

**Scenarios of Taiwan Facing a China-Led Economic Integration Process in East
Asia after the Financial Turmoil**
– An Analysis from the Globalization Schools¹

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Abstract

Facing the worst economic crisis since the Great Depression, several analysts have delivered a message in which China is gradually replacing the US's role in stabilizing regional financial markets in East Asia. These China-led financial stabilization projects not only reduce the impacts of the financial turmoil on East Asia, but they also make China a credible option for taking a lead role in East Asian regional economic integration. However, largely due to its complicated political background with China, Taiwan, while coping with the global financial crisis, remains an interesting topic in the theories of globalization, in which Taiwan's eagerness to join this economic integration process in East Asia, mostly led by China unfortunately, has prompted itself to move on to different trajectories of adjustment. From the theoretical schools predicting globalization developments, three different perspectives, including skepticism, hyperglobalism, and transformationalism, can be applied to analyze Taiwan's responses to a China-led economic integration process in East Asia: national welfare state, competition state, and structural competition-state. This paper therefore examines these developments of Taiwan as tied to the future of the East Asian economic integration process.

Key words

Globalization, Global Financial Crisis, Economic Integration, Taiwan, China, East Asia

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I. Introduction

Globalization is now clearly at a gloomy stage, in which the global economic crisis has hit human development so deeply and broadly that different geopolitical consequences will be the next series of crises displayed hereafter.

In the United States, it is obvious that, after the worst economic slump since the Great Depression, the Obama administration is constrained to switch focus on inward issues, especially unemployment, the banking industry, health care, and fiscal pressures. In Europe, the refusal from the three strongest European Union (EU) members – France, Germany, and the United Kingdom – to provide emergency assistance to East Europe displays divergence within the Union and an inability to cope with the crisis together. Japan is suffering in an even worse state, especially after enduring a “lost decade” of economic stagnation in the 1990s and early 2000s that left the Japanese government unable to provide for further easy credit for fueling both stock and real estate speculation.

However, the following sentences cited from *Foreign Affairs* deliver another episode of the globalization story:

Only China has prevailed. China’s growth did diminish but now may be picking up again. Recently, electricity consumption, freight shipments, and car sales in China have all increased. Its financial system is insulated and relatively unleveraged – and has thus been largely unharmed. This has allowed China to direct a recent surge in lending for stimulus purposes. Beijing’s unique capitalist-communist model appears to be helping China through this crisis effectively. And measured by its estimated \$2.3 trillion in foreign exchange reserves, no nation is wealthier. (Altman, 2009)

Although the geopolitical stories are still developing within different areas, China’s incredible recovery from the global economic recession has enabled it to make strategic investments that other countries recently cannot make. Indeed, facing the worst economic crisis since the Great Depression, the United States and other traditional powers, according to some analysts, are losing their long-time legacy as regional hegemony in East Asia, and China is gradually replacing their role in stabilizing the regional financial market. Although these predictions need time to be proven or disproven, China indeed is playing an increasingly important and active role in joint efforts to combat the financial crisis and to boost cooperation in promoting the welfare of countries in East Asia. These China-led financial stabilization projects, such as the emphasis on the Chiang Mai Initiative, the bilateral currency swap agreements with some ASEAN countries, the Investment Agreement for

China-ASEAN FTA, an investment fund for ASEAN countries' infrastructure networks development, and the extension of loans to ASEAN countries, not only reduce the impacts of the financial turmoil on East Asia, but also make China a credible option for taking a lead role in East Asian regional economic integration.

Nevertheless, largely due to its complicated historical and political background with China, Taiwan, while confronting the global financial crisis, remains an interesting topic in the globalization process. The pressure of Taiwan's eagerness to join the East Asian economic integration in led by China has prompted the Taiwanese government to adapt to different trajectories of adjustment or transformation. From the traditional schools of predicting globalization developments, three different perspectives, including skepticism, hyperglobalism, and transformationalism, can be applied to analyze the responses of the Taiwanese government. These different perspectives, therefore, may influence the development of Taiwan into three possible scenarios: a national welfare state based on skepticism, a competition state based on hyperglobalism, and a structural competition-state based on transformationalism. These scenarios are intended to face the China-led East Asian economic integration process. This paper is therefore dedicated to investigate these developments as tied to regional economic integration.

The analysis will be the following. Firstly, while many scholars have already done a great deal of research to measure Taiwan's performance in tackling global challenges, this work will be elaborated on in accordance with the schools of globalization theories in the literature review. In addition, since China has a closer relationship with Taiwan, its current reaction to the financial turmoil during the economic integration and cooperation of East Asia will be examined in the second part of this paper. Then, because the globalization of the world economy and of security threats obviously requires globalized tools to analyze and address them, states' various responses to globalization will be addressed in order to predict scenarios of Taiwan facing a China-led economic integration process in East Asia in the third part. Last but not least, the conclusion of this paper will aid in re-considering the Taiwan issue and the Cross-Strait relationship in the era of globalization.

II. Literature Review of the Globalization Schools and Taiwan's State Transformation

Although the political and academic debates about globalization are intense, three schools of thought in regard to states under globalization have crystallized. They are skeptics, hyperglobalizers, and transformationalists (Held et al., 1999).

A. Skepticism

Typical of the skeptical school, Hirst and Thompson (1996) contended that the “new” trend of globalization and its impact on the global world differ little from previous international relations. Their basic premise arises from a doubt about the “myth of globalization,” which states that the current situation is truly an unprecedented global phenomenon. Using an approach to comparative political economy that analyzes levels of economic integration between the late 19th century and the post-Cold-War era, they argued that the extent of contemporary globalization is wholly exaggerated. In addition, they contended that the dynamics of internationalization themselves rely heavily upon the regulatory power from the state machine to ensure continuing economic liberalization. As a result, these authors discounted the idea that the acceleration of globalization prefigures the emergence of a new, less state-centric world order. Rather, it points to the growing centrality of states, with more regulations for governance mechanisms as well active promotion of globalization. International economic conditions may constrain but do not immobilize governments. Therefore, Hirst and Thompson concluded that globalization has become a politically convenient excuse for implementing orthodox neo-liberal economic strategies.

Weiss (1998) argued that the result of increased economic integration is not a globalized world but rather an internationalized system in which sovereign states are more prominent. She emphasized the adaptivity of the sovereign-state and its continued advantages in an increasingly “global” world. Because of the organizational ability of sovereign states to deal with obstacles, to change, and to absorb risks triggered by modern production technologies, states are not hapless victims of globalization. According to Weiss, the authority and power foundations of the Westphalian sovereign-state are not likely to be displaced by the development of globalization. On the contrary, “[s]tate capacity, far from becoming irrelevant, has acquired new significance in a changing world economy” (Weiss, p. 13). Such adaptivity, in the view of many skeptics, contributes to the advance of both the fundamentalism and the aggressive nationalism that constitutionally support the operation of a national state as well as the pursuit of creating a welfare state.

In terms of the case of Taiwan, the skepticism is the most popular idea adopted by scholars to analyze Taiwan’s relatively stronger state capacity in facing the challenges of globalization. Wang Horng-Luen (2001) emphasized the transformation of international institutions as a key factor in explaining the changes in Taiwan’s government. He asserted that the failure of the ROC regime has caused Taiwan’s nation-state status to suffer severe setbacks within the global community and has subsequently resulted in Taiwan’s ambiguous “neither-nor” nation-state status.

According to Wang, during the international structural changes that have taken place since the 1970's, the proclamation of Taiwan's government that it is the "Chinese Government" has been totally futile, making it difficult for the global community to provide support in winning this sort of recognition. Under such circumstances, a state will naturally turn towards a more sustainable argument; in this case, it was the pursuit of a nation-state different from the ROC regime so that Taiwan's existing autonomy and legitimacy could be preserved under the prevailing conditions. In addition, Wang emphasized that the pursuit of further participation in international institutions does not condemn Taiwan to becoming a weakened state that surrenders its sovereignty to the forces of globalization; on the contrary, ironically, these movements can significantly enhance the healthy operation of Taiwan's independent status and its sovereignty in the global community.

Lin Chia-lung (2002) further focused on the awakening of a long-suppressed Taiwanese consciousness and concluded that the surge of the Taiwanese identity after the 1990s is related to Taiwan's transition to and consolidation of democracy. During the process of Taiwan's democratization, increasing international hostility towards Taiwan raised by the Chinese government boosted a sense of common suffering among people living in Taiwan, who were forming a more localized political identity, which became the Taiwanese identity. By claiming to be politically Taiwanese, the people living in Taiwan not only enjoy an ethnic identity in the global community but also create a citizen-based political identity that further enables the global community to distinguish Taiwanese from Chinese. Lin asserted that Taiwan's contemporary national identity is not inborn but a socially and politically constructed sentiment subject to its domestic democratization and heavily influenced by its international milieu. As a result, the dynamics of globalization not only shape the nature of Taiwanese nationalism but also affect Taiwan's becoming a modern state.

