

# The Future of US-Taiwan Relations

Washington D.C.  
May 19, 2009

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## Introduction & Opening Address

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*Shawn McHale:* Good morning. This morning we're slightly on what when I was in Hawaii I thought was Hawaii time, which is no rush. But now I think Hawaii time is over, and I guess Washington time is beginning.

My name is Shawn McHale. I'm the director of the Sigur Center for Asian Studies at George Washington University. It's a great pleasure to introduce this conference, which features scholars from Congress, people from academia, journalists, and members of the policy community.

We're honored to co-sponsor this event with the Formosa Foundation, and Terri Giles, executive director, will also give some introductory remarks after mine. Before getting to that point, I'd just like to make a few points about the Sigur Center for Asian Studies.

As some of you may know, the Sigur Center is named after Gaston Sigur, a former professor at this university who also played a key role in East Asian affairs under President Reagan in both the Department of State and in national security.

The center puts on over 60 events a year. Many of them are on policy issues or policy-relevant issues, although not all. We are the largest academic center in Washington, DC. It's always – you can always fudge a little bit when counting numbers, but we have approximately 70 faculty members at this university who work on Asia to a significant amount, and they work on South, Southeast, East, and Northeast Asia. Our main mission is, of course, education, but the Sigur Center faculty have long been active in the policy community, and also online, also in the press and so forth.

Today's conference on the future of US-Taiwan relations is timely given the intense interest in Washington these days, and abroad, on the developing contours of US-Asia policy. All one has to do is look at the speculations about who the next person is going to be in some key post in policy, in Asia policy in particular, to realize the truth of that fact.

Of course, given the change in presidential administrations, we're all anxious to see how the Obama administration fleshes out its Asia policy and whether if, as some have recently argued, this policy will actually be in the mode of the first President Bush.

Yet as today's conference will remind us, I imagine, foreign policy is not just, in a sense, the province of a president. It's also made in the halls of Congress. It is also actually discussed by members of academia, the policy community, journalists, and so forth. And because we have members of all these different constituencies actually in our audience, as well as actually as speakers, perhaps we can get a sense of this range, in a sense, of views on US-Asia policy in general, but also policy towards Taiwan in particular.

Without further ado, I'd like to turn the podium over to Terri Giles, who can make a few comments on the Formosa Foundation.

*Terri Giles:* Good morning. My name is Terri Giles. I'm the executive director of the Formosa Foundation, and I'd like to welcome you here and thank again the Sigur Center and George Washington University for co-hosting this event.

I don't think that there's really, for me, having spent 12 years in Washington working in the Senate, a more interesting or complex issue than US-Taiwan relations. And I don't need to lecture to this crowd, because I look out here and see experts who have been working on this issue, some of you for more than 20 years or maybe longer, although I'm not going to point you out, John.

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But I think that it's always an interesting thing to think about the US commitment to Taiwan, what's happening in Taiwan, the evolution of that relationship, what's happening today in the world. And in particular, and one of the reasons I think this conference is going to be very interesting for me even, is that the politics of this in terms of the administration, both – the new administrations both in Washington and in Taiwan, and that's one of the issues that I hope that we explore particularly in this morning's panel.

I want to tell you just a little bit about the Formosa Foundation. We're located in Los Angeles, which may seem a little strange, outside – we're definitely outside the Beltway. We're so far outside the Beltway that sometimes it takes reluctance to come back into the Beltway. But there's a large community throughout the United States of Taiwanese Americans and activists that are very interested in this issue.

But the Formosa Foundation focuses primarily on the relationship between the United States and Taiwan and how to, at a grassroots level, educate the American public about the importance of that relationship. That's our primary goal, and we do that in a variety of ways, but most importantly through collaborations with universities and think tanks about hosting and holding discussions on this topic.

A little bit about our agenda today. We are, of course, waiting for our opening speaker, Congressman Royce, and when he gets here, he'll start his remarks, because there is a Foreign Affairs Committee markup today, which may affect us in the afternoon since Congressman Berman is the chairman of that committee. However, we're just going to be very flexible with that. And I thank you all for coming and welcome all our former colleagues that I have here, and again would like to thank in particular Deepa and Erin and Shawn and all of you for cooperating with us and making this conference possible. Thank you very much.

*Terri Giles:*

It's my pleasure this morning to introduce to you Congressman Ed Royce. He represents Southern California's 40<sup>th</sup> district. It's based in Orange County. And Congressman Royce serves as a senior member of the House Foreign Affairs Committee, and he is an active member of that committee. He is very well known for his knowledge in the different regions of the world and foresight into the key U.S. foreign policy issues. He serves as the ranking member of the Subcommittee on Terrorism and Trade, and a senior member of the Subcommittee on Asia.

Congressman Royce has done extensive work throughout Asia. In 1999, he was appointed by the Speaker of the House to serve as chairman of the US-Republic of Korea exchange in which members of Congress discussed security, trade, political, and other issues with the Korean National Assembly members. In 2004, the congressman was original co-sponsor of the North Korean Human Rights Act, which was signed into law to promote human rights in North Korea and protect North Korean refugees. He has been an active supporter of the Korean-US Free Trade Agreement and of trade throughout all of Asia.

Congressman Royce has worked to promote international broadcasting into countries where governments limited free speech or strictly control the news and information. He is the author of the Radio Free Asia Act of 1997, which significantly boosts broadcasting activities to China, North Korea, and other Asian countries with repressive governments.

Congressman Royce has long been involved in calling attention to the terrible human rights conditions in Vietnam. He worked on legislation to promote religious freedom and democracy, including the Vietnam Human Rights Act.

And as we'll be hearing this morning, Congressman Royce is a supporter of a free, democratic, and prosperous, strong Taiwan, and we certainly appreciate having him speak to us this morning. And without any further ado, please welcome Congressman Ed Royce.

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*Rep. Royce:* Thank you, Terri, very much. I appreciate that. I think for me personally, one of the key aspects of watching Taiwan develop, of Taiwan's transition to democracy, and I watched part of that – as a matter of fact, Tom Sheehy on my staff was an observer of one of those historic events in Taiwan in terms of the transition to democracy.

I think back to my days in university and the debate, the discussion over whether great Chinese culture was also compatible with democratic capitalism. And I think Taiwan irrefutably proves the point in terms of the success of the building of the democratic institutions on Taiwan.

But as we have this discussion today, it comes on the anniversary of several significant events. It's the 30-year anniversary of the Taiwan Relations Act. It comes as, in Geneva, the annual meeting of the World Health Assembly, the WHO's governing body – it comes as Taiwan is taking part, only with observer status, but it is an important start. It comes as we have the one-year anniversary of President Ma's administration and 100-day anniversary of Barack Obama's, and so we're trying to figure out the relationship between – or what new relationship is developing between the United States and Taiwan between the two administrations. And so it's a good time, I think, to focus on our relations with Taiwan.

Let me start with this premise, and it is that we have not done enough in the United States to articulate why a free, democratic, prosperous, strong Taiwan is in the national interests of the US. I don't think many Americans understand Taiwan's role in the world. If you consider that Taiwan is the 26<sup>th</sup> largest economy on this globe; that it's the 9<sup>th</sup> largest trading partner with the United States; it has one of the largest ports in the world; it has that strategic position along the commercial lanes, you realize that Taiwan is a major player.

But I think in not appreciating Taiwan's role, Congress does play a role in why that appreciation, that recognition, is not what it should be. And I would just give an example: the recent resolution that the House passed, marking the 30<sup>th</sup> anniversary of the Taiwan Relations Act. And what was done with that resolution? Well, stripped out of that resolution was what was in the original introduced version, which was a reference to the economic significance, or a reference simply stating the fact of trade between Taiwan and the United States.

But because of the concern of even raising the issue of trade between the United States and Taiwan, that was stripped out before that bill could be taken up and passed. And so I think that the fact that any reference between trade in Taiwan and the United States is not acceptable for a discussion for the United States Congress, even in the form a resolution, is indicative of the fact that we perhaps have a little challenge here.

Taiwan is at the crossroads of the global supply chain in terms of trade. Companies in Taiwan are the critical suppliers here to Apple, to Dell, to Hewlett-Packard. If you've got an iPhone, if you've got a BlackBerry, it was probably assembled in Taiwan.

And again, Taiwan's successful democratic transition I think sends that message that Chinese culture is not incompatible with democracy. And recently we had the additional printing of the biography of Zhao Ziyang concerning the tragic events of June 4<sup>th</sup>, 1989, in Tiananmen Square in which he lays out the argument for democracy in China. Originally he was known for what he brought to Sichuan and to South China in terms of his role as secretary general of the Communist Party, his role in terms of liberalizing, bringing transparency, bringing a market economy. But recently upon his reflections, especially having witness to that crackdown in June 4<sup>th</sup> of 1989, he has now printed his memoirs. And in those memoirs he states unequivocally that the solution for China is to embrace this same democratic model, that that's the way to empower the people in China for the future.

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So this debate is very much alive, but Taiwan has for the world, and especially for the university setting, suddenly destroyed basic axioms that were set when I was in university. And one of those axioms was that democracy was not – and human rights maybe -- weren't necessarily going to come to Asia. Taiwan has brought that.

It's a country, and one of the few, frankly, that has gone from US aid recipient to aid donor around the world. It has peacefully transformed from an authoritarian autocratic regime to a democratic country. It's a true responsible stakeholder in the world today, and I think for Americans it's also important we realize that Taiwan is a long-term, longtime friend of this country.

Now just focusing for a minute on the détente, we might call it, on the cross-straits and the Taiwan-PRC talks, we now see that the agreements that are in place, regular direct weekend charter flights and tourists from China visiting, direct sea and air transportation. The postal links have been put in place. Shipping a fruit used to take eight days; now it's four days. We see a transforming in terms of the speed of trade. Last month a Chinese company announced the country's first significant investment in Taiwan.

I think what concerns us here, though, is the reciprocity in terms of a drawdown of the military presence across the straits, on the mainland side. In 2001, there were 250 missiles; I remember the briefings. The last time I checked, there were 1,400 missiles, and those batteries were still coming online. And so the fact that these are aimed at Taiwan, this is our concern.

In terms of security, America's Asian partners I think, to some extent, fear that the United States is an Asian power in decline. I've read some of the arguments put forward by some of our commentators on this: Is China going to move in and fill that void? This is the thesis. I think that in some ways Secretary Clinton's trip to Asia was, in part, meant to counter that perception.

I think how our country, how Washington, treats Taiwan will signal how Washington sees its role in the Pacific, and that's another reason why I believe that engagement with Taiwan is very important for the United States. Taiwan faces one of the most complex and lethal military threats in the world. Beijing has deployed hundreds of ballistic missiles, advanced fighter aircraft, submarines, destroyers, and all of them have a view towards Taiwan. The military balance obviously is in the PRC's favor. In addition, the PRC has advanced its ability to counter US intervention, developing an anti-ship ballistic missile that would give it the ability to target our carrier battle groups.

