Threat Perception, Power Asymmetry, and Alliance:
Explaining Taiwan’s Declining Military Expenditures

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Abstract
Since the end of the Cold War, China has significantly increased its military spending in real terms and the People’s Liberation Army has emerged as a capable fighting force. China therefore becomes a potential military threat to its neighbors. Given that China has never renounced the right to use military force for re-unification, conventional realist theory would expect Taiwan to put a significant defense effort to meet China’s rapidly growing military power. Yet despite the threat to Taiwan’s security posed by China’s sovereignty claim and accelerating enhancement of Chinese military capabilities, and despite the uncertainty of the availability of alliance partners, Taiwan did not arm itself as much as the conventional perspective claims. This paper offers a theoretical framework and demonstrates how modest level of threat perception, widening power disparity across the Taiwan Strait, and the confidence in U.S. security guarantee contributed to Taiwan’s seemingly puzzling military spending pattern.

Keywords: Taiwan; China; military expenditure; threat perception; power asymmetry; alliance

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A central topic in the field of international relations concerns how countries deal with a rising power. For example, scholars have analyzed how European countries responded to the rise of Prussia and Napoleonic France.¹ Scholars are also interested in the interaction between rising powers and hegemonic states.² The emergence of a rising power and how other countries answer to its rise deserve serious attention in that these questions are highly related to the stability of the international system.³

As China’s rise becomes an important fact of international life, a burgeoning literature has explored how East Asian countries respond to the rise of China.⁴ Over the past quarter century, China’s military spending has increased steadily, even dramatically overall, and the People’s Liberation Army (PLA) has emerged as a professional and capable fighting force. How might East Asian states respond to an emerging China with growing military capabilities? Theory, with a realist point of view, posits that China’s neighboring countries will fear a rapidly rising China and therefore they will put forward an immense defense effort to match China’s military power. Balancing is expected to be prevalent and an arms race might be unfolding in East Asia.⁵

Admittedly, China increased its military spending by 576 percent in real terms since the end of Cold War, and the PLA is for sure a potential threat to China’s neighbors. However, a generation

of Asian leaders have not chosen to react with similar arms increases. The defense efforts that China devoted and that of other major Asian countries are not symmetric.6

The Republic of China (Taiwan hereafter) presents perhaps the clearest example of this trend. Given that China has never renounced the right to use military force against Taiwan for re-unification, a realist perspective would thus expect Taiwan to balance against China because it is the most-likely victim of a militarily mighty China. While Taiwan has always been striving to maintain a close strategic tie with the United States, the United States is at best a potential alliance partner since there is no formal alliance treaty between Taiwan and the United States. Simply put, the U.S. security guarantee is not a blanket guarantee for all military contingencies. For all these reasons, the conventional perspective would expect that Taiwan invests significant resources in defense with a sense of urgency as a response to China’s rapidly growing military power. In other words, intensive internal balancing appears to be the most reliable option for Taiwan.

Yet despite the threat to Taiwan’s security posed by China’s sovereignty claim and accelerating enhancement of Chinese military capabilities, and despite the uncertainty of the availability of alliance partners, Taiwan did not arm itself as much as the conventional perspective claims. In fact, as China ramped up its military spending, Taiwan nonetheless reduced its defense effort over the past generation. And while most countries in East Asia did not significantly increase military spending since the end of the Cold War, when measured in absolute terms, Taiwan is the only country that spent less on defense (Table 1).

///Table 1 about here///

This article endeavors to investigate the sources of Taiwan’s decreasing military

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expenditures and argues that a new model, which incorporates the factors of threat perception, power disparity, and alliance can help us better explain Taiwan’s puzzling military spending pattern over the past generation.

The article is organized as follows. In the next section, I present the pattern of Taiwan’s military spending and demonstrate why Taiwan’s continued decreasing military spending is puzzling from any number of vantage points. In section two, I offer an assessment of some existing explanations, showing that even though each explanation is plausible, none provide a sufficient account of the puzzle. In section three, I propose a theoretical framework and argue that a state’s military spending is determined by three factors: threat assessment of the opponent, distribution of power between the state and its opponent, and the availability of reliable allies. I then demonstrate how modest level of threat perception, widening power disparity across the Taiwan Strait, and the confidence in U.S. security guarantee contributed to Taiwan’s decreasing military expenditures. Taken as a whole, these three factors create powerful incentives for Taiwan to reduce the heavy defense burden that it used to shoulder. I conclude with a discussion of the implications of this research. While some scholars argue that China’s increasing military spending will inevitably trigger intensifying military competition in East Asia, the case of Taiwan nonetheless suggests that scholars should scrutinize the intensifying-military-competition thesis. If this thesis cannot find supporting evidence from the Taiwan Strait—the place where severe military competition should be easily observed—the external validity of this thesis is highly doubtful.

I. The puzzle

In order to catch up with other major military powers and to increase the bargaining
power over Taiwan issue, China has embarked on several defense modernization projects and massively increased its military spending over the past quarter century. Measured in constant 2011 US Dollar, China’s military spending has boosted from 10.2 billion in 1990 to 188.4 billion in 2013. China’s continued commitment to developing the military capacity leads to the huge improvement PLA’s military capabilities, both quantitatively and qualitatively. While it would be a mistake to assert that China’s military preparations are solely aimed at Taiwan, there is no question Taiwan has become “a focal point of force concentration and advanced weapon purchases” since the end of the Cold War. For example, in the military strategic guidelines prepared for the PLA, former president of China Jiang Zemin demanded the PLA to “develop credible capabilities vis-à-vis Taiwan for deterrence and coercion as well as actual military operations, if need be.” Since then, the PLA continues to enhance and deploy capabilities in the Taiwan Strait area — this trend has not been reversed despite the tensions between Beijing and Taipei have been greatly reduced since the inauguration of Taiwanese President Ma Ying-jeou.