In addition to democratization, privatization and liberalization are also parts of globalization. Wang Jenn-hwan (1996) explained how the Taiwanese state machine regained its capacity by adopting the policies of privatization and liberalization for dealing with challenges from globalization. Wang reviewed Taiwan's history in the 1990s, when the Taiwanese government found itself facing a difficult international environment as well as a weakening of the state machine, due largely to a deeper and broader impact from globalization that challenged Taiwan's state operation and constitution which had come from China since 1949. In 1988, Lee Teng-hui succeeded Chiang Ching-kuo and immediately realized that the function of the Taiwanese state was caught in serious rifts and conflicts against the background of the Kuomintang party (KMT) that had deep Chinese roots. According to Wang, in

response to these conflicts, Lee chose to extend the scope of the state machine by privatization and liberalization policies of opening up the mid- and up-stream industrial territories internally to encourage domestic investment by native Taiwanese businesses, thus forming an alliance between the growing local economic forces against the original mainlander factions within the state machine. In the mid-1990s, not only had Lee's regime been successfully consolidated, but also the state capacity had been gradually retrieved. Later, Lin Chen-wei (2004) concluded that the above reformation facilitated the development of a "Taiwan-sized" state machine to such a point that a new welfare state was emerging in Taiwan. Although the previous "China-sized" state machine met difficulties in building Taiwan's own social security system, the reformed state could lead Taiwan to have more confidence and capacity for its survival in the global arena.

In addition, the case of Taiwan was also discussed among adherents to the neo-statism approach that emerged around the end of 1970s. Under the slogan of "bringing the State back in," the neo-statist school explored many cases of economic development between different areas and attributed the success of East Asian economic development to the role of their strong governments (Evans, Rueschemeyer, & Skocpol, 1985). Since then, Taiwan has been regarded as a strong-state model, being friendly intervening markets to accomplish its given national economic plans (Aoki, Kim, & Okuno-Fujiwara, 1997; Weiss & Hobson, 1997; Thorbecke & Wan, 1999; Stiglitz & Yusuf, 2001; Dent, 2003). The Taiwanese government adopted a plethora of measures—such as land reform, tax relief policies, subsidized interest rates, fiscal incentives attached to export performance—to support selective industrial development. Therefore, Taiwan's success in economic performance became a chapter of the East Asian miracle, the key to which, the statisticians have concluded, was related to its strong state machine. However, even though Taiwan has shown that it has qualified competence to tackle conventional economic problems, that capability does not guarantee this strong-state approach can duplicate its previous success against the next challenges of globalization. From this viewpoint, some neo-statists have even mentioned that the first and the most important issue of Taiwan's globalization lessons is the way to interrelate Taiwan's future development with a global economy in which China has significantly changed the general environment (Kuo, 1999).

The concern highlighted by the neo-statists presents a picture in which analyses from the skeptical school always ignore the factor of the Chinese government, which has been playing an increasingly important role in international institutions since the late 1970s. Taiwan's participation in institutions oriented towards China obviously will not lead itself into an environment that encourages the Taiwanese independent

movement, but rather it will force Taiwan into a scenario favorable towards the Chinese government, that is, a reunification between Taiwan and China. With respect to this scenario, it is necessary to consider hyperglobalism, based on extreme liberalism favored by the PRC side, which calls for treating Taiwan as another Hong Kong.

B. Hyperglobalism

Hyperglobalizers regard globalization as defining an entirely new epoch, in which the traditional sovereign-state system has been replaced by other phenomena, especially impossible business units in the global world. For example, Strange (1996) stressed the accelerating pace of technological change and the principle of global competition for capital as two prime causes of the shift in the state-market balance of power. The authority, power, and legitimacy of the sovereign-state are undermined as national territory becomes increasingly only the site of global currency flow and as private institutions associated with multilevel governance mechanisms become more significant. In other words, the process of denationalization has been generated through an expansion of global networks of production, trade, and finance. In this evolution, national governments are relegated to little more than transmission belts for global capital or, ultimately, simply intermediate institutions sandwiched between increasingly powerful local, regional, and global mechanisms of governance.

In addition, Cerny (2005) demonstrated that this neo-liberal economic practice also attaches the concept of “global civil society” to the meaning of globalization. The worldwide diffusion of a consumerist ideology defined by universal standards of economic and political organizations has imposed a new sense of loyalty and identity, displacing traditional cultures and ways of life. Accordingly, this global civil society is being equipped with its own mechanisms of global governance, whether they be the WTO or the disciplines of the world market; thus, states, firms, associations, and individuals are increasingly the subjects of new public and private global or regional authorities. Cerny concluded that geography has been downgraded in the space-time-compression process or, in Cerny’s language, a “new spatio-temporal fix” driven by the expansion of the scale of markets so that the form of the state has been transformed from the industrial welfare state to the competition state. States are now free to pursue the goal of competitiveness in the global political economy, leading global politics to multilevel governance structures that are a complex interaction of state-state, state-firm, and firm-firm negotiations.

Similarly, Ohmae (1995) indicated that the notion of sovereignty should be put in a museum because notions of national interest have become of declining interest due to the reduced capabilities of sovereign states in the global economy. Because

of the decline of sovereignty and the increasing influence of regional ports for entering markets, Ohmae also forecasted that Hong Kong/Shenzhen, Singapore, southern China, southern India, Silicon Valley, New Zealand, and the Pacific Northwest of the U.S. would be the winners in the new globalized world. Within this evolution, Ohmae implied that, if Taiwan could follow Hong Kong's lead by staying away from the row over its national status and instead work to integrate itself with the Chinese market, then its national competitiveness might be enhanced in the global arena.

Furthermore, Chu and Lee (2003) advocated a market-friendly approach for Taiwan's better economic governance while its original state-led model is somewhat maintained. By describing Taiwan's globalization story in industrial governance and financial governance, Chu and Lee indicated that the Taiwanese state was successful in negotiation with the trend of globalization because the state linked itself well to the global market on favorable terms although it may have sometimes intervened in the market. This Taiwanese model can be cataloged as a developmental state in which a country becomes one administration agency among the global actors, selectively and gradually coping with the challenges of globalization. A developmental state may show its capacity to foster national development, but that capacity is largely contingent on domestic politics and institutional arrangements. In the case of Taiwan, its immature democracy contributing to short-sighted policies and the Democratic Progressive Party's (DPP, Taiwan's former ruling party during 2000-2008) hostility to neo-liberalism and favoring of nationalism are two fronts challenging the effort to deal with globalization.

Later, Chu (2004) analyzed updated data on Taiwan and indicated that people's perception of China's economic potential and increasing awareness of the inevitability of growing Cross-Strait economic integration had bridled the DPP's pro-independent policies and possibly directed Taiwan's infrastructure interweaving with global and/or regional market. In other words, Chu's stance was one of hyperglobalism, indicating that Taiwan's pursuit of an independent state or even economic independence from the Cross-Strait economic integration would inevitably harm Taiwan's national competitiveness. However, a good solution to this dilemma is globalization that encourages the pace of economic integration across the Strait. By appreciating the countries' greater common economic interests in integration, it might lead to a peaceful reconciliation under some form of political union between Taipei and Beijing. This is a story of global governance as well, in which the state's characteristic of being a nation is replaced by its pursuit of competitiveness.

Chu was not alone in the belief that growing economic integration dampened Taiwan's nationalist movements. Abramowitz and Bosworth (2003), Tucker (2002),

Bustelo (1998), Liew (2000, 2004), and Lee (2001) all shared the same opinion that Taiwan's increasing economic dependence on and integration with China would lead to changing perceptions of the island's needs and interests, thus enabling peaceful reconciliation between the two sides of the Strait possible, as well as making unification desirable or, at least, put Taiwan on track to a pro-unification future. These authors respected the power of the market and put more emphasis on building a desirable and sustainable governance mechanism in which the role of the state is diminishing and deregulation, privatization, and the openness of borders to capital and trade are increasing. Under the flag of neo-liberalism, Taiwan's national priorities and strategic intent have veered from pursuit of national independence to negotiations with other global actors for permission to join other markets—especially the Chinese and APT markets—that are needed for national competitiveness. The state-market balance of power is shifting, and acquiring more capital from other markets means that Taiwan must surrender on the sovereignty issue. The state only serves the economy, and in Taiwan's case, it should serve as an actor supporting and protecting the growing flow of economic interactions across the Strait through any neo-liberalist approaches, whether they are called economic integration, market community, political unification, or even capitulation to one set of priorities.

