

Kicking the Can Down the Road

Strategic Delay in Crisis Bargaining and the 1992 Consensus

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1992 Consensus

- One China, Two Interpretations
- Tacit agreement to wait until some unspecified time in the future to bargain (“kicking the can down the road”)
- Common knowledge that China’s power is growing
- Why would an actor in a relatively good bargaining position ever seek to delay bargaining when it knows its opponent is going to be stronger in the future?

Questions about 1992 Consensus

- How did it work and what are its benefits?
- Why did it get put aside?
- Can a version be revived that will produce the same benefits?

Big Picture Theory Questions

- Why delay bargaining when opponent will be stronger in the future?
- Can strategic delay reduce the possibility of armed conflict?
- Under what conditions does strategic delay preserve the status quo in the near term?

What happens in bargaining when an opponent gets stronger over time?

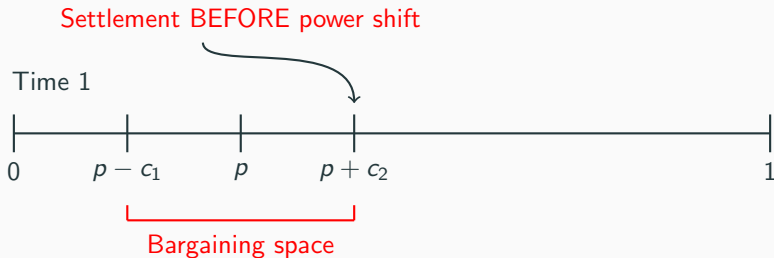
Model Setup

- 2 players bargain over disputed territory (“pie”)
- Two periods with power shift favoring p_1 (China) in period 2
- War is outside option for both players

Some basic notation

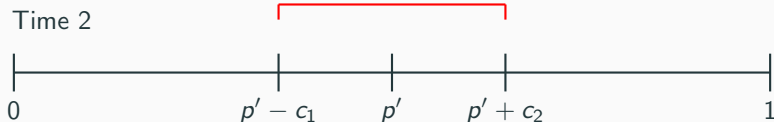
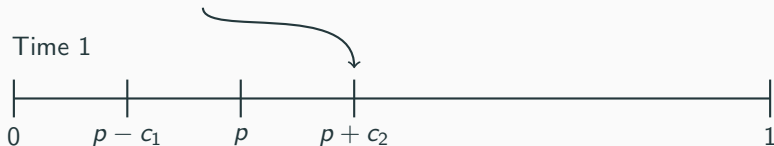
- p is the Time 1 probability that p_1 (China) wins a war
- p' is the T2 probability that p_1 (China) wins a war
- $p' - p \equiv \Delta_p$ is the size of the power shift from T1 to T2
- c_i are the costs of fighting for i

What happens in bargaining when an opponent gets stronger over time?



What happens in bargaining when an opponent gets stronger over time?

Settlement BEFORE power shift

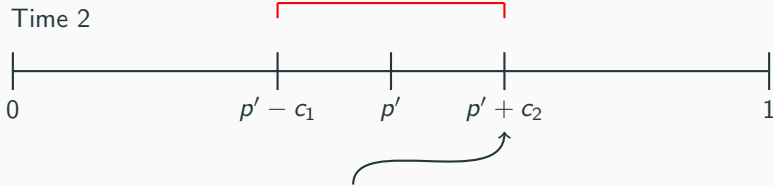
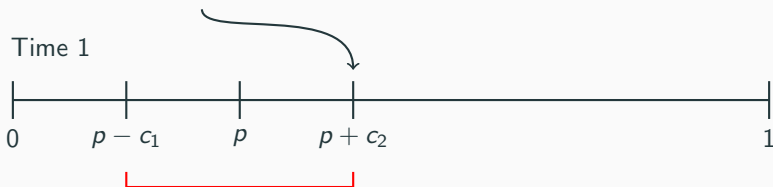


Settlement AFTER power shift

What happens in bargaining when an opponent gets stronger over time?

Greater Bargaining Concessions in the Future

Settlement BEFORE power shift



Settlement AFTER power shift

What happens in bargaining when an opponent gets stronger over time?

Two possibilities:

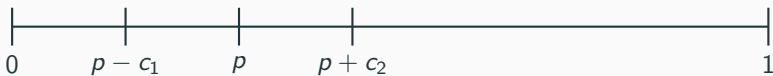
- Greater bargaining concessions in the future
- ?

What happens in bargaining when an opponent gets stronger over time?

WAR!

