

## **National Unification and Mistrust: Bargaining Power and the Prospects for a PRC/Taiwan Agreement**

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*Can states that mistrust each other as much as the Peoples' Republic of China (PRC) and Taiwan reach unification agreements? Unification agreements are most feasible when one of two conditions holds: the unification bargain does not independently erode the bargaining power of the weaker state, or the more powerful state can commit credibly not to use its increased bargaining power to restructure the agreement ex post. Our argument accounts for two historical cases—the nineteenth century Argentine and German unifications—and helps to explain why the PRC has found it difficult to make progress on achieving a peaceful bargain with Taiwan. We describe several possible future scenarios for cross-Strait relations and show that democratization in the PRC is not a necessary prerequisite for a unification agreement between the mainland and Taiwan.*

Will the Peoples' Republic of China (PRC) and Taiwan be able to settle their differences through a negotiated agreement? Though the PRC has threatened to fight a war to prevent legal Taiwanese independence, Taiwan's elected

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presidents—first Lee Teng-hui and now Chen Shui-bian—have in recent years sought to bolster Taiwan’s sovereign status.<sup>1</sup> PRC officials have actively sought a unification agreement and have promised Taiwan a high level of autonomy under the “one country, two systems” proposal, but only between 10 and 15 percent of Taiwanese support the scheme.<sup>2</sup> Taiwan is not necessarily opposed to reunification in principle, however, as some recent polls suggest a plurality, and perhaps even a majority, of Taiwanese voters would be receptive to reunification given the right circumstances (such as democratization in China).<sup>3</sup> Former Taipei mayor and Nationalist Party (KMT) chairman Ma Ying-jeou, widely viewed as the early frontrunner in the 2008 presidential election, recently made clear that he too views unification as a viable future scenario.<sup>4</sup> In short, whether or not a reunification agreement is possible over the long term remains unclear.<sup>5</sup>

When, if ever, is it possible for countries that do not trust each other to forge unification agreements? This is a pressing question not just for the PRC and Taiwan, but in other situations including formally independent states such as the two Koreas as well as functionally independent regions in fractured states such as contemporary Iraq. The impediments to national unification between the PRC and Taiwan are quite similar to impediments that complicated unification (and reunification) in other historical cases as well. Argentina, fragmented after the collapse of the Spanish empire in the 1810s, reunified in the 1850s, and Germany unified in stages in 1866 and 1871. In both of these cases there was one core state, Buenos Aires in Argentina and Prussia in Germany, that faced a difficult problem: the core state preferred to negotiate a voluntary national unification agreement with the smaller states, but the smaller states did not trust the core to live up to the terms of a unification deal. Similarly, Beijing’s inability to induce Taiwan to accept

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<sup>1</sup> Michael D. Swaine, “Trouble in Taiwan,” *Foreign Affairs* 83, no. 2 (2004): 39–49, <http://fullaccess.foreignaffairs.org/20040301faessay83205/michael-d-swaine/trouble-in-taiwan.html>; Thomas J. Christensen, “The Contemporary Security Dilemma: Detering a Taiwan Conflict,” *The Washington Quarterly* 25, no. 4 (2002): 7–21.

<sup>2</sup> For poll information, see Taiwan’s Mainland Affairs Council, [www.mac.gov.tw](http://www.mac.gov.tw).

<sup>3</sup> Emerson M.S. Niou, “Understanding Taiwan Independence and Its Policy Implications,” *Asian Survey* 44, no. 4 (2004): 555–67; Brett V. Benson and Emerson M.S. Niou, “Public Opinion, Foreign Policy, and the Security Balance in the Taiwan Strait,” *Security Studies* 14, no. 2 (2005): 274–89. We discuss these polls further below.

<sup>4</sup> Ma noted in a recent trip to Europe, for example, that “ultimate unification” would not be ruled out by the KMT as a future option. See “Taiwan and China Must Work for Peace, Ma Says,” *Central News Agency*, 19 February 2006, in *Taiwan Security Research*, <http://taiwansecurity.org/CNA/2006/CNA-190206.htm>. However, Ma has said he will not enter into unification talks with the PRC if elected.

<sup>5</sup> For different perspectives on the prospects for a bargained PRC-Taiwan agreement, see Nancy Bernkopf Tucker, “If Taiwan Chooses Unification, Should the United States Care?” *The Washington Quarterly* 25, no. 3 (2002): 15–28; Linda Jakobson, “A Greater Chinese Union,” *The Washington Quarterly* 28, no. 3 (2005): 27–39; Kenneth Lieberthal, “Preventing a War Over Taiwan,” *Foreign Affairs* 84, no. 2 (2005): 53–63; Richard C. Bush, *Untying the Knot: Making Peace in the Taiwan Strait* (Washington, DC: Brookings, 2005); Jonathan I. Charney and J.R.V. Prescott, “Resolving Cross-Strait Relations between China and Taiwan,” *The American Journal of International Law* 94, no. 3 (2000): 453–77.

unification centers in part on a fundamental credible commitment problem. Beijing may promise autonomy for Taiwan under a “one country, two systems” plan, but it is hard for Taiwanese to trust that PRC leaders will hold up their end of the bargain after unification.

By itself, however, this credibility problem cannot account for why potentially vulnerable states reject unification, since at least in principle there is no reason why formal political unification would necessarily make any one state worse off than it would otherwise be. Taiwan’s policymakers, for example, expect that Beijing will try to influence Taipei’s behavior even if Taiwan does not agree to unification. Similarly, Beijing’s leaders will reasonably expect Taiwan to resist submission even if it does agree to unify. There is nothing magical about a formal unification agreement that ends contentious bargaining between polities (whether those polities are independent countries or regional units within a state). Any analysis of unification bargaining must begin with an explanation for why unification is a contentious issue in the first place. The problem is the tendency for unification agreements to be harder for smaller states to reverse than larger states. When agreements create a worse outside option for a small state than for a large state, the large state gains even more of an advantage over the small state than it otherwise would have enjoyed, and the small state can be made worse off than it otherwise would have been.

Crucially, however, not all situations of national unification are identical, and the extent to which an agreement is harder for a smaller state than its larger partner to undo may depend on other factors which can vary. Evaluating the prospects for agreements requires a comparison between two possible futures, one in which the states reach an agreement and one in which they do not. The fact that a small state’s prospects might be bleak under unification, for example, can not alone lead to the conclusion that the state will reject a deal unless its prospects would otherwise be better (or at least less bleak). Our argument, based on insights from bargaining theory, is that a weak state will sometimes accept a stronger partner’s unification offer when at least one of two conditions holds. First, a strong state seeking to be the core of a unified country may be able to achieve unification if the weaker state feels that an agreement will not independently influence its bargaining position. Second, a strong state may be able to win a unification agreement if it can devise ways to bind itself so that its weaker partner will not fear being exploited once it enters into an agreement.

This paper proceeds in four parts. We begin with a theory of national unification and show how credibility problems can prevent negotiated agreements. We use this theory to generate testable hypotheses concerning the conditions under which unification agreements are most likely to be obtained. In the second part we present two case studies of national unification in the nineteenth century: Argentine and German. Each case presents some variation in the explanatory and dependent variables; this allows us several

tests of the hypotheses. In part three we show how the state of bargaining between the PRC and Taiwan and the failure of the two sides up until now to reach an agreement provide additional evidence for the theory. We then conclude with a discussion of possible future scenarios and describe several conditions that may, in the future, make PRC-Taiwan unification possible.

### NATIONAL UNIFICATION, BARGAINING POWER, AND CREDIBILITY

Under what conditions are de facto independent, sovereign states able to reach agreements on formal political unification? We define unification broadly: at a minimum, the unifying states agree that most international diplomacy will occur within the rubric of a single government. The government could be newly established, or it could simply be the government of one of the formerly independent states. The formerly independent states may decide to transfer all, some, or no additional authority, beyond the authority to represent the new unified state in the international arena, to the new central government.

Our interest is groups of states in which at least one of the states places some value on unification. Whether unification is a desired end for economic, military, cultural, or other reasons is unimportant for the basic dilemma we discuss in the rest of this section. For the purposes of our analysis, we assume unification through conquest is not a practical option. Even in situations where one state is much more powerful than a potential target, conquest may be impractical for at least three reasons. First, mounting an invasion may be logistically impracticable; even if a strong state has the ability to inflict pain on a weaker state, such as by bombing cities or blockading harbors, it may lack the ability to actually seize the weaker state's territory.<sup>6</sup> Second, there may be normative or other international constraints on conquest, so that the strong state may be disinclined to conquer even if it could.<sup>7</sup> Third, violent conquest may negate the value of unification; for example, war could destroy the economic potential of a territory, making a violent conquest unproductive.<sup>8</sup>

We argue in this section that unification bargains are most likely to emerge when at least one of two conditions holds: the agreement does not independently affect the bargaining power of the states, or the state advantaged

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<sup>6</sup> This is likely to be the case if a body of water separates the two countries. On the "stopping power of water," see John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: Norton, 2001), 114–28.

<sup>7</sup> Tanisha M. Fazal, "State Death in the International System," *International Organization* 58, no. 2 (2004): 311–44.

<sup>8</sup> Peter Liberman, "The Spoils of Conquest," *International Security* 18, no. 2 (1993): 125–53. Liberman shows that conquest need not have this effect and that it often does pay.

by the agreement can credibly commit not to use this status to restructure the deal in the future.

### Unification as an “Obsolescing Bargain”

Nearby states, whether independent countries or regions within a country, always have unresolved issues. Even when they have the potential to gain by cooperating, states nearly always have at least some goals that come into conflict, such as their borders, how to share common resources, how to regulate the flow of goods or people, whether to cooperate on security, and so on. They also can use threats or force to extort from each other valuable material or symbolic concessions. While many factors may contribute to how states and their leaders work out tacit or explicit agreements, bargaining power that comes from material interests and capabilities must play a substantial role.

Consider two countries, A and B, bargaining with each other, either tacitly or explicitly, for possible political unification. Assume that neither state possesses such overwhelming capabilities that it can easily resolve any bargaining stalemate by conquering the other state. Any agreement the two sides reach would presumably reflect their current bargaining power.<sup>9</sup> If, for example, A is more powerful, the agreement would privilege A's interests over B's. Yet the achievement of a unification accord would not end bargaining between A and B, so long as the two continue to exist as distinct jurisdictional entities. For example, even if B becomes a province within A, the residents of B will still have preferences over their political, economic, and cultural interests and will have some way to express those preferences, whether through provincial elections or through informal social organizations. Conflicting interests that existed prior to unification are likely to continue into the future whether the two states reached an agreement or not. Future tacit or explicit agreements reached concerning these points of conflict would continue to reflect the relative bargaining power of the two entities, whether or not a unification agreement is in place.