And I'll just give you a paragraph, a few short sentences, from the April Pentagon report on China, and it says: "China's ability to sustain military power at a distance remains limited, but its armed forces continue to develop and field disruptive military technologies that are changing regional military balances that have implications beyond the Asia-Pacific region." And it concludes: "Much uncertainty surrounds China's future course." Well, it's a deterrence to the wrong future course that the United States role plays here.

Some other thoughts in terms of our relationship with Taiwan. I think the United States could gain from intelligence-sharing with Taiwan, using Taiwan's linguistic and cultural advantages here. On the economic front, in recent decades the Asia-Pacific region has really been marked with very rapid trade liberalization and more democratization, more prosperity. Taiwan has a very dynamic economy. I mentioned Tom Sheehy to you. He was the author of the Index of Economic Freedom, the concept. This year is that Index of Economic Freedom was published. Taiwan ranked 35<sup>th</sup>, which means we could still see some economic reform and liberalization to that economy, but that's still pretty high on the list. It would benefit even more from further liberalization.

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Since the 1990s, unfortunately, China has warned Asian nations not to sign free trade agreements with Taiwan. The numerous regional and global FTAs already in place – there's more than 100, by the way, in East Asia – are steadily undermining Taiwan's international competitiveness through trade and investment discrimination, and that is an important point in terms of the long-term effect that that has on Taiwan.

Taiwan embraces the rule of law. We've had hearings that we've helped orchestrate about the constant stories that I hear from my constituents, the evidence they give me in terms of them being taken to the cleaners, put into bankruptcy, for their firms in China. I never hear those arguments about investment outcomes in Taiwan. The rule of law is crucial, and the studies that I've seen in terms of the negative rates of return for investment in China versus the positive returns in Taiwan I think are something – is some information that we should get out to our capital markets, that we should seek to exchange not only for the benefit of the investors here in the United States who so often lose out on these investments in China.

I would say in terms of my casework – of course, I'm from California, right? So I'm on the Pacific Rim, but this is a huge, huge problem. I can't go to a World Affairs Council meeting or a similar type of meeting in California without this dominating the debate. Why? Because so many – so many – of our investors in California have been burned in Shanghai or Beijing. And here, again, engagement with Taiwan is engagement with a country with a rule of law with very real consequences, and I think more focus on this in the United States really is warranted.

Now, in terms of recommendations, if I could close with some observations there, there've been dramatic developments in Taiwan. We need to think about setting objectives for our relationships as a result. US officials can tick off their priorities when it comes to the People's Republic of China, but when you ask them what are the priorities with respect to Taiwan, well, again, this is why we have to have a focus on rethinking our policy.

And if we did that, what elements should be on that list? And I'll offer mine. First, keep Taiwan honest to its democratic legacy. There's always the chance of slipping in terms of the commitment to freedom of speech. I have faith that the Taiwanese people will determine the best course ahead toward China. Democracy in Taiwan will work, but in any country, there is a tendency to try to stifle debate, to try to shut down political opponents, and this is wrong. We have very high standards for Taiwan. If the government strays from its principles, it's our responsibility as Americans to help Taiwanese stand up for free speech.

I think we should revisit the Taiwan guidelines. The US needs to find ways to more openly engage Taiwan's democratic leaders. The Taiwan guidelines are arcane and inappropriate for the type of relationship we have with Taiwan. They're 30 years old and, to my knowledge, have only been modified once.

It would make sense to review and adapt our policies over the course of three decades. It's time to do this. China and Taiwan are much different today than they were then. Détente notwithstanding, the Taiwan Strait is a flashpoint. It's essential that US policymakers be able to directly communicate with the leaders of Taiwan. Restrictions on US-Taiwan contact are counterproductive, and not just that, but they can also be dangerous.

In terms of international organizations, the US should push for efforts to get Taiwan membership, full membership, in the World Health Organization. This week marks a big step, but we shouldn't be complacent. Why not welcome Taiwan to join other UN organizations? That's the role we should take now. And now is not just the time for cross-strait détente, but also for the world to give Taiwan its rightful place.

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In terms of cabinet-level visits, I think we should send a Cabinet member to Taipei. Disappointingly, no Bush Cabinet members visited Taiwan. In a reversal from the George H.W. Bush and Clinton administration, we didn't have that kind of engagement. The last Cabinet officer to visit was Transportation Secretary Rodney Slater.

In terms of free trade agreement – and at times I feel like I'm the last guy still pushing for free trade agreements, but I was emboldened by some of the commentary by our new USTR when he laid out the case for engagement in Asia on expanding trade agreements. I think that one of the concerns in the past on that front has been intellectual property. We've seen tremendous advances in Taiwan on that issue of intellectual property, so now is the time. That concern's off the table for us. I think Taiwan's entry into the WTO provides a framework for an FTA, so let's put together a roadmap for this shared goal.

Port visits. I think allowing US Naval port visits to Taiwan is in order. China denied port calls for a US Naval ship at Hong Kong that was even in distress at the time, so I think we should let Beijing know that we have elsewhere to go. Similarly, the PRC has not joined the Proliferation Security Initiative. Taiwan is a productive member of the Container Security Initiative. Why not enlist Taiwan's help in proliferation of missile and nuclear technology that we're concerned about coming out of North Korea?

I think we have to have a realistic view of China. Bush administration officials came to view smooth US-PRC relations as a key to tackling the North Korean and Iranian nuclear programs, yet I've always focused more on what governments do than what they say. And I think it's been borne out here that there are really concerns about what they have failed to do in this regard. Chinese behavior across the board has been a disappointment, so let's be realistic.

And lastly, on arms sales. If we want a cross-strait détente to succeed, and I do, President Ma will have to do so from a position of strength. The US should be willing to proceed with appropriate arms sales to Taiwan. I'm pleased that the Bush administration finally went forth with arms sales to Taiwan at the end of the administration – with prodding from Congress, by the way. Six point four billion dollars in Patriot missiles, Apache helicopters, anti-tank weapons, aircraft parts were all part of that. The arms sales incentivized China to pursue political, not military, means to reconcile their differences with Taiwan.

So those are some of my observations. Be happy to take a few questions, and I appreciate the opportunity to speak with you here today.

*Audience:* Hi, I'm John Tkacik, retired foreign service officer. Congressman Royce, Governor Huntsman has just been made ambassador to China. I was wondering if you have any observations on the governor's point of view, his views of China and Taiwan, and if you think this is a good appointment or a political appointment or...?

*Rep. Royce:* Well, upon hearing it, I thought it was a good appointment, but I also thought it served to remove one of the potential opponents for the president, and so I think there might be a political element to the appointment. But nevertheless, I think Governor Huntsman has a strong record as governor of Utah, and I think that he will probably serve well in this capacity. But it's my intention to speak with him on some of the issues which I've spoken with you today on, in order to make certain that he understands the perception of a number of us on the Foreign Affairs Committee with respect to Taiwan and making certain that there's balance in this relationship with Asia.

*Audience:* In Taiwan, there's a lot of concern that the Ma administration may be, step by step, taking Taiwan towards China's embrace, I mean, sort of irreversible. \_\_\_\_\_ now is, how could the majority of Taiwanese who would prefer keeping their independent democratic status quo

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express their opinion? Taiwan has a good friend \_\_\_\_\_, but it's really designed to stop referring to \_\_\_\_ for the majority of people to really express their opinion, because there's so many impediments to it and such a high threshold for any friend of the press.

And I was wondering, could the US try to do something along that line to help the Taiwanese to really express their opinion about the future of Taiwan? Because the Clinton administration certainly said that future should be determined with the assent of the Taiwanese people. But how can they express that assent without a viable mechanism? Something positive that US policymakers should consider and see what can be done.

*Rep. Royce:* Yeah, I think that there's a question of independence de facto versus de jour. But in point of fact, in reality, Taiwan – the people in Taiwan have freedom, and freedom is the quintessential – that's our focus. How do we maintain that?

As I've laid out for you, I think deterrence to Chinese aggression is the key antidote to that. I think everybody understands where the Taiwanese public is on this issue. Perhaps the subtleties are – go to this question "de facto versus de jour." And I can just tell you from conversations I've had in Taiwan, I don't have any misconception about the desire of Taiwanese people to have freedom, and I don't think anybody else does either in Beijing or elsewhere, so that would be my observation. I think that sentiment is pretty widely understood. I think the only way, though, to guarantee it is deterrence.

*Audience:* Hi, Congressman Royce. Peggy Chang with Voice of America. It's been a year since President Ma become the president of Taiwan. How do you think, overall, that he did as – and going forward for the next at least three years, do you foresee any challenges between US-Taiwan relations?

*Rep. Royce:* Well, I think it's mixed, but I think the future for Taiwan is very strong. As I said, I'm most concerned about Taiwan's exclusion in terms of free trade agreements that are being developed and have developed in Asia over the last few years. In terms of strengthening Taiwan, I think an initiative for more liberalized trade between the US and Taiwan is in order. So my hope right now is that the new administration here, and our new USTR, will follow up on remarks that he made last week – well, actually, in the paper this morning – about engaging Asia in a robust way in terms of liberalized trade with a possible FTA agreement with Taiwan.

I think if the new administration in Taiwan – if President Ma's administration can work on that, that will counteract the phenomena of China's attempting to exert this kind of pressure by leverage on other nations in the region in order to keep the trade flowing. The key ingredient to Taiwan strength, as I mentioned, is the role that it plays in international commerce. Preserving that needs to be a key focus here.

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*Ed McCord:* I'm Ed McCord. I'm the director of the Taiwan Education and Research Program at the Sigur Center for Asian Studies, and I again welcome you here today. Our first panel I think is very interesting. We're going try to be – at least trying, anyway, to track the trends in US-China relations since the 2008 elections.

We have at least three of our panelists here. I hope the other is going to arrive still. And I think what's interesting about this panel is the range of people that we have speaking for us today. Carolyn Bartholomew, if she comes, is – you actually have all the biographies; I'm not going go into great detail, but is from the US-China Economic and Security Review Commission. Then we have Liu Shih-chung, who is a former counselor to the president's office in Taiwan and vice chair of the Research and Planning Committee in MOFA. We have Edward Friedman, who's a professor of political science from the University of Wisconsin. And finally, Julian Baum, a journalist who is formerly bureau chief of the Taipei bureau for the *Far Eastern Economic Review*.

So without going into the details of each individual, I'll just turn the panel over to the panelists, and we'll go in the order in which they appear on the program. And again, we will stop whatever you're saying, at whatever point, whenever the congressman comes in, and we'll just pick it up after he leaves. So – well, actually, Carolyn's not here. So Liu Shih-chung, would you like to?

*Shih-Chung Liu:*

Well, thanks, Ed, for inviting me. It's a pleasure for me to be here to exchange some views with you this morning. Due to the time limit, I think I'll just get right to my points.

