



THE POLITICS OF POLITICAL POLARIZATION: TAIWAN IN COMPARATIVE PERSPECTIVE

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On October 17-18, 2014, the Taiwan Democracy Project held its ninth annual conference at Stanford University to examine the politics of polarization in Taiwan. Over the past year and more, Taiwan's political elite has been deadlocked over the question of deepening economic relations with the People's Republic of China. This controversial issue has led to a standoff between the executive and legislative branches, sparked a frenzy of social activism and a student occupation of the legislature, and contributed to President Ma Ying-jeou's deep unpopularity.

The conference brought together specialists from Taiwan, the U.S., and elsewhere in Asia to examine the sources and implications of this political polarization in comparative perspective. It included a special case study of the Trade in Services Agreement (TiSA) with the People's Republic of China (PRC) that triggered this past year's protests, as well as a more general overview of the politics of trade liberalization in Taiwan, prospects for Taiwan's integration into the Trans-Pacific Partnership and other regional trade agreements, and a consideration of the implications for Taiwan's long-term democratic future.

This report summarizes the key debates and findings from the conference.

Panel I. Political Polarization in Taiwan: What Is It and How Is It Changing?

The first panel introduced several explanations for the surge in polarization in Taiwan. Min-hua Huang kicked off the conference by evaluating how political polarization in Taiwan had changed over time. Huang argued that at its core, polarization in Taiwan has three key features: the office of the president has been the center of controversy, political animosity and partisan rivalry have eroded institutional trust, and partisan hostility has spilled over into broader society. It first became significant around the year 2000, at the beginning of President Chen Shui-bian's first term, and remained a feature of politics until President Ma Ying-jeou's inauguration in 2008. Polarization has

waxed and waned in response to specific events, declining again after Ma's reelection in 2012 and spiking with the Sunflower student movement in 2014. In Huang's view, the Sunflower movement represents a worrisome escalation of disruptive tactics and hostile rhetoric that threatens the rule of law, the legitimacy of democratic institutions, and the stability of Taiwan's democracy.

In a paper written with Da-chi Liao, Bo-yu Chen considered the motivations and tactics of the Sunflower movement participants. Rapid and transformative changes in information and communication technology—especially the rise of social media—have provided new tools for social mobilization. But more profoundly, by linking together communities of like-minded individuals online, they have also reshaped social identities, preferences, and propensity to participate in social movements. One consequence is that leadership and organization of these new social movements is more decentralized, and the kinds of ways that people participate in them more varied, than the traditional image of social movements as organized street protest and advocacy.

Ping-yin Kuan addressed who the Sunflower Movement participants were and what might be their underlying motivation for opposing closer trade links with China. Kuan cited a survey of movement participants that revealed most were young students, majoring in social science or humanities subjects, and disproportionately from elite universities. The fact that highly educated students view cross-Strait trade as a threat is rather puzzling, given that these students are among the best-equipped of their generation to take advantage of new opportunities from expanded trade and financial links between the two sides. Kuan offered a novel explanation: the rapid expansion of higher education. Compared to 20 years ago, a much larger share of Taiwanese high school graduates now go on to college and earn four-year degrees, which has greatly narrowed the wage advantages students at elite universities can earn once they finish, especially those who major in social science or humanities fields. These students were also the most likely to participate in the Sunflower Movement protests. This economic interest argument is consistent as well with surveys finding that opposition to cross-Strait trade agreements is correlated with both youth and education.

Mark Weatherall presented joint work with Yutzung Chang and Jack Chen-chia Wu that examined how identity affects perceptions of a threat from the People's Republic

of China. Participants were randomly assigned to one of four groups which were primed with a news item about China: one that emphasized economic opportunities for Taiwanese, one that instead emphasized threats, one that discussed both, and one that discussed neither. They were then asked two identity questions: should Taiwan be called “Taiwan” rather than the Republic of China (ROC), and is China part of the ROC? Weatherall and company found that the priming had the expected effect: Taiwan identity decreased with the opportunity prime, and increased with the threat prime; they also found that younger participants reacted more strongly to priming than older ones. Their findings suggest that changing identity in Taiwan is not the main factor driving political polarization—that identity itself is malleable and can be shaped by outside influences.