Settlement BEFORE power shift

Time 1



Time 2



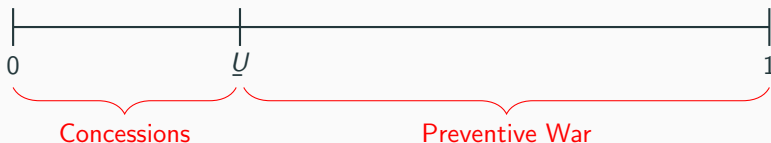
Settlement AFTER power shift

How big of a power shift results in concessions versus war?

WAR if

$$\Delta_p > \frac{c_1 + c_2}{\delta} - (p - c_1) \equiv \underline{U} \quad (1)$$

$\Delta_p \in (0, 1)$



What happens in bargaining when an opponent gets stronger over time?

Two possibilities:

- Greater bargaining concessions in the future (if power shift is NOT too large)
- Preventive war (if power shift is SUFFICIENTLY large)

Why would a country want to delay bargaining when an opponent will get stronger in the future?

- Belief that the value of the "pie" will increase in the future

Model same as before, except...

- In period 2, there is some probability r that the value of the pie will grow for p_2 (Taiwan)
- If the pie grows, then $\lambda > 1$ is a multiplier denoting the amount p_2 will value a bigger pie in the future

Did a belief in the possibility of a growing pie exist in Taiwan?

- In the 1990s and 2000s, did Taiwan elites believe that there was a chance that China might liberalize political and economic institutions in the future?
- Would such changes increase the value of "One China" to Taiwan elites?

Did such a belief exist in Taiwan? Lee Denghui 2000

“Today we are entering a new post-Cold War era, where the world is full of many uncertainties. Communism is dead or dying, and the peoples of many nations are anxious to try new methods of governing their societies that will better meet the basic needs that every human has. In fact, the Confucian belief that only the ruler who provides for the needs of his people is given the mandate to rule is consistent with the modern concept of democracy. This is also the basis for my philosophy of respect for individual free will and popular sovereignty. I only hope that the leaders in the mainland are able one day to be similarly guided, since then our achievements in Taiwan can most certainly help the process of economic liberalization and the cause of democracy in mainland China. Only by following a “win-win” strategy will the best interests of all the Chinese people be served. We believe that mutual respect will gradually lead to the peaceful reunification of China under a system of democracy, freedom and equitable distribution of wealth.” –Lee Denghui 1990 First Inaugural Address

“The first two decades of this century will be a crucial time for Taiwan to pursue a comprehensive program of upgrading and transformation; it also represents an **opportune moment in history for China to move forward with democratization and liberalization**. Governments on both sides should therefore seize this timely opportunity to take on the challenges of global competition and advocate progress and development instead of dwelling on the impasse of political debate.” –Chen Shuibian 2004
Second Inaugural Address

Did such a belief exist in Taiwan? Public Opinion 2004

In 2004, 89% believed China would not attack and that status quo could be preserved (2004 Mainland China-Taiwan Relationship and National Security Survey, National Chengchi University)

Did such a belief exist in Taiwan? Ma Ying-jeou 2008

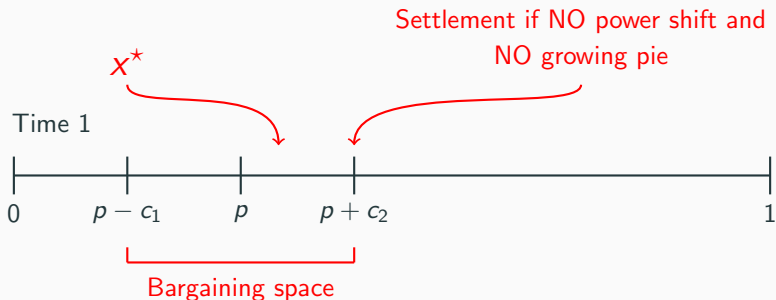
“On the day of Taiwan’s presidential election, hundreds of millions of ethnic Chinese worldwide watched the ballot count on TV and the Internet. Taiwan is the sole ethnic Chinese society to complete a second democratic turnover of power. Ethnic Chinese communities around the world have laid their hopes on this crucial political experiment. By succeeding, we can make unparalleled contributions to the democratic development of all ethnic Chinese communities. This responsibility is ours to fulfill.

In resolving cross-strait issues, what matters is not sovereignty but core values and way of life. We care about the welfare of the 1.3 billion people of mainland China, and hope that mainland China will continue to move toward freedom, democracy and prosperity for all the people.” –Ma Ying-jeou 2008 First Inaugural Address

How does a belief in a growing pie affect bargaining?

