 900% higher GDP than China. While politically hostile towards China, the Japanese government and the CCP still pursued economic integration, despite deepening China-US ties (Chen et al. 2021). Japan’s constitutional setting did not allow for diplomatic isolation of China to the extent that China could constrain Taiwan. For (politically and economically) asymmetric rival dyads, this means that both the arrangement of domestic constitutional setting (democratic-authoritarian or authoritarian-democratic) and the relative and absolute bilateral and global economic capabilities matter when measuring the effects of economic integration on hostile state

behaviour. More importantly, though, it is relevant where these weights lie. When authoritarian characteristics and economic strength are combined within the asymmetrically stronger power, economic integration may strongly affect the bilateral intensity behaviour within dyads. However, when the economically more capable power is defined as (constrained by) constitutionally democratic, this effect may not take place. This is an important implication for advanced economies in the democratic realm. For their administrations, this distinction could mean that economic integration with asymmetric economies (especially imports from them) may not affect their state behaviour. Therefore, a *change through trade* may not occur and shall not become a rationale in their foreign- and trade policies.

This study contributed to the scholarly discourses on economic peace and economic integration at the inter-country level, identifying relevant associations between trade and security and theory. These findings have important implications for scholars and policymakers in democratic administrations, which seek to understand how to address changes in the international economy. While I analysed the effects of economic integration on state behaviour, there is more to be unpacked about this relationship on the regional level, both in inter- and intra-state interactions within rival dyads. Future analyses may also investigate the arrangement of constitutional and economic settings within these dyads, that is whether effects occur and how strong they are when the asymmetrically ‘weaker’ dyad is democratic. In times of China’s rise in the global economy and the emergence of outgoing authoritarian economies such as Saudi Arabia or Iran, this warrants an entirely new field to study these interactive effects in the international economy.

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Appendix

A1. Correlation Matrix

Table A1: Correlation Matrix

Variables	PRC Intens	TW Intens	TB PRC	TB HK	TB JAP	TB USA	TB EU	TB SING	TB SK	Trade Dep.	GDP (log)	Pop (log)	Party TW	Elect. TW	Xi Nr. Terms	Xi in Power	Trade Agrmt
PRC Intensity	1.000																
TW Intensity	0.810	1.000															
TB PRC (bn)	-0.024	-0.017	1.000														
TB HK (bn)	-0.486	-0.441	0.496	1.000													
TB JAP (bn)	-0.201	-0.188	-0.282	-0.027	1.000												
TB USA (bn)	-0.386	-0.358	0.070	0.571	0.318	1.000											
TB EU (bn)	0.442	0.431	-0.327	-0.597	-0.238	-0.448	1.000										
TB SNG (bn)	-0.235	-0.214	0.434	0.605	0.328	0.607	-0.575	1.000									
TB SK (bn)	0.283	0.230	-0.167	-0.502	0.460	-0.157	0.032	0.071	1.000								
Trade Dep.	0.360	0.369	0.718	-0.062	-0.563	-0.349	0.239	-0.091	-0.081	1.000							
GDP (log)	-0.403	-0.404	0.575	0.791	0.242	0.498	-0.727	0.768	-0.138	-0.118	1.000						
Pop (log)	-0.153	-0.174	0.503	0.456	0.367	0.228	-0.596	0.640	0.217	-0.053	0.846	1.000					
Party TW	0.712	0.643	0.130	-0.259	-0.056	-0.268	0.230	0.101	0.333	0.312	-0.108	0.121	1.000				
Election TW	-0.073	-0.059	-0.034	-0.140	-0.074	-0.088	0.034	-0.023	0.093	0.015	-0.062	-0.016	0.002	1.000			
Xi Nr. Terms	-0.546	-0.558	0.334	0.688	0.439	0.500	-0.747	0.625	-0.062	-0.343	0.879	0.765	-0.334	-0.097	1.000		
Xi in Power	-0.407	-0.391	0.283	0.561	0.507	0.335	-0.698	0.620	0.119	-0.342	0.823	0.820	-0.152	-0.108	0.905	1.000	
Trade Agrmt	-0.157	-0.176	0.454	0.515	0.257	0.285	-0.611	0.690	0.139	-0.127	0.826	0.855	0.193	-0.037	0.684	0.756	1.000

Note: TB denotes trade balance and the following abbreviation identifies the trading partner. Election TW denotes presidential elections in Taiwan. Xi Nr. Terms indicates how many terms Xi Jinping completed. Xi in Power and Trade Agrmt (Trade Agreement) are dummy variables.