Kharis Templeman provided the formal response to the presentations. He noted that by comparative standards, Taiwan does not look particularly polarized at the mass level: public opinion surveys show continuing strong support for democratic values, for instance. And on the questions of national identity and of Taiwan’s cross-Strait political future, there is actually evidence of convergence among the public—toward a “Taiwanese” national identity, rather than Chinese or some combination, and toward retaining the political “status quo” rather than seeking outright independence or unification with the PRC. Yet at the elite level, there are clear indications of political polarization: repeated confrontations between government and opposition camps over policy, inflammatory rhetoric, and frequent breakdowns in procedure that lead to political deadlock. The divergence between elite behavior and mass attitudes suggests a need to look at other factors besides national identity and cross-Strait policy to understand the current bout of polarization. Among the possibilities suggested by the panelists were changes in Taiwan’s economy, the rise of a new and better-educated generation, and the increasing use of social media to voice criticism and build communities. He also raised two other possibilities: the role of the traditional highly partisan media in Taiwan, and the weakness or irrelevance of professional non-partisan institutions such as the courts in resolving partisan disputes.

Panel II. Political Consequences of Cross-Strait Integration

Jeff Lin and Hsin-chang Lu opened the second panel by providing an overview of economic trends in Taiwan. The main point of emphasis was Taiwan's current economic dependence on the mainland Chinese market, as a destination for both exports and investment. Taiwan's economic growth rates have declined significantly over the last decade: the economy expanded at an annual rate of 6.7 percent in the 1980s, 6.8 in 1990s, 4.6 in the 2000s, and about 2 percent in 2011-12. At the same time, Taiwan's share of exports headed to Hong Kong and mainland China have soared, while those to the US have fallen: in 1989, 11 percent of all exports went there, versus 36 percent to the US; by last year, the numbers had reversed: 40 percent versus 11 percent. Taiwan has also accumulated a large trade surplus (US \$76 billion) with Hong Kong and the mainland; larger than Taiwan's total trade surplus (\$36 billion), which means that Taiwan now actually runs a trade deficit with the rest of the world. And while official measures of income inequality remain fairly low by comparative standards, indirect indicators such as housing prices suggest that wealth inequality in Taiwan is much higher. And finally, real average salaries in Taiwan have not increased since 2001, and for the poorest 30 percent they are lower than in 1999.

Overall, the changes in the Taiwanese economy over the last decade have greatly increased economic anxiety among Taiwanese workers—concerns that clearly related to the hostility toward the proposed Trade in Services Agreement with the PRC. But Professors Lin and Lu argued that the Taiwanese economy is actually hurt more by continued restrictions on trade and investment with the mainland, and that the TiSA would lead to an economic boost. The political climate in Taiwan might be made more favorable for cross-Strait trade agreements if there was a renewed commitment to redistributive policies, particularly tax credits for low-income workers and programs to make housing more affordable.

Eric Yu presented a wealth of public opinion data on the question of Taiwan's political divides. He confirmed that on the major policy and identity questions of the day, mass public opinion is not particularly polarized. There has been a consistent trend toward an exclusively "Taiwanese" national identity and a slow decline in dual

“Taiwanese-Chinese” identity in public opinion polls over the last two decades. Conversely, on the question of relations with mainland China, support for the “status quo” has gained at the expense of either unification or independence. When respondents’ partisanship is considered, one finds a closer fit between support for a political camp and views on these two major questions. On identity, most pan-Green supporters identify exclusively as Taiwanese, but pan-Blue supporters are split, with younger respondents even in that camp significantly more likely to identify as Taiwanese as well. On cross-Strait relations, pan-Green supporters are more divided, while pan-Blue supporters generally support the status quo. Overall, then, mass public opinion has not become more polarized in recent years; rather, partisan sorting has led to more ideologically consistent bases of support in each partisan camp. It is this sorting, rather than changes in mass opinion, that appears to have contributed to the increasingly confrontational position-taking by politicians in the two camps.