At the extreme of the arguments concerning hyperglobalism is Chang (2002), whose opinion moves beyond political theory's traditional emphasis on the interdependence of nation, government, and people. Chang proposed that the government in the era of globalization should be extracted from a political continuum linking nation and people, in which the people would have the right to demand an opening of the political marketplace. From this viewpoint, it should be possible for the Taiwanese people to establish treaties with foreign governments without having to go through the restrictive medium of their own government, generally because this approach of choosing the form of government that best suits their own interests could enhance the overall competitiveness of Taiwan in the global market. Chang also indicated that adopting such a strategy for Taiwan would make it possible for multiple types of identification to exist simultaneously in Taiwan and would facilitate the establishment of new governance mechanisms that could ensure peaceful relations between Taiwan and China.

However, the recommendation of this school to assign the nation-state a less important role in the global political economy, especially from the Taiwanese perspective, seems too ideal to be implemented fully in reality because nation building and globalization are not heading in opposite directions; even a competition state, following the neo-liberalism approach, is still generally based on the pursuit of its own national interests, which will eventually reinforce the glory of being that

nation. The dynamics of globalization not only engender the force of integration but also give rise to the vigor of fragmentation. The transformationalism school has developed this argument further.

C. Transformationalism

Transformationalists reject both the skeptics' claim that nothing much has changed and the hyperglobalizers' rhetoric touting the end of the sovereign-state system. Indeed, transformationalists argue that globalization is re-constituting or re-engineering the power, functions, and authority of national governments. For example, Ferguson and Mansbach (2004) adopted the term post-internationalism to analyze contemporary trends of globalization in which there would no longer be a clear distinction between international and domestic, external and internal affairs. States across the globe are having to adjust themselves to a global politics, which can be identified as eight macro changes: (a) history's revenge and future shock; (b) the decline of the territorial state; (c) multiple identities and loyalties; (d) an expanding cast of important global actors; (e) the declining role of distance and acceleration of history; (f) the participation explosion; (g) changing sources of security and insecurity; and (h) the liberal bias of post-international thinking. Thus, globalization is associated with a transformation of the relationships among territoriality, sovereignty, authority, identity, and state capacity.

Furthermore, Sassen (2006) made her case by surveying how three components—territory, authority, and rights—have been being created and interpreted in their interrelationships across three major historical assemblages: the medieval, the national, and the global. Sassen found that nation building and globalization are not in opposition because the laws, property rights, and borders that states create are the road and rail networks for the process of globalization. Consequently, although states still hold the ultimate legal claim to effective supremacy over what occurs in their own territories, the jurisdiction of global governance institutions simultaneously expands and also the constraints set by—as well as the obligations derived from—global trade agreements grow.

Moreover, Dicken (2007) also rejected the view that the state was becoming either a continuing dominator or no longer a major player, while recognizing that the position of the state was being redefined. Hence, he explored the new roles of the states in processes of globalization and, in particular, how states fulfill the following four functions: containers of distinctive institutions and practices; regulators of economic activities and transactions; competitors with other states; and collaborators with other states.

Considering notions of sovereignty, Rosenau (2003) explained that the concept

of state is related to different modern understandings of territoriality, state autonomy, and state capacity, which stand in a more complex relationship with other actors than they did in the era during which the modern sovereign nation-state was being forged. As a result, Rosenau illustrated that globalization is associated not only with a transforming conception of sovereignty but also with the emergence of other rising non-territorial forms of economic and political institution in the global arena, especially multinational corporations, transnational non-governmental organizations, international organizations, and so on. Global politics, in this perspective, can no longer be analyzed from the Westphalian state-centric approach because power and authority have increasingly diffused among public and private institutions at the individual, local, national, regional, and global levels. Some parts of sovereignty have been surrendered to other domains, especially the market, so that sovereign-states are no longer the sole centers of authority in the multilevel governance apparatus.

Surprisingly, in contrast to the skeptics' embrace of the philosophy of the welfare state from economic nationalism and the hyperglobalizers' adoption of the idea of the competition state from neo-liberalism, the transformationalist school apparently exhibits a poor theory of state type, especially in the case of Taiwan. Although some scholars have embarked on studying alternative approaches to Taiwan's participation in international organizations (e.g., Chen & Chen, 2009; Chen, 2009; Wang, 2009), those suggestions are largely limited to contributions to Taiwan's foreign policies rather than to a whole framework of Taiwan's development as tied to the future of globalization. Also, while the current Taiwanese government has been adapting to the conditions of Asia's globalization to balance the desire for its independent status and the pursuit of its integration into the global community, the evidence from Taiwan's different displays of a state machine in the environment of globalization makes the Taiwanese example difficult to be categorized. Taiwan is neither a traditional welfare state in addressing the protection of Taiwan's independence and sovereignty, nor is it a pure competition state sacrificing Taiwan's sovereignty for its competitiveness. Accordingly, the notion of a "structural competition-state" that hybridizes the concepts of economic nationalism and neo-liberalism will be created and delineated by this paper later, specifically as it is illustrated by the Taiwanese case, in order to enhance the theory of transformationalism as well as to enrich concepts of globalization.

The review of the related literature has identified the above critical issues in the debate in order to create a foundation for thinking about how a sovereign state should respond to the trend of globalization. In addition, programs and activities shaped by the same trend of globalization, however, display different types of performance on

the East Asian stage where China has been becoming a chief, or even a sole, protagonist during its efficient tackling of the current financial turmoil and incredible recovery from the global economic recession. Therefore, it is necessary to address China's growing important role in the regional economic cooperation of East Asia before forecasting Taiwan's responses to these developments.

III. China's Growing Important Role in Coping with the Financial Turmoil during the Economic Integration and Cooperation of East Asia

So far, the current economic crisis has been gradually changing East Asia's fundamental strategic architecture. As American regional hegemony is being challenged by China, the leadership in Beijing is confidently dealing with the global financial turmoil at home, and a rising China is further expected to actually play a leading role in solving the crisis internationally. China's export-oriented growth strategy attached with its currency control policies indeed enriches Beijing's capability to stabilize its own economy. It is safe to say that China's unique political-economic developing model, with its relatively insulated financial system, has been almost unscathed in the crisis (Altman, 2009). If measured only by foreign reserves, China has already become the world's wealthiest country. This credit not only facilitates Beijing's short-term efforts to successfully stimulate domestic economic growth for easing impacts of the global turbulence on China, but it also empowers itself to create new rules and institutions for the regional long-term economic architecture of East Asia. These new frameworks introduced by China for the development of East Asia can be illustrated in the following three categories.

A. Re-emphasis on the Chiang Mai Initiative

After the 1997-1998 Asian financial crisis, the countries of East Asia shared their common need to promote regional financial cooperation in ameliorating their financial problems. Their efforts then contributed to a series of formal statements and programs. In the fall of 1999, at the Association of Southeast Asian Nations Plus Three (ASEAN+3 or APT) Summit², APT leaders forged their first official agreement to self-help and support regional cooperation, especially financial matters, through the APT framework. Next year, in May 2000, the APT Finance Ministers' Meeting accordingly announced the Chiang Mai Initiative (CMI) which intended to cooperate in four primary issues: monitoring capital flows, regional surveillance, swap networks,

² In 1992, the members of the Association of Southeast Asian Nations (ASEAN) formed a trade bloc agreement among 10 countries, including Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam, Laos, Myanmar, and Cambodia. Currently, the ASEAN members tend to expand this trade bloc agreement with three other East Asian countries—China, Japan, and South Korea—resulting in ASEAN Plus Three.

and training personnel (ASEAN, 2000), according to which the Bilateral Swap Agreements (BSAs) and the multilateral Asian Monetary Fund (AMF) to better fend off a financial crisis have been becoming current focuses.

The BSAs are trade and monetary agreements between the two central banks of the two respective countries. Under these agreements, both two countries exchange currencies for international trade without using a mediate currency, such as the US dollar, for a limited period of time and then return the original amount. In the CMI mechanism, the BSAs will provide for 33 bilateral currency swap agreements to be negotiated, including 30 agreements between each of the three Northeast Asian countries (China, Japan, and South Korea) and each of the 10 ASEAN members, plus 3 agreements among the 3 Northeast Asian countries themselves. However, since the poorest members of ASEAN regard concessional foreign aid as a more appropriate approach for development, the actual number of BSAs that have been or are being negotiated is only 16, slightly less than half of the theoretical number (Ministry of Finance Japan, 2009).

Among the negotiated BSAs, by April 2009, China has signed the agreements with six of the APT countries, including South Korea, Indonesia, Japan, Thailand, Philippines, and Malaysia. The total amount of China's BSAs in this framework is US\$23.5 billion, equal to 26.11% of the total amount of the APT BSAs, which is US\$90 billion. Although China currently is not the biggest beneficiary of the BSAs (Japan is), the number and amount of China's BSAs increased in 2008-2009 are the fastest-growing among the APT countries. This signals that, not only does China have increasing interests in swap agreements for the East Asian economic cooperation, but China's trading partners are confident about the stability of both the RMB yuan and China's economy. In other words, BSAs have promoted both the use of the RMB yuan and the status of China in the East Asian regional finance and trade.