My presentation this morning focuses on two major parts. The first one is – since I think most people agree with that ever since President Ma Ying-jeou took power, US-Taiwan relations seems to move toward more better way, vis-à-vis what happened in the last couple of years. So I would presume that there's – it's a good start, but there's still a lot of uncertainties as well as challenge it has. So I'll just get right to the point and highlight a couple of major challenge for the Ma Ying-jeou administration in light of future US-Taiwan relations, and I'll focus specifically on **probably** domestic constraints that he's facing up to now. And the second part of my presentation will focus on what are the contending issues related to **Korea and US-Taiwan** relations. I'll offer a couple of examples.

So let me get to the first challenge of the Ma Ying-jeou administration. I will say that most people agree with that ever since he took power, cross-strait relations seems to stabilize temporarily, and cross-strait dialogue resumes. And also, the cross-strait diplomatic competitions suspended, and also Taiwan's international image seems to improve a little bit. And Chinese Taipei finally gets the accession to the World Health Assemblies as an observer.

Those look pretty rosy, and also cross-strait relations seems to move toward a more brighter future. But I would say that there is still a lot of uncertainties associated with those immediate \_\_\_\_\_ adopted by President Ma and his government.

The first challenge is, for most of the cross-strait policy **opening**, implemented and also adopted by the Ma Ying-jeou administration, seems to avoid sufficient policy evaluations, and they have resulted in very limited and closed policymaking procedures. And most importantly, most of the cross-strait policy adopted by the Ma administration seem to bypass legislative oversight, and also bypass opposition checks and balance, and without sufficient acknowledgement by the public.

For example, President Ma pledged that he's going to sign the so-called Economic Cooperation Framework Agreement with his Chinese counterpart by the end of this year. And

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some of the government – the KMT government poll shows that there are over 70 percent of public support that idea. But according to other polls in Taiwan, there are also over 80 percent of public have no idea what kind of – that kind of agreement is and what the pros and cons are associated with the signing of such an economic agreement.

And the second challenge – I would say that President Ma adopted this principle of mutual non-denial in terms of his engaging with the People's Republic of China. There's also – he kind of re-embraced this concept of 1992 consensus and also advocate that his Chinese counterpart, PRC President Hu Jintao, also accept not only 1992 consensus but also this notion of one China with individual interpretations.

Yesterday President Ma held his anniversary press conference, and **what** in the conference react – I would say he react to this May 17<sup>th</sup> big parade launched by the opposition Democratic Party and some of the social groups, in the way that he reiterate the notion that Taiwan is the Republic of China. I would say this is a very important way for President Ma to react directly to at least I would say 40 percent or more than 40 percent of public dissatisfaction over those controversial cross-strait policy that he has adopted in the past couple months.

And also, remember, former President Lee Teng-hui used to define this relationship between Taiwan and ROC as "ROC in Taiwan." And former President Chen Shui-bian of the DPP government, he redefined this relationship between Taiwan and ROC as "ROC is Taiwan," Republic of China is Taiwan. And now we heard that President Ma redefined this relationship as "Taiwan is ROC."

But according to this notion of one China with individual interpretations, I think Taiwan **side** advocate that Republic of China represent the only one China. And President Ma, in the most recent video conference with one of the think tanks here in Washington, DC, he advocate that Hu Jintao also accept this notion despite both sides refraining from talking about it when it comes to cross-strait negotiation.

But I would say that President Ma's new elaboration of "Taiwan is the Republic of China" will have some sort of impact on future cross-strait relations. It will also have something to do with whether it will affect future US-Taiwan relations. PRC's concession to President Ma's goodwill gestures are limited conditions and also politically calculated. Take the WHA accession, for example. Although, I mean, a lot of people has been speculating about this one-year reviewing as a basis for Taiwan to attend next year's WHA. Well, of course, the Ma administration denied that. But it clearly that at least for most international observers, it seems that this is based on China's assent that Taiwan get to attend this year's WHA. So I would say that in terms of a negotiation with China, the Ma administration need more careful and politically calculated thinking when it comes to decision-making process.

And final challenge to President Ma is – largely comes from some of the myth. For example, President Ma's belief that by signing – for example, by signing ECFA he will give Taiwan economic leverage to rejuvenate its fragile economies, but I would say that's more of a risky thinking associated with that. For example, yes, we have seen that there are increasing numbers, for example, of Chinese tourists to Taiwan in the last two months. But I would say in most cases that China has the power to control the quantity of the Chinese tourists to Taiwan. And also, by opening – by signing the ECFA with China, whether it's gonna guarantee that it's not gonna hurt some of the traditional – for example, the agricultural sectors in Taiwan, and so far President Ma pledged that he's not going to sabotage some of Taiwan's traditional sectors, but we don't know yet. We will see.

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Plus, the decision-making process was like President Ma pop out the idea first, and then the bureaucrats come up with more pros and cons evaluation, which is not the correct way to do such a bold policy toward the other side of Taiwan Strait. Not to mention that President Ma is facing severe domestic problems. One of them is the rising unemployment rate. It has reached almost 6 percent, and the hidden unemployment rate has also almost reached to 8 percent. And that's why President Ma in yesterday's press conference, he expressed – again, he expressed his determination to tackle this issue. He understand that pledging all his cards on cross-strait economic **opening** is not really enough. So now, later, he needs to take more consideration of some of these domestic pressures.

So I would say that, all in all, I would suggest the American foreign policymakers to take a more overall considerations on how good or how bad so far the Ma administration has been dealing with China. We're seeing some sort of a cross-strait stabilization, that's for sure. I think nobody, even people from the Green camp in Taiwan, can deny that.

But I think what Taiwan's people need, as the senator said earlier, is whether those – especially those bold policies can be forged in a more – based largely on the \_\_\_\_\_ and also the consensus reached by Taiwanese society and proceed in a more cautious way. And I would say that probably because of those challenge that President Ma is going to face, it will to a larger extent affect the future of US-Taiwan relation.

I kind of categorized at least four contending issues related to future US-Taiwan relation. The first one is regional security strategy, whether the Ma administration has a clear regional security strategy in Asia that can go within the parallel with the Obama administration. Let me just take one example.

There was this fishery dispute between Taiwan and Japan in mid-June last year. That was two weeks after President Ma took office, and most of his national security council member hasn't been in position yet, and there was this tension occur in this most controversial island, Senkaku \_\_\_\_\_ Diaoyutai. And there are also a lot of historical backgrounds associated with that island, so I don't want to explain it in details.

But the way that the Ma administration handled that tension – I mean, first, even the premier of KMT government, even some of the KMT legislators, threatened even to go to war with Japan at that time. And the minister of national defense in Taiwan agreed to send a Kidd class destroyer to accompany the KMT legislator to the Diaoyutai Islands. But of course, it took nearly a week for President Ma to come out and finally set a tone that we can solve this tension through diplomatic means instead of national sentiments.

So I think whether the Ma administration recognized the importance of Japan as key allies to the United States and Asia-Pacific region, I think that's a very important issue. I'm sure that after that kind of – after that episode, there has been very frequent communication between Washington and Taipei \_\_\_\_\_ hoping that Taiwan government can move along with the American government's policy in Asia-Pacific region.

The second **task** is, I would say that there are still some contending issues between Washington and Taipei on whether the Ma administration is going to – whether or when were the Ma administration going to reopen the beef, pork, and rice to Taiwan markets. The former DPP government used this strategy, the reopening of American beef to Taiwan, in some way as a tool to sort of mitigate some of the other political agendas that former President Chen Shui-bian **and his** government have been trained to push forward.

And it worked to a certain degree, but I so far haven't seen the Ma administration try to reciprocate to the American government the issue of reopening the US beef and pork and

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rice to Taiwan, probably because – this is just my guess – probably because President Ma feel that for those cross-strait \_\_\_\_\_ policy that he has adopted, the US government – Obama government has expressed a lot of – has given him a lot of credit on that. So there's no need for President Ma to further push forward issues like reopening of US beef. So I would – and also, plus, maybe he doesn't want to **like** his Korean counterpart, Lee Myung-bak. But this is a key issue. I think it's the most contending issue right now facing Washington and Taipei.

The third issue is, of course, the FTA between Taiwan and the US. This negotiation under TIFA has been frozen, like the arms sales issues, have been frozen in the early months under – even when President Ma came to power. But of course, the arms sales has been – former President Bush has met the announcement, arms sales \_\_\_\_\_ to Taiwan. But TIFA – I've just heard that the USTR just recently sent a team to Taiwan to resume the dialogue on TIFA.

But I would say that because some of the Ma Ying-jeou administration official from Ma Ying-jeou administration said something before that by signing a cross-strait Economic Cooperation Framework Agreement, that will help the US-Taiwan Free Trade Agreement in the future. I personally would say that it was a misleading concept. It was more of a political way to push forward the signing of – to accumulate support for the signing of ECFA. So I would say that from TIFA to FTA between Taipei and Washington, there's still a long way to go. But of course, these are very important issues when we talk about US-Taiwan relations.

Finally is the extent to preserve Taiwan's democracy. I mean, leaving aside cross-strait issues, for the past couple of months we have seen a lot of what I call backwardness of Taiwan democracy under the Ma Ying-jeou administration. For example, last December there has been some sort of abuse of power by the police when the ARATS chairman, Chen Yunlin, visited Taipei.

There's also some controversy over the Ma administration's overwhelmingly investigation and detention of the ex-DPP officials, including former President Chen Shui-bian. And there are also a lot of controversy over whether President Chen should be – the prosecutors should extend President Chen's detention.

So I would say that – and there's also a lot of the controversies over Ma administration's control of the medias in Taiwan. And the freedom has kind of downgraded Taiwan's liberty, freedom of the press to the 11<sup>th</sup> place, comparing to the earlier years when DPP was a power. The DPP was able to create a freer environment for the media in Taiwan.

So I would say that perhaps for most decision makers here, maybe they are quite pleased and quite satisfied with how cross-strait relations has been evolving in the past one year. But also I would urge them also to take into account what price and what are the long-term risks that might associate with this opening of a cross-strait détente.

Comparing with China, Taiwan – **elect** leader in Taiwan always has his reelection pressures. I would say that since a lot of people has accused former President Chen Shui-bian for his playing too much on the – playing out the domestic politics. But I would say that even for President Ma, he also has his pressures for reelection, so we have seen recent political maneuvering made by presidential **office** in terms of having President Ma to wearing another hat as a KMT chairman. And also, I think President Ma is right in the middle of arranging his **secession** team and hopefully can boost his reelection bid.

And he also – a couple of weeks ago, when he was interviewed by Singaporean media, he also said something like he wouldn't rule out any possibility of engaging in negotiation with

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China on the political issue. He didn't specifically say anything whether that unification would be part of that. Of course, later he denied that.

So I would say that President Ma has a clear agenda **setting** ahead in the next several years, but the question whether he's gonna achieve that in a more democratic way, and also taking into account both domestic pressures as well as regional concerns on his policies. So I guess I'll just stop here and welcome your comments and questions. Thank you.