Pei-shan Lee discussed the nature of the Sunflower Movement. She identified four different social cleavages that were reflected in the movement: a partisan divide between the blue and green political camps, a class divide between multinational conglomerates which have benefitted from closer trade with mainland China and small- and medium-sized enterprises (SMEs) which are more threatened by trade, a regional cleavage between urban areas which are likely to benefit from economic exchanges and rural areas which are left out by globalization, and finally a generational divide between young activists who are dogmatic about independence and hostile toward greater economic integration with the mainland, and toward free trade more generally, and older generations who take a more pragmatic view of external economic relations. The generational cleavage, in particular, appears inconsistent with previous research, which has found younger Taiwanese to be *more*, not less, pragmatic about cross-Strait relations than their elders. One possibility is that the current generation of student activists is qualitatively different, having been born after the 1996 Taiwan Strait crisis and come of age during the “high tide of native consciousness” in the mid-2000s.

Commentary on the presentations was provided by Yun-han Chu. He noted that the relationship between cross-Strait trade and income inequality in Taiwan is an important one, and deserves more systematic analysis. We do not know to what degree

inequality has been exacerbated by cross-Strait trade, or whether its effects have changed over time. Second, we might do well to consider changes in Gross National Product (GNP) in Taiwan instead of Gross Domestic Product (GDP), because of the huge number of Taiwanese who earn money in mainland China but who own assets in and live for parts of the year in Taiwan. The GNP number might indicate better overall economic performance than GDP. Chu also encouraged the presenters to consider in more detail why there has been such a dramatic increase in housing prices in Taiwanese cities, and to link it to trade with China.

Looking more specifically at the consequences of the Sunflower Movement, it is not clear what the long-term effects will be: it could be an aberration, or a fundamental turning point in Taiwan's economic relations. For instance, the objections to the Trade in Services Agreement could lead to difficulties negotiating free trade agreements with other countries. The emergence of the Sunflower Movement might also indicate that Taiwan has hit a "saturation point" with respect to integration with the mainland—that many Taiwanese are not comfortable with further steps that would increase economic ties. And it remains to be seen what effects the movement will have on the youngest cohort of adults in Taiwan today. The generation that came of age in the U.S. in the 1960s had some fundamental differences from previous ones—they tended to be more liberal on social issues and accepting of diversity, and that effect has carried through to the present day. The effects of the current surge in social activism might be similarly transformative, and it is worth looking at public opinion data to try to understand whether and how this is happening.

Panel III. Comparative Perspectives on Political Polarization

Hyunji Lee opened the comparative panel by comparing aspects of political polarization in South Korea and Taiwan. By conventional measures of ideological polarization, neither society is particularly polarized. In Taiwan, the traditional European-style left-right political spectrum is not salient to most citizens: Lee found that about 45

percent of respondents did not locate their views on this spectrum at all, and that of those who did, the positions of DPP and KMT supporters were not, on average, very far apart. In South Korea, by contrast, 95 percent of respondents located their views somewhere on a single left-right dimension. Yet there is still a large moderate block of voters in Korea, about 30-40 percent, which has not changed much since 2004. What has changed, instead, is trust in political institutions. In both places, supporters of the opposition register high levels of distrust of democratic institutions. In Taiwan, this difference is mostly based on partisan identification, while in Korea it also differs massively by generation, with older cohorts expressing much greater trust than younger ones. The implication is that what we observe as “polarization” in Taiwan may in fact reflect a worry about procedural fairness and process legitimacy, rather than an ideological conflict. In other words, protests against the Ma Ying-jeou administration may have become so large because of widespread skepticism that Taiwanese political institutions could ultimately be relied upon to produce a legitimate outcome in the public interest.

Thitinan Pongsudhirak spoke about the nature of political polarization and its sources in Thailand, which, he asserted, “is the most polarized of any country.” Thailand last enjoyed a kind of elite and mass consensus about the direction of public policies from the 1960s to the end of the Cold War in the early 1990s. The 1990s were a time of exceptional promise for the country, and many people thought Thailand was on the cusp of democratic consolidation, especially once a new progressive constitution was adopted in 1997. The surprise after that was the success of Thaksin Shinawatra in building a lasting electoral majority, which he has used to win every election since 2001. Accompanying that, though, was increasing graft and abuse of power, and he was forced out via a coup in 2006. The last few years have seen a series of battles between Thaksin’s supporters and a Bangkok-centered elite that eventually motivated the military to step in again in 2014 and initiate a new, more authoritarian crackdown.

Political polarization in Thailand has stemmed fundamentally from the deep, reinforcing cleavages in Thai society: a stark urban-rural divide coincides with geographic and income differences, and with widely differing visions of Thais as citizens of a democracy polity versus subjects of the king and the traditional elite. But it has not been helped by the winner-take-all nature of Thai institutions, which in practice allowed

Thaksin to ignore objections to his policies and hardened the anti-democratic attitudes of traditional elites in Bangkok. Reforming Thai institutions is probably necessary for democracy to survive there.