In addition to the BSAs, the multilateral AMF is another developing issue under the CMI principle that promotes China's influence on the East Asian monetary cooperation. The AMF is a developing monetary construction designed to further strengthen financial cooperation and to promote financial mutual reliance and mutual support according to the CMI spirit. Learned from the balance-of-payments problems of 1997-98 in Asia, financial mutual reliance demanded by countries of APT mainly requires members' economies to support each other when any of them meets liquidity difficulties. In the past, it used to be that currency exchange agreements always were mediated by the US dollar, and loans in the agreements were considered as the only channel for unilateral exchange, so the effect on dealing with financial problems was very limited. Under this arrangement, countries in urgent need of financial support could only have 10 percent of their needs for their immediate

short-term capital, with the remaining 90 percent supported by international organizations, especially the International Monetary Fund. However, these rescue programs caused countries to be exposed to speculation and other economic risks. To maintain financial stability in the East Asian region, countries therefore have to look after each other.

In May 2008, finance ministers from the APT countries agreed to establish an US\$80 billion emergency fund; later, in February 2009, this was increased to US\$120 billion, for countries low on foreign-exchange reserves. This was a huge step in building the AMF, in which both China³ and Japan will contribute 32 percent, or US\$38.4 billion each for the US\$120 billion pool, and 16 percent, or US\$19.2 billion, will be contributed by South Korea, with the remaining 20 percent, or US\$24 billion, picked up by the 10 members of ASEAN. This arrangement indicates how far China has come since the beginning of its charm offensive during the Asian crisis one decade ago. The atmosphere of China's rise and the consequent eclipsing of the Japanese influence on the regional economic cooperation are simultaneously on display, not to mention the absence of the U.S. Compared to the other regional institutions China had joined earlier, like the Asia Pacific Economic Cooperation (APEC) and the Asian Development Bank, China's presence, as well as its potential voting weight, as a ratio of that of other powers, especially the U.S.'s and Japan's, has increased from under a half to near parity, according to the AMF arrangement.

B. Integration with the ASEAN

Signed in December 2004 and scheduled from July 2005, the China-ASEAN Free Trade Area (CAFTA) will be completely operative in 2010. According to a report from the ASEAN (2005), the region covering the CAFTA will be a market with 1.7 billion consumers, a regional Gross Domestic Product (GDP) of about US\$2 trillion, and total trade of around US\$1.23 trillion. In terms of population size, the CAFTA will become the biggest FTA in the world. In fact, trade between China and ASEAN has risen at a dramatic pace since 2000; the total China-ASEAN trade has grown almost five times from 2000 to 2008 as illustrated in Table 1 below. This index also is a symbol signifying a growing economic interdependence of China with ASEAN.

³ US\$34.2b will be from the Chinese mainland and US\$4.2b from Hong Kong, China.

Table 1*China-ASEAN Total Trade during 2000-2008 (in US \$ billions)*

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total Trade	39.5	41.6	42.8	55.2	89	113	140.9	171.1	192.5
Growth	5.3%	2.9%	29.0%	61.2%	27.0%	24.5%	21.4%	12.5%	

Source: 2000-2003 ASEAN Trade Statistics Database; 2004-2008 collected by the Author

In addition, the implementation of the Early Harvest Programme of the CAFTA since January 2004 and the implementation of the tariff reduction programme under the normal track of the TIG Agreement since mid-2005 have also greatly propelled the growth of the size of China-ASEAN total trade. While comparing with other trading partners, the share of total ASEAN trade with China has grown from 2.1 percent in 1994 to 11.3 percent in 2008, making China the 3rd largest trading partner of ASEAN after Japan (12.4%) and the European Union (11.8%) (ASEAN, 2009). It is also expected that the size of China-ASEAN total trade will further grow with the complete operation of the CAFTA in 2010.

The domination of the top exports from ASEAN to China includes fats/oils, rubber, lubricants/fuels/oil, organic chemicals, plastics, electrical equipment, and computers/machinery. Obviously, many of these products are raw materials and intermediate goods to China's exports to other global markets. A scenario also can be expected that the process of China's economic expansion, with the CAFTA in place, will encourage more imports, especially ASEAN's plentiful raw materials, from the ASEAN area for China's use, in production for the rapid improvement of its income and standard of living.

This developing closer trade relationship also introduces another topic of the security issue. Through years of reform and open policies, China has realized that its national interests have been increasingly well incubated by integrating itself into the regional and global markets and by following the rules of the international institutions. In addition, the health of China's relationship with ASEAN gives China an opportunity not only to play a more important role in the game ruled by the traditional U.S.-Japan alliance in East Asia, but also to aggressively institutionalize its own rules and interests through the economic integration process. Apparently, Beijing is becoming interested in building a regional security mechanism because they are aware that, without security cooperation, economic and political cooperation based solely on the CAFTA can only go so far. Institutionalizing an "East Asia Security Committee" accordingly has been recommended via consultations and dialogues on

regional security (Zhang, 2001). Although the context of China's regional security institutionalization is not the main topic of this paper and will not be mentioned in detail, its primary strategy should still be understood.

It is clear that the arrangement of the CAFTA has enhanced China's influence on the East Asian region. Following the gradual institutionalization of China's economic cooperation with ASEAN, this influence also implies the dilution of U.S. strategic unilateralism in East Asia, especially as the U.S. faces the current economic turmoil. This economic security issue has been expanded to other security concerns during the process of economic cooperation and integration. By this arrangement, a friendlier environment also has been created through the CAFTA initiative. Attached to the Shanghai Co-operation Organization (SCO) in China's northwest, the improvement of China's southwest relations with India, and China's intention to set up an FTA in its two northeast neighbors—Japan and Korea, a multilateral safety cushion around China has been constructed in order to compete with potential U.S. unilateralism in East Asia. Once these regional structures are institutionalized and favorable consensuses are formed, this China-led security regime may serve as collective constraints on potential “trouble-makers.” Taiwan, from China's view, is one of those targets (Lijun, 2003). Therefore, the CAFTA stands for the initial step not only to assure China's regional security but also to employ its strategy blueprint.

C. Leading the Boao Forum for Asia

The Boao Forum for Asia (BFA) is an international institution committed to promoting regional economic integration and to assisting regional countries' development in Asia. According to its website, the BFA signals itself as a non-government, non-profit international organization located at the southernmost part of China – Boao, which has since become the permanent site of the Annual Conference of the Forum since 2002 (Profile of the BFA, 2009). In addition, even though the BFA was initiated in 1998 by Fidel V. Ramos, former President of the Philippines; Bob Hawke, former Prime Minister of Australia; and Morihiro Hosokawa, former Prime Minister of Japan, the Declaration of the BFA indicating that the BFA is established under the laws of the People's Republic of China marks China's dominant influence on the forum (Declaration of the BFA, 2009).

Memberships in the BFA include two categories: Full Membership and Partial Membership (Charter of the BFA, 2009). The former comprises 26 initial Asian countries, prominent public figures, and non-profit organizations, as well as individuals, corporations, and organizations that have made considerable contributions to the establishment of BFA or have been approved for participation in all BFA events. For instance, in 2008, the attendance of Taiwan's Vice

President-elect, Vincent Siew, in the capacity as the chairman of the Cross-strait Common Market Fund, which is a founding delegate of the forum from 2001, in 2008's annual conference, is a good example demonstrating BFA's diverse representatives from different areas. This capacity not only defends China's sovereignty covering Taiwan but it also defines Beijing's perspective on solidarity and cooperation with other Asian states/governments. The latter consists of other individuals, corporations, and organizations whose applications have been approved for participation in BFA annual conferences and other events. For example, former U.S. President George W. Bush was offered partial membership for giving a keynote speech entitled "The U.S., Asia and the Future" at a dinner session in Boao in the 2009 annual conference. From this viewpoint, the BFA's annual conferences held every April have helped expand China's diplomatic presence, enhanced its regional and global influence, and played a key role in promoting China's propaganda missions on foreign policy.

In the 2009 annual conference, a speech entitled "Expanding Economic Cooperation in Asia, Helping the Global Get Rid of Crises" given by Zheng Xinli (2009), Executive Vice Chairman of China Center for International Economic Exchanges, predicted an inevitable historical trend of the depreciation of the US dollar. Therefore, RMB yuan, based on the CMI, would be recommended as one of the three major currencies—together with U.S. dollar and the Euro—to stabilize the future global currency system, especially in Asia. For property and development of Asian countries, he further advocated establishing the Asian Infrastructure Investment Bank and Asian Agriculture Investment Bank which would invest in Asia's future rather than buying U.S. Treasury Bonds which actually bear exchange rate risks.