As such, an inability on either state's part to commit credibly to the terms of a unification agreement will not necessarily act as a stumbling block to an agreement being reached. This is the case even if one of the states holds significantly more bargaining power than the other, and indeed, even if the stronger state's relative bargaining power is expected to rise even further into the future. For countries A and B, if A's power relative to B is expected to continue growing, B will be concerned that if it signs a unification agreement

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<sup>9</sup> Bargaining power, the ability of a state to get what it wants from another state when the two states have different interests, depends at least partly on the outside option that each state has. Howard Raiffa, for example, describes how bargains are shaped by each side's best alternative to a negotiated agreement. Other factors include patience, diplomatic skills, or bargaining norms or institutions. Howard Raiffa, *The Art and Science of Negotiation* (Cambridge, MA: Belknap Press of Harvard University Press, 1982).

with A today, A's increasing bargaining power might provide A with the capability to restructure the agreement to its advantage in the future. However, B will also expect A to use its growing bargaining power to its advantage even if B does not agree to unify. A's growing power implies that B will get successively worse bargains in the context of a unification agreement, but B would still get successively worse bargains if the two sides were not to unify.

Credibility only becomes an issue if B has reason to expect that the act of unification itself will independently affect the future trajectory of its bargaining power vis-à-vis A. There are a number of reasons why unification could have such an independent effect. For example, if political unification entails the formation of a common market, then it might make state B more dependent economically on state A than it otherwise would be, making its exit option worse.<sup>10</sup> Similarly, state B is unlikely to be able to maintain formal security alliances with outside states after entering into a unification agreement with A. As such, unification will likely constrict B's ability to rely on external balancing as a means to deter military coercion by A, meaning B will need to rely more heavily on internal balancing mechanisms.<sup>11</sup> To the extent that B is much smaller than A to begin with, a shift from external to internal balancing would substantially hurt B's ability to defend itself as it will simply lack the means to compete with A's military expenditures. Thus, if unification undercuts B's external security alliances, it could significantly reduce B's bargaining power vis-à-vis A.<sup>12</sup> In these sorts of scenarios, B would be wary of a unification accord, not because it is weaker than A but rather because it expects its future bargaining leverage will be worse under unification than with independence. A could use its enhanced leverage to demand concessions that B would otherwise have been unwilling to give.

We refer to unification's independent, negative effect on a state's bargaining power as a "unification deficit." When a unification deficit is likely to emerge, unification agreements begin to resemble what political economists who study foreign direct investment call an "obsolescing bargain." Prior to investing, a multinational corporation is in a strong bargaining position: if a country is unwilling to offer generous tax or regulatory concessions, the company can invest elsewhere. Governments seeking more foreign investment are thus willing to sign agreements favorable to investors. However,

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<sup>10</sup> For an example of this effect in relations between the United States and the Hawaiian Kingdom, see Rawi Abdelal and Jonathan Kirshner, "Strategy, Economic Relations, and the Definition of National Interests," *Security Studies* 9, no. 1/2 (1999/2000): 119–56.

<sup>11</sup> On internal versus external balancing, see Kenneth N. Waltz, *Theory of International Politics* (New York: Random House, 1979), 118. See also Mearsheimer, *Tragedy of Great Power Politics*, 156–57.

<sup>12</sup> Unification might also erode state B's outside options if the unification agreement itself results in B losing the ability to express a preference in the first place. In other words, the pooling of political authority with A could independently work to A's advantage. Alternate forms of pooling, such as a federal constitutional agreement, might conversely work to B's advantage. On these issues, see: Chad Rector, *Federations* (Ithaca, NY: Cornell University Press, forthcoming).

once the corporation completes the investment, such as a mine and the infrastructure to support it, bargaining power shifts. The company is already invested and the mine cannot be moved, so the government can now demand greater tax payments and threaten to expropriate the mine if the company does not comply. In other words, executing the original agreement leads to a loss of bargaining power for the multinational corporation. Foreign investors are thus likely to consider carefully the credibility of the government with which they are negotiating.<sup>13</sup> In the same way, if a country expects that unification will harm its bargaining leverage independently, it will carefully consider the credibility of its potential unification partner.

In sum, negotiated unification agreements are most feasible when one of two conditions occurs. First, agreements will be feasible if the expected unification deficit is small or non-existent, even if the stronger partner is not inherently trustworthy. Second, even if the unification deficit is large, an agreement is still feasible if the stronger state can commit credibly not to use its additional bargaining leverage to exploit its partner after the agreement is implemented. In the remainder of this section, we consider more specifically when the unification deficit is likely to be small and when states are most likely to be able to commit credibly to self-restraint.

### The Unification Deficit and the Availability of External Linkages

A weak state has a unification deficit when unification makes it less likely that the state will be able to count on benefits it currently derives from relationships with countries outside the unification deal. Such external links include both military ties, as when a state looks to allies for support should its unification partner adopt coercive tactics, and economic ties, as when a state has a diverse set of outside trading partners and is not heavily invested only in its unification partner's economy.

Our argument is not simply that the extent of external linkages influences a state's willingness to make agreements. Rather, it is that a state will resist unification more if the act of unifying will independently cause the state to lose extensive external links. If state B has extensive external linkages and expects it will be able to maintain those linkages after unification, its unification deficit will be small, and it will be more likely to accept an offer. Conversely, if state B has very few external linkages, whether or not it agrees to unification, its unification deficit will also be small, and it will be more likely to accept an offer. In both these cases, B does not stand to

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<sup>13</sup> Raymond Vernon, *Sovereignty at Bay: The Multinational Spread of U.S. Enterprises* (New York: Basic, 1971), 46–53; Nathan M. Jensen, *Nation-States and the Multinational Corporation* (Princeton: Princeton University Press, 2006), 80. On investment decisions more generally, see Oliver E. Williamson, *The Mechanisms of Governance* (New York: Oxford University Press, 1996), 113.

lose bargaining power as a consequence of unification, and so an agreement would not impose a more disadvantaged position with respect to A.

Our first hypothesis (H1) is thus as follows: a weaker state is more likely to agree to unification with a stronger state to the extent that unification does not, independently, reduce the weaker state's external linkages.

In concrete terms, two important kinds of external linkages affect bargaining power: security relationships and economic ties. These can help a state maintain security or prosperity even without the cooperation of its potential unification partner. Moreover, both security and economic relationships vary, and the way they are structured can influence the effects of unification on external linkages.

#### EXTERNAL SECURITY TIES

Consider first state B's security relationships. Suppose B's external allies have an intrinsic interest in B's well-being, perhaps due to historical or cultural ties that changes in national borders would not influence. For example, from at least the nineteenth century on, many European states acted in defense of populations with whom they shared a common ethnicity or religion. Russia's actions in defense of Eastern Orthodox communities in Turkey or Slavic states in Southern Europe and the Austro-Hungarian Empire and France's commitments to Catholics in Lebanon are examples of security relationships that changes in national borders would not necessarily affect.<sup>14</sup>

An external state may also have an intrinsic interest in a region for geopolitical reasons. Suppose that a strong state, A, and a weaker state, B, are contemplating unification and that an external state C is wary of A. C may have an intrinsic interest in ensuring B's security, either because C does not want B's military or economic resources to fall into the hands of A or because C benefits from B acting as a buffer. The balance of power logic here is generally well-understood when applied to situations of international politics.<sup>15</sup> These geopolitical calculations, however, do not end if A and B choose to unify. If A and B make an agreement only to have A renege on the agreement and extract resources from B or seek to eliminate B as a buffer, C has just as much intrinsic interest in coming to B's defense as it would have if there had been no unification agreement between A and B. As described below in the section on historical case studies, France appeared to have this sort of interest in Bavaria as the latter was contemplating unification with Prussia.

In other cases, however, state B's external allies might not have an intrinsic interest in B's security that would persist after unification. In the absence

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<sup>14</sup> Martha Finnemore, *The Purpose of Intervention: Changing Beliefs About the Use of Force* (Ithaca: Cornell University Press, 2003).

<sup>15</sup> Waltz, *Theory of International Politics*.

of a unification agreement, for example, state C, B's external ally, might commit to B's defense because it has an interest in preserving a stable regional system or because it has invested its reputation in defending B. If A, after unification, exerted its influence within a unified state in order to benefit itself at B's expense, this would be an internal matter. C's interests in diplomatic stability would not be engaged in the same way, nor would C's reputation as a stalwart ally be damaged by failing to come to the defense of B if the security guarantee was not framed in a way that emphasized continuation of the agreement even after unification.

This discussion points toward a straightforward secondary hypothesis (H1a): When a strong state and a weak state are bargaining over unification and the weak state has existing external security relationships, a unification bargain is more likely to be reached if the outside allies have an intrinsic historical, cultural, or geopolitical interest in the weak state's security.

#### EXTERNAL ECONOMIC TIES

Economic ties are also important external links that can contribute to, or mitigate, a unification deficit. If state B has extensive external economic ties, it might fear that unification will cause those ties to shift toward A. This could happen because unification leads to a decline in barriers to exchange between A and B, an increase in barriers between B and C, or both. The shift, in turn, will cause B's economy to specialize to interact with A in particular. For example, producers in B will likely adjust production to appeal to consumers in A, just as Saxon firms adjusted to the Prussian market by retooling industrial enterprises to meet the demands of the Prussian state for rail stock.<sup>16</sup> If B becomes specialized to interact with A more than A does with B (which is likely given that B is a smaller, weaker state), then B's bargaining power vis-à-vis A declines.<sup>17</sup> This type of dynamic is less likely to occur when state B has highly institutionalized external economic linkages that are likely to persist even after unification. For example, B could have trade agreements with other countries that would remain in place post-unification, just as Hong Kong remained a member of the World Trade Organization (WTO) after its 1997 absorption by the PRC even though the PRC itself was not a WTO member at the time. In sum, B's unification deficit is smaller to the extent that its external economic links are expected to remain in place even after unification.

H1b is: When a strong state and a weak state are bargaining over unification and the weak state has extensive external economic ties, a unification

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<sup>16</sup> Richard Bazillon, "Economic Integration and Political Sovereignty: Saxony and the Zollverein, 1834-1877," *Canadian Journal of History* 25 (1990): 189-213.

<sup>17</sup> John McLaren, "Size, Sunk Costs, and Judge Bowker's Objection to Free Trade," *American Economic Review* 87 (1997): 400-20; Abdelal and Kirshner, "Strategy."

bargain is more likely to be reached if those ties are institutionalized in formal trade agreements that are not conditional on the weaker state maintaining its political independence.