Bruce Cain commented at length on the state of political polarization in the United States. The level of political dysfunction in the United States is not actually worse than what we see elsewhere in the democratic world. Democracies depend first and foremost on the losers of elections accepting defeat. A secondary requirement is that they be willing to work on policy afterwards, and it is this that has been difficult of late in the United States. Thailand, by contrast, is still stuck on the first requirement. And there are many other democracies that have established the first but struggle with the second. Nevertheless, there are some worrisome trends in the United States: there has been a steady decline in trust and satisfaction with political institutions and leaders since World War II. And political polarization within Congress and within the Beltway has increased in recent years by almost any measure.

Consensus about the causes of American political polarization, however, remains elusive. It does not appear to have been driven, at least primarily, by increasing polarization among the electorate at large. Instead, political polarization has been mostly an elite-level phenomenon. Among the possible explanations for this: rising inequality, racial diversity and separation, the fragmentation of the traditional national media environment and the rise (and return) of partisan media outlets, and the increasing influence of campaign contributions on position-taking in campaigns and in Congress. The consensus emerging among Stanford scholars working on the American Democracy Project is that the key to improving the system is to focus on the incentives of political elites to work with one another, rather than worrying about mass attitudes and behavior.

Danny Unger offered comments on the presentations. He observed that, from an outsider's perspective, it is hard to come up with two more successful cases of Third-Wave democracies than South Korea and Taiwan. So it is painful to realize that even these cases appear to be struggling to some degree. Taiwan, especially, was thought to be a wonderful model for Chinese elites and a potent source of influence on debates about political reform on the mainland. The struggle of Taiwanese political elites to make decisions effectively perhaps explains why Chinese elites appear so outwardly self-

confident these days. One possible reform to these societies is super-majority requirements, or corporatist arrangements that do a better job of incorporating major stake-holders into the decision-making process.

Panel IV. FTAs in Taiwan: The TiSA and Beyond

Yun-han Chu opened the third panel with a sobering portrayal of the challenges of governance during the Ma Ying-jeou presidency. Despite winning a resounding electoral victory in the 2008 presidential election, and three-quarters of the seats in the legislature, Ma has struggled to govern effectively during his two terms. While some of his political problems were due to deficiencies in his political skills and his leadership style, deeper structural problems have also contributed to his disappointing record. Among these are a deteriorating fiscal situation, aging population, and declining international competitiveness of Taiwanese industries. Taiwan's economy is caught in a "low cost manufacturing trap," contributing to wage suppression and income inequality and also generating insistent demands from business interests for favorable tax policies. The government under Ma has not been able to use fiscal tools to ameliorate income inequality, and has instead yielded to pressure from business. On the political side, Taiwan's legislature has become increasingly powerful over the last 15 years in relation to the executive. Under Ma, the executive has lost control of agenda-setting power to legislators, so that the speaker is now the second most powerful person in Taiwanese politics. The legislature is also open to influence by special interest groups in a way that has led to a mushrooming of veto players, so that policy-making has become more fragmented. Government bills no longer come out of the legislature intact. And people who do not have access to the legislature take their grievances instead to the streets. Thus, the Ma administration was unable to foster a pro-free-trade coalition that would back the Trade in Services Agreement with China.

Roselyn Hsueh discussed the way that Taiwan's "national interest" has been defined in trade policy. Industry and business associations, she argued, have not played a

major role in the formation of Taiwan’s trade policy strategy. They have by and large been passive supporters of the Ma administration’s trade negotiations with China. The perceived winners of cross-Strait trade agreements are large businesses, while the primary losers are small and medium enterprises. The lack of much influence by SMEs is puzzling, and suggests they have not been very organized. Hsueh suggested this was because most SME owners do not view industry associations as representing their interests, but rather as old “legacy” organizations rooted in the authoritarian era that gave the primary voice to large businesses and other strategic industry representatives. As a consequence, SME owners have not been very influential in shaping trade deals, nor in expressing support for deals that are announced. And because SMEs are such a large percentage of manufacturing employment in Taiwan, there is not a large, active pro-trade coalition.