By this acknowledgement, Chinese Premier, Wen Jiabao, subsequently delivered the keynote speech "Strengthen Confidence and Deepen Cooperation for Win-Win Progress" at the same conference, which announced China's decision to set up a US\$10b "China-ASEAN Fund on Investment Cooperation" and to extend loans to ASEAN countries in order to support infrastructure development in the Asian region. Wen also vowed to "advance reform of the international financial system, increase the representation and voice of emerging markets and developing countries, strengthen surveillance of the macroeconomic policies of major reserve currency issuing economies, and develop a more diversified international monetary system," while introducing China's steps to cope with the impacts of the global financial crisis and its initial paying-off result of the stimulus package (Xinhua, 2009).

Of course, Wen again finalized his conference speech by reemphasizing the enhancement of Asian countries' collaboration and coordination in global affairs and the promotion of world peace, stability, and prosperity. However, since the ASEAN

summit scheduled at mid-December 2008 was mulled by the political turmoil in Thailand, Asian leaders lost a key chance to discuss a prescription for the financial crisis. The BFA held in China in April 2009, as well as Wen's plan of a US\$10b ASEAN fund, as a result, has nonetheless contributed an important platform and vital resources to regional countries to emulate the Chinese model in tackling the worst global economic turmoil since the Great Depression.

This operation of the BFA soundly highlights the evidences of China's rising leadership of Asian development and the cooperation among the regional countries. This developing process has also contributed to the Asian path to regional economic integration, which is greatly led by China. Taiwan, in this evolutionary system, has then been propelled to different trajectories of adjustment, and the next chapter will address this issue further.

IV. Scenarios of Taiwan Tied to a China-Led Economic Integration Process in East Asia

Different perspectives give rise to different scenarios. The globalization schools of skepticism, hyperglobalism, and transformationalism project the Taiwanese government into a national welfare state based on, respectively, economic nationalism, competition state on extreme-liberalism, and structural competition-state on mild-liberalism in three different scenarios tied to the East Asian integration and cooperation. Therefore, these three scenarios will be explored in terms of key dynamics, states' roles, and possible developments.

A. Economic Nationalism—A National Welfare State of Taiwan

The skeptics still view the state as the main actor in the trend of globalization, so their perspective can be identified as economic nationalism (or mercantilism).

a. Key Dynamics

Economic nationalism emerged in the 17th and 18th centuries as theories related to the relationship between economic activity and state capacity. The literature of economic nationalism was large and varied, but this school generally adhered to three central propositions with regard to its key dynamics (Oatley, 2008, p. 8). First, the classic economic nationalists argued that state capacity and wealth were tightly connected. State capacity in the Westphalian state system was derived in large part from wealth. Wealth, in turn, was required to accumulate resources and power. Second, classic economic nationalists contended that trade provided one way for states to acquire wealth from abroad. However, this requires the state to achieve a positive balance of trade; in other words, wealth was produced while the state sold

more goods to foreigners than it purchased from foreigners. Third, classic economic nationalists also believed that some types of economic activities were more valuable than others. In particular, economic nationalists were convinced that manufacturing activities should be promoted, whereas agriculture and other non-manufacturing activities should be discouraged. Hence, the state must play a dominant role not only in the growth of national economy but also in the upgrade of national economic performance.

Today's economic nationalism, then, applies the following three propositions while confronting contemporary globalization (O'Brien & Williams, 2007: 17). First, economic strength is a critical component of state capacity. Second, trade is to be appreciated for exports, and, hence, whenever possible, states should discourage imports. Third, some forms of economic activities are more valuable than others. Therefore, a state's current approach for development is that information-technology industries are becoming the first priority over mature manufacturing industries, and the latter is still preferable to the production of agricultural and other primary commodities.

b. The State's Role

The emphasis on national wealth as a critical component of state capacity, the maintenance of a positive balance of trade, and the priority of types of economic activity for development introduce economic nationalists to a world where the state should play a large role in determining how society's resources are allocated for the enhancement of national welfare. The market is only an uncoordinated process that is unable to efficiently allocate resources and will therefore damage economic development. This uncoordinated process relying mostly on the market can cause inappropriate economic activity. Industries and technologies that may be desirable from the perspective of state capacity might be neglected, whereas industries that do little to strengthen the nation in the global arena may flourish. Consequently, the state might meet difficulty and adversity in maintaining a positive balance of trade, but it also might allow itself to be dependent upon other countries for critical technologies that in turn will hurt its national wealth. This concludes that the state must play a large role in its own economic development for ensuring that resources in its territory are appropriately used. Sovereignty, in this case, is still preserved in the dominant position that ensures states' pursuit of competitiveness in the global arena (Krasner, 1988, pp. 89-90). In a word, all of these policies for tackling globalization are used to channel resources towards those activities that promote and protect the national interest and welfare, as well as away from those that fail to do so.

c. Possible Developments— A National Welfare State Emphasizing Sovereignty while Protecting the National Welfare System

From the perspective of economic nationalism, the Taiwanese government would adopt policies to retain its state capacity and national power as high priority while incrementally globalizing. These processes indicate that the Taiwanese government cannot surrender key areas of sovereignty to market forces; rather, the government must fertilize its state capacity for protecting its sovereignty, for example, by preventing or restricting population and currency flows. While states have encouraged some trends, such as increased flows of foreign investment and trade, the Taiwanese government also must display its capacity to impose restrictions on these flows, especially those of outward investment. These policies also ensure the improvement of national welfare for the whole country. The possible developments of economic nationalism can therefore be described as a national welfare state that underlines a national welfare system which must be enjoyed exclusively by its subjects and protected legally by sovereignty. For example, the vision of “Green Silicon Island” (GSI) can be a product in this scenario as well as future developments of the Taiwanese government concerning economic nationalism.

The vision of a GSI of Taiwan used to an implementing policy of the former ruling DPP government. Since the 1990s, mostly due to accelerated globalization, the Taiwanese economy has been restructured by the rapid growth of scientific, information technology, and service industries as well as the relative decline of traditional agricultural and manufacturing industries. Hence, the former Chen administration in 2000 announced a plan to develop Taiwan into a “Green Silicon Island” to maintain Taiwan’s economic miracle and state capacity under the trend of globalization, thereby ensuring a balance between national economic developments, its access to a globalizing market, and sovereign conservation (Council for Economic Planning and Development, 2007). Three major notions composed the project, including the need to promote a knowledge-based economy, to constitute a social welfare state based on a just society, and to maintain a sustainable development. Subsequently, this plan was implemented by the following seven principles: (1) increasing knowledge to upgrade the economic structure, (2) using resources effectively to attract talented professionals, (3) prioritizing environmental protection for a sustainable development, (4) upholding social justice to establish a national welfare system, (5) balancing regional development, (6) promoting cooperation between the internal community and global community, and (7) strengthening the economy and trade with developed countries. In addition, together, these principles compiled economic and political strategies to break through China’s block on Taiwan’s participation in international organizations. Therefore, these vital

economic and political strategies of the GSI plan will be addressed further.

Economically, the Taiwanese government has adopted policies not only for attracting more foreign direct investment in the information-technology industry but also for restricting outward investment, particularly in China. China, in the global arena, has been viewed as a rising economic competitor and, more importantly, a political threat to the Taiwanese sovereignty. As a result, Taiwan's China policies, economic openness, and integration was considered under the condition of supporting national sovereignty and interests in terms of the economic nationalist perspective, for this support could ensure and create state revenues and a capacity for the development of national wealth as well as the sovereignty that sustained the national welfare system. Hence, government intervention was necessary.

For example, even though the former Chen administration was under severe pressure from the opposition, from Taiwan's entrepreneurs, and from other foreign multinational corporations, the ongoing row over the implementation of three links—direct trade, air, and shipping links with China—showed that the former Taiwanese government was very reluctant to take any substantive step towards Beijing. In other words, DPP's economic nationalist approach resulted in the ban on the “three links” with China since these direct links would encourage Taiwanese China-bound investment. This encouragement might undermine the national wealth, governmental revenues, and state capacity, all of which eventually would cause great damage to the foundation of Taiwan's welfare system. Furthermore, another China-bound investment policy—“Active Opening, Effective Management”—was also created under the plan of GSI. In the concept of “Active Opening, Effective Management,” all China-bound investment beyond government's permissible categories and valued over US\$20 million was restricted, especially the backbone of Taiwan's high-tech industry, the semiconductor. Consequently, the previous Cross-Strait economic integration has been slowed down by the GSI plan.