#### GEOGRAPHY

Finally, geography can be a key intervening variable. If B and C can reach each other without having to pass through territory controlled by A, then B will be more able to maintain security and economic relationships with C whether or not A and B unify. For example, in the discussion of historical case studies, we show that Bavaria's independent access to France and the Mediterranean meant that Prussia would be unable to cut off Bavaria's access to markets and allies even if it tried. In Argentina, however, Buenos Aires' hold on the Litoral's only access to the sea heightened the Litoral's unification deficit.

H1c therefore predicts: When a strong state and a weak state are bargaining over unification and the weak state has extensive external security or economic ties, a unification bargain is more likely to be reached if the weak state's geographic position gives it independent access to its external partners.

#### Unification and the Prospects for Credible Self-Restraint

When two countries find themselves in a situation where a unification bargain will generate a large unification deficit for the weaker state, the weaker state will be wary of a bargain, since the stronger partner will have the incentive and the ability to renege on the agreement later and exploit the weaker partner. Could the stronger state use coercion to maneuver the weaker state into an agreement anyway?

The efficacy of coercion is limited. Suppose state A threatens to inflict a punishment if B does not agree to unify. Because unification generates a bargaining power deficit for B, state B knows that unification will enable A to impose at least as much punishment in the future so to extract yet more concessions from B. Unless A can reassure B that it will not use this added leverage to extract even greater concessions in the future, B will be unlikely to comply with A's initial demands, regardless of how credible they are.<sup>18</sup> As long as A is not physically capable of absorbing B by force and is only

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<sup>18</sup> On the need to combine credible assurances with threats in order for those threats to be effective, see Thomas C. Schelling, *Arms and Influence* (New Haven: Yale University Press, 1966); Christensen, "Contemporary Security Dilemma." In practice, combining threats and assurances can be extremely difficult; even states with transparent political institutions, and thus the ability to more credibly signal their intentions, can have trouble. Alexander George, *Bridging the Gap: Theory & Practice in Foreign Policy* (Washington, DC: United States Institute for Peace, 1993), 75.

capable of hurting B as punishment for not agreeing to unify, B will have an interest in holding out.

Ultimately, unless the stronger state possesses the capacity and the will simply to conquer the weaker state, unification agreements that give rise to unification deficits can only be made if the core state can convince the weaker state that it will show restraint and refrain from using its bargaining advantage to exploit its partner in the future.<sup>19</sup>

Our second hypothesis (H2) is therefore as follows: A weaker state facing a prospective unification deficit is more likely to agree to unification with a stronger state if the stronger can convince the weaker that it will refrain from using its bargaining advantage to exploit the weaker.

How might A convince B that it will not later take advantage of B's unification deficit in order to rewrite the terms of an agreement? Broadly, there are two kinds of ways powerful states can try to convince potential unification partners that their promises of self-restraint should be believed: they can rely on their reputations, and they can rely on the design of their decision-making institutions.

## REPUTATION

Although the bulk of research on reputation focuses on resolve—the willingness of a state to go to war in pursuit of objectives it claims to value—much of the basic logic applies to reputations for restraint and honesty as well.<sup>20</sup> We expect that dispositional reputation will influence a state's attractiveness as a potential unification partner. A state's dispositional credibility stems from the common-knowledge history of the state's past behavior and what this reveals about the state's innate honesty and trustworthiness. Andrew Kydd argues, for example, that states are able to overcome the security dilemma and reach negotiated settlements with each other when they develop, over time, the ability to trust each other. In this view, states can develop a dispositional reputation of trustworthiness through repeated interactions.<sup>21</sup> We expect that states are more likely to be able to commit

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<sup>19</sup> See, for example, Henry Hale, "The Makeup and Breakup of Ethnofederal States: Why Russia Survives where the USSR Fell," *Perspectives on Politics* vol. 3, no. 1 (March 2005): 55–70.

<sup>20</sup> The distinction between reputations for resolve and reputations for honesty has important consequences even in the limited context of military crises. Anne Sartori, *Deterrence by Diplomacy* (Princeton: Princeton University Press, 2005).

<sup>21</sup> Andrew Kydd, *Trust and Mistrust in International Relations* (Princeton: Princeton University Press, 2005). There is some disagreement on the importance of reputation. See, for example, Daryl Press, *Calculating Credibility: How Leaders Assess Military Threats* (Ithaca: Cornell University Press, 2005). There is also a problem of general versus specific reputation, since a reputation developed in relations with one partner may not carry over to relations with another. Paul Huth, "Reputations and Deterrence," *Security Studies* 7, no. 1 (1997): 72–99.

credibly to the terms of a unification agreement to the extent that they have developed a reputation for honoring past agreements, particularly if those agreements are previous unification agreements entered into with other states.

H2a thus posits: A weaker state facing a prospective unification deficit is more likely to agree to unification with a stronger state if the stronger has entered into, and honored, previous unification agreements with other states.

#### INSTITUTIONS

A large literature suggests that political institutions within a state might also influence the credibility of commitments, with some scholars arguing that states with multiple veto-points and complex ratification procedures, coupled with domestic enforcement mechanisms that bind executives to laws, can make commitments more credibly than states without such institutions. Some argue, for example, that commitments made by democratic states tend to be more credible, although others have disagreed.<sup>22</sup> Whether or not democracies in general facilitate credibility, we expect that specific political institutions that uphold the rule of law as an end in itself can make restraint credible. In many modern democracies, a variety of institutions, including judiciaries and parliaments with supermajority requirements, preserve the rights of regional units even after those regional units have lost the independent ability to defend their prerogatives from the center.<sup>23</sup>

H2b therefore predicts: A weaker state facing a prospective unification deficit is more likely to agree to unification with a stronger state if the stronger state has political institutions that enforce agreements.

#### ALTERNATIVE PATHS TO CREDIBLE SELF-RESTRAINT

Stronger states seeking to entice weaker potential partners into a unification agreement may also take more drastic, or creative, measures to commit credibly to self-restraint. For example, a powerful state A might unilaterally dismantle some of its military capabilities, thereby neutralizing some of the unification deficit that might arise for B from an agreement. Suppose that

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<sup>22</sup> On the credibility of democratic states, see Lisa Martin, *Democratic Commitments* (Princeton: Princeton University Press, 2000); Charles Lipson, *Reliable Partners: How Democracies Have Made a Separable Peace* (Princeton: Princeton University Press, 2003). For opposing views, see Erik Gartzke and Kristian Gleditsch, "Why Democracies May Actually Be Less Reliable Allies," *American Journal of Political Science* 48, no. 4 (2004): 775–95; Melissa Schwartzberg, "Athenian Democracy and Legal Change," *American Political Science Review* 98, no. 2 (2004): 311–25.

<sup>23</sup> Arend Lijphart, *Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries* (Princeton: Princeton University Press, 1999).

coercing B militarily requires extensive sea-borne operations. State A could send a strong and credible assurance signal to B by constructing a military built around land warfare but refraining from developing a navy, in effect neutralizing a unification deficit by unilaterally undercutting its own bargaining leverage *ex ante*.

Whether a strong state A is able to devise these sorts of credible assurance signals is likely to depend, in part, on the sincere preferences of state B's leaders. If leaders in state B view unification as a long-term goal, but are only concerned about losing bargaining power in the context of a unification agreement, state A has little to lose by issuing these sorts of assurance signals if it too desires peaceful unification. On the other hand, if leaders in state B view unification with A as only a second-best option, and prefer instead to consolidate state B's status as a sovereign, independent state, then state A will face a dilemma if it tries to signal assurance by undercutting its own bargaining power *vis-à-vis* B. Doing so might make state A a more attractive unification partner, but such assurances could also undermine its ability to deter state B from consolidating its independent status.<sup>24</sup> Thus, the ability of A to use an assurance strategy depends on B's intrinsic interests and attitudes about unification.

Our final credibility sub-hypothesis (H2c) is: When a stronger state desires unification with a weaker state that faces a unification deficit, the less intrinsic interest the weaker has in unification, the less likely the stronger is to use an assurance strategy to reduce the weaker's unification deficit, and the less likely the states are to reach an agreement.

In sum, political unification does not end bargaining between states, but it can alter the terms of bargaining. When an agreement would produce a high unification deficit for one state, and that state anticipates its partner will move to exploit the deficit by renegeing on the terms of an agreement, negotiations over unification will likely fail. This is so even when there might otherwise be large material, symbolic, or ideational gains from unity. We now turn to evidence from two historical cases, Argentina and Germany, and one contemporary case study involving the PRC and Taiwan.

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<sup>24</sup> In the Taiwan/PRC case, for example, this concern is especially acute. Formally independent states can further consolidate their independence in many ways, such as by teaching history to emphasize a distinct national identity (making it less likely that future citizens would tolerate unification). The PRC's dilemma of how to mix threats and assurances works both ways, since threats and assurances undermine each other when the signaling state has difficulty making its threats and assurances conditional. As Alexander George notes, threats can be counterproductive when the state that issues a threat needs to make an assurance credible in order to achieve a larger strategic objective. In the 1991 Persian Gulf War, he argues, the United States and its coalition partners took steps to make it clear to the Iraqi leadership that they were truly willing to fight in order to expel Iraqi forces from Kuwait. These steps undermined the coalition's ability to convince Iraq that its troops would be spared violence if they left voluntarily. George, *Bridging the Gap*.

## HISTORICAL CASE STUDIES: ARGENTINA AND GERMANY

Two cases of national unification in the nineteenth century illustrate the logic of our argument and provide several tests of the hypotheses. In both cases, strong states secured unification agreements with weaker partners despite a long history of fear and mistrust. Although violence and coercion at times played a role, the final unification agreements in both cases were voluntary. Large potential unification deficits posed barriers to agreements early on, but changing circumstances eventually made negotiated agreements possible. From the 1820s through the 1860s, Buenos Aires tried using a combination of threats and reassurances to compel a small group of three states (known collectively as the Litoral) of the former Spanish Viceroyalty of La Plata to join with it in a federation. From the 1850s through the early 1870s, Prussia similarly tried to maneuver some smaller, German-speaking neighbors into joining with it under a federal constitution. Within Argentina and Germany, cultural and political traditions were similar, so we are controlling for nationalist or community-based explanations for state formation. Argentina had been politically unified under the Spanish Empire; Germany had also been unified, somewhat more mythically but in a way that was captured in the popular imagination, in the Medieval Reich.