Yoonkyung Lee provided an overview of organized labor’s position in Taiwan, in comparison to labor’s experience and influence in South Korea. Organized labor has historically been weak in Taiwan: membership is low, officially about 30 percent but actually only about 10 percent of the labor force. In addition, workers as a group are very diverse and divided by the national identity question, which orients politics around a non-class-based cleavage. In South Korea, by contrast, independent unionism is strong and has been closely tied to left-leaning political parties, especially the now-opposition Democratic Party and the Democratic Labor Party. Another key difference is that South Korea can “ignore” North Korea for economic purposes—its trading partners are elsewhere, so the standoff with the communist North is orthogonal to labor-capital conflicts. But Taiwan depends heavily on the PRC market, injecting the “national question” directly into discussions of trade and economic policy. Thus, labor has remained relatively marginal to the discussion about how and to what degree to integrate economically with China.

Chen-dong Tso spoke about the role of the United States in cross-Strait integration. The Trans-Pacific Partnership is the main initiative on the table from the U.S. side with its Asian partners, although Taiwan would prefer a free-trade agreement that encompasses the whole region, rather than a U.S.-centered one. The Ma administration first expressed its interest in joining the Trans-Pacific Partnership (TPP) in 2011. The

Economic Cooperation Framework Agreement (ECFA) with China then was incorporated into an over-arching strategy of trade liberalization—it was seen by the Ma administration as a building block toward greater economic integration with all Taiwan’s trading partners. Given the U.S. indifference at the time toward Taiwan’s interest, the Ma administration also explored the possibility of joining the Regional Comprehensive Economic Partnership (RCEP), a regional trading arrangement between ASEAN countries and China—and got some positive signals from Beijing about this possibility in 2012. In 2013, the U.S. also sent positive signals about eventual membership for Taiwan in the TPP, and the Ma administration again gave a higher priority to this initiative starting in 2014.

Thomas Gold offered formal comments on the presentations. Taiwan, he noted, is typically portrayed as an example of successful state-led development. The key reason for this success is that the KMT enjoyed a great amount of policy autonomy insulated from Taiwanese society and interest groups. It was able to carry out land reform and other policies that led to rapid growth, the reduction of economic inequality, improved political stability, and so forth. In a sense, the KMT has been a victim of its own success, because this long period of successful development has unleashed new social forces. With material changes come social structural changes, which include new values and interests. To upgrade, Taiwan needs to establish a new values consensus, and develop the institutions to foster it. Yun-han Chu’s paper is a devastating critique of the current government’s inability to build this consensus. When Ma first took office, there were a lot of hopes that he could break through the previous domestic impasse and forge a new consensus, much like with Obama. But the reality is there are now too many constraints: the expectation that a charismatic leader can be transformative can no longer be met. Moreover, Taiwan’s situation is different from South Korea: the PRC poses more constraints on Taiwan. While South Koreans can effectively ignore the North, actors in Taiwan such as politicians, labor, and businesspeople for better or worse all have to consider how Beijing might react to their actions.

Panel V. Taiwan's Economic Future in an Age of Globalization: Prospects for Cross-Party Cooperation

Chung-shu Wu began the final panel by discussing the Ma administration's strategy for pursuing greater regional economic integration. Cross-Strait trade is very important to Taiwan's economy. From January to June 2014, for instance, nearly 40 percent of Taiwan's exports went to Hong Kong or mainland China, but only about 15 percent of Taiwan's imports came from those two sources. In addition, last year 64 percent of Taiwan's foreign investment went to mainland China. China is now the world's largest trading country by volume, and last year for the first time, services' share of the economy in China surpassed manufacturing, at 46.6 percent. The services sector continues to grow quickly in China, offering a major growth market for foreign-invested firms. Taiwan's service industries have a competitive advantage over mainland firms, so it makes sense to expand opportunities for Taiwanese firms in China. And it is worrisome that TiSA has encountered so much opposition: if a trade agreement that is so favorable to Taiwan is so controversial, then that does not bode well for other FTAs. Yet some of the opposition is understandable: capital has shifted to mainland China, raising fears that Taiwan's SME sector will continue to be hollowed out, and Taiwan has suffered from relatively high unemployment, low growth, and stagnant wages over the last decade. TiSA is seen by the Ma administration as a precursor to regional FTAs—in negotiating these, Taiwan cannot avoid the China factor, so implementing ECFA has to come first. Of the regional FTAs, RCEP would be more beneficial to Taiwan than the TPP, but Taiwan may not have a choice about which to join first—it should pursue a dual track policy. Ultimately, encouraging innovation to improve Taiwan's competitiveness is key to its global economic integration.