Politically, the maintenance of national sovereignty and independence in a period of accelerated globalization was another priority under the plan of GSI. The idea to maintain Taiwanese sovereignty was also based on the discourse of a Taiwanese national welfare state, which was a long process of awareness, organization, education, research, and propaganda while being globalized, because the ROC regime had too many Cold War hues that met with difficulties in building a healthy national welfare state, especially in its confusing subject and territory (Lin, 2004). The GSI plan as well as the DPP government believed that Taiwan and China were “two countries on each side (of the Taiwan Strait),” indicating its “one China, one Taiwan” approach different from KMT's “two-China” idea and PRC's “one-China” formula (Taiwan News, 2002). This approach also articulated the

former Chen administration's uncompromising sentence on Taiwanese sovereignty as not only *de facto* but also *de jure*. Therefore, in order to distinguish Taiwanese from Chinese for the subject of Taiwan's national welfare system and to resolve the historical mismatch between the ROC's *de jure* jurisdiction (China) and its *de facto* one (Taiwan) for the clarification of the system's implementing area, the government's goals were to abolish the ROC regime and to establish an independent Republic of Taiwan (ROT). For example, while joining global cooperation and international organizations, the government hesitated to adopt some terms related to "China" or "Chinese" in its representative titles, since these terms, internationally, would confuse the global community and, domestically, might have less effectiveness for long-term sustainability of Taiwan's national welfare system. Consequently, not only has a national welfare state been developing, but the subject of the national welfare system was also clarified.

In terms of national identity, such a national welfare state based on economic nationalism meant that the former DPP government would encourage the birth of a Taiwanese nation that was attached with a closed door for any vision of China (Schubert, 2004). The objective of economic nationalism would then be to arouse greater Taiwanese national identity that marginalized anything Chinese in favor of an emphasis on Taiwan's specific social security, political system, economic strength, and the multiethnic culture of the Taiwanese before being acknowledged as a "normal" independent state, ROT. Fundamentally, this required maintaining the operation of Taiwanese sovereignty to protect its achievement as a national welfare state in the global community. In other words, economic nationalism was considered to be a necessary approach to assure the existence of the Taiwanese government's sovereignty that accordingly guaranteed the ongoing and independent healthy operation of Taiwan's own national welfare system.

In addition, largely because of China's rise as another economic nationalism country in a globalizing context, the economic nationalist developments in the global arena are, therefore, perceived in zero-sum terms; that is, the gain of one party necessitates a loss for another party. Therefore, the scenarios are perceived to be in conflicting structures tied the future of globalization.

B. Liberalism—A Competition State or a Structural Competition-State of Taiwan

With more and more interactions in the development of globalization, the concepts of states have been re-defined. Extreme-liberalists, on the one hand, welcome the demise of sovereign states and celebrate the coming of a single global market. Therefore, a process of denationalization in globalization can be situated in this school's thinking, and the future of Taiwan as a model of a competition state will

be that of another Hong Kong. On the other hand, from the mild-liberalists' viewpoint, sovereign states have been transformed by adapting themselves to a set of globalizing conditions. As a result, sovereign states in globalization have become one of several actors in the neo-liberal economy, and the idea of a structural competition-state is their scenario of a future Taiwan as tied to the trend of the growing China-led integration in the East Asian region.

a. Key Dynamics

The liberalism viewpoint was born in Britain during the 18th century to challenge the dominance of economic nationalism in state rules (Oatley, 2008, pp. 8-9). First, a strong line between politics and economics was drawn by liberalists to support their argument that the main purpose of economic activity was not to expand the state capacity and wealth, but rather to benefit individuals. Second, liberalism contended that maintaining trade surpluses actually did not enrich states. Instead, states eventually could benefit from trade regardless of whether the balance of trade was positive or negative. Finally, producing manufactured goods rather than primary commodities was unable to ensure that states would be made wealthier. Instead, from the liberalist perspective, states' wealth could be efficiently accumulated by making products that they could produce at a relatively low cost at home and by trading them for goods that could be produced at home only at a relatively high cost. From these viewpoints, states should make as little effort as possible to influence their trade balance and to structure their economy activity, because the main dynamics were the markets rather than the state's wealth. Government efforts to allocate resources would only diminish a nation's welfare.

b. The State's Roles

The liberalist school favors a market-based system of resource allocation that stands against a state-intervention argument as advocated by the economic nationalists. With top priority given to the welfare of individuals, liberalists believe that societies will gain in the most efficient way only when individuals are free to make their own decisions about how to use the resources they possess. As a result, instead of adopting the economic nationalist thought in which the state plays a key role guiding the allocation of resources, liberalists conclude that a market-based transaction system between voluntary people should be built for allocating resources. Such transactions are mutually beneficial as long as the activities are voluntary. At the same time, the state plays a limited role in the processes because what the system needs from the state only is its function to establish clear rights concerning ownership of property and resources. Consequently, these judicial systems, which are created and supervised

by the state machine, can ensure the rights and the contracts that transfer ownership from one individual to another.

Sovereignty, according to the liberalist discussions, can be divided into two different topics: denationalization and interdependence sovereignty. On the one hand, some extreme-liberalists respect the power of the market, so they conclude that the sovereign state will eventually surrender sovereignty to the development of global markets (O'hame, 1995; Strange, 1996). On the other hand, mild-liberalists still recognize that governments can and should resolve market failures, so some aspects of sovereignty must be reserved for maintaining the state capacity to allocate resources to socially desirable activities (Rosenau, 2003; Dicken, 2007). Therefore, these two discussions may lead the Taiwanese government to two different scenarios: embracing the “Hong Kong Model” as a competition state or re-operating the plan of the “Asian-Pacific Regional Operations Center” as a structural competition-state.

c1. Possible Developments—A Competition State Embracing the Hong Kong Model

China is hoping that its smooth resumption of sovereignty over Hong Kong will have a positive impact in its long-standing goal of reunification with Taiwan. From the extreme-liberalists' view, Taiwan will eventually surrender its sovereignty to the Greater China market because the notions of Taiwanese sovereignty impede Taiwan's further integration into regional and global markets. In other words, surrendering Taiwan's sovereignty will soundly benefit the improvement of its competitiveness in the global arena, creating what the hyperglobalists call a competition state. Therefore, today's Hong Kong will be tomorrow's Taiwan, in which the main mission of a state is switched from providing social welfare to enhancing national competitiveness. This Hong Kong model can be explained as the formula of “one country, two systems” to use the former Chinese leader Deng Xiaoping's language.

Hong Kong as an administrative and economic entity under Chinese sovereignty adopts its unique political system as a non-sovereign state as well as a non-political entity (Rao & Wang, 2007). Since 1997, Hong Kong has become a part of China as the Special Administrative Region of China (SARC), which is under Chinese authority. Hong Kong's capitalist system is thus treated as one of two systems within the boundaries of the whole PRC territory. Actually, the statement of “one country” has precedence over the perception of “two systems.” The concept of “one country” obviously indicates the host sovereign state—China. Hence, “one country” implies the traditional “one China” policy. Only obeying the principle of “one China” can ensure that Hong Kong enjoys access to the Chinese market as well as its high degree of autonomy, and this arrangement is clearly subject to the central

authority from Beijing. Accordingly, China's sovereignty is specifically manifested in the regulations of the Basic Law of SARC.

The relationship of Hong Kong to China is hence quite clear under the Basic Law of SARC. Accordingly to a study by Rao (2006), “[c]urrently and in the future, the territory is obliged to maintain and develop its capitalist system under the premise that it is part and parcel of China, and it must do so within the framework of the ‘One Country, Two Systems’ policy, which outlines the nature of Hong Kong’s existence since its return to China in 1997” (p. 463). Hong Kong citizens then have to understand that “identification with the motherland of China, patriotic love for both the Mainland and Hong Kong, [and] close interdependence and commitment to mutually enjoy glory and bear hardship” can promote both Hong Kong’s and China’s prosperity and stability (p. 463). They, thus, together not only share the Greater China market, but also carry the responsibility of its continuing development. Within this orientation, some parts of Hong Kong’s voluntary political activities, political parties, and democratization are proscribed by its limitations. In addition, accordingly to the Basic Law, it is impossible to reject the authority from Beijing, thus putting undue emphasis on Hong Kong’s autonomy. This stance implies “a unilateral deviation from the principle of ‘One China, Two Systems,’ setting aside the former phrase in favor of the latter” (Rao, 2006, p. 463).

The arrangement of Hong Kong also signifies China’s ongoing development of its territory, because no one except Beijing can elevate Hong Kong’s status, which must be retained as a non-sovereign state and non-political entity under Chinese sovereignty, even though it has become a global center for finance, trade, and shipping. The compensation to placate Hong Kong’s dissatisfaction with its decreased political autonomy and the stimulation to propel Hong Kong’s further sinonization are its franchise access to an expanding Chinese market, especially the agreement of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA).