*Carolyn*

*Bartholomew:*

Thank you very much. Thank you for inviting me to speak today. Thank you both to the Formosa Foundation and to the Elliott School. It's a pleasure to be here. A little difficult to look out on an audience where at least half of you know more than I do and could be up here speaking, so we'll leave some time for questions and hope that we can handle them.

I was asked to talk about what a Democratic-controlled Washington might mean for US-Taiwan relations. And since politics has been injected into it, I'll simply say, as a Democrat I'm thrilled that we have a Democratic president, but as somebody who has worked on US-China policy for the past 20 years, I don't expect that there will be much difference in terms of how the overall policy is approached.

We've gone through this a number of times over the past 20 years. Some of us had great hopes that Bill Clinton would have a different US-China policy than the first George Bush had had and were greatly disappointed to find out that that wasn't the case. We then had hopes that the second George Bush president would have a different China policy than the Bill Clinton presidency had been and were disappointed in that front. So honestly, not to sound cynical, I came into this with not a whole lot of expectations that things were going to change very much.

And in fact, if you look at US-China policy, certainly over the course of the past 20 years, it really hasn't been a Democratic policy or a Republican policy. It's been one of the interesting things that somebody who spent 17 years on Capitol Hill has noticed about this. I'm pleased to see that Congressman Royce was here, was very encouraged by the things that he had to say. I think that Chairman Berman – we can be encouraged by some of the things that he has to say. So you can't really say in these circumstances that Democrats will behave X and Republicans will behave Y. It's, I think, a much more complicated dynamic.

That said, I think that there are some things we can see that are going to be different. We certainly already see a much larger engagement in the world, a real effort on the part of the secretary of state and the president to reach out to places and to regions that had, as we had heard over the course of the past five or six years, been feeling neglected, regions and countries that had been feeling like the only time the United States spoke with them was to talk about terrorism and counter-terrorism issues. So I think that this renewed engagement raises a lot of questions and a lot of opportunities, frankly.

But I also think that the world circumstances are going to be what defines this more than anything else. The China commission, which I'm chairing this year, just got back last week from seven days in China. We are always limited as to how much time we can spend on the ground, as to how many of us can go in, and as to where we can go.

But I was really struck in the conversations, particularly in Beijing, by a renewed and expanded confidence on the part of Chinese officials. There was a definite subtext to our meetings, and in fact we were told directly sometimes, "If you, the US, does things that we don't like, then we won't do things that you want us to do." I think that the global economic crisis is going to have consequences. I think that it's going to shape the relationships that move forward.

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I think that there are a number of people in this country who seem to be moving in fear that if we're not careful in dealing with Beijing, then the Chinese government will stop purchasing US debt. I've been pretty soundly convinced that that indeed is not actually the case. The Chinese government has, first, really nowhere else it can go to purchase the levels of debt that it's been purchasing here, and, second, they don't want the value of their current investment to fall. But that argument really stays out there and is prevailing in a lot of places, and I think that those are the kinds of arguments that might shape how responses happen on Taiwan, so there's a context here that I think is really important for us to focus on.

Congress, of course – since we have two people from Congress who are supposed to be speaking here today, it's presumptuous for me to say anything, but Congress has always played a very, very important role in shaping the US-Taiwan relationship, as well as making sure that Taiwan has not been sacrificed in the bigger context of the US-China relationship. I think that that dynamic is going to continue, and I think that it's really important to continue a focus on Congress in terms of continuing support for Taiwan.

In that context also, I think it's really important to think about how clever the Chinese government just was in the World Health Assembly situation. It has been China's – Taiwan's participation in the World Health Organization has been one of the major issues that Congress has been able to focus on in terms of what it's doing.

We all live and work in a world here in Washington where people tend to focus on the issues that are a crisis as they are a crisis. There are a lot of crises going on right now, from the global economic situation to Pakistan to North Korea to Iran. And we have to presume that people who would otherwise be focusing on what's going on with Taiwan might not be spending as much time on it because nothing crisis-level has bubbled up so far. I think we have to hope that that continues to be the case.

But I think that that means that people really need to make an effort to make sure that nothing happens below the radar screen, that by the time Congress figures out what's going on, it's too late to try to have some input into. So that's one of the things that I always say, which is maintaining the focus and figuring out how to shape what it is that Congress is actually going to be focused on vis-à-vis Taiwan is going to be important.

I think it's also really important for people who care about Taiwan to ensure that from the perspective of the Taiwan government there's absolute clarity in terms of what Taiwan needs. I am talking particularly about the arms sales. I think, again, we're in a situation that unless the government of Taiwan is really clear about what it needs and what it's requesting on arms sales, there's going to be a tendency to probably not pay a whole lot of attention to that.

I think in this new administration, the role of Japan in dealing with this relationship is going to be heightened. I think that – my colleague mentioned regional security strategy from the perspective of Taiwan. I think we need to think about regional security strategy from the perspective of the United States too, and Japan plays a critically important role in that. Japan's heightened concern about the status of Taiwan I think is going to be something that is going to help keep Taiwan on the radar screen of the policymakers here.

At a lower level – and by lower, I mean assistant secretary, so it's really not low – I think that we have friends of Taiwan who are in the administration, people who have dealt with these issues in the past. Whether they are going to be able to get their views and concerns raised to the next higher level, when we have a secretary of state, a secretary of the treasury, all of whom have their own sets of issues in terms of dealing with China, is going to be a challenge. A lot of this, of course, remains to be seen, but I think it's things that we all need to focus on.

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I'm probably the skunk at the garden party when it comes to talking about the free trade agreement because I think that, much as it's a very interesting thing to pursue, realistically what is going on with the general picture of free trade agreements in the Congress right now is not encouraging. And so I think that it behooves people who care about China to think about some other issues and other ways to talk about what we can do to improve relations with the US and Taiwan, rather than necessarily hanging all of the expectations on an FTA. We've obviously got fights on the Hill going on about FTAs with Panama, FTAs with Korea, and it's honestly a little difficult for me to see that an FTA with Taiwan is going to be something that's going to move forward when there's a fight going on within the Democratic Party about trade, trade agreements, and free trade agreements. So I think that's something that I want to tamp down expectations on.

Human rights, one of the issues that a number of us care about. It's difficult to tell what the secretary of state's comments about human rights in China really mean and how that will play out. I know, obviously, that there's a lot of concern still on Capitol Hill about human rights in China. I think that there are a lot of people who, as Congressman Royce said, recognize the importance of maintaining freedom for the people of Taiwan. I think that talking about Taiwan as a human rights issue is an important thing to do. But I think that we're going to have to see how the human rights community generally interacts with the administration and what kind of a commitment the new administration actually has to promoting a human rights agenda.

I'm encouraged by some of the things I've seen about the new – who will, presuming he's confirmed, be the new ambassador to China. He has – after he was in Singapore – raised some questions about the status of human rights in Singapore which I think are encouraging because I'm hopeful that we will have an ambassador in Beijing who will continue to raise some of these issues. And again, it all plays out in terms of how people see Taiwan.

And I was also asked about whether players in Washington are concerned about the Ma administration and some of the steps that they've taken. I was really struck listening to Congressman Royce about – if you focus on that continuing reality of the number of missiles that are focused on Taiwan from the mainland, I think that's an important, important point that consistently needs to be made and consistently needs to be focused on, that people are encouraged that tensions have been reduced. Again, the World Health Assembly is a step. It's a concession by Beijing. It is a step. But I think that people are going – especially people who follow Taiwan closely are gonna be watching closely. And unless and until that missile battery is reduced, it's going to be very difficult to move forward with confidence believing that this is not still a power play on the part of Beijing.

So I think that people who follow Taiwan closely are encouraged, but I would say that they are not holding their breath but they are waiting to see what is going to happen and what real concessions Beijing might make in terms of the missiles. In addition to going to Beijing, we went to Xiamen, so we got to see some of the Taiwan issues from the other side, from the commerce side. We did not see any evidence of the missiles, although we know that they are around there. And it was interesting. It was really interesting.

And I think that – I know somebody asked a question earlier about sort of – essentially it was a question about freedom of speech in Taiwan. And I think that there are going to be friends of Taiwan who will continue to raise concerns about that to make sure that the people of Taiwan have their rights to peacefully protest against policies that they might see unfolding that they don't support.

So it's not as though, with the election of a Democratic president, the whole world has changed on these issues. But as I said, I think with certainly the global financial crisis and a

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perception that the power dynamic has changed, things are going to be complicated in terms of dealing with the relationship, the US-China relationship, vis-à-vis Taiwan. So it's something that I hope that we can see the administration engaging as much as they can with Taiwan, with Taiwan as directly as they can, because I think that that sends important signals to Beijing that what is happening with the status of Taiwan is a very important thing, certainly to people in the United States, and particularly to people in the Congress of the United States.

Now I will defer to my colleagues and have a discussion.

*Ed Friedman:* It's an honor to have an opportunity to chat with you all today. I want to thank Terri for having invited me. My goal is to try to look at some of the long-term implications of changes in 2008, including the election of President Ma. In doing so, I'm going to build on what I think are already the wise insights on the Ma administration by Mr. Liu and the wise insights on both Beijing and Tokyo by Commissioner Bartholomew, whom I agree with.

Taiwan obviously can have no secure future that's peaceful and prosperous unless it has the acquiescence of China, and therefore, in some sense, all presidents of Taiwan know they have to make a deal with China. It's worth remembering that President Chen Shui-bian, when he took office, tried to do so and was turned down by President Jiang Zemin. We could go into the details of why that is; time doesn't permit. But basically it was under Jiang Zemin and after the events of 1989 to '91, starting at the crushing of the democracy movement in China and ending up the splintering of the Soviet Union and the end of power for the Communist Party, that the Chinese Communist Party militarized its policy towards Taiwan. Up until then, it had really not had a militarized policy towards Taiwan.

And when President Chen took office and Jiang Zemin was president, President Jiang was in no position to respond to the overtures that were made by President Chen. Ninety-nine was a disastrous year for President Jiang. There was no way he wasn't listening and trying to conciliate hardliners in China.

In contrast, when Ma Ying-jeou became president of Taiwan in 2008, as Commissioner Bartholomew has already suggested, it was a different China. It's a totally different China. It's not only that Hu Jintao is the president instead of Jiang Zemin, but China is now a self-confident world power and it intends to assert itself as a self-confident world power. As part of that policy, it carries out in its own – as it sees it, its own region what it calls a good-neighbor policy. It's a neighborly policy. And Taiwan in many ways is part of that policy, and in some sense it's an attempt to implement agreements made by President Hu and former vice president of Taiwan Lien Chan back in 2005. I'll leave to others the discussion of what that agenda means.

But the goal here is that China intends to assert itself as a world power. It sees the present moment as a unique opportunity because of the financial crisis. It sees the United States as discredited in the world. It sees Beijing with \$2 trillion in foreign exchange as an opportunity to act in the world and establish itself as the world's indispensable power. It has a view of gradually developing the renminbi as a world reserve currency. It has been sending missions all over the world, including to the state of Wisconsin, by the way, offering loan aids and investment at a time when the banking and loan windows of most of the OECD nations have dried up. It is really trying to establish itself as the global power.