Kwei-bo Huang spoke about Taiwan's bid to join the Trans-Pacific Partnership (TPP). Interest in the TPP is a reaction to the perceived failure of the Doha round of trade negotiations, which has been stalled for years. In response, the Asia-Pacific region is slowly moving towards regional FTAs with selective partnerships, including RCEP and the TPP. Taiwan's reasons for wanting to join the TPP include (1) avoiding marginalization among the major Asian economies as new FTAs are signed, (2)

strengthening economic ties with major trading partners, (3) using the TPP to enhance economic reforms and strengthen competitiveness, and (4) diversifying the country's overseas trade and investment markets. These all make good sense, yet there are significant domestic political obstacles to Taiwan's bid. The communication between the Ma administration and society about trade issues and strategy has been very poor. In addition, Ma has tried to negotiate with a mainland Chinese government that is widely distrusted in Taiwanese society, which has contributed to his low standing in public opinion. Taiwan is hindered by a lack of consensus about democracy, constitutional law, social justice issues, and economic development strategies. Fostering a depoliticized and depolarized consensus on these big questions is essential to moving forward with trade agreements.

Steven Chan discussed the sources of political polarization in Taiwan and the challenges they pose for negotiating inter-state agreements. Political polarization, he suggested, has increased as the social cleavage structure in Taiwan has become more reinforcing: a deepening urban-rural divide, divergence between interests of small and large enterprises, and both generational and economic class divides have intensified. As a democracy, too, Taiwan's room to bargain is more limited, and it should be able then to extract better concessions from mainland China. It is surprising that Ma was not able to get the trade agreement adopted—in other words, that he was unable to hold up his end of the bargain with China. But Chan questioned whether Ma's defection was really involuntary or part of a larger bargaining strategy. He also noted that a democratic China would be a much more difficult negotiating partner, for the same reasons that Taiwan has struggled to pass TiSA: China's core leader would be much more constrained in the concessions he could offer than is Xi Jinping.

Yong Suk Lee offered formal comments on Taiwan's political polarization over trade issues from an economist's perspective. The challenge that Taiwan faces right now in economic terms is an over-dependence on the Chinese market—yet China is also the biggest growth market in the world right now. It is hard to analyze the impact of various agreements before they are signed, because they may jointly affect the internal organization of each member's economy. Nevertheless, one recent set of simulations forecast significant economic benefits from FTAs for Taiwan: 2.33 percent from ECFA,

4.36 percent from RCEP, and 1.88 percent from the TPP. Despite its relatively small economic impact, the TPP has the added importance of a security dimension, tightening Taiwan's ties with the United States and other important allies in the region. We can also look at the impact of FTAs on Korea. There, trade with FTA partners increased, but there was also diversion of trade from non-FTA to FTA countries—for instance, a major increase in imports from Chile, and a rise in trade with Singapore even though tariffs were already close to zero. Thus, it is in Taiwan's interest to continue pursuing talks with China and as well as other bilateral and regional trade agreements. The tricky question is how the government should convey the impact of FTAs. It might be best to emphasize the cost of *not* joining, which may be high; whereas the net benefits may not be especially large. In addition, the increasing dependence on China's economy needs to be approached carefully—the TPP could be emphasized as a balance to economic integration with China.

Panel VI. Conclusion.

In the concluding panel, participants took on the full set of issues related to political polarization in Taiwan in a broad-ranging discussion. Larry Diamond opened the discussion by posing a set of questions to the group.

First, on the economic aspects, the previous discussions suggested two future development strategies for Taiwan: (1) deepen economic integration with the PRC, or (2) pursue greater diversification of trading and investment partners. If Taiwan pursues primarily the first strategy, then Taiwanese firms' place in the global economy as part of multi-national production chains is uncertain, especially as Chinese firms themselves move up the hierarchy of production. Thus, Taiwan's economy may be forced to reconfigure quite dramatically as it becomes more closely integrated with the Chinese economy. But the consequences for Taiwan of *failing* to integrate economically might also be serious, especially in the long term as Taiwan's population ages and it faces labor shortages and a mounting social welfare burden. If instead Taiwan pursues primarily a diversification strategy, then the question is whether deepening economic links with

ASEAN and TPP countries is really feasible without China's approval. In the long run, Taiwan risks being shut out of the emerging regional trading arrangements *and* the Chinese market. Thus, neither strategy looks like a clear winner in isolation.