The two cases allow for a relatively systematic evaluation of H1, as there is variation within each case that allows us to demonstrate the importance of unification deficits. In the Argentine case, the nature of the Litoral's outside options, and the prospective unification deficits, varied over time. Early on, the Litoral had substantial linkages to the global economy but expected that these linkages would be undercut if they unified with Buenos Aires. By mid-century, however, the Litoral's links to the global economy were increasingly tenuous, meaning the expected unification deficit was smaller than before. Similarly, in the earlier period the Litoral had external security links to Great Britain and France. Both countries exercised military influence, but their interest in regional stability made their defense of Litoral interests conditional on the Litoral states remaining independent. Later, following Buenos Aires' string of military victories, the potential for external military support receded, whether or not the states unified. Again, the unification deficit had declined. H1 thus yields the expectation that unification bargains should have been easier to achieve after mid-century than before in this case.

In the German case, the variation is over Prussia's different junior partners, Saxony and Bavaria. Here, as we show, Bavaria had some reason to expect that its external security and economic linkages would remain in place even if it unified with Prussia. Saxony, on the other hand, had little reason to expect its external linkages to remain in place after unification. Thus, Saxony faced a large potential unification deficit, while Bavaria's was relatively small. H1 yields the expectation that Prussia would have found persuading Bavaria

**TABLE 1** Summary of Cases and Expectations

	Argentina		Prussia	
	pre-1845	Post-1845	with Saxony	with Bavaria
H1a. External security ties	Strong outside allies without intrinsic interests	No outside allies	Strong outside states with moderate intrinsic interests	Strong outside states with large intrinsic interests
H1b. External economic ties	Lucrative ties, not institutionalized	No ties	Moderate ties, less institutionalized	Lucrative ties, more institutionalized
H1c. Geography	Isolated	Isolated	Partly isolated, some outside access	Easy outside access
<i>Unification deficit</i>	<i>High</i>	<i>Low</i>	<i>Moderate</i>	<i>Low</i>
H2a. Reputation	Non-credible	Non-credible	Uncertain credibility	Credible
H2b. Institutions	Non-credible	Non-credible	Moderately credible	Credible
H2c. Assurance strategy	Not possible	Not possible	Potentially possible	Possible
<i>Prediction</i>	<i>B strongly resists unification</i>	<i>B accepts unification</i>	<i>B resists unification</i>	<i>B accepts unification</i>

to unify easier than persuading Saxony, which is consistent with the actual outcome.

The cases also allow us to examine the consequences of credibility and institutions (H2). Prussia was much more able than Buenos Aires to convince its junior partners that it would show restraint, both because of its past history and because of the nature of its regime. As we detail below, there is also reason to think Prussia could make more credible commitments to Bavaria than it could to Saxony. Table 1 summarizes the arguments that we make for these historical cases.

## Argentina

The Argentina case is one where a large state, the city of Buenos Aires, sought over a long period to forge a unified state with a group of smaller states, the Litoral. Prior to 1845, the Litoral states had a high unification deficit and they strongly resisted unification; after 1845, the deficit was much lower, and the states reached a constitutional agreement.

On the eve of independence, the territory of modern Argentina fell under the jurisdiction of the Viceroyalty of the River Plate, which also included modern-day Bolivia, Paraguay, and Uruguay. In 1820, at the end of the South American wars with Spain, that Argentina would necessarily end up as one

unified state remained unclear; indeed, Bolivia, Peru, Paraguay, and Uruguay all eventually became independent, and it would have been difficult to predict that all of today's Argentine provinces would eventually be united.<sup>25</sup> Throughout the wars beginning in 1810, each of the Argentine states acted as sovereign and independent, determining its own trade policy, military preparations and strategy, and relationships with the others. By the end of the decade, each had its own constitution and operated independent militaries and customs houses along its borders; in the popular political dialogue, people took "nation" to mean the local state rather than the Viceroyalty as a whole.<sup>26</sup>

Buenos Aires, the major port city of Spanish South America at the time, sits on the south bank of the Plate, the widest river in the world. The area to the northwest of Buenos Aires, the Litoral, had rich pastureland, and the Litoral states developed lucrative cattle ranching enterprises by the end of the eighteenth century. A system of inland rivers connected the Litoral to the Atlantic through the Plate.

The Litoral states were in practical terms independent, but the leaders of Buenos Aires nonetheless claimed to conduct foreign affairs on behalf of the entire old Viceroyalty. With only minor exceptions, European powers did not formally recognize the Litoral states as they sought to avoid antagonizing Buenos Aires on what they perceived to be a symbolic issue (they conducted de facto diplomatic and economic arrangements with the Litoral anyway). As is increasingly true in the China-Taiwan case, relations between Buenos Aires and the Litoral were characterized by substantial power asymmetries: Buenos Aires was in all respects wealthier and larger.<sup>27</sup>

The states met regularly at constitutional conventions throughout the early years of independence. A constitutional convention in 1821 ended in failure when Buenos Aires insisted on the establishment of a unitary state that it would control and the other states preferred a decentralized political system. Just prior to, and then during, Buenos Aires' 1825–28 war with Brazil, Buenos Aires tried but failed to reach a deal with the Litoral states in which it promised to grant them free access to its port if they joined it in a military alliance. In the aftermath of the war, Uruguay became an independent buffer state, and the Litoral states reaffirmed their independence.<sup>28</sup>

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<sup>25</sup> Joseph T. Criscenti, "Argentine Constitutional History, 1810–1852: A Re-Examination," *Hispanic American Historical Review* 41, no. 3 (1961): 367.

<sup>26</sup> *Ibid.*, 370, 386; David McLean, *War, diplomacy and informal empire: Britain and the republics of La Plata, 1836–1853* (New York: St. Martin's, 1995).

<sup>27</sup> Edberto Oscar Acevedo, *La independencia de Argentina* (Madrid: MAPFRE, 1992), 17–18.

<sup>28</sup> Robert N. Burr, "The Balance of Power in Nineteenth-Century South America: An Exploratory Essay," *Hispanic American Historical Review* 35, no. 1 (1955): 37–60; Ron L. Seckinger, "South American Power Politics during the 1820s," *Hispanic American Historical Review* 56, no. 2 (1976): 241–67; David Rock, *Argentina, 1516–1982: From Spanish Colonization to the Falklands War* (Berkeley: University of California Press, 1985), 97; Brian Vale, *A War Between Englishmen: Brazil against Argentina on the River Plate, 1825–1830* (London: I.B. Tauris, 2000).

After the constitutional failures in the 1820s, the provinces entered a period of trade wars. Buenos Aires heavily taxed goods from the Litoral that boarded ships in its port bound for Europe. Buenos Aires' control over trade routes out of the Litoral was, however, far from perfect; the provinces had two outside options. First, they could load goods onto oceangoing vessels at the Litoral port city of Rosario in Entre Ríos.<sup>29</sup> This option was reasonably cost-effective, since goods could travel by water and bypass the port of Buenos Aires (the enormous width of the river at Buenos Aires made a blockade impossible), but it meant shipments would have to cross the Atlantic in the inefficiently small ships that could navigate the rivers of the interior. The second option was to ship cargo by land, north around the Plate, to Montevideo, Uruguay. Though Buenos Aires made consistent efforts to blockade Montevideo's port, the city's position beyond the mouth of the Plate, along the Atlantic, made enforcement of any blockade difficult. In addition, French and British naval vessels were often present, making it difficult for Buenos Aires to deter merchants from using the Uruguay route.<sup>30</sup>

Several external states had economic and security interests in the region. Britain and France, in particular, complicated Buenos Aires' efforts to channel all regional trade through its port. In 1838 France began a blockade of Buenos Aires that lasted until 1840, and open war broke out between Buenos Aires and France from 1839 to 1841. Britain also had a large naval presence and tacitly supported France until it mediated the eventual settlement. The proximate cause of the war was a dispute over commercial rights on the river system. France and Britain both avowed policies of pursuing regional stability in order to protect their commercial interests. The major European trading states had extensive, although informal, economic ties with the Litoral. To prevent trade disruption, Britain used its navy to deter any unilateral attempts to use force to change the status quo on the river system, which in practice served the interests of the Litoral states, although the British did not pursue their policy out of an intrinsic interest in the Litoral's welfare. In any case, through 1841 the Litoral provinces had nearly unimpeded access to Europe, both through Uruguay and through the Plate itself.<sup>31</sup>

Prior to the mid-1840s, then, the Litoral states faced an extremely high prospective unification deficit. Their external security ties were based on outside states' interest in stability rather than an intrinsic interest in the Litoral's welfare (H1a), their external economic ties were not institutionalized and trade would be governed by Buenos Aires after unification (H1b), and their geographic position would not have given them independent access to

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<sup>29</sup> Rock, *Argentina*, 116.

<sup>30</sup> Jonathan C. Brown, *A Socioeconomic History of Argentina, 1776–1860* (Cambridge: Cambridge University Press, 1979), 206.

<sup>31</sup> *Ibid.*, 215.

external partners after a unification deal (H1c, assuming unification would consolidate control of trade routes under Buenos Aires).

Furthermore, the states had reasons to doubt that Buenos Aires would restrain itself under an agreement. As a consequence of the war with France, for example, Buenos Aires mobilized for war far beyond previous levels, creating a large standing land army. When the French blockade drove many local merchants out of business and triggered high local inflation, the new oligarchic/military dictatorship in Buenos Aires took advantage of the situation by liquidating local merchants and other political rivals internally in order to consolidate control.<sup>32</sup> Thus, both the past history (H2a) and the internal characteristics (H2b) made the state especially untrustworthy.

In 1841, Buenos Aires began using its larger navy to establish a permanent blockade of Montevideo, an action to which the French and British fleets soon acquiesced. Meanwhile, the Litoral states' ability to send cargo past Buenos Aires on the Plate came to an end in 1845, when Buenos Aires' land army was finally powerful enough to establish fortifications along the Paraná River at the town of Vuelta de Obligado. These included a system of river controls along a narrow stretch of the river that could be closed by a chain at night and where ships could be easily intercepted by day.<sup>33</sup> Thus, by 1845 Buenos Aires had closed off the Litoral from any alternative trade routes; from then on, all trade with Europe would have to pass through Buenos Aires whether or not the states unified. Similarly, the prospects for British or French intervention had also receded.

After nearly three decades of stability, the situation for the Litoral quickly changed from one where they had a high unification deficit to one where the deficit was low. The change happened rapidly but led to the expectation that Buenos Aires would continue to control all the trade routes indefinitely.<sup>34</sup> After 1845, although Buenos Aires and the Litoral continued to struggle over the precise nature of the ensuing federation for a number of years and although the two sides mobilized armies in large-scale maneuvers (but very few, if any, actual battles) as part of their negotiations, the question of whether Argentina would be unified was no longer in doubt.<sup>35</sup> This again

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<sup>32</sup> Rock, *Argentina*, 110.