What does it want from Taiwan's President Ma in this situation? It wants **quiet**. It does not want Taiwan to be a problem. It has bigger fish to fry. It wants not only Taiwan but other neighbors in Asia to present China to the world as a peaceful and friendly nation so that everybody in the world will see indeed China is the country to deal with.

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Now, obviously, this is good for Taiwan and for Ma in the sense that it buys time, and I think it really can buy time. I can imagine a future in which China is going to turn away from its militarized policy towards Taiwan, the kinds of things that Commissioner Bartholomew was talking about, because it's going to care more about energy, sea lanes, and China's role in the world and what – it wants to put Taiwan on the back burner.

If that policy lasts for 200 years, we'll live in a different world and we'll all come to the conclusion probably that this was a great policy that Taiwan carried out. If it turns out to be a short-term policy, we may have a different view of it. Why? Because the goal of China right now is to lock Ma Ying-jeou's Taiwan into positions that will make sure in the future there will be absolutely no room of maneuver for so-called independent forces on Taiwan; that they may not even be able to come to power; that China will have so many cards that if Taiwan ever tried to move in a different direction, the costs would so upset the Taiwan people that no one would want to keep those people in power. Mr. Liu referred to the way they're playing WHA, in which you only have a one-year shot at showing up, and China has the veto power of whether you'll show up next year. In other words, if you upset China, you're going to lose that amount of international space.

Similarly, China has allowed what is called a diplomatic peace. It's no longer rating the 20-plus governments that still recognize Taiwan, but at the same time they're building up their relations in those countries, and they're essentially saying that if Taiwan were to change its policies, it will steal every one of those countries. There is no long-term commitment that I can see to allowing Taiwan any international space. I think the Ma administration hopes to get out of this, that China is going to okay free trade agreements, especially with ASEAN and other countries. I would not expect that to occur. It just doesn't fit into this keeping Taiwan on a short leash which seems very much to be the policy of the Chinese government.

Now, it does not mean that China is not giving things to Taiwan and President Ma. I think the Chinese government – I know the Chinese government was shocked at the anger on Taiwan when it sent over a high-level visitor. And they came to the conclusion that if they want to keep Ma in power – they saw his unpopularity back then – they're going to have to make concessions to Taiwan and Ma. So I think that in reality, China has given more and earlier to Ma than it had ever intended to do, that it does respond to feelings expressed in Taiwan since I'm sure the recent marches – that makes China worry about whether it will have a Taiwan that it can count on.

The KMT view of its policy is one of clever balancing. It sees itself as halfway equidistance between the US and China. As an American, the way I hear that is halfway between a government with the missiles that threaten it and halfway between a government with an armed forces which protects it. It seems somewhat strange. But it might also be the case that the reality is, given the nature of China's policies, this is the best that Taiwan can do. This is something that the Taiwanese people are going to have to decide, not for me to tell 'em.

China clearly wants more from Taiwan, as suggested by Mr. Liu when he was discussing Japan, and also Commissioner Bartholomew. Similarly, China very much wants and it is going to continue to pressure Taiwan to back China all over Asia and its policies in the East China Sea with the Senkaku in the South China Sea and the Spratlys. And the pressure on these things, I believe, has only begun, and Taiwan is essentially going to have to make a choice between China and Asia. And I think this is the key thing to how you think about the rise of China.

The way China thinks about its rise in Asia is very different than the way the United States considers Asia. For China, China always was the center of Asia. For a while, it lost its natural position, but now it's going back to its natural position of the leadership of Asia.

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The United States sees Asia very differently. The United States sees Asia as a region which has arisen since the end of World War II. First Japan rose; then the Four Tigers, including Taiwan; then nations of ASEAN; then China; and, most recently, India. And the United States sees itself as tied to this risen Asia of which China is a part.

That is not how the Chinese Communist Party government sees it. It sees the United States as an extra-regional power which is in Asia which it has to deal with but it wishes and will slowly intend to decrease America's influence in the region, and eventually push America out of the region as an influential power.

The United States sees the Pacific Ocean as a water body which ties it to Asia, the same way it sees the Atlantic as tying the United States to Europe, in addition to which the US is tied to Asia because of Pearl Harbor, Korean War, Vietnam War, and because ever since 1982, US trade with Asia has been larger than US trade with Europe. But this is not how it is seen, as I say, inside of China, and there is a fundamental clash in, therefore, your view of Asia. Is it a China-dominated region, or is it a region where all of Asia is risen, including China? And the United States would like to see all of these nations, including Taiwan, having their day in the sun.

I think the Chinese government does not like the thought of simply cooperating the United States' so-called G2 policy because it does see itself as uniquely central both in Asia and in the world, and I think we are going to see all sorts of problems arising out of that. The first one is going to come up in Copenhagen in December, where the Obama administration really wants cooperation on a climate agreement, and the Chinese government just worries that it is going to undermine all of its purposes and its rise in the world.

So there's a fundamental clash of interests here if you think about how to think about Asia and understand how Beijing and Washington think of it differently. Taiwan's going to have to make choices on this. If it buys into the Chinese view of Asia, which is where the Chinese pressure is going to come, then I think what will happen over time is it will alienate nations in Asia and it will end up, in the long run, all alone with China. Chinese stories about the frog going across the water with a wasp on the back that's eventually going to kill it. A Western story much more, a minister in Germany during the Nazi period who eventually is taken away by the Nazis and notices that when they came to take away the gays, he was silent; when they came to take away the Jews, he was silent; when they take the union leaders, he was silent; when they went to take away the Catholics, he was silent; and when they came for him, there was no one left to support him.

So I agree this notion that you have to understand that China's a serious power, a risen power. It has great power interest. It understands its interests in the world, and there are potential clashes and dangers as a result of that, and Taiwan is going to have to make some tough choices. I think the real problem with the Ma administration at the moment is it doesn't understand the toughness and the consequences of the choices that it is going to have to make.

But ultimately, that is the decision for the people of Taiwan, and I certainly wish and hope that what we really will see is that Taiwan is on a side which will make it more likely that China will be more cooperative with the United States, with Taiwan, and with Asia because if it doesn't happen, then what I foresee in the long run is a very, very dangerous outcome for Taiwan, the United States, and all of Asia. Thank you.

*Julian Baum:* Well, after Ed's mind-expanding view of the Taiwan situation, which was fascinating – I could've sat through that with and taken notes – I'd like to just get back again to the domestic

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issues in Taiwan. Many of the topics that Liu Shih-chung covered, and sort of bury down on how – what is happening in the streets, and certainly with the opposition and what their concerns are.

But let me just back up a little bit and talk about what has happened in the last 12 months to sort of set the stage, and again, it's referring to events that Congressman Royce touched on, and Shih-chung as well. We used to say – I used to feel, when I was in Taiwan working for their *Far Eastern Economic Review*, which I no longer work for, by the way – it's on the label there – that if I went away for a couple of weeks and came back, I felt like I was really out of touch since so much was happening. But usually when I came back, I discovered that really not that much has happened.

But the fact is, in the past 12 months, it's as if a dam has burst, and things that had built up and been discussed for years have suddenly come pouring over the spillway, heedless of the consequences for the downstream landscape. After two decades of debate, the three big links of direct mail, transport, and trade across the Taiwan Strait, plus the expanded mini three links from the offshore islands, are now set in place, connecting the two sides in ways that fit, more or less for the first time in 60 years, with the realities of the human and economic relations.

If these new initiatives stopped there, it would be more than enough for both sides to adjust to. However, this is really only the first installment of what President Ma told the *Wall Street Journal* last year was his goal of what he called total normalization of economic and financial relations across the Taiwan Strait, and those are his words. He may have overstated where things are actually headed, at least in the near term. What is almost certain, however, is that there will be reciprocity in commercial and financial ties, dismantling even the prohibitions on corporate investment, access to financial markets, and property ownership in Taiwan from the PRC. And I have to underscore, these prohibitions have been in place for 60 years.

To frame this radically reconfigured relationship, as others have mentioned, Ma has insisted that he will sign a radically – an economic framework agreement in what many fear will be a disguised version of Hong Kong's closer economic partnership arrangement. Of course, as others have said, what's being promised with all of this is a pot of gold for Taiwan's economy, plus the political reconciliation which has pleased the United States and many others.

What has been unsettling, though, is the breakneck speed and the murky process by which these changes are happening. In such circumstances it's only natural that there is deep anxiety among many Taiwanese about their economic, social, and even political landscape, which is changing in ways that no one can predict or control. And some even worry that their democracy, which has been oversold and perhaps overrated, may be swept away.

Adding to this unease is the new political atmosphere of intolerance and flashes of martial law-era abridgements of civil liberties. And there's also the confusion and controversy caused by the shabby treatment and the politically tainted prosecution of the former President Chen Shui-bian, his family, and his former colleagues in the previous government.

So this has been an anxious year. If there were any doubts about that, the street protests in Taipei and Kaohsiung this past Sunday were evidence of broad public anxiety. At least 1 in every 50 Taiwanese took to the streets. There was also a poll published yesterday in the *China Times*, which is a pro-government newspaper, which strongly suggests that Ma has a lot of work to do if he wants to build consensus for his China policies among the majority of the Taiwanese citizens.

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So in this situation I would just like to mention three areas where I think that there are legitimate concerns about the way things are moving, and that these are not political talking points or merely partisan criticisms of the government. And I see these three areas of concern as the sovereignty question, democratic accountability, and the stewardship of Taiwan's economy.

On the sovereignty question, President Ma signaled his new approach in his inaugural speech last year, and he then advocated avoiding conflict over sovereignty, and finding common cause in, quote, "ways of life and core values." This discounting of the sovereignty issue, which had been something of a battle cry under his predecessor, and the reassertion of a Chinese national identity was a sharp break not only from Chen Shui-bian but from the latter years of Lee Teng-hui in the 1990s.

In dealing with Beijing since then, Ma has been warmly praised by supporters here in the United States for subordinating the sovereignty issue and for emphasizing instead his support for one China with two interpretations, which Beijing now at least tolerates.

In commenting on this situation recently, Shi Hwei-yow, the former secretary general of the Straits Exchange Foundation, said that the reason the DPP government could not complete any new agreements with China during the previous eight years was the conflicting political agendas of the two sides and that China had therefore boycotted any new agreements.

Now that Beijing and Taipei have a common political agenda, which is to say one China, the talks are proceeding rapidly. Yet President Ma continues to insist that he has not put Taiwan's sovereignty at risk, and he says the public should be reassured because there are no explicitly political issues on the table. But as the former Straits Exchange Foundation official said, there is an underlying political element in all these discussions, and if this subtext is left unexamined for an indefinite time, then many are fearful that it will lead in the direction of cooperation that Beijing has prescribed, which is the endgame: one country, two systems. There is near zero prospect that the one country will be the Republic of China, which the KMT and President Ma prefer.