Specifically, roughly 400,000 troops were deployed in the Taiwan Strait area. More than 1000 DF-16 middle-range and DF-11 and DF-15 short range ballistic missiles were positioned in the Nanjing military region targeting Taiwan. To prepare for a potential air war, modern fighter aircraft, including the Su-27/J-11, Su-30 and J-11 were deployed and more advanced combat aircraft, such as the J-20 stealth fighter and the J-31 stealth fighter are expected to be deployed in

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the near future. The naval capabilities are rapidly increasing and it is widely believed that the navy now has remarkable amphibious warfare capabilities.\(^{11}\) To make sure that all the military forces can work together, the PLA conducted regular military exercises of joint-sea and air blockade and control in coastal of Zhejiang and Fujian provinces.

Advances in China’s military capabilities can be seen as an alarming sign for Taiwan in that China has never renounced its rights to use force against Taiwan in order to achieve re-unification.\(^{12}\) As China’s paramount leader Deng Xiaoping stated unequivocally, “While we [China] shall persevere in our efforts to solve the Taiwan question by peaceful means, we have never ruled out the possibility of using non-peaceful means. We cannot and will never make that promise.”\(^{13}\) This guiding principle is also clearly stated in China’s Anti-Secession Law, that the “PRC [People’s Republic of China] government regards itself as entitled to employ non-peaceful and other necessary means against Taiwan.”\(^{14}\) In a word, China has not ruled out the possibility to use of military force against Taiwan. Taiwan therefore has no good reason to believe that it will never be a victim of China’s growing military muscles.

As such, China’s increase in military spending would possibly pose serious challenges to Taiwan’s survival and is expected to be a major source of external threat. Taiwan’s Ministry of National Defense (MND) echoes this assessment as it seamlessly highlights China’s increasing military budget and warns that China’s growing military capability pose a potential threat to

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\(^{12}\) The Chinese Communist Party (CCP) always regards re-unification as an important source of its political legitimacy. Taiwan also matters to China in strategic sense. See Alan Wachman, \textit{Why Taiwan?: Geostrategic Rationales for China's Territorial Integrity} (Stanford, CA: Stanford University Press, 2007).


Taiwan’s security in nearly every year’s defense report. The rivalry literature thus categorizes China and Taiwan as a case of territorial rivalry, characterized by the existence of mutual threat perception and conflicting territorial claims.

It is therefore natural to anticipate that Taiwan might increase its military spending to prevent the balance of military power from further shifting in China’s favor. If we apply Lewis Richardson’s classic arms-race model to context of cross-Strait relations, the prediction remains the same — considering China rapidly increased its military spending, the model would predict Taiwan’s military spending will go up in a similar fashion due to the cross-Strait rivalry. Taiwan’s rate of increase in terms of military expenditures would be a function of China’s military spending because it is reasonable to assume that Taiwan will be sensitive to China’s military expenditures. As Figure 1 indicates, however, when China started to ramp up its military spending during the mid-1990s, Taiwan did not increase its military spending accordingly.

Besides looking at the trend of Taiwan’s military spending in absolute terms, another way to approach this question is to examine the shared percentage of GDP and central government spending of Taiwan’s military expenditures. Military expenditure as a percentage of GDP and military expenditure as a percentage of central government spending are two proxies for measuring a state’s defense effort. As Table 2 shows, Taiwan reduced its defense effort nearly

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18 On the theoretical interpretation of military expenditure as a percentage of GDP, see Barry Buzan and Eric Herring, *The Arms Dynamic in World Politics* (Boulder: Lynne Rienner, 1998).
every year from 1988, where it stood at 5.3 percent of GDP and 45.9 percent of central
government spending, to 2013, where it stood at 2.2 percent of GDP and 16.4 percent of
government spending.

///Table 2 about here///

The data presented here thus suggests that, contrary to the predictions put forth by
conventional perspectives such as neorealism or the Richardson model, Taiwan did not increase
its investment in defense to balance against China’s rapidly increasing military capabilities,
whether military expenditures are measured in absolute or proportional terms. It appears that
Taiwan has becoming less willing to enhance military capabilities at the expense of their other
priorities despite the MNC is fully aware of the fact that China will have the “combat capability
to mount a full attack on Taiwan by 2020” if Taiwan does not make significant efforts to reverse
the trend.\textsuperscript{19} Why did Taiwan reduce its defense effort? Why didn’t Taiwan spend more in
defense? In sum, why did Taiwan not pursue internal balancing?

II. Contra four existing explanations

In this section, I consider four existing explanations of this puzzle. The first explanation
draws from a comparison of military spending patterns between democracies and autocracies and
posits that Taiwan’s decreasing military expenditures can be attributed to democratization. The
second explanation holds that political competition between Kuomintang (KMT) and the
Democratic Progressive Party (DPP) explains why Taiwan failed to strengthen its defense effort.
The third explanation postulates that Taiwan’s decreasing military spending is due to the arms
sale restrictions imposed by the United States. The fourth explanation contends that economic

interdependence accounts for Taiwan’s reluctance to spend more on defense. While each explanation contains some truth, none of these explanations is wholly convincing.