<sup>33</sup> *Ibid.*, 111.

<sup>34</sup> It is possible that high unification deficits are inherently unstable, since external ties based on non-intrinsic security interests or non-institutionalized trade agreements may be more prone than others to collapse for reasons unrelated to unification. In the concluding section of this paper we describe hypothetical conditions in which contemporary Taiwan may face a sudden change in its unification deficit.

<sup>35</sup> After 1845 the Litoral states were unified in an alliance, hoping to restore their access to European markets. See A.J. Walford, "General Urquiza and the Battle of Pavon (1861)," *Hispanic American Historical Review* 19, no. 4 (1939): 464–93; Thomas Whigham, "Cattle Raising in the Argentine Northeast: Corrientes, c. 1750–1870," *Journal of Latin American Studies* 20, no. 2 (1988): 313–35; Allison W. Bunkley, "Sarmiento and Urquiza," *Hispanic American Historical Review* 30, no. 2 (1950): 176–94. The alliance defeated Buenos Aires on 3 February 1852, in a battle that was determined by massive defections with little actual fighting.

confirms the basic argument of H1: once external links were irretrievably lost anyway, the Litoral no longer had a unification deficit, and the states reached an agreement on unification within several years.

## Germany

The Congress of Vienna in 1815 established thirty-nine German states, whose relations were generally peaceful until the 1866 unification war and the 1871 Franco-Prussian War. The two largest states were Prussia and Austria; these were followed by Bavaria and Saxony. Prussia sought, over the nineteenth century, to consolidate its position by unifying as many of the states as possible under its leadership. In addition to Austria, Saxony and Bavaria stood as the biggest barriers.

By 1866, Saxony was the strongest of the North German states, other than Prussia itself, with a large economy and a growing population. Saxony had been one of the first German states to industrialize, and by the 1860s it had one of the most advanced economies in continental Europe.<sup>36</sup> Its economy gave it considerable influence; however, Saxony lacked a large standing army, and its military power generally lagged behind Prussia, even proportionally to its population. Saxony's security strategy was to play Austria and Prussia off one another. Although Saxony did not trust either of the two largest German states, it felt that the second largest, which was also farther away, was less of a threat to it, and so in a classic balance-of-power ploy, it generally allied with Austria.<sup>37</sup> In early 1866, Prussia issued Saxony an ultimatum. It demanded Saxony be unarmed and adopt a position of neutrality in the growing Prussian-Austrian conflict. Prussia also demanded that Saxony accept Prussia's proposed changes to the confederation agreement governing the German states. Effectively, Prussia demanded a federal union in which a federal parliament would direct foreign and military policy. Although the federal parliament would be dominated by Prussia, it would by no means have been a complete Prussian instrument, since the smaller states would have disproportionate influence and would, in principle, be able to block Prussian actions. Still, Prussia's influence in the parliament would have been substantial,

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For the next eight years, Argentina was governed as a confederation of the three Litoral provinces, Buenos Aires, and some peripheral provinces. Maria.del Carmen Angueira, *El Proyecto Confederado y la Formación del Estado Nacional (1852-1862)* (Buenos Aires: Centro Editor de América Latina, 1989). A renewed three-year war (again with very little fighting) began in 1859 when Buenos Aires, with a reorganized army, renegotiated the terms of the confederation and began the process of consolidating control over the provinces. Burr, "Balance of Power," 47; Isidore J. Ruiz Moreno, "El Litoral Después de Pavón (septiembre-diciembre 1861)," in *Pavón y la Crisis de la Confederación* (Buenos Aires: Equipos de Investigación Histórica, 1965), 311–462.

<sup>36</sup> L. Flockertzie, "State-building and Nation-building in the 'Third Germany': Saxony after the Congress of Vienna," *Central European History* 24, no. 3 (1991): 268–92.

<sup>37</sup> Heinrich Friedjung, *The Struggle for Supremacy in Germany, 1859–1866* (London: Macmillan, 1935).

and Prussia's history did not provide any examples of absorbed states having been treated with restraint, so it was not clear to observers at the time that Prussia's commitment to be bound by the federal parliament was sincere.<sup>38</sup>

The ultimatum from Prussia put Saxony in a difficult position. Prussia could easily defeat Saxony in a war of conquest. If Saxony accepted the agreement, it would find itself with far less military and diplomatic freedom and thereby would likely lose control of its domestic autonomy as well. For the elite Saxon leadership, the prospects were even worse, since members would see their power undermined by mass elections.

Holding out, however, kept alive the possibility that Saxony would receive military and diplomatic support from Austria. Austria would eventually be defeated by Prussia, but at the time, Saxony recognized that its best chance for outside help to enhance its leverage with Prussia hinged on Austria winning the war. There was even the possibility of support from France, which was wary of Prussian consolidation and sought to keep Saxony alive as a buffer state.<sup>39</sup> If Saxony accepted the deal, however, it would lose the ability to negotiate independently with outside states for support, since the terms of the Prussian offer forbade an independent military and foreign policy, and Prussia was unlikely, once in control, to interpret the agreement loosely in Saxony's favor. War broke out between Prussia and Saxony in 1866, when Saxony refused the offer of federation. Saxony's choice to resist unification when presented with an ultimatum is largely (though not entirely) consistent with H1. France and Austria valued Saxony as a buffer to contain Prussian influence. Prior to 1866, absent a unification agreement, Saxony felt it would be able to count on Austria, and possibly France, to come to its aid in the event that Prussia made any aggressive moves. Unification, however, would have made it more difficult for Austria to come to Saxony's defense, both because of unfavorable geography (H1c) that separated the two states and because unification would have made a formal treaty relationship difficult. Saxony therefore faced a real unification deficit.

Bavaria faced a different situation when Prussia approached it in 1871 and offered a similar federal proposal. Although Bavaria was the largest, wealthiest, and most powerful remaining state, it was still weak compared to Prussia, especially since Prussia's military and economic power was growing fast.<sup>40</sup> Austria had now been decisively defeated, and so it would not be

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<sup>38</sup> Rene Albrecht-Carrie, *A Diplomatic History of Europe Since the Congress of Vienna* (New York: Harper, 1958). Saxony was also troubled by Bismark's proposal that the federal parliament be elected through universal suffrage. See Friedjung, *The struggle for supremacy*, 120; Siegfried Weichlein, "Saxons into Germans: The Progress of the National Idea in Saxony after 1866," in *Saxony in German History: Culture, Society, and Politics, 1830-1933*, ed. James Retallack (Ann Arbor: University of Michigan Press, 2000).

<sup>39</sup> Albrecht-Carrie, *Diplomatic History*; Fazal, "State Death."

<sup>40</sup> Tanisha Fazal, "Rocks and Hard Places: Why Only Some States Fight for Survival" (paper presented at the American Political Science Association Annual Conference, Boston, MA, 2002).

an ally or a guarantor of Bavarian independence whether or not Bavaria accepted Prussia's offer. This made unification less unappealing to Bavaria than it had been to Saxony, since Bavaria would not be giving up as much to accept the offer. The potential for meaningful support from France in the short run had also diminished, since Prussia was on a path to war with France, which all sides expected Prussia to win. In the long run, however, France would still be a regional player in the balance-of-power system and so would be a potential outside guarantor of Bavarian interests whether or not Bavaria accepted unification.<sup>41</sup> So, Bavaria's potential unification deficit from external military ties (H1a) was low.

Furthermore, unlike Saxony, Bavaria had several geographic advantages (H1c) that mitigated the extent to which unification changed its leverage with Prussia. The key was not so much Bavaria's physical distance from Prussia but rather the fact that Bavaria's position on the periphery of the Zollverein gave it direct access to foreign markets—newly growing Italy and, by extension, French ports on the Mediterranean—without having to pass through Prussian-controlled territory.<sup>42</sup> Bavaria also kept direct lines open to the new Italian state.

The unification agreement itself allowed Bavaria to maintain these ties. Under the guise of a cultural exception—Bavaria was predominantly Catholic while the states in the North were predominantly Protestant—Bavaria retained an independent diplomatic representative in the Vatican.<sup>43</sup> This had the effect of creating independent diplomatic representation with every other state that had ties to the Vatican as well (notably France, Italy, and Spain), meaning that Bavaria would still be able to secure at least quasi-formal security agreements with these other states.<sup>44</sup> Furthermore, the generous Prussian treatment of Saxony after 1866 (the royal family kept many of its prerogatives, and the state was able to use its influence to shape laws in the national parliament) gave credibility to Prussia's promises that Bavaria would be able to preserve its rights in a federal system.<sup>45</sup>

In sum, variation in outcomes between 1866, when Saxony refused a unification agreement, and 1871, when Bavaria accepted an agreement without fighting, provides evidence for our argument. We find evidence for H1, since Bavaria had more ties to outside powers than Saxony did, and those

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<sup>41</sup> Albrecht-Carrie, *Diplomatic History*.

<sup>42</sup> Fazal argues that Bavaria's distance from Prussia gave Prussia an incentive to offer more generous terms, but this can only explain the terms of the settlement between the states, not their ability to reach an agreement at all. Fazal, "Rocks and Hard Places."

<sup>43</sup> Allan Mitchell, "A Real Foreign Country: Bavarian Particularism in Imperial Germany, 1870–1918," *Francia* 7 (1979): 587–96.

<sup>44</sup> George Windell, "The Bismarckian Empire as a Federal State, 1866–1880: A Chronicle of Failure," *Central European History* 2, no. 4 (1970): 291–311.

<sup>45</sup> Otto Pflanze, *Bismarck and the Development of Germany; The Period of Unification, 1815–1871* (Princeton: Princeton University Press, 1963).

ties were expected to last beyond unification. Bavaria's geography was also more favorable. The outcome is also consistent with H2, since Bavaria could observe Prussia's behavior toward the territories absorbed in 1866.