Compounding these concerns over sovereignty is the suspicion that the secret party-to-party meetings between the KMT and the Chinese Communist Party that officially began in 2005 are driving the cross-strait agenda. These officials, the KMT officials, have never had high levels of public trust in Taiwan, and there are legitimate worries that the lack of accountability in their closed-door meetings with their Chinese Communist Party counterparts is a problem for the negotiations. Assurances from President Ma that these party-to-party talks are private and merely as second-track communications are not very convincing.

The second area is democracy, and Congressman Royce mentioned that, and others have as well, which I would say is even a more urgent problem than the sovereignty issue, which sometimes can seem abstract or merely nitpicking over terms. The lack of accountability and public oversight has been a noticeable feature of the cross-strait agreements that have been signed – I think Shih-chung said nine of them in the last year.

In his speech last month to the Center for Strategic and International Studies, President Ma was especially charming when he affirmed several times that Taiwan is a democracy, and therefore there should be no question of anyone, including himself, selling out the country. The people were the ultimate decision makers, he insisted. And in his closing remarks to that group, he told his audience that Taiwan would, quote, "bear the torch of democracy for all Chinese people."

To be sure, Taiwan has a peerless election culture, but its other democratic institutions are

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less than exemplary. The most obvious weakness is the absence of effective checks and balances in its heavily amended constitution. Perhaps the biggest missing link is an independent legislature, especially since the KMT won a supermajority in the legislature after last year's elections, of 75 percent of the seats, after a very controversial series of electoral reforms.

On the various accords signed with Beijing since last summer, there has been no legislative oversight or visible public input, so on matters of cross-strait relations, the government now runs by executive decree. It's true that the 1992 act governing relations between the two sides requires legislative consent on matters of cross-strait business activities, transportation, and the admission of people from the mainland area. This provision was inserted by pro-Taiwan KMT legislators in the early '90s when the act was drafted, specifically to prevent the executive branch from doing exactly what the Ma government is doing now, and the provision for consent has basically failed.

As it turns out, none of the agreements that were signed during the first and second round of talks last year were debated or even voted on in the legislature. They were sidelined in legislative committees on technicalities, and when the 30-day period of review expired, they were just decreed into existence by the Mainland Affairs Council.

The third round of talks, which concluded in late April in Nanjing, include a general agreement to begin negotiations on financial cooperation involving banking, the securities industry, future market access, and currency management, just to name some of the big topics that are covered in that. With such weighty measures to review, you might think that the legislature would be getting their teeth into these issues, but in fact they're on track to adjourn next week, to reconvene in September, taking the entire summer off for the first time in many years, and there are no votes scheduled on these new agreements.

This neutering of the legislative role in Taiwan is even worse than the rubber-stamp parliament in China. At least in Beijing, in the provinces, when they are – they take up or down votes on bills, they are expected to approve even if they are unanimous votes.

And thirdly, on the economy, which I'll just touch on very briefly, how the government deals with the many industries that are being impacted by the opening to China, the security of its financial markets, sensitive infrastructures such as telecommunications – these are all complex but domestic policy issues. But on the issue of the Economic Cooperation Framework Agreement with China, this is a broad interest of Taiwan's trading partners, and it's sometimes been described merely as a special case of a free trade agreement.

I was particularly interested in hearing what Dr. Tsai Ing-wen had to say here at GW last week when she spoke about this. Dr. Tsai was a tough trade negotiator when she was working on the preparations for Taiwan to enter the World Trade Organization ten years ago, and she knows how difficult these negotiations can be since there are substantial issues of economic power and industrial interests at stake. And she also knows that setting a firm deadline to have a done deal compromises one's leverage, especially for the weaker partner.

So President Ma's vow to sign a general framework agreement with Beijing by the end of this year needs to be considered in this context. Is it really about the economic benefits, or is it about setting parameters and affirming intentions for some future political cooperation or alliance? We just don't really know. As Dr. Tsai warned, there are serious substantive and procedural issues here, which may be why the Ma government has revealed almost nothing about the negotiations.

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And finally, just on the question of US policy, which is really our topic today, the trends that I have noticed in the last year – the only trend, really, the major trend that I have been able to see is just this warm reception for the reconciliation and the breakthroughs that have occurred in cross-strait relations under the new KMT government, and also the dismissal of the opposition as out of touch and as an obstacle to peace in the Taiwan straits.

If the history of 60 years of US-Taiwan relations has taught us anything, however, it's that we should not ignore the realities on the ground. In her superb new book, *Strait Talk: US-Taiwan Relations and the Crisis with China*, Nancy Tucker writes that the American diplomats during the Cold War were willfully ignorant of the situation in Taiwan. The diplomats of that era, which would be in the '50s and '60s and into the '70s, were so focused on the global struggle against communism in the Soviet Union that they paid little attention to Chiang Kai-shek's repression on the island.

The situation today is infinitely better and more hopeful, and I'd like to think that American policies and diplomats are much better informed. But we still see a good deal of ignorance and a reluctance to ask the difficult questions, and there are many reasons for this, I suspect.

Paradoxically, one reason for the lack of candor and real dialogue may be the fact that Ma Ying-jeou is that rarest of leaders, especially in East Asia. He's not only US-educated; he's deeply knowledgeable about the United States and even personally acquainted with many of the policymakers here over several generations.

But he also comes from a place that is familiar to many Asia hands, which is the ideology and worldview of the Republic of China that prevailed in Taiwan for 45 years under martial law and has lingered in tattered form into the democratic era. Ma's definition of "one China" is in many respects straight out of the lesson books of Chang Kai-shek and Chiang Ching-kuo. It's a political discourse that students of modern history can easily understand, even if it's one that is no longer and perhaps never was a plausible counter way to the People's Republic of China.

Yet this familiarity with the leader and his political sort of worldview should not inhibit our probing questions, and it should not inhibit us from showing empathy for a majority of the Taiwanese population, who are not hostile – who are agnostic, if they are not hostile, to the KMT's vision for the future. This majority needs to be engaged and not ignored or treated with paternalism. Thank you very much.

*Audience:* Judith Murphy, GW student. I was wondering if, with this latest financial crisis, we've learned anything interesting either from the side of Taiwan or China. I know in the '97 Asian crisis there was an interesting dynamic that developed, so I was wondering if you had similar other interesting lessons, and this is for the whole panel.

*Carolyn Bartholomew:* I'll take this at the broadest level. I think we certainly have learned important lessons about the strengths and weaknesses of our own economy. But I think that for people who had been watching a rising China, it has provided – it is providing an opportunity for Beijing in a number of places around the world. As one of my colleagues made reference – and you made reference to that, that China is participating more actively in a lot of other places, using financial diplomacy. And the global financial crisis has created a whole lot more opportunity for that, going to countries elsewhere in the developing world where Beijing might have had some interests because of natural resources or just getting a foothold and is now actively offering to lend money, for example, in places that they might not have, had the global financial crisis not taken place.

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So I think that in terms of history, it's going to take a while for history to happen in order to be able to step back enough to see it. But I do think that it is creating opportunities for Beijing, and that rise of China, sort of a more rapid rise of China, is going to have consequences for Taiwan. And I'm not even going to talk about the economic consequences, but just of the power dynamic consequences.

*Ed Friedman:* I think the question is fabulous, actually, and it really is worth thinking hard about how the Asian financial crisis and responses to it in Asia have changed the world.

The first thing that happened was that Japan offered to help create a fund to bail out the nations that were in trouble, and the Clinton administration essentially vetoed it and said go through IMF. This made very bad – put the United States in very bad odor all over Asia. And China for the first time saw that it could cooperate in multilateral bodies financially and upset the United States, which was a good thing from their point of view. And so they first got involved with Japan in creating an Asian Monetary Fund and began to be seen as playing a very positive role financially in Asia.

Second thing that happened was that the Asian countries concluded that it was a very volatile world economy, and you didn't want to be without great amounts of foreign exchange when a crisis occurred. And so they began after the Asian financial crisis – all of them, not just China – to very self-consciously run policies of trying to accumulate as much foreign exchange as possible.

And the consequences of that were to create two kinds of governments in the world: surplus governments (mostly Asia and the petro-states) and deficit governments. And there was a relationship. One loaned the money; the other benefit from it, spent it, bought the goods from the other country, and there seemed to be a cycle. Now the cycle eventually becomes a bubble, and it's the bubble which has burst, and it's worth understanding how that bubble grew out of the Asian financial crisis, but that's not how the world sees it.

What the world sees is that the crisis came from the United States and discredits the American model, and it creates an opportunity, therefore, for China to say, "We have had the right answer." And it's very tough to have the time, which you just gave me, thank you, to spell out what really occurred, but that's too much time for most people to pay attention to. And therefore you have to live with the world right now in which America is singularly blamed for the crisis, discredited by the crisis, and China is seen as the one that's had the correct policies, and that has long-term implications that really matter.

*Audience:* Neil Silver, former foreign service officer. This question is primarily for Professor Friedman. You may have already answered part of the question, but I was struck that in your description of the overall relations in Asia and the sort of struggle between this new, revived China-centric view of Asia and the old sort of America-centric maritime rim Asia which we all came to know and love so well. That Japan seems now to be an inert, possibly even a spent, diplomatic force in Asia. I mean, this is the second largest economy in the world. It had certain successes, all the way up through a decade or two ago, and now it seems to be absent from the discussion. Just interested in your thoughts.

I'm not going to ultimately answer your question, but I'd love to hear your ultimate answer to the question. I think your question is correct. First, the America-centric rim is dead. It's gone. And instead, you do have an Asia which has risen, all the way up to India, and a question of whether the United States has an Asia policy which gets reciprocated by Asia. I think we can have that. I think that is where the Obama administration is going to go, and I think that that is a good thing, and I'll detail why I thought China would not think that it is.

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But your question is "So where is Japan on this?" It's an amazing absence because, as I said, the Asian Monetary Fund was actually begun by a Japanese offer. Yet in Asia, China is seen as getting the credit for it. And in the present crisis, once again, Japan has put up more money to bail out countries in trouble in China, but China gets the credit for it.

So the real question, which I said I do not know the answer for, is how come China either runs a brilliant diplomacy and Japanese diplomats are dunces, or the world has learned to report a story about it as if the Japanese initiatives don't exist and don't count? I don't know the correct answer to the question, but the question sure is the correct question.

*Carolyn*

*Bartholomew:*

Ed, it's interesting with your pronouncement that the America-centric Asia is dead. I mean, I think that you made a very interesting analysis, but I guess I would put two observations out there. One is still the issue of hedging, which we see in countries in Asia and also here. One of the very interesting things about having served on the China commission for the course of the past six years is, I would say for the course of the past three, we have not had an administration representative come up and testify in front of us who has not mentioned hedging. Now, four years ago it started and there were a few experts who did, so I think that there's a recognition about hedging both here in the United States, and I think that – I mean, we hear it – we were in India even two years ago. And hear it elsewhere that people in a number of Asian countries are concerned about and interested in ensuring that the US maintains a strong presence in Asia because they're very uncomfortable about the possibility of a China-centric Asia.