CEPA is the first trade agreement signed by China and Hong Kong in June 2003. By applying a building block approach to the agreement, CEPA ensures that the two trade partners work more closely to maintain a continual introduction of further liberalization measures. These liberalization adoptions, mainly covering areas such as trade-in-goods, trade-in-services, and the Individual Visit Scheme, accordingly significantly expanded Hong Kong’s already close economic integration and cooperation with China. For example, CEPA legally provides both local and foreign companies that are established in Hong Kong an exclusive window of opportunity to get access to the growing Chinese market, so that Hong Kong can successfully serve as a springboard to integrate the Chinese market within the global market (Hong

Kong Trade and Industry Department, 2008).

According to a study from the Hong Kong Administration on the initial impact of the first three phases of CEPA⁴ on the Hong Kong economy (Legislative Council Panel on Commerce and Industry, 2006), Hong Kong's net additional capital investment for trade-in-goods has been increased by CEPA from the amount of US\$13.3 million in 2005 to around US\$30.8 million in 2007. Until the end of April 2007, 22,429 CEPA certificates of origin have been issued, equal to over US\$1 billion worth of tariff-free treatment on importation into the Chinese market. As for trade-in-services, CEPA has induced additional capital investment in 2004 at US\$129 million, in 2005 at US\$270.9 million, and in 2006 at US\$219.3 million, representing the cumulative amount between 2004-2006 equal to US\$619.2 million. As for the Individual Visit Scheme, by the end of 2006, 44 Chinese cities have implemented the agreement, enabling Chinese residents to make more than 17.2 million trips to Hong Kong under the Scheme. This number accounted for 39.4% of all 43.6 million trips made by Chinese visitors to Hong Kong, increased from 28% in 2004. Also, Chinese visitors under the Scheme have contributed an additional tourist spending of US\$3 billion between 2004-2006 mostly to Hong Kong's retail sector, hotel accommodation, and restaurants. The study also showed about 35,000 new jobs have been created in Hong Kong between 2004-2006. Besides, Hong Kong's GDP has reverted from (-0.7)% in the second quarter of 2003 to 4.0% in the third quarter 2003 and 4.8% in the fourth quarter 2003, and increased further to annual growth of 8.6% in 2004, 7.5% in 2005, 6.9% in 2006, and 6.3% in 2007, before the financial crisis in 2008. Although these rebounds might not be totally attributable to CEPA, it played a key factor in boosting confidence in Hong Kong's economy to start an early recovery. As a result, Hong Kong's "One Country, Two Systems" model not only as a competition state but also as a non-sovereign and non-political entity benefits a good deal from China's continuing process of economic liberalization and growing market.

From the viewpoint of extreme-liberalism, a healthy competition state such as the Hong Kong model proves the potent force of the market. It also shows that notions of sovereignty will become out of date and less able to deal with the dangers and opportunities in the trend of globalization. On the contrary, a state without sovereignty can enjoy flexibility in the pursuit of national competitiveness as tied to the future of globalization. In this regard, the question of how to maintain Taiwanese sovereignty and to enhance the government's state autonomy has been replaced by how to improve national competitiveness by healthily integrating the

⁴ The first three phases of CEPA respectively refer to the CEPA put into effect in January 2004, the Supplement to the CEPA in January 2005, and the Supplement II to the CEPA in January 2006.

domestic market with the regional market and, further, with the global market. That is, Taiwan's national independence, absolute sovereignty, national interest, and even the Taiwanese national identity will be gradually surrendered to the emergence of a large Greater China market. The scenario of the Taiwanese government, from the perspective of the extreme-liberalists, is a healthy competition state that imitates Hong Kong in embracing the Chinese market without the operation of sovereignty, and the lesson of national identity will be, like today's Hong Kong, how to be a Chinese rather than how to cultivate the concept of what it means to be Taiwanese. These developments also indicate that market relations will lead to positive outcomes for all, so that the political and economic structure is essentially cooperative. In a word, the future developments of extreme-liberalism will be positive-sum.

c2. Possible Developments—A Structural Competition-State by Re-launching the Asian-Pacific Regional Operations Center Project

The dynamics of globalization, however, involve both integration and fragmentation. As a quasi-independent state surviving under international power politics, Taiwan not only is forced by globalization to transform itself for integration with the Chinese and ASEAN markets, but it is also still structured both by, internationally, other traditional powers' strategic arrangement and by, domestically, its eager desire to expand Taiwan's international space. For example, even while Taiwan enthusiastically displays its qualified competence to contribute to global and/or regional cooperation and integration, its ability to contribute still has to be acknowledged and then permitted by international powers, especially the U.S. and China. Therefore, as Hong Kong's competition state model seems to put excessive emphasis on globalization's integration dynamics, so does DPP's national welfare state places an emphasis on fragmentation. These two models hence are too impractical for Taiwan to be implemented. As a result, this paper creates a structural competition-state by adapting to globalization's diverse dynamics, especially integration and fragmentation, that is well-suited for Taiwan's special status in the global arena. While the arena in East Asia is being institutionalized by China, Taiwan's former strategic project, the Asian-Pacific Regional Operations Center (APROC), can be a good example to reflect its possible developments.

The APROC had been proposed in the middle of the 1990s as the Taiwanese government's response to globalization. However, this plan had been suspended since 2000 because of increasing political and economic conflicts in Cross-Strait relations which pressured Taiwan to adopt economic nationalism. In fact, the APROC plan was essentially a globalization product instituted in hopes of resolving the questions of Taiwanese sovereignty and access to other global markets, especially

the Chinese and ASEAN markets, at the same time. For example, while some political and economic negotiations debated the name of the Taiwanese government, the government accepted varied flexible names,⁵ including the ROC, Chinese Taipei, T.P.K.M., Taiwan, and so on, in order to integrate further with international organizations and attain global cooperation. Hence, while the term “sovereignty” had been analyzed according to Krasner’s identification (1999), the Taiwanese government on the APROC plan focused more on the maintenance of domestic sovereignty (authority within the state) and interdependent sovereignty (governments controlling the flow of information) rather than international legal sovereignty (based on mutual recognition) and Westphalian sovereignty (the traditional principle of non-interference). In this respect, globalization was conceived as a powerful transformative force that was responsible for a more feasible mechanism of politics, societies, and economies of global governance and world order.

The primary goal of mild-liberalism was to integrate Taiwan with other growing global markets. To achieve this goal, the Taiwanese government had launched the APROC project in 1993 as a means of maintaining economic vitality and perpetuating the national imagery of the “Taiwan Miracle.” These approaches also promoted the political propaganda that the ROC government was still operating in Taiwan, namely “ROC on Taiwan.” According to the official blueprint drawn up by the Taiwanese government, the goals of the APROC plan were to build Taiwan into the following six centers for the Asia-Pacific region: a manufacturing center, a sea transportation center, an airport transportation center, a financial center, a telecommunication center, and a media center (The APROC Website, viewed in 2009). These goals had been pursued through policy- and law making, infrastructure construction, and institutional adjustments. In addition, to compensate for its diplomatic frustrations, the Taiwanese government had deliberately sought to engage with global communities, largely through global economic exchange, in which interlocking trade and investment relationships with other countries, although sometimes via the agency of multinational corporations, acted as an alternative or replacement for formal diplomatic relationships. The circulation of global flows of information, capital, commodities, people, culture, and symbolic images from Taiwan, in turn, had been propelled by this transformation of Taiwan’s state machine. As a result, Taiwan had accelerated the pace of its engagement in globalization while this transformation had been accomplished, to a certain extent, through an active agency of a re-defined state by a flexible meaning of sovereignty.

Moreover, this mild-liberalist approach also believed that Taiwan’s future

⁵ The only two titles that could not be accepted were “China, Taipei” and “China, Taiwan” because these titles were similar to the status quo of Hong Kong.

well-being as an interdependent state, either under the name of ROC (believed by the KMT party) or Taiwan (believed by the DPP party), hinged to a great extent upon its embeddedness in the global economy, and hence, globalization had become part of a consensus shared by both the ruling and opposition parties (Wang, 2000). With the persistent and growing political and economic threat from the PRC, Taiwan had become even more invested in a globalizing agenda. Therefore, voices from different liberalist and nationalist stances converged to agree that Taiwan's security could be enhanced, at least to some extent, as long as its processes of globalization were unceasingly pursued, although the two schools had different measures. From the mild-liberalist school perspective, Taiwan's compromise on some parts of its sovereignty for globalization would ensure the country's survival in the global arena. They stressed the growing interdependent relationships between Taiwan and global communities in that, if anything had happened to Taiwan, not only would China damage itself, but other international powers would intervene, at least in an attempt to stabilize global markets in their own national interests. Consequently, a contradictory picture emerged from Taiwan's investments in globalization where liberalization was regarded as one of the best strategies to maintain its nation-like status quo as a sovereign political community under the APROC project and the propaganda of "ROC on Taiwan."