A2. Multivariate Regression Models

Table A2: Multivariate Regression Models

Variables	(1) Intensity PRC	(1) Intensity TW	(2) Intensity PRC	(2) Intensity TW	(3) Intensity PRC	(3) Intensity TW	(4) Intensity PRC	(4) Intensity TW
TB PRC (bn.)	-0.095 (0.436)	-0.111 (0.324)	0.027 (0.468)	-0.058 (0.344)				
TB HK (bn.)	-0.499** (0.198)	-0.080 (0.147)	-0.527** (0.251)	-0.023 (0.184)				
TB JAP (bn.)	-0.489** (0.219)	-0.135 (0.163)	-0.474* (0.252)	-0.107 (0.185)				
TB USA (bn.)	0.312* (0.176)	0.251* (0.131)	0.304 (0.205)	0.277* (0.150)				
TB SING (bn.)	-0.395 (0.381)	-0.159 (0.283)	-0.465 (0.421)	-0.175 (0.309)				
TB EU (bn.)	0.220 (0.281)	0.095 (0.209)	0.312 (0.298)	0.073 (0.219)				
Imp PRC (log)					5.060*** (1.510)	1.287 (1.100)	5.488*** (1.862)	0.892 (1.347)
Exp PRC (log)					-6.556*** (2.026)	-2.936** (1.476)	-6.909*** (2.145)	-2.685* (1.552)
Imp HK (log)					0.371 (0.322)	-0.303 (0.235)	0.286 (0.356)	-0.468* (0.258)
Exp HK (log)					-2.411*** (0.829)	-0.496 (0.604)	-2.208** (0.946)	-0.146 (0.685)
Imp EU (log)					-1.034 (0.813)	0.115 (0.592)	-1.339 (0.871)	0.112 (0.630)
Exp EU (log)					-0.915 (0.897)	-0.042 (0.653)	-1.070 (1.002)	0.003 (0.725)
Imp JAP (log)					3.493*** (0.998)	1.789** (0.727)	3.765*** (1.272)	2.139** (0.920)
Exp JAP (log)					1.838* (1.090)	2.246*** (0.794)	2.144* (1.185)	2.176** (0.857)
Imp SK (log)					0.058 (0.835)	1.096* (0.608)	0.059 (0.945)	1.042 (0.684)
Exp SK (log)					0.044 (0.774)	1.006* (0.564)	-0.077 (0.806)	0.771 (0.583)
Imp Sing (log)					0.372 (0.559)	0.370 (0.407)	0.575 (0.617)	0.326 (0.447)
Exp Sing (log)					-0.611 (0.552)	-0.341 (0.402)	-0.429 (0.603)	-0.125 (0.437)
Imp USA (log)					-1.625** (0.781)	-1.427** (0.569)	-1.717** (0.826)	-1.581*** (0.598)
Exp USA (log)					-0.395 (0.856)	-1.564** (0.624)	-0.456 (1.004)	-1.483** (0.727)
Trade depend.	0.022 (0.055)	0.033 (0.041)	0.013 (0.059)	0.034 (0.044)	0.143*** (0.046)	0.058* (0.033)	0.151*** (0.048)	0.057 (0.035)
Trade agrmnt.	-0.528 (0.382)	-0.338 (0.284)	-0.523 (0.400)	-0.310 (0.294)	-0.614 (0.425)	-0.598* (0.310)	-0.580 (0.443)	-0.520 (0.321)
Pop (log)	38.267** (16.102)	28.608** (11.968)	34.250** (17.066)	28.328** (12.536)	29.606 (18.907)	25.254* (13.772)	28.442 (20.601)	27.988* (14.905)
GDP (log)	-0.562 (1.587)	-0.707 (1.179)	-0.433 (1.823)	-1.099 (1.339)	0.634 (1.669)	-1.370 (1.216)	-0.364 (2.190)	-1.527 (1.585)
Pol. Party TW	2.243*** (0.220)	1.102*** (0.164)	2.252*** (0.226)	1.105*** (0.166)	1.950*** (0.270)	1.025*** (0.197)	1.890*** (0.289)	1.016*** (0.209)
Pres. Elec. TW	-0.565*** (0.170)	-0.291** (0.126)	-0.557*** (0.174)	-0.272** (0.128)	-0.601*** (0.178)	-0.170 (0.130)	-0.585*** (0.183)	-0.168 (0.132)
Xi Nr. Terms	-0.339 (0.330)	-0.896*** (0.245)	-0.347 (0.348)	-0.913*** (0.256)	-0.209 (0.356)	-0.875*** (0.260)	-0.105 (0.392)	-0.842*** (0.284)
Xi in Power	0.040 (0.450)	0.728** (0.334)	0.097 (0.469)	0.794** (0.345)	0.205 (0.486)	0.948*** (0.354)	0.233 (0.513)	0.965*** (0.371)
FE	NO	NO	YES	YES	NO	NO	YES	YES
Constant	-641.953** (263.402)	-476.088** (195.787)	-575.186** (278.039)	-466.890** (204.225)	-473.185 (325.821)	-419.983* (237.336)	-448.036 (357.478)	-467.977* (258.639)
Observations	241	241	241	241	241	241	241	241
R-squared	0.676	0.599	0.681	0.614	0.705	0.649	0.710	0.659

Note: Standard errors in parentheses, *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