## MAINLAND CHINA'S "PEACEFUL REUNIFICATION POLICY" AND TAIWAN'S RESPONSE

Since the late 1970s, Beijing has aimed, with its "peaceful reunification policy," to craft a political bargain with Taiwan that would entice the island to give up its de facto sovereign status and voluntarily reunify with mainland China. The KMT had retreated to Taiwan, and moved the Republic of China (ROC) government there, at the end of the Chinese Civil War in 1949. By the late 1970s, PRC leaders believed a reunification bargain could be struck via negotiations as the ROC became increasingly marginalized internationally.<sup>46</sup>

The PRC elaborated on the new policy in a nine-point proposal delivered in 1981. The proposal suggested that the KMT enter into talks with the Chinese Communist Party (CCP) and emphasized that Taiwan would be allowed to have a high degree of autonomy after reunification (and even maintain its own armed forces).<sup>47</sup> This idea later became known by the slogan "one country, two systems."<sup>48</sup> China's 1982 State Constitution formally authorized the formation of such a "special administrative region," and the PRC's 1984 application of the framework to Hong Kong facilitated the settlement returning the British colony to Chinese sovereignty.<sup>49</sup>

Though the "one country, two systems" formula was dismissed by an ROC government that continued to reject official contact with the PRC, unification nonetheless remained a long-term goal of Taiwanese policy into the early 1990s. In the Guidelines for National Reunification, adopted in 1991, the ROC government affirmed that "both the mainland and Taiwan areas are parts of Chinese territory" and that "helping to bring about national unification should be the common responsibility of all Chinese people" while emphasizing that unification must come about in the context of a "democratic, free and equitably prosperous China."<sup>50</sup> Over the course of the 1990s,

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<sup>46</sup> Michael D. Swaine, "Chinese Decision-Making Regarding Taiwan, 1979-2000," in *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978-2000*, ed. David M. Lampton (Stanford: Stanford University Press, 2001), 289-336.

<sup>47</sup> For the full text, see "Ye Jianying Explains Policy Concerning Return of Taiwan to Motherland and Peaceful Reunification," *Xinhua General Overseas News Service*, 30 September 1981.

<sup>48</sup> Deng Xiaoping first used the "one country, two systems" (*yige guojia, liangge zhidu*) slogan in 1982. *Taiwan Wenti Duben* [Reader on the Taiwan Question] (Beijing: CCP Central Party School, 2001), 51.

<sup>49</sup> Nancy Bernkopf Tucker, *Taiwan, Hong Kong, and the United States, 1945-1992: Uncertain Friendships* (New York: Twayne, 1994).

<sup>50</sup> For the guidelines, see Mainland Affairs Council, <http://www.mac.gov.tw/english/english/macpolicy/gnueng.htm>.

however, Taiwan president Lee Teng-hui (1988–2000) began to advocate a broader role in world affairs for Taiwan while distancing himself from the principle that Taiwan is a part of China.<sup>51</sup> Current Taiwan president Chen Shui-bian (2000–present) has gone even further in his efforts to consolidate Taiwan’s status as an independent state. For example, he has recently declared that the National Reunification Guidelines no longer apply, and his government has pursued a “rectification of names” policy whereby some state entities have been renamed to emphasize their Taiwanese-ness rather than their Chinese-ness.<sup>52</sup>

The PRC has responded to Lee and Chen’s state-building efforts with a carrot and stick approach. On the one hand, Beijing focuses heavily on deterring formal Taiwan independence. Chinese leaders have warned that they will block independence at “any cost,” and the 2005 anti-secession law adopted by the National People’s Congress makes the warning explicit.<sup>53</sup> On the other hand, Beijing continues to pursue a long-term policy of peaceful reunification aimed at enticing Taiwan to enter into a voluntary agreement. Beijing still promotes dialogue under the rubric of the one China principle, while maintaining flexibility concerning the nature of any reunification bargain reached. Even the recently passed anti-secession law maintains a conciliatory tone on the reunification issue; indeed, the law codifies many of the PRC’s offers over the years concerning Taiwan’s status after reunification.<sup>54</sup>

Despite the PRC’s apparent flexibility concerning Taiwan’s status in a unified China, Taiwan clearly has not been receptive. Since the mid-1990s, for example, between 70 and 80 percent of the Taiwanese population has rejected “one country, two systems,” while support has remained under 15 percent.<sup>55</sup> At the same time, however, polls show that a plurality, and perhaps a majority, of Taiwanese do not appear to be opposed to reunification in principle. One recent poll sponsored by Duke University found that a large majority of respondents (64.2 percent) would be supportive of reunification if the political, social, and economic disparity between mainland China and Taiwan were to become small. A large majority (75.7 percent) opposed reunification absent such change.<sup>56</sup> This finding suggests that, under

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<sup>51</sup> Space constraints prevent a full account of specific actions taken by Lee. See, however, Sheng Lijun, *China’s Dilemma: The Taiwan Issue* (Singapore: Institute of Southeast Asian Studies, 2001).

<sup>52</sup> On the name changes, see, for example, Mark Magnier and Tsai Ting-I, “Taiwan Name Change Campaign Annoys China,” *Los Angeles Times*, 14 February 2007, in *Taiwan Security Research*, <http://taiwansecurity.org/News/2007/LAT-140207.htm>. On the National Unification Guidelines, see Edward Cody, “Taiwan Eliminates Reunification Council,” *Washington Post*, 27 February 2006, in *Taiwan Security Research*, <http://taiwansecurity.org/WP/2006/WP-270206.htm>.

<sup>53</sup> For the text of the law, see *Taiwan Security Research*, <http://taiwansecurity.org/News/2005/CD-140305.htm>.

<sup>54</sup> The law does not reference “one country, two systems,” perhaps recognizing the reality that this slogan has failed to convince most Taiwanese that unification is desirable.

<sup>55</sup> See data from Taiwan’s Mainland Affairs Council, [www.mac.gov.tw](http://www.mac.gov.tw).

<sup>56</sup> Niou, “Understanding Taiwan Independence.” Yun-han Chu similarly finds that since the mid-1990s, “open-minded rationalists,” those who would support independence if it could be attained

the right circumstances, a winning coalition could potentially be constructed in Taiwan that favors unification. Why then does such a large majority reject reunification with the current regime in Beijing, despite mainland promises that Taiwan would maintain a very high level of autonomy in any unified China?

The history of the PRC-Taiwan relationship provides additional evidence for our arguments. Neither of the conditions that facilitate unification (a small unification deficit, H1, or an ability by the core state to make credible commitments, H2) applies in this case, and the actions and statements of Taiwanese political elites suggest that these concerns are salient. Taiwanese officials have reason to believe that a unification bargain would have an independent, negative effect on the island's bargaining power because it would likely undermine some of Taipei's external linkages. Furthermore, the PRC's past behavior and its current political system make it difficult for Beijing to commit credibly to uphold a unification bargain into the future.

### External Linkages and the Unification Deficit

Taiwan currently possesses extensive external security and economic linkages. On the security front, though Washington terminated its formal defense treaty with the ROC after establishing diplomatic relations with the PRC, the Taiwan Relations Act (TRA) continues to provide considerable security guarantees. The TRA demonstrates a continued U.S. interest in Taiwan's security, and some of the act's specific provisions, such as continued U.S. arms sales based on Taiwan's needs, underscore that interest. In recent years, the United States and Taiwan have also upgraded their military contacts. Moreover, Taiwan remains one of the United States' ten largest trading partners. H1 suggests that Taiwanese decision makers would be more willing to consider unification with the PRC if they believe unification would not reduce these linkages. There is reason to believe, however, that unification would undercut Taiwan's external linkages to at least some degree, giving Taiwan a non-trivial unification deficit.

Most importantly, a unification agreement would be likely to erode, or even eliminate, the American defense commitment to Taiwan. In principle, Taiwan's relationship with the United States post-unification should be negotiable; indeed, Beijing has hinted that even arms sales from the United States might be allowed to continue.<sup>57</sup> However, the United States would be

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peacefully but would also support unification if the two sides were compatible, consistently represent the largest single category when measuring preferences over unification/independence. In a 2000 post-election survey, open-minded rationalists and principled supporters of unification combined for over half the respondents, though this percentage dropped somewhat in the 2002 post-election survey. Yun-han Chu, "Taiwan's National Identity Politics and the Prospect of Cross-Strait Relations," *Asian Survey* 44, no. 4 (2004): 484-512.

<sup>57</sup> Tucker, "If Taiwan Chooses Unification," 25.

unlikely to continue selling advanced weapons to Taiwan after unification, as Washington might worry that those weapons technologies would migrate to Beijing.<sup>58</sup> A more fundamental Taiwanese interest in the security relationship with the United States is the expectation that the United States would intervene to defend Taiwan if the PRC used military threats, or actual force, to compel Taiwan to make concessions it would prefer not to give. If Taiwan were to reach a unification agreement with the PRC, the willingness of the Americans to come to Taiwan's defense in the event of trouble would decline. Though the U.S. commitment to Taiwan has remained ambiguous since the termination of the mutual defense treaty in 1980, Washington has signaled willingness to intervene were the PRC to try coercing the island to unify against its will. One reason for this continued (though informal) commitment to Taiwan centers on perceptions of U.S. resolve: if Washington were to allow PRC coercion against Taiwan, the credibility of other American commitments in the region could be undermined.<sup>59</sup> But it is hardly clear that U.S. policymakers would view this concern over reputation as extending to a Taiwan that voluntarily chooses to unify with the PRC. U.S. officials would also find it more difficult to legitimate, to both domestic and international audiences, intervention in what would clearly constitute another country's internal affairs. And the United States does not possess extensive cultural ties with Taiwan that might help sustain a continued intrinsic interest in the island's well-being. In short, Taiwan's primary external (de-facto) ally, the United States, has at best limited intrinsic historical, cultural, or geopolitical interest in the island's security. Taiwan's unification deficit on the security dimension is thus quite substantial, and as such its continued unwillingness to consider unification with the PRC is consistent with H1a.

The size of Taiwan's unification deficit on economic and geographic dimensions is less clear cut. Certainly unification would have some effect on Taiwan's external economic linkages: at a minimum, the national security concerns that underlie many of Taiwan's current restrictions on cross-strait economic ties, such as limits on direct links and high-tech investments in the PRC, would end, and it is highly unlikely Beijing would acquiesce to such restrictions after unification.<sup>60</sup> More likely would be the formation of

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<sup>58</sup> Bush, *Untying the Knot*, 138, likewise points to a likely (post-unification) decline in U.S. arms sales as a potential barrier to a unification agreement.

<sup>59</sup> See, for example, Robert S. Ross, "Navigating the Taiwan Strait: Deterrence, Escalation Dominance, and U.S.-China Relations," *International Security* 27, no. 2 (2002): 54.