The APROC is not only a compromise between Taiwan's sovereignty and its access to global markets but it is also an assurance of the ROC regime governing Taiwan. How to update and operate the concepts of this plan are now re-discussed by the current ruling party—KMT, the founder of the ROC regime—even though still more and more threats come from the PRC. It is clear that the Ma administration is seeking to put the improvement of Cross-Strait relations as the first priority before re-launching the project. These liberalist policies, especially scheduled charter flights directly flying between Taiwan and China as well as negotiations on a MOU on financial supervisory cooperation and on an ECFA (Economic Cooperation Framework Agreement) on economic integration with China, are considered as key measures in linking Taiwan with the Chinese market, by which Taiwan will not be marginalized from the APT market. Under this arrangement, the APROC's spirit, interdependence, can be established as well. However, structured by other international powers and Taiwan's internal developing nationalism, the Ma administration also is attempting to lever improved Cross-Strait relations to expand Taiwan's international space for satisfying structural conditions. These conditions are mixed by the dynamics of globalization, not only laying stress on national competitiveness emphasized by liberalism, but also paying attention to Taiwan's nationalist desire of suiting itself in the global community. Therefore, the

consequences tied to Taiwan's future of globalization will be a reflection of a structural competition-state with a multilevel national identity based on the Taiwanese identity. At the same time, although mild-liberalism views the developments of Taiwan's globalization as essentially cooperative due to its more flexible approaches, these phenomena will still be in tension with cooperation and embeddedness.

Identifying these critical issues in the debate creates an intellectual foundation for thinking about how a sovereign state will respond to the trend of globalization. Therefore, the above three possible developments of the Taiwanese government tied to the future of East Asia's integration are summarized again in Figure 1.

Figure 1. Scenarios of the Taiwanese government tied to the future of globalization

Tendencies of Globalization	Skepticism	Hyperglobalism	Transformationalism
Embarkation	Economic nationalism, mercantilism	Extreme liberalism, neo-liberalism	Mild liberalism, hybridization of nationalism and liberalism
Variants	Realism, mercantilism	Free trade, de-territorialism, denationalization	Free trade, interdependence
Level	State-centric	Pluralist	Pluralist
Units	States	Firms, states, NGOs	Firms, states, NGOs
Importance of national sovereignty	Reinforced or enhanced	Declining or eroding	Reconstituted or restructured
Driving forces of globalization	States	Market	Combined forces of modernity
System structure	Conflict	Cooperation	Cooperation with tensions
Game metaphor	Zero-sum	Positive-sum	Uncertainty
Summary argument	Internationalization depends on state acquiescence and support	The end of the sovereign nation-state	Globalization transforming state power and world politics

Tendencies of Globalization	Skepticism	Hyperglobalism	Transformationalism
Typification of state type for Taiwan	National welfare state	Pure competition state	Structural competition-state
Main academic supports in the Taiwanese case	Neo-statists	Rising-China advocates	A developing voice
Main political supports in the Taiwanese case	The DPP party	The PRC government	The KMT party
Possible developments of Taiwan	Focusing on enhancement of social welfare by addressing the importance of Taiwan's independence and sovereignty	Embracing the Hong Kong model that is a pure competition state emphasizing the improvement in national competitiveness	Re-operating the plan of the APROC that hybridizes the philosophy of economic nationalism and neo-liberalism
Tendencies of national identity in Taiwan	Towards exclusively the Taiwanese identity	Towards increasingly the Chinese identity	Multilevel identity based on the Taiwanese identity
Weaknesses in explanations	Ignoring the factor of an increasingly important role of the Chinese government in global and regional integration processes	Weak in explaining the fact that national building and globalization are actually heading towards the same directions	A developing model lacking sufficient case studies

Source: Created by Yi-Chun Lin

V. Conclusion

The current financial crisis gives China a valuable opportunity to enlarge its influence on the process and content of East Asian economic integration, and the traditional powers in this trend are facing increasing challenges from the growing China-led institutionalization in the region. This character of Asia's globalization highlights the ways in which Taiwan is greatly impacted.

As an anomaly in terms of its ambiguous international status, Taiwan's case is so idiosyncratic as to defy generalization. Taiwan seems to contradict common speculations that globalization will eventually lead to the waning significance of nation-states and/or nationalism. However, by virtue of being an anomaly, Taiwan sheds new light on the theoretical interpretation of the skeptics, who assert states' growing importance with more rules from governance mechanisms and with active promotion of globalization. In Taiwan's case, certain forms of globalization have been seen as various dynamics, strengthening aspirations for the pursuit of statehood and nationhood. While associated with its economic nationalist policies, especially the GSI plan, Taiwan will be led to a "Taiwanization" national welfare state with greater Taiwanese national identity in favor of an emphasis on ROT's state building to protect its national welfare system in the global community. Unfortunately, this developing project will inevitably run into a head-on collision with another economic nationalism—that of China —, putting the security and well-being of people in Taiwan at grave risk.

China, on the other hand, is using its large and rising market to recover its national glory, especially after its incredible recovery from the current global economic recession. Ironically, during China's globalizing process, Hong Kong was seen as a template from the hyperglobalist perspective to tackle the new dangers and opportunities of globalization. This Hong Kong model—the formula of "one country, two systems"—allows Hong Kong, as a non-sovereign state and non-political entity, to enjoy every global market, especially the Greater China market. Therefore, from the extreme-liberalist speculations about globalization, the market is proven to hold potent and positive forces, which encourage a competition state to develop. A state pursuing competitiveness instead of protecting sovereignty can benefit more from the global market because its flexibility fits the new phenomena of globalization. In this regard, Taiwan's pursuit of independence, sovereignty, national interest, and the Taiwanese national identity is out-of-date in the era of globalization. And, eventually, those dated notions will be surrendered to the Greater China market because they hinder Taiwan from further regional and global integration. In a word, the extreme-liberalist school sees a Taiwan tied to the future of globalization like

another Hong Kong: a competition state embracing the China market without the operation of sovereignty and re-learning how to be Chinese rather than how to cultivate the concept of what it means to be Taiwanese.

Meanwhile, the liberal school also has another viewpoint forecasting Taiwan's development as tied to future globalization. Mild-liberalists recognize that some notions of sovereignty must be preserved and transformed in order to adapt to a hybridized feature of the globalizing epoch in which states have deeper interdependent relations. States, therefore, not only have to fertilize their own national competitiveness for further integration, but they also need to take care of the dynamics of fragmentation that is reciprocally created by the pressures of globalization. As a result, a structural competition-state is forged by the multi-dynamics of globalization. In Taiwan's case, its APROC project is seen as typical of a structural competition-state that becomes the only way to maintain Taiwan's further globalization and regionalization aspirations. From the viewpoint of mild-liberalism, Taiwan's unceasing investment in a globalizing agenda can assure its status quo and even enhance its security, even while facing a growing political and economic threat from the PRC. In other words, due to the idea of interdependence in the concept of globalization, if Cross-Strait relations were to become worse, other powers would intervene in order to resolve global market failures for their own national interests. Paradoxically, this transformed liberalization, hybridized with nationalism, is proposed as the best strategy for preserving Taiwan's current nation-like or quasi-nation status quo. While adopting the propaganda of "ROC on Taiwan" under the APROC project, Taiwan's compromise of its sovereignty in order to be a structural competition-state will usher in a future of globalization in a portrait of a multilevel national-identity based on the Taiwanese identity. However, these flexible approaches still are filled with a lot of uncertainty in the future of globalization.

By intensifying the interactions among actors of the economic integration process in East Asia, the dynamics of globalization have escalated Taiwan's recent call for the re-identification and redefinition of "state" according to its involvement in the globalization process. Therefore, globalization has re-emphasized and re-structured the practice of sovereignty, statehood, nationhood, and national identity. In addition, the international big powers obviously possess relatively more capacity to influence the directions of globalization, like China in the East Asian economic integration and cooperation. During this development, Taiwan is providing compelling evidence for the need in the academic field to re-conceptualize the relationship between the process of globalization, the evolution of power politics, and the transformation of state sovereignty and capacity.

Last but not least, this paper also introduces an important topic that requires students of globalization theories to further study the process and contribute to our understanding. The gap between the theories of globalization and case studies of state typification that explains states' various responses to different conditions of globalization in different areas is due mostly to the lack of hybridizing the concepts of economic nationalism and neo-liberalism or to an inclined analytic approach. Instead of easily privileging nationalism over liberalism, or vice versa, the interrelations between the dynamics of globalization and the responses of states still need to be explored. In order to incite more positive power of the dynamics of globalization, students of globalization theories should link or create more common interests between global governance institutions and states. And so it is for the solution to how Taiwan can positively face a China-led regional integration and cooperation in East Asia.

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