And then the other issue that I'd just like to put out there is the questions about the true state of China's economy, going back to the first question about the economic issue. I agree with that, that some of what is coming out of this is China's ability to repudiate the sort of free-market capitalism model that the United States had been promoting around the world and to increase support for the rise of a Chinese economic model, which has also got more repression that goes along with the economy.

But I think that there are some really legitimate questions out there about how strong is China's economy, and what does that really mean? I mean, it's interesting that at a time where other countries are having negative growth or growth of 1 percent, that the government of Beijing is proclaiming 6.5 percent and that it's going to meet 8 percent. And given questions about China's statistics, I think we have some questions, so there are a lot of uncertainties that go along with this that I think play into it. But I think also, in terms of Japan, obviously the global economic crisis is having an impact on Japan's ability to step forward on things too.

*Audience:*

I have a question mainly for Commissioner Bartholomew, but the other panelists can comment on it as well. A couple years ago the Council on Foreign Relations came up with a taskforce report that really stressed the importance of US-China engagement. And it stressed that that engagement is beneficial to both the US and China, to such an extent that it would imply that Taiwan can be sacrificed if that relationship, US-China relations, can be improved.

My question is this. As you had mentioned, we owe China over \$1 trillion, maybe \$1.4 trillion, and that is going to keep increasing because our trade deficit is growing. The last figure was, what, \$265 billion? And I don't see where this is going to end. Assuming in the short time they will keep buying US treasuries and help us cope with the financial crisis and all, but if the long-term trend is the shifting of wealth from the US to China on a steady basis, and we keep building up our debt to China, where does this end? And also, does this really benefit China, as that taskforce report claimed?

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I see different things. For example, China's paying a high price, like environmental degradation, income disparity. A typical family in rural China, the husband is working as a temporary concession worker in Beijing, the wife is working in a factory in a coastal province, leaving a child under the care of a grandparent, and they get to see each other maybe twice a year. It's a very hard life. Does that benefit the Chinese people? I doubt it.

So my question to you, since you're the commissioner on US-China Commission, what's your view? I mean, is there any way we can reverse this trend? How are we going to reverse the trend so that this continuing shift of wealth to China can be stopped or reversed?

*Carolyn*

*Bartholomew:*

Well, these are difficult questions that people are asking today. I would note that the commission is responsible for the national security – or reporting on the national security implications of the U.S. China economic relationship, and the – while we don't directly deal with the fiscal health of the United States, obviously, that has something to do with it.

I think you put your finger on a really important point which is we have got to get the U.S. fiscal house in order, and that is a piece of U.S. China relationship, but it's a piece of the U.S. relationship with everybody in the world, and it is something that we have to deal with. But certainly, the solution to that goes beyond my expertise and entire conferences are put on that.

I did want to take one, I suppose, small swipe at the Council on Foreign Relations which is just to say that my sense has often been their analysis is a fairly status quo analysis. I think that the issue about engagement arises a lot of times out of what had been a very static definition during the MFN debates where you either were for engagement with China or, according to the analysts, you were against engagement with China. And it is not an issue about being for or against engagement, it is always, from my perspective, been an issue of the conditions and the terms of those engagements.

So I still have a tendency to say that when people talk about engagement, I mean there was next to nobody in the U.S. Congress during those debates who didn't support engagement. It was just making sure that the engagement benefited the American people.

I do think we have to acknowledge that China's economic growth had changed enormously and improved enormously the standard of living for a number of people 300 – over 300 million people have been lifted out of poverty. That's something to be commended, but obviously, you've put your finger on a lot of very difficult issues that the Chinese government is dealing – environmental degradation, income disparity, differential development between the coast and the inland regions and, interestingly, in addition to the subtext that we were hearing when we were in Beijing just a week and a half ago about, as I said, don't do things that we don't like because we don't – because we won't do things that you want us to do.

When we raises issues about China's role as a responsible stakeholder in the world, what we kept being told is, "Don't put too much burden on our shoulders because we're just a poor country, and we have all of these issues we have to deal with here at home – environmental degradation, dealing with a large and poor population still."

So I'm afraid I don't really have the answers to your questions, but to say they're obviously critical, critical issues that we have to deal with in the relationship, and the days of feeling that diplomacy is about sort of a limited handful of issues are certainly over. If this global economic crisis has taught us anything, it is really how interconnected the economies are.

In – we were in Hong Kong for a couple of days, very interesting to see the difference in the ports. I'm sure many of you are used to visiting Hong Kong at a time where the containers are

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just stacked up as you go by the port, and the ships just waiting in line to come and pickup containers to bring stuff for the U.S. consumer to buy. That is not happening right now.

Right now there are freighters in the – outside the Port of Hong Kong that are sitting there with empty containers because there's nowhere else to store them. For those of us who raised concern about the trade deficit going back 15 years, for those of us who raised concern about the inequity in what is happening of the balance of China's currency valuation of the enormous foreign currency reserves that have come, this is sadly a case where the chickens have come home to roost.

You never want to actually have the scenario that you play out be the scenario that happens, but we are in a difficult situation. I do think that the Chinese government, it's pretty clear, at least where things stand right now, they're not going to have the economic growth that they want without a strong American consumer. If people are not buying t-shirts and TVs and more and more even look at cars, if people are not buying those things, then Chinese production has – will continue to take a big hit which has consequences, of course, for the ability of the communist part to stay in power.

So that stuff is all interconnected in ways that I think is becoming more obvious to a lot of people.

*Ed Friedman:* Just want to put all of these things into context of politics inside of China. Take the issue of that the Chinese government increasingly owns the United States. That's not how it's seen inside of Chinese politics. Inside of Chinese politics, the view is, "Why are we subsidizing those people? Dollar goes down in value. We're going to get less back for it. Why are we subsidizing them? They're stealing us blind."

And the government is under pressure, and the government has a hard time explaining to the Chinese people the things that Commissioner Bartholomew said which is simply correct about what other alternatives are there for parking their money and so on. That's a tough conversation to have.

So China – so there's tremendous pressure on the inside of China from what you might call a new left nationalist perspective inside of China. You see this also as Commissioner Bartholomew said on the issue of responsibility. The first response inside of China when you raise responsibility is, "What about all of our poor people? What about our own problems? Shouldn't we be responsible to our own problems? That's where we should be responsible." And they have a very hard time explaining why they should be responsible for, of all places, the United States of America which every day, the Chinese media is telling the Chinese people is their enemy and is out to do them in – is just a bad kind of place.

So they have a very hard time responding – responsibly because of the kinds of politics they have created in their own country. As for the hedging, I agree with everything Commissioner Bartholomew said. Of course, Japan, Indonesia, Singapore, India are not going to be pushovers for just surrendering to China. The Chinese government understands hedging as containment under a more polite name. It's seen as an anti-China policy, and so they have two responses to it.

One is they want to take the reasons away for hedging. This is their good neighbor policy that I talked about. They want to sell arms to these countries. They want it so you don't need the American military. They want to take away reasons for hedging.

Now I tend to think it's not going to succeed for reasons, again, inherent in what Commissioner Bartholomew said. There really are problems over the South China Sea,

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energy resources and very different visions of how Asia should be run. These are nothing to be happy about. These are tremendously potentially conflicting issues in the long run. We should not be wanting conflictful kinds of things to occur. I hope no one's in favor of a policy that's going to lead unnecessarily to a war in the region.

So diplomacy – the question is how do you work it out? How do you make a deal? How do you get on with China in this very difficult environment?

Last thought, Commissioner Bartholomew, what's the real story about the Chinese statistics right now? If you look at things such as energy production, it's declined tremendously. I think 35 percent in the last quarter while production supposedly grew six point one percent, and some people think there's a contradiction in that. And that therefore, the numbers are fudged.

That's a possibility. They fudged the numbers at the end of the 1990s, at the beginning of the 21<sup>st</sup> Century also. On the other hand, without doubting that, I am sobered by how all the people who since 1989 have predicted the Chinese economy is about to go down the tubes have turned out to be wrong, and I am not about to put myself in a position of joining those people. And I don't think one should underestimate the economic power of this Chinese rise.

Is that a contradiction that we can sort out? Well, here's something that everybody here knows, it's not a transparent government. We have lots of contradictions about how the Chinese government works that we can't sort out and hopefully conversations like this help.

*Audience:*

Henry Nau, George Washington University. Could I bring the conversation back perhaps to the domestic situation in Taiwan and ask as the U.S. government – has any official of the U.S. government said anything or respond – of the new administration – said anything or responded in any way to these developments under the new Ma administration over the last year and a half.

I'm just curious as to where this is on the radar screen of American officials and especially in the new administration.

*Shih-Chung  
Liu:*

Well, so far, because I have some conversation with some of the U.S. officials. But first, because Ma's demonstration – kind of a crossover both the Bush and Obama administrations. So I've heard some positive comments made by the Bush administration saying that, well, they encourage – they are happy to see what happens in the first couple of months of the Ma administration in terms of his forging towards the more cross trade \_\_\_\_\_.

But at that time, I would said in the first six months of the Ma administration, the Chinese still adopted a somewhat – is that the strategy they used \_\_\_\_\_ back in 19 – 2000, that is to watch \_\_\_\_\_.

So in terms of policy, even both sides reach an agreement on the opening of more \_\_\_\_\_ flies in mid-July. We haven't seen – in Taiwan, we haven't seen many – no –direct increase of the numbers of the Chinese tourists to Taiwan up until February this month – this year.

So I would say that – and again, the Bush administration, at that time, most of their comments were still to try to encourage - I would say encourage the Chinese side to seize the opportunity. And \_\_\_\_\_ maybe to not miss the opportunity as they did back in 2000, 2001 when \_\_\_\_\_ offers an olive branch.

So but in the second half of \_\_\_\_\_ administration, I would say that no – especially when President Obama took office, I feel they are more and more open \_\_\_\_\_ that encouraging

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what's going on right now across Taiwan's trade, but I'm sure there's – there are a lot of under the table negotiations between \_\_\_\_\_ and Taipei.

I'm sure people from Ma's team that will continue to explain through the American counterparts that, number one, Ma is not going to \_\_\_\_\_ Taiwan because I think what the strategy established by the Ma administration has tried to convince the Americans' government that he's not going to do anything that's going to jeopardize Taiwan sovereignty or any of that.

But as – what President Ma did in the video conference with the CSIS – but what President Ma did not say in that conference, seems to me, is he failed to provide more convincing elaborations on those critics that – not only just the VP but also a lot of the Taiwan social group have been challenging ever since he unveiled this cross trade \_\_\_\_\_.

So at – especially after the big march last Sunday and President Ma – I observed his reaction to that in yesterday's press conference, and he's going to have an international press conference today. I'm sure he's going to – he's going to say a lot more about how good cross trade relation is after he took power, but I'm sure he will have to react in more details those critics that have been targeting on him and his government.