<sup>60</sup> On cross-strait economic ties, see, for example, Denny Roy, *Cross-Strait Economic Relations: Opportunities Outweigh Risks*, Asia-Pacific Center for Security Studies Occasional Paper Series (Honolulu: Asia-Pacific Center for Security Studies, April 2004), <http://www.apcss.org/Publications/Ocasional%20Papers/Cross-StraitEconomicRelations.pdf>; Miles Kahler and Scott L. Kastner, "Strategic Uses of Economic Interdependence: Engagement Policies on the Korean Peninsula and across the Taiwan Strait," *Journal of Peace Research* 43, no. 5 (2006): 523–41.

a free trade zone across the Taiwan Strait, much as Hong Kong and Macau entered into free trade agreements with Beijing shortly after reunifying.<sup>61</sup> Furthermore, Taiwan has found it difficult to institutionalize its foreign economic relations with major trading partners other than the PRC in the form of free trade agreements. Though the Taiwanese government has expressed great interest in achieving such agreements with countries such as the United States and Japan, it has achieved little success in part due to PRC opposition.<sup>62</sup> In short, unification would likely increase Taiwan's economic dependence on mainland China, a phenomenon that is magnified by Taipei's inability to secure free trade agreements with major trading partners. In this regard, Taiwan's resistance to unification is consistent with H1b.

On the other hand, other factors in this case help to mitigate the size of the unification deficit. While unification would lead to more trade diversion toward the mainland, arguably Taiwan's most important institutionalized link to the global economy, membership in the WTO as a separate customs territory, would probably remain in place even post-unification (as was the case with Hong Kong). While we suspect—for reasons noted in the previous paragraph—that unification would still lead to increased Taiwanese dependence on the PRC, Taiwan's membership in the WTO does help to cushion this effect, making unification less of a daunting obstacle than it otherwise might be. Moreover, as an island, Taiwan maintains a favorable geographic position that helps to limit the size of the unification deficit: Taipei would likely face few obstacles in trying to maintain access to current external economic partners even after unification. Taiwan's refusal to entertain consideration of a unification bargain thus cannot be taken as confirming evidence in favor of H1c.

Taken together, the case appears to be one where a unification bargain would generate a substantial unification deficit. Though Taiwan's favorable geography and WTO membership help to mitigate some of unification's effects, a unification bargain would almost certainly seriously erode Taiwan's external security linkages, while also having a non-trivial effect on external economic relations. Taiwan's resistance to unification is thus broadly consistent with H1.

### The PRC and Credible Commitments

Though a unification bargain, regardless of how it is structured, would harm Taiwan's bargaining power to at least some extent, an agreement would still be feasible if the PRC could credibly commit to its terms. Here we derived three specific hypotheses.

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<sup>61</sup> See, for example, Kevin G. Cai, "The China-ASEAN Free Trade Agreement and Taiwan," *Journal of Contemporary China* 14, no. 45 (2005): 585–97.

<sup>62</sup> *Ibid.*

First, H2a posits that a unification bargain is more likely if the core state has entered into, and honored, previous unification agreements with other states. The PRC's experience in this regard has been somewhat ambiguous. Bargaining over Hong Kong's status, for example, was done with Hong Kong's former colonizer, Great Britain. As such, this situation is not entirely analogous to the PRC-Taiwan relationship. Still, Beijing did make clear commitments to preserve Hong Kong's autonomy under the "one country, two systems" framework. A second example, perhaps more comparable to the Taiwan situation, is Tibet, which agreed to unify with the PRC in 1951 under threat of military invasion. The unification agreement, like the guarantees extended to Hong Kong, promised to preserve Tibetan autonomy; the PRC committed, for example, not to "alter the existing political system in Tibet."<sup>63</sup> However, the PRC clearly has not honored this commitment: in 1959, the PRC occupied Tibet and abolished the Tibetan government under the Dalai Lama.<sup>64</sup> Beijing's track record in Hong Kong is much better, though even here questions have been raised, for example, about Beijing's interference in the Hong Kong media.<sup>65</sup> Given this mixed record, Taiwan's refusal to enter into an agreement with Beijing is consistent with H2a.

H2b suggests an alternative pathway to credibility by way of either domestic political institutions such as constitutional courts that enforce existing laws or supermajority requirements that protect small regions or minorities. The PRC's current political institutions, however, appear to preclude credibility being established in this manner. For example, placing an agreement in the PRC constitution would not bind Beijing to its terms since the state constitution can be changed with a simple two-thirds vote in the National People's Congress (NPC). Though the NPC's role has been strengthened somewhat in recent years, it remains "only a very pale reflection of an independent legislature."<sup>66</sup> As Hungdah Chiu writes, "once Taiwan is unified with the PRC, the latter can unilaterally change the terms of unification through its rubber stamp

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<sup>63</sup> Hungdah Chiu, "Prospects for the Unification of China: An Analysis of the Views of the Republic of China on Taiwan," *Asian Survey* 23, no. 10 (1983): 1084.

<sup>64</sup> *Ibid.*

<sup>65</sup> See, for example, "Seven Years after Hong Kong's Handover: An Analysis," Mainland Affairs Council, [www.mac.gov.tw](http://www.mac.gov.tw). The report argues that inflows of mainland capital into the Hong Kong media have been partly responsible for "self-censorship," especially regarding "political dissidents and Falun Gong activities, as well as political news on Taiwan, Xinjiang, and Tibet." See also Byron S.J. Weng, "One Country, Two Systems' from a Taiwan Perspective," *Orbis* (Fall 2002): 713-31. Meanwhile, Politburo Standing Committee member Wu Bangguo's recent speech emphasizing that Hong Kong's high level of autonomy is "authorized" by Beijing and that "the Hong Kong special autonomous region only has as much power as is conferred on it by the central government" (*zhongyang shouyu Xi-anggang tebie xingzhengqu duoshao quan, tebie xingzhengqu juyou duoshao quan*) cannot be highly reassuring to Taiwan. See "Wu Bangguo: Xianggang Gaodu Zizhiquan Laizi Zhongyang" (Wu Bangguo: Hong Kong's High Level of Autonomy Derives from the Center), *BBC Chinese.com*, 6 June 2007, [http://news.bbc.co.uk/chinese/trad/hi/newsid\\_6720000/newsid\\_6725300/6725383.stm](http://news.bbc.co.uk/chinese/trad/hi/newsid_6720000/newsid_6725300/6725383.stm).

<sup>66</sup> Kenneth Lieberthal, *Governing China: From Revolution Through Reform* (New York: W.W. Norton, 1995), 162.

NPC in total disregard of the original terms agreed upon.”<sup>67</sup> Moreover, even if the PRC state constitution were amended to give Taiwan veto power over any future changes, a constitutional guarantee would still be dubious given the state constitution’s own questionable standing within China’s governing system; as Susan Shirk writes, “the Chinese see their system as unambiguously hierarchical with the CCP clearly in charge.”<sup>68</sup> These sorts of concerns are not lost on Taiwanese policymakers. Former Taiwan president Lee, for example, saw Beijing’s reunification scheme as unacceptable so long as communist institutions persist on the mainland. He argued that only after the mainland democratizes could there be a guarantee that both sides would respect any reunification agreement.<sup>69</sup> Taiwan’s resistance to an agreement therefore appears largely consistent with H2b.

Finally, we noted that states lacking both a clear dispositional reputation for honesty and an institutional means to make credible commitments can still attempt various creative hands-tying strategies to make self-restraint credible. In this case, the PRC might, for example, unilaterally scale back its military modernization program, or it might focus on developing weapons systems or doctrines that would be effectively useless in a Taiwan Strait contingency. In so doing, the PRC would effectively be ceding some of its bargaining advantage back to Taiwan, thereby helping to neutralize the expected unification deficit. Yet the PRC has avoided implementing such hands-tying mechanisms to date, and this reluctance may stem in part from the nature of Taiwanese public opinion on the issue of Taiwan’s sovereignty. While the polls cited earlier suggest a majority of Taiwanese would be amenable to unification under the right circumstances, these same polls suggest a majority of Taiwanese would also support legal independence if such an outcome could be achieved peacefully.<sup>70</sup> H2c suggests, under these sorts of circumstances, it would be unlikely that Beijing would implement hands-tying mechanisms in order to credibly reassure Taiwan.

The continued willingness of many or most Taiwan citizens to countenance unification under the right circumstances gives Beijing good reason to seek ways to offer credible assurances to Taiwan. However, the need to deter Taiwan independence makes it difficult to offer truly credible assurances in practice, putting Beijing in a tight dilemma. The PRC has repeatedly threatened to go to war against the island. Recently, PRC leaders have declared that China is willing to do whatever it takes to halt Taiwanese independence,

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<sup>67</sup> Chiu, “Prospects,” 1086.

<sup>68</sup> Susan L. Shirk, *The Political Logic of Economic Reform in China* (Berkeley: University of California Press, 1993), 57.

<sup>69</sup> Lee Teng-hui, *Taiwan de Zhuzhang* (Taipei: Yuanliu, 1999), 158.

<sup>70</sup> Niou, “Understanding Taiwan Independence.”

regardless of cost.<sup>71</sup> Yan Xuetong, a hardliner on the Taiwan issue and the director of the Institute for International Studies at Tsinghua University, has even suggested that China's willingness to pay "any price" includes risking nuclear war with the United States.<sup>72</sup> To make these threats credible, the PRC has invested heavily in military modernization (focusing in particular on a Taiwan contingency), even though the opportunity costs of doing so are high given the PRC's other development goals. The PRC signals in this way because any war fought in the Taiwan Strait, especially if the United States were to become involved, would undoubtedly be very costly for China. Beijing's threats are only credible if PRC officials can make a convincing case that they can accept these very high costs, including the substantial suffering that would befall people on both sides of the Taiwan Strait.

Complicating matters for Beijing, however, is that threats undermine the assurances Beijing gives to Taiwan regarding reunification. When Beijing takes steps designed to make its toughly worded threats directed against the island credible—by building up its military, deploying ever-larger numbers of missiles in Fujian Province opposite Taiwan, engaging in provocative saber-rattling, threatening pro-Chen Shui-bian Taiwan businesses operating in China, and so on—it has difficulty reassuring Taiwanese that their interests will be respected if the island agrees to reunify with China. The threats, implicitly, tell Taiwan that the lives and economic well-being of citizens on both sides of the Taiwan Strait are less important than a political goal (reunification) that carries few or no tangible benefits for those same citizens. Similarly, concrete things Beijing could do to make its assurances more credible, like scaling back its military budget, would also weaken its ability to make credible threats against Taiwan.<sup>73</sup> In other words, things Beijing might do to credibly assure Taiwan that it won't act opportunistically against the island after reunification may give Taiwan the green light to pursue independence, since a majority of Taiwanese voters would support independence if they thought Beijing would not respond militarily. Beijing's behavior therefore confirms H2c: strong states will be unable to use creative means to commit to restraint when the weak state does not sincerely desire unification.