**Democratization leads to lower military spending**

Utilizing quantitative models, existing literature identifies a strong correlation between regime type and military spending. The basic research finding is that democracy spends proportionately less on defense than autocracies.20 Various mechanisms are offered to explain the linkage between democracy and lower military spending. For example, Aaron Friedberg demonstrates that the existence of democratic institutions prevent the United States from becoming a garrison state.21 In general, democracies are considered to be either more peaceful, more efficient in mobilizing resources, or better at recruiting allies and therefore they tend to have smaller defense budget.22 In the context of Taiwan’s decreasing military spending, scholars focus on a specific mechanism: political elites’ electoral calculations. The idea is that political elites in democratic regimes are required to keep their constituents happy and therefore they are more willing to allocate resources to infrastructures and social welfare—projects that can easily get more applause because of directly visible benefits.23 Leaders are reluctant to increase military spending because the effect of investment in defense is harder to be seen, compared with other governmental projects. As such, supporting the increase of defense budget at the expense of

other economic and social activities is like risking political suicide if not kept up long enough. In this sense, Taiwanese politicians cut defense budget, at least in part to ensure their political survival.  

Granted, the request to devote more funding to defense needs to be justified on the basis that defense is more important than other economic and social priorities given limited resources. Yet it is an issue that countries all need to face, whether they are democracies or autocracies. If the external environment the state facing is quite dire, then perhaps voters in a democratic country might be willing to bear the costs and let the government spend more on defense. Similarly, a leader in an autocratic country might not be given too much leeway to significantly increase military spending if the country basically has no external enemies. It is entirely possible that democratic countries with threatening neighbors might have bigger military budgets than their autocratic counterparts without rivals.

A simple observation of the world top military spenders further complicates the linkage between democracy and lower military spending. Among the world’s top 15 military spenders, surprisingly, eleven of them are democracies. Of course, the most obvious reason for this fact is that these democracies happen to have greater disposable income. However, it also suggests, as long as defense is considered to be a necessary investment, a democratic regime or democratization does not necessarily lead to lower military spending. Democracies can allocate as much resources as autocracies do, even if the size of winning coalition that democratic leaders need to secure is larger than the case of their autocratic counterparts.

A more important question to ask is this one: why does defense win or lose in the turf war? In the case of Taiwan, why did Taiwanese people not buy the narrative that Taiwan’s security

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would be essential to secure with larger defense budget? Why did the MND fail to acquire more turf in the budgetary war? Unfortunately, the democratization hypothesis has no clue about the answers to these crucial questions.

**Domestic political gridlock leads to lower military spending**

An alternative explanation for Taiwan’s decreasing military expenditures highlights the severe political competition between the Pan-Blue and Pan-Green camps. While both camps are cognizant of China’s rapidly increasing military might, in Michael Swaine’s words, “almost everything has taken a back seat to a short-term political calculations in the intense competition between the Pan-Blue and Pan-Green camps.” The deep mistrust between these two camps explains why Taiwan has not responded to China’s growing military spending with similar increase.

Can Taiwan’s decreasing defense effort be attributed to the island’s hyper-partisan atmosphere? The answer is no. Granted, political cleavages between these two camps do exist, and sometimes can actually lead to policy deadlocks. However, political cleavages can possibly give rise to policy gridlock only when the executive power and legislative power are controlled by different political parties, i.e., when a divided government is present. Among Lee Teng-hui, Chen Shui-ban, and Ma Ying-jeou administrations, only the Chen administration operated under the power structure of divided government. Decreasing military spending, however, appears to be the common feature of all three administrations. If Taiwan’s defense budgets remained flat

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even when the KMT controlled executive and legislative branches, it suggests that intense political competition between the Pan-Blue and the Pan-Green camps might not be a necessary condition for Taiwan’s declining defense effort.

**U.S. restrictions on the arms sale lead to lower military spending**

In the past, Taiwan has at least 20 different countries supplying it with arms. For example, the Netherlands sold two Sea Dragon submarines to Taiwan in 1981 and the French government sold Lafayette class-derived frigates and Mirage fighters in 1991 and 1992, respectively. Due to China’s threat to cut off trade or diplomatic relationship with countries that offered Taiwan advanced military weapons, the U.S. is essentially Taiwan’s sole arms supplier now. Some scholars attribute Taiwan’s reduced military spending to the U.S. restrictions on the arms sales. As the main weapon supplier to Taiwan, if the U.S. refuses to sell arms to Taiwan, Taiwan would have no chance to boost its military spending despite it is more than willing to do so.29 This proposed mechanism is a supply-side explanation of the puzzle. While straightforward, this hypothesis is not entirely convincing for two reasons.

