

BOOK REVIEW

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## Chien-Huei Wu, Ching-Fu Lin and Han-Wei Liu, *Economic Cooperation in the Shadow of Contested Sovereignty*

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At times of global instability and the growing number of territorial conflicts, which earlier seemed to be a forgotten remnant of the past, the question of economic cooperation between the ‘divided nations’ is increasingly relevant.<sup>1</sup> Against this background, *Economic Cooperation in the Shadow of Contested Sovereignty* delves into this underexplored topic: how and why do states cooperate economically with their most serious political rivals - those that either undermine their sovereignty or even question it?

To find answers to these timely questions, the authors present three case studies of ‘divided nations’ - China and Taiwan, South and North Korea, North and South Cyprus. The authors dedicated a chapter of the book to each of the case studies. In each of these chapters, they aim to identify the factors that influenced economic cooperation between these nations and analyse the impact of this cooperation on the political dimension of their relationship.

Setting the stage with a brief account of historical events that currently define bilateral relations between the People’s Republic of China (PRC) and the Republic of China (Taiwan), the authors outline the cross-strait economic relations between the two. This introduction concludes with an observation about the somewhat controversial role of the existing trade imbalance between the PRC and Taiwan - the latter is dependent on exports to the PRC, while the PRC depends on the import of semiconductors from Taiwan. This situation gives potential economic leverage to each side, or, using the terminology of recent years - opportunities to weaponize that interdependence.<sup>2</sup>

In the book, it is argued that the PRC’s approach to economic relations with Taiwan is primarily defined by the ‘One China’ principle. This approach is enshrined in the PRC’s constitution, and finds its further embodiment in other domestic legal instruments that regulate trade in goods and services, intellectual property rights, and investments in Taiwan. The authors label this as ‘internalising everything’ and emphasize that this approach does not depend on the PRC’s WTO commitments that require the PRC to treat Taiwan as an entity separate from the PRC.

Taiwan, in turn, amended its constitution and other domestic legislation to ‘meet the needs of the nation prior to national unification’ (p. 55), and these amendments paved the way for the subsequent economic cooperation with the PRC. However, Taiwan faces a fundamental dilemma in its relations with the PRC - finding ‘an optimal balance between economic dependence and political divergence’ (p. 55).

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<sup>1</sup>The authors define the term ‘divided nations’ as ‘the parties [that] formerly were part of the same state and may compete for its legitimate representation while struggling for unification or independence’ (p. 6).

<sup>2</sup>H. Farrell, A.L. Newman (2019) ‘Weaponized Interdependence: How Global Economic Networks Shape State Coercion’, *International Security* 44 (1), 42–79. [https://doi.org/10.1162/isec\\_a\\_00351](https://doi.org/10.1162/isec_a_00351)

In the authors' view, the push-and-pull forces that have defined Taiwan's position towards economic cooperation with China in the past several decades are the following:

1. *Taiwan's economic transformation*: Taiwan's focus on the information and communication technology (ICT) sector requires cheap labour and export markets, while China can offer a formidable market, cheap labour, tax and investment incentives, thus making cooperation with the PRC economically attractive to Taiwan and the latter's investors.
2. *Taiwan's democratization and rising national identity*: These two forces have contributed to the rising concerns regarding economic overdependence on the PRC and possible unification. Despite these concerns, in the past decades, Taiwan's political leadership pursued divergent strategies of economic cooperation with the PRC - either promoting closer economic engagement through trade and investment or curtailing it.

Thus, the authors describe Cross–Strait economic ties as 'a blend of economic pragmatism, political antagonism, and evolution in the global trade landscape' (p. 160).

Another case study is dedicated to inter-Korean economic relations. Against the historical background of this divided nation, the authors analyse how the Democratic People's Republic of Korea (DPRK) and the Republic of Korea (South Korea) have explored possible reunification, engaged in political discussions and developed mutually beneficial modalities of economic cooperation. Among the factors that have limited economic cooperation between these states are: (i) two different paths of political and economic development pursued by these states; (ii) significant politicization of economic relations between the parties by both sides; and (iii) political turbulence in South Korea that is characterized by the changing approaches to the DPRK by various political groups that come to power. Despite these limiting factors, there have been at least two successful projects by these states: the Kaesong Industrial Complex and the Mount Geumgang Resort. The former is an industrial park in the DPRK where South Korean companies were manufacturing products using much cheaper North Korean labour and exporting finished goods back to South Korea. Both sides benefited economically from the project. Mount Geumgang Resort is a resort area in the DPRK, which attracted a significant number of South Korean tourists during the short period of its operation from 1998 to 2008.