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<sup>71</sup> Consider, for example, Premier Wen Jiabao's statement that reunification is "more important than our lives." Benjamin Kang Lim, "China to Consider Taiwan Reunification Law—Premier," *Reuters*, 11 May 2004.

<sup>72</sup> Yan writes, "As long as the new Chinese government is clear that China is in fact willing to pay any price, the United States will have second thoughts about whether it is necessary to risk nuclear war by supporting Taiwan independence." Yan Xuetong, "Origins of the Policy to 'Pay Any Price to Contain Taiwan's Independence,'" *China Strategy Newsletter* (20 July 2004): 39–42.

<sup>73</sup> Chinese leaders understand this problem. Lieberthal suggests that one consequence of the Anti-secession Law may be to "reduce Beijing's fears that Chen would misinterpret conciliatory gestures as indications of China's lack of resolve." Lieberthal, "Preventing a War," 57.

## THE FUTURE OF CROSS-STRAIT RELATIONS

Taken together, the three cases we have considered bolster our confidence in the utility of the theoretical framework presented in the first section of this paper. We found that unification agreements are difficult to achieve when they are expected to undercut weaker states' external linkages (as was the case in Saxony, the Argentine Litoral before 1845, and Taiwan) but are more feasible when those external linkages are either minimal (the Argentine Litoral after 1845) or unlikely to be influenced by a unification bargain (Bavaria). These findings broadly confirm H1. The Bavaria and Taiwan cases are also consistent with H2: Prussia was able to build a reputation for honesty in its prior dealings with Saxony, while the PRC's prior treatment of Tibet (and to a lesser degree, Hong Kong) preclude the possibility that Taiwan might view PRC commitments as credible based on past actions. In all three cases, the core state lacked political institutions likely to be viewed elsewhere as credible guarantors of a unification bargain. Finally, given the nature of Taiwan public opinion, the PRC's unwillingness to devise hands-tying assurance mechanisms is consistent with H2c. However, we did not observe core states attempting to devise such mechanisms even in cases where the underlying assurance/deterrence dilemma was less severe, such as in the Argentine case. In general, we suspect that core states will rarely implement truly credible hands-tying assurance mechanisms, even when they do not need to deter their bargaining partners, since such mechanisms are also likely to undermine core states' bargaining power with other countries. In the China-Taiwan case, for example, even if the independence movement in Taiwan completely vanishes, the PRC will in all likelihood continue with its military modernization program for reasons that have little to do with Taiwan; for example, the PRC still desires great power status, and the military remains an important constituency within the PRC "selectorate."<sup>74</sup>

While the cases were broadly consistent with our hypotheses, some of the outcomes we observed were over-determined. For example, Bavaria's external linkages were more robust than Saxony's, making it easier for Prussia and Bavaria to reach an agreement, but Prussia could also more easily commit to honor an agreement because it had already established a reputation for honoring its previous commitments to Saxony. Given these sorts of concerns, we do not claim the three case studies to represent a systematic evaluation of all our hypotheses. The cases do, however, vary in important respects on both the dependent variable (whether a unification agreement was achieved) and the independent variables. As such, that we found the cases to confirm, to at least some degree, our major hypotheses is encouraging.

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<sup>74</sup> Shirk, *Political Logic*.

While speculating about future events is risky, our encouraging findings suggest that it would be useful to consider the long-term prospects for a cross-strait unification bargain in light of our theoretical framework. Our argument points to two distinct pathways that could lead to unification across the Taiwan Strait. First, peaceful unification will be possible if the two sides can craft a bargain that does not independently erode Taiwan's external links. Second, unification is possible if a mechanism can be devised that credibly binds Beijing to the terms of a negotiated unification settlement. We consider these pathways in turn.

### Unification Bargaining and Taiwan's External Links

How might a unification bargain be structured so as to avoid independently eroding Taiwan's external links? In early 2001 Lien Chan, then chairman of the KMT, began to promote confederation as an appropriate model for unification.<sup>75</sup> Such an arrangement would allow Taiwan to preserve a high level of sovereignty; indeed, in some ways confederation could potentially improve Taiwan's bargaining power by conferring legitimacy on Taiwan's status as a sovereign entity. Nonetheless, China rejected confederation for this reason, so confederation does not appear to be a realistic solution in the near future.<sup>76</sup> Moreover, it is unclear that confederation solves the bargaining power problem for Taiwan: such an arrangement could make it harder for Taiwan to maintain its de facto alliance with the United States. Loose confederation may help reduce the size of a unification deficit but not eliminate it.

A number of future developments, however, could potentially render the unification deficit problem moot. For example, if the American military commitment to Taiwan were to lessen and if the Taiwan economy continues to become more dependent on the mainland, a unification agreement's effect on Taiwan's bargaining power would become small simply because Taiwan would already have limited external linkages. Unification, in this scenario, would become more feasible not because it is more attractive from Taiwan's vantage point, but rather because Taiwan would have less to lose to begin with. Such a change might be similar to the events of 1845 in Argentina, which reduced the Litoral's unification deficit by eliminating the states' external ties whether or not they accepted unification. The PRC's efforts to increase Taiwan's economic dependence on the mainland and Beijing's efforts to marginalize

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<sup>75</sup> See, for example, "Kuomintang Chairman Proposes Cross-Strait Confederation," *Central News Agency*, 4 January 2001, in Taiwan Security Research, <http://taiwansecurity.org/CAN/2001/CAN-010401.htm>. For a similar proposal, see Jakobson, Greater Chinese Union. For a good discussion of confederation as a possibility, see Bush, *Untying the Knot*, 271–76.

<sup>76</sup> "China Opposes 'Confederation' System in Solving Taiwan Issue: Spokesman," *People's Daily* (English online edition), 4 March 2001, [http://english.people.com.cn/english/200103/04/eng20010304\\_64025.html](http://english.people.com.cn/english/200103/04/eng20010304_64025.html). As Bush notes, Beijing may also worry that a confederation with Taiwan could lead other regions in China, like Tibet, to demand a similar bargain. Bush, *Untying the Knot*.

Taiwan internationally appear premised on a desire to achieve this sort of effect.

Of course, Beijing's policies in this regard could backfire because they provoke resentment in Taiwan, making it less likely Taiwan citizens would wish to identify with the PRC government. Our argument, importantly, suggests that Beijing could also pursue a fundamentally different strategy, one likely to win admiration rather than resentment in Taiwan. Rather than try to marginalize Taiwan, Beijing could instead encourage Taiwan to develop extensive external linkages that are not conditional on Taiwan's de facto independent status. For example, Beijing might welcome Taiwanese participation in regional trade agreements, including a U.S.-Taiwan agreement, under a rubric similar to Taiwan's WTO membership. Just as Prussian leaders engineered continued formal external linkages for Bavaria via representation at the Vatican, thereby reducing Bavaria's unification deficit and making a negotiated agreement possible, the PRC could allow Taiwan to continue its independent foreign policy under the guise of independent representation in economic institutions such as the WTO and APEC. Similarly, Beijing might welcome a U.S. interest in Taiwan premised on a desire to preserve the island's democracy; such an interest would likely endure even after a unification bargain is reached and could make Taiwan feel more secure about its future bargaining leverage in the context of a unified China. Future Taiwanese presidents will likely be more willing to bargain with Beijing over unification if they can be confident that unification will not independently undermine Taiwan's external linkages (and thereby generate a unification deficit). Beijing, in short, could try to make Taiwan look like Bavaria, not the Argentine Litoral.

### Credible Commitments and Cross-Strait Relations

Absent developments that obviate the unification deficit problem, a PRC-Taiwan agreement is also more likely to be reached if the PRC can credibly bind itself to the agreement's terms, though Beijing faces formidable obstacles in this regard. What could change to make these obstacles less daunting?

Many observers have noted that democratization and continued economic development in China could go a long way in this regard. In particular, such changes could temper Beijing's motivations to intervene in Taiwanese politics. If the PRC government were to tolerate dissent, for example, fears that Beijing might try to crack down on Taiwanese freedoms in a unified China would lessen. Meanwhile, Taiwan would have less to fear from unifying with an economically developed China; there would be less motivation for China to redistribute Taiwanese wealth if given the opportunity. And, of course, if China were to become a highly institutionalized democracy, its

written guarantees to preserve Taiwanese autonomy would likely become more credible in Taiwanese eyes.<sup>77</sup>

Political dynamics in Taiwan could also impact Beijing's ability to establish credibility. A significant shift in Taiwanese public opinion would have the potential to change Beijing's signaling incentives dramatically. If support for independence on the island were to wane, Beijing would no longer need to deter as vigorously against independence. It would be able to focus more on sending credible signals of assurance by, for example, demilitarizing the Taiwan Strait. Still, this sort of dynamic can only arise if the hypothetical shift in Taiwanese public opinion were sincere. In other words, if Taiwanese support for independence wanes simply because Taiwan voters worry about the instability independence might provoke, China would fear that a shift away from deterrence would lead to resurgent pro-independence sentiments on the island.<sup>78</sup>

Thinking about the problem of PRC/Taiwan unification by referring to changes in bargaining power refines the precise nature of the commitment problem. Existing studies have recognized a commitment problem, along with other factors like a growing sense of Taiwanese identity, as an impediment to a unification agreement. But the commitment problem has not been fully specified. We show that the problem arises not just from Beijing's inability to credibly commit to restraint but from the fear that Beijing's lack of restraint matters more to Taiwan if it joins in a unification deal than if it does not.

Interestingly, the more complete specification of the commitment problem suggests more, rather than fewer, paths to future PRC/Taiwan reunification. If we imagine a future (perhaps a distant one) in which the only significant remaining barrier to unification centers on Taiwan's concerns about autonomous status within a unified China, then a mechanism that credibly binds Beijing to the terms of an agreement is clearly a sufficient condition paving the way to unification, but it is not a necessary condition. Rather, developments guaranteeing Taiwan's bargaining power will not decline more rapidly within a unified China than otherwise are also sufficient to achieve unification.

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<sup>77</sup> On the prospects for political reform under the CCP, see, for example, Bruce J. Dickson, "China's Democratization and the Taiwan Experience," *Asian Survey* 38, no. 4 (1998): 349–64.

<sup>78</sup> On declining support in Taiwan for independence, see: Robert S. Ross, "Taiwan's Fading Independence Movement," *Foreign Affairs* 85, no. 2 (2006). The KMT's overwhelming victory in the January 2008 Legislative election provides some further evidence that Taiwan voters do not favor policies that might provoke the PRC.