A3. Multivariate Regression Models with robust standard errors

Table A3: MVR Models with robust standard errors

Variables	(1) Intensity PRC	(1) Intensity TW	(2) Intensity PRC	(2) Intensity TW	(3) Intensity PRC	(3) Intensity TW	(4) Intensity PRC	(4) Intensity TW
TB PRC (bn.)	-0.095 (0.455)	-0.111 (0.338)	0.027 (0.472)	-0.058 (0.359)				
TB HK (bn.)	-0.499** (0.167)	-0.080 (0.127)	-0.527** (0.220)	-0.023 (0.165)				
TB JAP (bn.)	-0.489** (0.219)	-0.135 (0.163)	-0.474* (0.240)	-0.107 (0.174)				
TB USA (bn.)	0.211* (0.183)	0.251* (0.138)	0.304 (0.203)	0.277* (0.162)				
TB SING (bn.)	-0.395 (0.399)	-0.159 (0.298)	-0.465 (0.420)	-0.175 (0.321)				
TB EU (bn.)	0.220 (0.266)	0.095 (0.217)	0.312 (0.271)	0.073 (0.239)				
Imp PRC (log)					5.060*** (1.179)	1.287 (0.812)	5.488*** (1.593)	0.892 (1.122)
Exp PRC (log)					-6.556*** (1.152)	-2.936*** (0.962)	-6.909*** (1.589)	-2.685** (1.109)
Imp HK (log)					0.371 (0.318)	-0.303 (0.239)	0.286 (0.352)	-0.468* (0.254)
Exp HK (log)					-2.411*** (0.749)	-0.496 (0.550)	-2.208*** (0.826)	-0.146 (0.625)
Imp EU (log)					-1.034 (0.768)	0.115 (0.553)	-1.339* (0.919)	0.112 (0.638)
Exp EU (log)					-0.915 (0.920)	-0.042 (0.684)	-1.070 (0.994)	0.003 (0.754)
Imp JAP (log)					3.493*** (0.944)	1.789** (0.737)	3.765*** (1.219)	2.139*** (0.826)
Exp JAP (log)					1.838* (1.081)	2.246*** (0.761)	2.144* (1.126)	2.176*** (0.788)
Imp SK (log)					0.058 (0.982)	1.096* (0.660)	0.059 (1.121)	1.042* (0.759)
Exp SK (log)					0.044 (0.762)	1.006** (0.452)	-0.077 (0.803)	0.771 (0.454)
Imp Sing (log)					0.372 (0.572)	0.370 (0.389)	0.575 (0.624)	0.326 (0.434)
Exp Sing (log)					-0.611 (0.589)	-0.341 (0.396)	-0.429 (0.626)	-0.125 (0.438)
Imp USA (log)					-1.625** (0.744)	-1.427** (0.555)	-1.717** (0.773)	-1.581*** (0.572)
Exp USA (log)					-0.395 (0.820)	-1.564*** (0.592)	-0.456 (0.902)	-1.483** (0.688)
Trade depend.	0.022 (0.056)	0.033 (0.041)	0.013 (0.058)	0.034 (0.044)	0.143*** (0.039)	0.058** (0.026)	0.151*** (0.041)	0.057* (0.029)
Trade agrmnt.	-0.528 (0.382)	-0.338 (0.265)	-0.523 (0.361)	-0.310 (0.261)	-0.614 (0.414)	-0.598 (0.301)	-0.580 (0.434)	-0.520* (0.300)
Pop (log)	38.267*** (12.139)	28.608*** (9.194)	34.250*** (12.458)	28.328*** (9.368)	29.606** (13.045)	25.254** (10.442)	28.442*** (15.225)	27.988*** (11.467)
GDP (log)	-0.562 (1.411)	-0.707 (1.178)	-0.433 (1.586)	-1.099 (1.309)	0.634 (1.384)	-1.370 (1.045)	-0.364 (1.944)	-1.527 (1.371)
Pol. Party TW	2.243*** (0.206)	1.102*** (0.159)	2.252*** (0.219)	1.105*** (0.160)	1.950*** (0.290)	1.025*** (0.191)	1.890*** (0.308)	1.016*** (0.206)
Pres. Elec. TW	-0.565*** (0.173)	-0.291** (0.117)	-0.557*** (0.176)	-0.272** (0.172)	-0.601*** (0.193)	-0.170 (0.126)	-0.585*** (0.199)	-0.168 (0.133)
Xi Nr. Terms	-0.339 (0.392)	-0.896** (0.270)	-0.347 (0.414)	-0.913*** (0.256)	-0.209 (0.434)	-0.875*** (0.289)	-0.105 (0.473)	-0.842*** (0.316)
Xi in Power	0.040 (0.448)	0.728*** (0.331)	0.097 (0.461)	0.794** (0.332)	0.205 (0.482)	0.948*** (0.347)	0.233 (0.513)	0.965*** (0.361)
FE	NO	NO	YES	YES	NO	NO	YES	YES
Constant	-641.953** (200.076)	-476.088** (195.787)	-575.186** (278.039)	-466.890** (204.225)	-473.185 (325.821)	-419.983* (237.336)	-448.036 (357.478)	-467.977* (258.639)
Observations	241	241	241	241	241	241	241	241
R-squared	0.676	0.599	0.681	0.614	0.705	0.649	0.710	0.659

Note: Robust standard errors in parentheses, *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

A4. Trade volumes of Taiwan's seven biggest trading partners