First, if this hypothesis were indeed true, then we should expect that Taiwan takes every opportunity to purchase armaments from the U.S., and it is unlikely that Taiwan will say “no” to the U.S and intentionally delay the process of arms procurement. However, there is some evidence suggesting that it might not be the case. Under the Chen Shui-bian administration, it took Taiwan about five years to reach a decision on the purchase of the antisubmarine warfare aircraft, Patriot missile defense batteries, and diesel submarines that the Bush administration agreed to sell to the island in April 2001. Some opponents of the U.S. arms sale even described it

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29 Tan, "The Implications of Taiwan's Declining Defense," pp. 50-51.
as “sucker’s arms deals.” Furthermore, in a testimony before the US-China Economic and Security Review Commission in June 2014, President of the US-Taiwan Business Council points out that, “since President Obama took office in January 2009, his government has accepted only one Letter of Request (LOR) from Taiwan for Significant Military Equipment (SME). This is an unprecedented period since the switch in recognition in 1979. We are now in the longest period since 1979 in which the U.S. has not sold weapons to Taiwan, and there is little prospect of any new arms sales in the coming 12-18 months.” If the problem is mainly on the supply side, it would be hard to imagine why the United States needs to explicitly express concerns that “Taiwan under President Ma has not given sufficient priority to defense” in various occasions.

It appears that U.S. willingness to sell advanced weapons might be underestimated and Taiwan’s willingness to purchase military equipment might be overestimated.

Second, if Taiwan endeavors to internally balance against China and there are always hurdles on the way to arms procurement, Taiwan should massively invest on the development of its defense industry as an alternative. Although state-owned Aerospace Industrial Development Corporation (AIDC) and Chung-Shan Institute of Science and Technology (CSIST) continue to develop and release advanced weapons such as upgraded Ching-kuo Indigenous Defense Fighters (IDF/F-CK-1) and Hsiung Feng III anti-ship missile, as Richard Bitzinger observes, “The island’s [Taiwan’s] defense technology base remains underdeveloped, as insufficient funding, limited expertise, and the lack of qualified personnel have constrained indigenous military R&D as well as the industry’s ability to absorb and exploit imported technology.” The

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30 Kan, “Taiwan: Major U.S. Arms Sales since 1990,” p. 35.
32 Ibid.
absence of a robust defense industry indicates that Taiwan might not invest as much resources as the hypothesis might suggest.

**Economic interdependence leads to lower military spending**

The final alternative explanation draws from the literature on the role of economic interdependence in reducing international conflicts and posits that deepening economic independence greatly decreases the likelihood of a war across the Taiwan Strait and therefore reduces Taiwan’s military expenditures. Notwithstanding rapid expansion of cross-Strait trade, Taiwan’s decreasing military expenditures cannot be explained by this phenomenon.

First, both Lee Teng-hui and Chen Shui-bian were highly skeptical about the consequences of increasing economic ties with China. They therefore adopted measures to slow the pace of cross-Strait economic integration. For example, the Lee administration banned individual projects in China that exceeded US $50 million and tightened regulations on cutting-edge technology investments. China’s investments in Taiwan were also prohibited under Lee and Chen. If economic interdependence can indeed alleviate tensions across the Taiwan Strait and Taiwan can thus reduce its defense effort, then why did both administrations impose restrictions on the cross-Strait trade?

Second, there is no denying that President Ma embraced the notion of cross-Strait economic integration and deepening economic ties might have cultivated a new constituency in Taiwan benefited from the economic integration between China and Taiwan. But there is no

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evidence to show that voters in favor of greater economic integration with China will necessarily support Taiwan’s reduction in its defense spending. Moreover, even this constituency strongly opposes certain type of defense policy, as Miles Kahler and Scott Kastner point out, “it remains too early to tell whether it will become central to future winning coalitions in Taiwan.”

III. Solving the puzzle: threat perception, power asymmetry, and alliance

In the previous section, I critically evaluate four existing explanations concerning Taiwan’s decreasing military spending and demonstrate that none of these explanations is entirely convincing. There are two goals in this section. First, I plan to construct a theoretical model that explains a state’s arming level. Second, I will demonstrate that this model offers a more cogent account of why Taiwan decreased its defense effort over the past generation.

Toward a Theoretical Framework of Arming Level

As James Morrow notes, “In their search for security, nations choose the means that is most cost-effective for them at that time.” Indeed, strengthening national defense is a task involving intensive resource devotion and oftentimes cannot directly contribute to a state’s economic growth. It is reasonable to assume that states will try to choose the most cost-effective approach, if possible. In order to decide the most cost-effective level of arming, I contend that states will focus on three dimensions: the level of perceived external threat, the cost of internal balancing, and the availability of a backup force. Specifically, states are more likely to increase the arming level when: (1) level of threat perception is high, (2) the cost of internal balancing is

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bearable, and (3) a reliable ally is not available or the state has no confidence in major ally’s security promise. When these conditions are not met, there is good reason to expect that states might be reluctant to spend more on defense.

I argue that modest level of threat perception, rapidly increasing cost of internal balancing produced by power asymmetry, and the confidence in U.S. security promise contributed to Taiwan’s decreasing defense effort. I will first lay out a theoretical framework and then demonstrate that how this framework helps us gain a deeper understanding of Taiwan’s seemingly puzzling military spending pattern.

Threat assessment and military spending

The level of threat perception determines the necessity or the anticipated returns of internal balancing. When the level of threat perception is high, states are likely to invest significant amount of resources on defense because they need to either take the pre-emptive action or prepare for potential future conflicts with rivals. In this circumstance, national leaders can easily justify the priority of defense over other activities. When the level of threat perception is modest, states are likely to maintain necessary deterrence capabilities but they will be less willing to put more extra resources on defense. Leaders may want to allocate more resources on defense, but if so they will be facing major domestic obstacles to achieving their goal. When the level of threat perception is low, arming might not be necessary at all. One can thus expect states have relatively small defense budgets under this scenario.