One could not help but draw a parallel between the PRC–Taiwan political and economic engagements and the similar developments between the DPRK and South Korea. Similar to the 'two Chinas' situation, the DPRK and South Korea do not recognize their relations as inter-state relations and treat them as an intra-state matter. This attitude finds its way into the relevant legal texts. Another stunning similarity between the two case studies is that in both instances, the states have been continuously declaring unification as an ultimate objective of their political and economic cooperation. However, in each of these cases, both sides have also recognized certain clear barriers to this unification. For example, both Koreas envision unification based on the prevalence of their political and economic systems, which would require a timely and costly adjustment from the other side.

The next case study discusses the economic relations between Northern and Southern Cyprus. For half a century, Cyprus has been *de facto* divided into two parts - the Republic of Cyprus (South Cyprus) and the Turkish Republic of Northern Cyprus (TRNC, or Northern Cyprus). The authors highlight that throughout the period of separation, both sides at times were calling for reunification and at times were opposing this idea and insisted on a path to independence. The formats of possible co-existence that have been discussed ranged from two independent states to a federation or even a confederation.

Turning to the economic cooperation between the two sides, economic relations between the two parts of Cyprus were virtually non-existent for decades prior to the Republic of Cyprus's accession to the European Union (EU) in 2004. As a result of pre-accession and post-accession processes, these relations have been 'Europeanized' and a trend labelled as 'Taiwanisation' was adopted. The process

of Europeanization denotes that by virtue of the Republic of Cyprus's EU membership, the regulation of 'internal' and 'external' economic relations with Northern Cyprus 'has been transferred to the EU level' (p. 143), which, in the authors' view, stabilized and institutionalized the North–South Cyprus trade. Because of the Republic of Cyprus's EU accession, the legal status of Northern Cyprus significantly improved and allowed greater interaction with the outside world ('Taiwanization'). At the same time, these developments have also institutionalized the status quo, and thus have negative connotations for finding a possible political solution for reunification.

Through their case studies, the authors tried to conceptualize relations between the divided nations by analysing internal dynamics between these nations' constituent parts and external/international dynamics as reflected in the actions undertaken by the United Nations and the World Trade Organization. The first two case studies convincingly demonstrate that heightened political confrontations might outweigh not only the benefits of economic cooperation with one's adversary but also a century-long cultural, ethnic, and language proximity, thus leading to very limited economic cooperation between divided nations. In the case of Northern and Southern Cyprus, the avenues for normal economic cooperation have largely been limited by the sharp ethnic, cultural, and linguistic differences between Greek and Turkish Cypriots.

One additional strong feature of the book is that the development of the divided nations in question since the end of WWII is placed within a global geopolitical context. External major powers like the United States and China have significantly influenced the cross-Taiwan-Strait and the inter-Korean relationship. At the same time, despite the United States being interested in keeping Cyprus in its sphere of interest, its position on the island was ambivalent. In the past two decades, the European Union has become a major player in Cyprus, and after assuming this role, it has advocated for a dialogue and economic cooperation between the two parts of Cyprus.

Finally, the authors raise the issue of legitimacy and accountability of the autocratic regimes and their leaders, as well as semi-formal organizations that often represent parts of divided nations in negotiations, including negotiations on their economic cooperation. For example, communication between Northern and Southern Cyprus has been channelled through the two chambers of commerce that acted as key players to this end.

Overall, the book masterfully demonstrates how heavily politicized contexts influence economic cooperation. As the authors put it: 'As such, political sensitivity defines the limits of economic cooperation.'

DR IRYNA BOGDANOVA

*Postdoctoral researcher, University of Luxembourg, Luxembourg*  
*Email: [Iryna.Bogdanova@uni.lu](mailto:Iryna.Bogdanova@uni.lu)*