1. Compensation to Taiwan in the short term

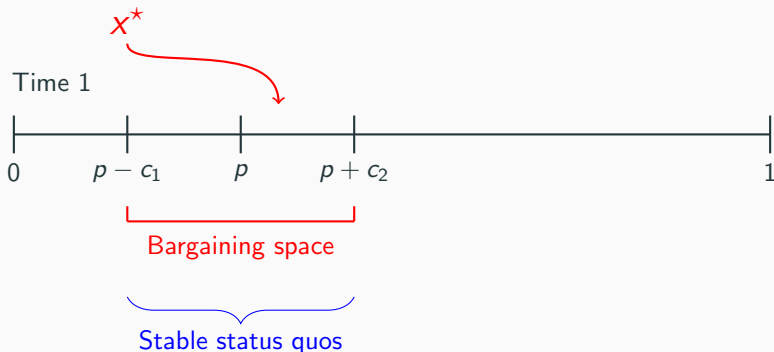
$$x^* = (p + c_2) - \delta(\Delta p - r(c_2 - \frac{c_2}{\lambda})) \quad (2)$$



How does a belief in a growing pie affect bargaining?

2. Preserves the Status Quo in Short Term

$$x^* = (p + c_2) - \delta(\Delta p - r(c_2 - \frac{c_2}{\lambda})) \quad (3)$$



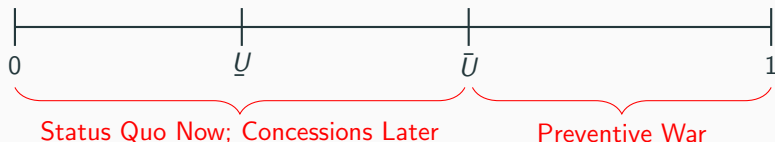
How does a belief in a growing pie affect bargaining?

3. Reduces chances for preventive war

WAR if

$$\Delta_p > \frac{c_1 + c_2}{\delta} - (p - c_1) + r(c_2 - \frac{c_2}{\lambda}) \equiv \bar{U} \quad (4)$$

$\Delta_p \in (0, 1)$



Peaceful power shifts that would cause conflict without growing pie

Summary:

- Short-term preservation of SQ (strategic delay)
- Some short-term concessions to Taiwan
- Keeps peace

These may be some of the benefits of the 1992 Consensus.

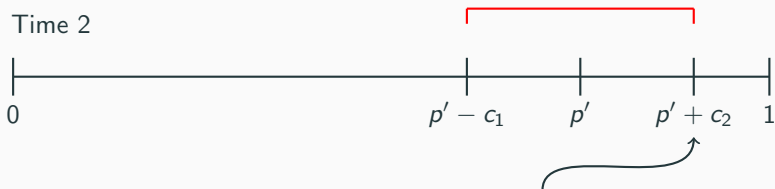
What happens if the pie didn't grow ($r = 0$ or $\lambda = 1$)?

- At some point, we learn about the future value of the pie.
- What happens if the future arrives and we learn that the pie did not grow ($r = 0$ or $\lambda = 1$)?
- Depends on whether power shift has already happened.

Case 1: The pie didn't grow but power shift already happened

1. p_2 (Taiwan) makes significant concessions to p_1 (China)

Time 2



Settlement: China can demand this

Case 2: The pie didn't grow but power shift hasn't happened yet

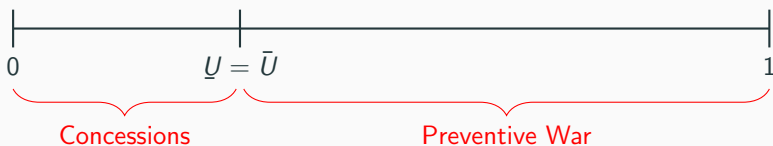
2. Play standard power shift game.

$$\Delta_p > \frac{c_1 + c_2}{\delta} - (p - c_1) + r(c_2 - \frac{c_2}{\lambda}) \equiv \bar{U} \quad (5)$$

If $r = 0$ or $\lambda = 1$,

$$\bar{U} = \underline{U} \quad (6)$$

$\Delta_p \in (0, 1)$



Why might the 1992 Consensus have lost its traction?

- Does anyone believe that China might still democratize (is $r = 0$ and $\lambda = 1$)?
- China now powerful, no longer potentially powerful in the future.

Pessimism instead of optimistic view of the future?

- At the end of 2019, a minority 48% believe the status quo can be maintained without war; 52% believe war is likely (2019 Mainland China-Taiwan Relationship and National Security Survey, National Chengchi University)
- Compare to 89% who believed status quo could be maintained without war in 2004.

What Now?

- Bargain directly with a fully powerful China and make significant concessions.
- Offset China's power with close relationship with the US and play standard power shift game.
- New belief in future expansion of the pie (Creative Diplomacy and new 1992 Consensus)?

How you can help?

- Have I correctly characterized the strategic logic of the 1992 Consensus?
- What other factors do I need to consider?
- Can you think of analogs in international politics or history?