The next step is to discuss what determines different levels of threat perception. Based on concepts from the literature on deterrence, I argue that threat perception is determined by two major factors: an opponent’s ability to attack and an opponent’s willingness to attack. A state will
perceive the existence of an external threat only when the opponent at least possesses the willingness or capability to execute threats. The external threat will be most credible when the opponent is willing and capable of executing threats.\textsuperscript{37}

Treating the opponent’s ability to attack and the opponent’s willingness to attack as dichotomous variables yields a two by two matrix. I hypothesize that states have \textit{high} threat perception if they respect the opponent’s ability and have no doubts about the opponent’s resolution to use force against them. States have \textit{modest} threat perception if they have doubts about either the opponent’s ability or the opponent’s resolution to attack. States have \textit{low} threat perception if they have doubts about both the opponent’s ability and willingness to attack.

\textbf{Power asymmetry and military spending}

The cost of internal balancing is determined by the distribution of power between a state and its main opponent. The cost of internal balancing will be at the lowest level if power is equally distributed between a state and its opponent. The cost of internal balancing will get higher if the balance of power swings in the opponent’s favor. The cost of internal balancing will be extremely high or entirely unbearable when power asymmetry between the state and its opponent is present.\textsuperscript{38} When the cost of arming gets unbearably high, states will only maintain certain level of military investment and stop putting extra effort in defense.

Power asymmetry creates strong incentives for states to spend less on defense in that states can make only nominal contribution to rewrite the military balance of power under this type of power configuration. Engaging in internal balancing to reach military parity against a

powerful opponent might be too costly an option for states. States might thus choose not to allocate extra more resources to defense when the stakes get too high.

**Alliance and military spending**

Of course, states sometime can balance against an external threat by allying with foreign powers. When a reliable and strong alliance partner is present, states have less incentive to spend on defense. In this scenario, states will try to pass the buck to their powerful ally. Conversely, when powerful allies are not available, states are expected to spend more on defense.\(^3\)

A related issue is the reliability of alliance partner’s security promise. I hypothesize that a state will have greater confidence in its stronger ally’s security promise if the ally comes to its rescue during crisis or even a war, regardless of having a formal security treaty or not. A state will only decrease military spending if it has confidence in its alliance partner’s security guarantee. If a state has doubts about its ally’s security guarantee, then it might not reduce its defense burden. It suggests that the mere existence of security treaty or alliance system does not always lead to lower military spending.

**Empirical Analysis**

Now, I will demonstrate how Taiwan’s assessment of China threat, deepening power disparity across the Taiwan Strait, and the confidence in U.S. security guarantee gave rise to Taiwan’s decreasing defense effort. The causal mechanism is diagrammed in Figure 2.

///Figure 2 about here///

The first step is to discuss how Taiwan perceived China as a potential threat. Crucially, it is necessary to differentiate two concepts: a state’s ability to invade and a state’s willingness to

invade. The differentiation is especially important in the context of cross-Strait relations because while respecting China’s capabilities to attack China, Taiwan does not believe that China has the resolution to use military force. In this sense, the Chinese military threat might not be as credible as conventional wisdom suggests.\(^\text{40}\)

Prior to the mid-1990s, there are some doubts about Beijing’s capability to invade Taiwan. In February 1993, for example, then leading DPP official Shi Ming-teh said, “I don’t think mainland China has the capability to attack Taiwan. It is not easy to launch an amphibious operation… It is a mainland \textit{fantasy} to think that it can take over Taiwan [emphasis added].”\(^\text{41}\)

Shi’s assessment of China’s capabilities to invade Taiwan was echoed by the Legislative Yuan, most U.S. security observers, as well as the MNC.\(^\text{42}\) An opinion poll in 1995, however, revealed that 63 percent of Taiwanese believed that China has the ability to attack Taiwan.\(^\text{43}\) It appears that the public’s assessment of the PLA’s military capabilities is incongruent with the pundits’ general assessment during that period.

Doubts about Chinese capabilities to attack Taiwan evaporated as China started to offer the PLA sufficient funding to build up its military muscle. The MNC’s “2004 National Defense Report” warns that the military balance of power across the Strait would being to tilt in China’s favor in 2006.\(^\text{44}\) The U.S Department of Defense (DOD)’s “Report on the Military Power of the People’s Republic of China” in 2006 confirms that this warning has become a fact.\(^\text{45}\) It is also believed that Taiwan’s Air Force has lost its long-held dominance of the airspace over the Taiwan


\(^{43}\) “五成五民眾害怕發生戰爭 [55% of Taiwanese Are Afraid of the Possibility of a War],” \textit{The United Daily}, August 12, 1995, A3.


In a rent assessment, the MND says that “China will have the capability to forcibly reunite Taiwan and mainland by the year 2020.” Public surveys also reflect similar assessments. In April 1999, the United Daily Public Survey Center found that forty-five percent of Taiwanese had no confidence in Republic of China Armed Forces (ROCAF)’s ability to defend Taiwan if China attacked the island. Fourteen years later, the “2012 Taiwan National Security Survey” reported that 83.7% Taiwanese believed that the ROCAF lacked the ability to defend Taiwan should China launch an invasion of the island.