Second, on the political aspects, the challenge facing Taiwan is to forge a consensus about some shared idea of the national interest at this moment, and implement a strategy to further that interest. Given all the political dilemmas, veto players in the political system, and intense passions of segments of society, is this even possible under current institutional arrangements? And if it ultimately is not, how do Taiwan's institutions need to be changed, and can they ever be changed?

Participants offered various answers to the economics question. On the optimistic side, several of the economists thought that Taiwan could flourish with an economy more open to both China and the rest of the world. Among the sectors that are particular strengths in Taiwan, participants highlighted health care, finance and banking, and many other service sectors. Familiarity with the language and the often unwritten rules of doing business in mainland China give Taiwanese a natural niche to fill by working with western firms to expand their operations in China. The fear that Taiwanese manufacturing will be further hollowed out by trade agreements with China is also misplaced: lower-end manufacturing is already moving out of China to other lower-cost countries, especially among ASEAN, and Taiwanese FDI is moving there as well. Thus, the expansion of trade links with China will come in addition to, rather than in place of, links with ASEAN countries. Several participants also emphasized the many things that Taiwanese policy-makers could do to improve Taiwan's international competitiveness, regardless of its trade policies: improving the island's English language ability, relaxing labor laws to attract more high-skilled workers from abroad, and in general promoting greater development of human capital—skills valued by global employers—including encouraging more Taiwanese students to spend time abroad.

On a less positive note, several participants emphasized the political obstacles that make this kind of economic development strategy hard to adopt and execute. A big challenge is the bimodal nature of the service sector income distribution: the low end is very low, and the high end is very high. The U.S. experience is that the growth of the services sector contributes to rising inequality, making it harder to forge a consensus in

favor of greater market liberalization. In addition, one Taiwanese participant noted that Taiwanese political institutions are not set up in a way that gives all major groups an equal voice in the process. Instead, those who have been most advantaged by current policy are making decisions about Taiwan's future economic policy, while those who are disadvantaged do not have a seat at the table. Under those conditions, forging a consensus about the national interest is all but impossible.

Kicking off the final round of comments, Larry Diamond framed the political challenge as a problem not of democratic consolidation, but of democratic political decay. From this perspective, he suggested, the answer to what ails Taiwan's political system is not to take it back to the authoritarian era, but to focus on reforming democracy so it works better. Some democracies can struggle on for several decades with sub-optimal policy-making, but Taiwan has much less room for error because of its geopolitical disadvantages. Thus, the debate about Taiwan's future development strategy probably needs to be preceded by a conversation about how to reduce the number of veto points in the political system and improve the capacity for professionalism and sincere debate over pressing policy issues.

Several participants agreed with aspects of this conclusion. One noted that Taiwan's media environment has posed serious challenges to the Ma administration's trade initiatives, drumming up opposition without providing readers and viewers with much understanding of the actual content of trade deals. The influence of public intellectuals has also declined over the last few years, further narrowing the possibilities for sincere, non-partisan debate over key policy questions. Another participant highlighted the problem of political trust in trade deals, contrasting Taiwan's recent experience with that of Canada prior to the signing of NAFTA. The federal election there was a de facto referendum on the FTA, and the fact that a full-throated debate took place before the election, and most everyone accepted the result and the legitimacy of the process, created a solid foundation for NAFTA's adoption in Canada. The challenge for Taiwan's democracy is to develop processes that are viewed as broadly fair, even to those who do not support the policy outcomes they produce.

Larry Diamond wrapped up the final discussion by noting that in Frank Fukuyama's book on political decay, democratic paralysis and decline can be arrested

and reversed when a coalition for reform becomes broad enough and strong enough to force change. Often such coalitions emerge as responses to external shocks—but for Taiwan, that might be too late. Thus, it is important for people outside party politics, including some of the people in the room at this conference, to work on building coalitions for reform and articulating ideas for how to improve democratic institutions.