It appears that there is no doubt about the PLA’s ability to attack Taiwan now. Taiwan respects China’s military capabilities.

China’s military superiority notwithstanding, what is Taiwan’s assessment of Beijing’s willingness or resolution to use force against the island? Despite some scholars argue that Taiwan has no doubt about China’s resolution to use force, a closer examination of the empirical evidence suggests the opposite. As Robert Sutter notes, “Taiwan public opinion appears broadly sanguine that China will not attack Taiwan under prevailing circumstances.” Opinion polls have consistently found that the Taiwanese public did not think that China is likely to use force against the island if Taiwan does not declare independence. In August 1995, United Daily found that more than fifty percent Taiwanese agreed that it is highly impossible for China to invade Taiwan. A few months later, after a series of military exercises and missile tests conducted by the PLA in the vicinity of the Taiwan Strait, a United Daily poll of March 1996

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48 Emerson Niou, “The 2012 Taiwan National Security Survey.” Data were collected by the Election Study Center, National Chengchi University in Taiwan. The survey was conducted in October 2012, with a sample size of 1075. I thank Professor Niou for sharing the data.
51 “五成五民眾害怕發生戰爭 [55% of Taiwanese Are Afraid of the Possibility of a War],” The United Daily, August 12, 1995, A3.
reported that sixty-eight percent of respondents did not think a Chinese invasion is possible.\(^{52}\)

Somewhat counterintuitively, it appears that Taiwanese began to have deeper doubts about Beijing’s willingness to use force after China’s coercive military measures. In an April 1999 poll, *United Daily* revealed that seventy-eight percent of Taiwanese believed that China is unlikely to invade Taiwan, at least not any time soon.\(^{53}\)

Perhaps these public polls were conducted by the same institution and the results might be different if other institutions conduct similar surveys with different sampling methods. However, a poll conducted by the Election Study Center at National Chengchi University in 2004 reported very similar findings: 64.5% of respondents did not think China will likely to attack Taiwan.\(^{54}\) Subsequent public surveys conducted by United Marketing Research from 2009 to 2014 also support the observation that most Taiwanese believe that a war cross the Strait is unlikely to unfold. But it should be noted again that Taiwan’s confidence in China’s unwillingness to use force against the island is conditional on that Taiwan maintains the status quo and does not declare independence. In numerous opinion polls conducted over the past two decades, well over 50 percent of Taiwanese do believe that China will resort to military force if Taipei declares independence.\(^{55}\)

Some political elites believe that China would exercise restraint for a variety of different reasons.\(^{56}\) The MNC echoed this assessment in its 2004 *National Defense Report*. While noting China’s boosting military budgets and growing military capabilities, the report suggested that

\(^{52}\) “七成民眾希望美協防台灣 [70% of Taiwanese Hoped that the U.S. Could Come to Taiwan's Rescue],” *The United Daily*, March 16, 1996, A2.

\(^{53}\) “六成二民眾認中共不可能放棄武力犯台 [62% of Taiwanese Do Not Believe that China will Renounce Its Rights to Use Force against Taiwan],” *The United Daily*, April 10, 1999, A3.

\(^{54}\) “Survey on Taiwanese Public Perception of Cross-Strait Security,” conducted by the Election Study Center of National Chengchi University, July 22, 2004.

\(^{55}\) The public polls conducted by *United Daily*, *China's Post*, and the Election Study Center of National Chengchi University all reported similar results.

“taking into consideration its economic growth and political stability, and barring unpredictable factors, the PRC is unlikely to pick up the fight against Taiwan in the near future.”

In October 2013, Taiwan’s former Deputy Defence Minister Chong-Pin Lin, said that “the possibility of a war between China and Taiwan is close to zero.”

In a nutshell, while acknowledging the PLA’s rapidly increasing military capabilities, both the public and political elites appear to believe that Beijing is unlikely to use force against Taiwan in all contingencies. Taiwan’s respect for China’s impressive military capabilities might create some pressure to allocate some resources to defense in order to maintain a certain level of deterrence effect. Indeed, there is no naive belief in Taiwan that there is no need for any military preparations. However, doubts about China’s willingness to use force explain creates powerful incentives to stop Taiwan from spending too much national treasure to defense. The combination of respect for the opponent’s military capabilities and doubts about the opponent’s resolution to use force leads to a modest level of threat perception and in turn gives rise to modest military spending. As a state having only modest level of threat perception, it is thus of no surprise Taiwan only wanted to maintain a certain level of deterrence capacity and was not interested in spending more on defense to reverse the military balance of power across the Strait.

Taiwan’s reluctance to spend more on defense is also strengthened by the deepening power disparity across the Strait. Rapid economic development since the late 1970s makes it possible for China to emerge as the world’s second largest economy in 2010. While Taiwan also had solid economic growth before entering the mid-1990s, the huge difference in population, resource endowment, and other structural factors between Taiwan and China ultimately gives rise

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59 Chi Su, Taiwan’s Relations with Mainland China: A Tail Wagging Two Dogs (New York: Routledge, 2009).
to an asymmetrical power structure across the Strait. Using GDP as a proxy for measuring a state’s overall power, Figure 3 indicates that this asymmetrical power structure emerged sometime around the mid-1990s.

///Figure 3 about here///

///Table 3 about here///

As the 17th largest economy, and the third largest holder of foreign exchange reserves in the world, some people might argue that Taiwan certainly has the capability to compete with China by significantly increasing its military expenditures. One way to test this proposition is to calculate the required national resources that Taiwan needs to spend in order to match Chinese military spending. As Table 3 demonstrates, while Taiwan only need to increase military spending by one to two percent of GDP to reach military spending parity against China before entering the 2000s, Taiwan will need to spend additional 6.14 and 38.1 percent of GDP on defense to achieve the same goal in 2003 and 2013, respectively. Assuming that the economic gap in terms of GDP between Taiwan and China remains the same, internal balancing will long remain prohibitively costly for Taiwan. The cost of matching China’s military spending is simply unbearable and therefore it is extremely unlikely for Taiwan to engage in severe military competition with China.

All Taiwanese presidents appear to acknowledge the power asymmetry between China and Taiwan and explicitly argued that Taiwan is not qualified to compete with China militarily. While emphasizing the importance of maintaining sufficient deterrence capacity, they almost never warned of the formidable consequences of falling behind China militarily. In a word, they do not talk in arms race terms. For example, Lee Teng-hui argues that “Taiwan needs to defense itself and therefore we need to replace our obsolete planes and warships,” however, Taiwan has
no intention to compete with China militarily.\textsuperscript{60} He further notes that while Taiwan tried to overthrow the communist China using military forces in the past, “the time when people solve their problems by forces has gone.”\textsuperscript{61} In a similar vein, Chen Shui-ban pledged that “We will certainly not engage in an arms race with China.”\textsuperscript{62}

Ma Ying-jeou is especially aware of the deepening power disparity between China and Taiwan. In several different occasions, Ma Ying-jeou highlights the power asymmetry across the Taiwan Strait in terms of “military power and resources.”\textsuperscript{63} Ma argues that while “Taiwan should focus on enhancing innovative and asymmetric military capabilities and build a “Hard ROC” defense force,” it is also important to note that “We [Taiwan] will not engage in an arms race with China because it is not in our interests and we would not be able to afford that.”\textsuperscript{64} This strategic planning is clearly laid out in Taiwan’s 2013 Quadrennial Defense Review.\textsuperscript{65} The MND spokesman David Lo also emphasizes that while the military balance of power continues to swing in China’s favor, “Taiwan would not counter the widening military disparity by “competing with China in terms of military might”, and it is crucial for Taiwan to consider how to better employ “the island’s limited defence resources.”\textsuperscript{66}

Thus far, I have demonstrated how modest level of threat perception and power

\textsuperscript{60} “We Must Defend Ourselves,” \textit{Newsweek}, May 19 1996, http://www.newsweek.com/we-must-defend-ourselves-178248


\textsuperscript{66} Garvin Phipps and James Hardy, “Taiwan Says China Outspending It 21 to 1 on Defence,” \textit{Jane's Defence Weekly}, July 20, 2011.
asymmetry create powerful incentives to dissuade Taiwan from militarily competing with China. Here, I argue that Taiwan’s decreasing defense effort can also be partially attributed to Taiwan’s confidence in the U.S. security guarantee.

Admittedly, it is reasonable to have doubts about the reliability of the U.S. security guarantee. After all, there is no formal alliance treaty between the United States and Taiwan and one should not assume that the United States will always catch the buck. Actually, a few political leaders in Taiwan have revealed their concern about the possibility that the U.S. might not come to Taiwan’s rescue. For example, in a speech at National Day in 2005, Chen Shui-ban said, “We cannot expect to rely on others for Taiwan’s own self-defense. We must shoulder the responsibilities to build up sufficient national defense, psychological defense, and civil defense.”67 While some national leaders might be suspicious of U.S. security guarantee, Taiwanese appear to be relatively sanguine that the United States will come to Taiwan’s aid.

A poll of August 1995 found that thirty-nine percent of respondents believed that the United States will take actions to defend Taiwan should China initiate an attack against the island.68 After the Clinton administration sent two aircraft carrier battle groups to the Taiwan Strait to deter China during the 1995-96 Taiwan Missile Crisis, the United Daily reported that fifty-five percent of Taiwanese were certain that the United States would help defend the island.69 Since then, the proportion of Taiwanese having firm belief in U.S. security guarantee remained well over 50 percent. It appears that the crisis proved a turning point in Taiwan’s calculation of the reliability of U.S. security guarantee.

The 2011 Taiwan National Security Survey showed a high level of confidence in U.S.

67 Cited in Chase, Taiwan’s Security Policy: External Threats and Domestic Politics, p. 141.
68 “五成五民眾害怕發生戰爭 [55% of Taiwanese Are Afraid of the Possibility of a War],” The United Daily, August 12, 1995, A3.
69 “七成民眾希望美協防台灣 [70% of Taiwanese Hoped that the U.S. Could Come to Taiwan’s Rescue],” The United Daily, March 16, 1996, A2.
support. 56.4% of respondents were confident that Washington would send troops to Taiwan’s aid if China attacked Taiwan because of its declaration of independence.\textsuperscript{70} This result remained largely the same in the 2012 poll.\textsuperscript{71} Furthermore, the level of confidence further boosted if Taiwan was attacked without declaring independence. In this scenario, 73.5% of respondents believed that the United States would help defend Taiwan.\textsuperscript{72}

Now, if the majority of Taiwanese have firm belief that the United States will back Taiwan up when the island is under Chinese attack, presumably they will be in favor of the notion of riding free on U.S. security umbrella. It would then become a formidable hurdle for national leaders when they want to allocate more resources to defense. As a retired senior defense official said in 2015, “The main reason why it is always hard for the MND to secure larger budget is due to Taiwanese people’s confidence in the U.S. security promise. While there are good theoretical reasons to cast doubts on the U.S. security promise, in practice Taiwanese have firm belief that the U.S. will always be our savior.”\textsuperscript{73}

In sum, the causal mechanism of Taiwan’s decreasing defense effort can be summarized as follows. Taiwanese assume that China is not serious about employing military force against Taiwan and therefore it appears imprudent to bear the heavy defense burden as what Taiwan did during the Cold War, especially considering the fact that the cost of internal balancing against China has become extremely high due to China’s impressive economic growth and boosting military spending. And should China unexpectedly invade Taiwan, the United States will come to Taiwan’s rescue immediately. Modest threat perception, deepening power disparity across the Strait, and the confidence in U.S. security guarantee jointly contributed to Taiwan’s reduced

\textsuperscript{71} Emerson Niou, “The 2012 Taiwan National Security Survey.”
\textsuperscript{72} Wang, “Taiwan Public Opinion on Cross-Strait Security Issues: Implications for U.S. Foreign Policy,” p. 98.
\textsuperscript{73} Phone interview with a retired senior official from the MND, March 7, 2015.
defense effort over the past quarter century.

IV. Conclusion

This case study of Taiwan’s declining military expenditures over the past generation yields a number of important theoretical and policy implications. Theoretically, the case of Taiwan suggests that Asian countries’ propensity to engage in military competition might be lower than some scholars expect. As one of the most-likely rival of China due to conflicting sovereignty claims, Taiwan has refrained itself from matching China’s military capabilities. If Taiwan can escape from the trap of a potential arms race, there is good reason to believe that other Asian countries might be able to avoid this pitfall as well.

Furthermore, this case study of Taiwan suggests that the China threat needs to be examined rather than simply assumed by abstract theoretical propositions. Specifically, the linkage between China’s increasing military spending and higher threat perception needs further empirical scrutiny. As the case of Taiwan shows, threat perception can remain modest even as China’s military spending steadily increases. A weaker position in terms of military power does not necessarily increase threat perception.74

Moreover, the case of Taiwan reveals that Taiwan appears to derive preferences or behavioral predictions of other states based on their recent past behavior. Comparative studies of how East Asian countries infer the short-term and long-term intentions of China might contribute to help us gain better understanding of the causal mechanisms of intention assessment and formation of threat perception.75 In addition, Taiwan’s confidence in U.S. security guarantee

75 Keren Yarhi-Milo, Knowing the Adversary: Leaders, Intelligence, and Assessment of Intentions in International Relations (Princeton, New Jersey: Princeton University Press, 2014).
might be supporting evidence for the thesis that reputation plays a key role in states’ assessment of the reliability of their allies and the formation of military alliances.  

In terms of policy implications, the research findings of the Taiwanese case study suggest that Taiwan’s military spending is unlikely to significantly increase through the end of President Ma’s term in 2016. However, it is also unlikely that the defense budget will continue to shrink because modest level of external threat perception will create strong incentives for Taiwan to maintain sufficient deterrence capabilities. If both China and Taiwan continue current level of military spending, the balance of military power across of Taiwan Strait will keep shifting in China’s favor. The only question is how big the gap can be.

<table>
<thead>
<tr>
<th>Military expenditure in 1992 and 2013, share of GDP (%)</th>
<th>Percentage change 1992 to 2013, absolute terms (%)</th>
<th>Percentage change 1992 to 2013, share of GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>2013</td>
<td></td>
</tr>
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</table>

Table 1. Military expenditures of major Asian countries, 1992-2013

<table>
<thead>
<tr>
<th>Country</th>
<th>Last Year</th>
<th>This Year</th>
<th>Expenditure</th>
<th>Change</th>
</tr>
</thead>
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<td>Vietnam</td>
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<td>India</td>
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</tr>
<tr>
<td>Singapore</td>
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<td>South Korea</td>
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Figure 1 Military expenditures, 1989-2013 (constant US$2011)

http://www.sipri.org/research/armaments/milex/milex_database
Table 2. Taiwan’s military expenditures (proportional terms)

<table>
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<th>Year</th>
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Source: SIPRI, 2014; ROC’s Ministry of National Defense Annual Report, various years
Figure 2. The causal mechanism of Taiwan’s reducing defense effort

- **Power Asymmetry**
  - Respect for China’s capabilities to attack
  - Doubt about China’s willingness to attack

- **Confidence in US Security Guarantee**

- **Modest Level of External Threat Perception**

- **Rapidly Increasing Costs of Internal Balancing**

- **Taiwan’s Reducing Defense Effort**
Figure 3. The power asymmetry between China and Taiwan in terms of GDP

Source: The World Bank
Table 3. Taiwan’s required military spending to reach military parity against China

<table>
<thead>
<tr>
<th>Year</th>
<th>Taiwan’s actual military spending, share of GDP (%) (A)</th>
<th>Taiwan’s required military spending to reach military parity, share of GDP (%) (B)</th>
<th>Difference of (A) and (B)</th>
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