*Carolyn*

*Bartholomew:* From the perspective of the new administration here, there's an interesting phenomenon for those of you who've lived through these transitions before where the people who are hoping to get positions in the administration go noticeably silent as we move right into the election and then –

## Luncheon Address

*Shawn McHale:* Henry Nau. If you actually click on the Elliot School webpage, his face is on the webpage. So many of us have seen his face again and again and again. Henry Nau is a professor of political science and international affairs at the George Washington University.

He's also the director of the U.S. Japan South Korea legislative exchange program which has been running for – what is it – 19 years, I think or around that period of time. It's a program which actually brings legislators from East Asia to the U.S. one year and then from the U.S. to Japan and Korea another year.

He teaches – it's been a very successful program, a model example of where academia and the world of policy and congress actually can interact together. He's taught at Williams College, Johns Hopkins, Stanford, Columbia. He has been in government, Department of State as well as the National Security Council, and he is the author of numerous books and articles on U.S. foreign policy and U.S. foreign towards Asia.

His most recent works include *International Relations, Power Institutions and Ideas* which came out this year at *At Home and Aboard*, *Identity and Power in American Foreign Policy* which came out in 2002 plus others.

He is a fabulous citizen of the Elliott School, but as I said, he's a good example of, in a sense, the interaction between the world of policy and the world of academia.

So without further ado, I'd like to actually turn the podium over to him, and he can tell us his thoughts on what the Obama administration is doing or not doing. Thank you.

*Henry Nau:* Thank you very much, Shawn. I'm tempted when I hear an introduction like that to ask the speaker if he needs more time. I – what I'd like to try to do is to maybe lend a little perspective to American foreign policy in general with then maybe some hints. I'm not an Asian specialist, but with some hints about what it might mean for the Asian region.

Perspective, I think, is something that is awfully important. It's something I try to teach my students as the title of the book that – the last book that I've done that Sean mentioned, *Perspectives on International Relations*.

I think it's essential for us in understanding the world around us, and it reminds me of a story which I dearly love because it relates to my work as a teacher. It's the story of a young lady who is in college and decides, one day, to write home to her parents. And she begins the letter by saying that, "I'm using somebody else's stationery. I had to borrow the stationery because mine was destroyed in a dorm fire, but don't worry. I'll be out of the hospital soon, and my eyesight should return at any time. But you will – it could have been much, much worse, but for the fact that I met a very wonderful young man who actually saved me from the fire. I have grown very fond of him, and I thought you might like to know that we're planning to be married.

And since you have always wanted grandchildren, I thought I might tell you that we're expecting a child." Then the letter said, "Flip over," and so the parents flipped the letter over. And then it says, "Mom, Dad, none of this is true. Ignore it all, but I did get a D in history and an F in English, and I wanted to make sure you read this letter with perspective." So perspective matters.

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Now it's probably a bit early to put Obama's foreign policy under a microscope. So what I'd like to do is to evaluate it in a somewhat broader context. I'd like to define four broad issue areas in which American foreign policy has an historical tendency to cycle and then to evaluate Obama's initial foreign policy agenda in the context of those cycles. Now, along the way, I'll – as I suggest – take some note of implications of Obama's foreign policy for the Asian region.

The four areas are, first, on foreign policy objective and historical tendency to swing between pushing for freedom and democracy in the world on the one hand and settling for the status quo and stability on the other. Second, on the instruments of foreign policy, a cycling between emphasizing the role of diplomacy and negotiations in U.S. foreign policy on the one hand, and emphasizing the need to use force or the threat of force to back up and maybe even, at times, take over for diplomacy on the other.

Third, on economic policies, a pendulum that swings between liberalizing international markets and promoting free market reforms, one the one hand, and regulating international markets and emphasizing strong state and international institutions on the other. Fourth, on policy processes, a tendency to swing between assertive leadership and unilateralism in American foreign policy on the one hand, and consensus building and multilateralism on the other.

Now, in all of these areas, recent American foreign policy is cycling. On foreign policy objectives, George W. Bush staked his presidency, after 9/11, on ending tyranny in our times and promoting democracy especially in the Middle East and South Asia.

Obama is clearly pulling back from this freedom agenda, and as Richard Haass put it in a recent Washington Post op-ed piece – quote, “Defining success down,” end quote. U.S. objectives in Iraq, in Afghanistan are no longer to transform domestic society and establish democratic states in these countries but rather to prevent Al-Qaeda or other extremists elements from regrouping in these states to plot and carry out violence against the United States.

Now on foreign policy instruments, George W. Bush clearly emphasized military polices if not military surges. Responding to 9/11 with the war against terror that has led to two ongoing military engagements in Iraq and Afghanistan. Obama, once again, is shifting the emphasis away from military to diplomatic instruments seeking to exit militarily from Iraq, shift the focus of Afghanistan from war to counter insurgency and civilian reconstruction and enlist Pakistan and other countries in South Asia in a wider regional diplomatic solution.

In South Asia and elsewhere, Obama has unleashed a barrage of diplomatic envoys to the Middle East, George Mitchell, to Iran, Dennis Ross, to North Korea, Steve Bosworth, and to AfPac, Richard Holbrook.

On economic policies, George W. Bush pushed bilateral and multilateral free trade agreements while Obama has clearly signaled to go very slow if not a halt or possibly even go in reverse policy on further opening U.S. markets, especially in the current economic crisis.

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Obama also favors more stringent regulation of Wall Street and global financial markets than either the Bush or Clinton administrations did and perhaps more than a McCain administration might have.

Finally, on policy processes, George W. Bush became the poster child for unilateralism and assertive American leadership. Obama, again by contrast, has signaled a new era of multilateralism listening and learning from allies and adversaries alike and perhaps even looking to them to lead in key areas such as global financial regulation.

So let's look at each of these areas and see what some of the implications might be. Stability – first, stability not democracy. As Richard Haass and others have noted, Obama has clearly lowered American aims in the Middle East and South Asia, but he has also done so elsewhere. He has not emphasized human rights or democracy promotion in his foreign policy speeches. So much so that an NGO on whose board I sit, the Counsel for the Community of Democracies, has been visiting Obama officials very energetically over the past few months to get them to raise this issue higher on their agenda.

Similarly, Secretary of State Hillary Clinton talks about defense, diplomacy and development, but she seldom talks about democracy promotion. In fact, Obama proudly defines his administration as pragmatic, logical he says ideological. Principles have been muted in favor of problem solving.

Now this change of tone is odd coming from a liberal Democrat. It clearly suggests that there is a tendency to cycle driven, in part, by partisan rejection of previous incumbents. You may recall how George W. Bush criticized Bill Clinton for having a Mother Theresa foreign policy of being engaged in too many places with too many objectives.

Bush called for a more limited and humble foreign policy, but after 9/11, as I suggested, he pushed a freedom agenda. Now Obama is cycling back from that freedom agenda, and at times, he sounds even like Bush. In Europe in April, for example, he said – and I quote, “We exercise our leadership best when we show some element of humility and recognize that we may not always have the best answers.” That's George Bush in 2000.

Is this just a change of tone or is it a change of substance? Well, consider the following. First, Obama has given priority on cooperation with Russia, on Iran – on issues related to Iran, on arms control and on AfPac. In Europe last month, he declined to comment on Russia's armed aggression against the fledgling democratic state of Georgia or against Russia's use of energy sanctions to undermine a western oriented democratic Ukraine. And he has said nothing, of course George Bush did not either, against Russian domestic abuses that produced repeated assassinations of dissenting journalists and harassment of political opponents.

Two, Obama embraces Chavez as a G20 meeting while Chavez drives political opponents into exile, seizes foreign companies without compensation and pushes through referendum that essentially make him electable for life.

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Three, Secretary of State Hillary Clinton goes to China. It was mentioned this morning – and explicitly states that she does not intend to raise human rights issues because, as she put it, quote, “We already know what each of us will say,” end quote. And prefers, instead, to focus on the strategic and economic dialogue with China.

Fourth, in North Korea, U.S. journalists are captured and put on trial, and in Burma, Nobel Prize winning dissident, Suu Kyi, is taken from house arrest and put in prison, and Obama has made no or only a very muffled response to any of these challenges.

Now a policy of defining American objectives down from democracy promotion to stability has costs. Most serious cost is – discourages freedom activists around the world. In another Washington op-ed piece on March 30, the chair of the Moscow Helsinki group petitioned the Obama administration in these words, quote, “Democracy in former Soviet areas need a friend,” end quote.

And it may also discourage allies. A recent commentary by a German journalist noted that, quote, “Without the high moral ground of democracy building, the German mission in Afghanistan would never had started. If the objective of that war effort is now reduced to securing so called stability, the operation will lose its legitimacy,” end quote. Now, admittedly, Germany’s support in Afghanistan is not exemplary, and all of this may be different in Asia. But how will lowering U.S. objectives in Afghanistan affect Japan’s India Ocean mission?

Is it easier or harder to support America when it abandons the high moral ground of democracy in order to cut deals with despots, to ensure stability and protect America’s more parochial security interests?

Finally, consider the impact in the United States. How long will the American people, especially Obama’s own party, support fighting in Afghanistan, especially if casualties increase unless the American people believe that we have a larger objective than just restoring stability? “Stability under what kind of Afghan or Pakistan government,” the people will likely ask. A military and despotic one?

Obama, I think, faces probably two options in this area in the – in South Asia – in the Middle East and South Asia. He will have to stay in Afghanistan and Pakistan for goals that are broader than mere stability. That is he will slowly ratchet up his rhetoric on democracy promotion to sustain a domestic consensus as that job in Afghanistan becomes tougher and tougher and claims more and more casualties, or he will have to get out.

So the question is where will the defining success down pendulum stop in the Obama administration? We saw last week where already 51 Democrats voted against the supplemental budget for Iraq and Afghanistan. Nine Republicans did as well.

Force and diplomacy, cycling force and diplomacy in American foreign policy is perhaps most evident in recent decades. Regan and Bush two are said to – were said to have emphasized force in their first terms but eventually came around to acknowledge the need for diplomacy in their second terms. Similarly, Democratic presidents, such as Bill Clinton, emphasized diplomacy in their first terms and came around to acknowledge the

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need to use force in their second terms. In Clinton's case, Bosnia and \_\_\_\_\_. Bosnia being shortly before his second term.

Getting the right balance between force and diplomacy eludes many American presidents. Will it elude Obama? He has clearly started out like Bill Clinton by emphasizing diplomacy. Diplomatic surges, as I've already noted, are multiple. At the same time, he has delivered a fairly clear message that we need less emphasis on force even in AfPac where use of force is shifting from war fighting to counterinsurgency.

His military budget limits or cuts the number of programs that reduce American aircraft and sea power in the future. Missile defense in the airborne laser program to kill missiles in the booster phase were also cut. The military has engaged in a fierce internal debate about the proportions of conventional warfare and counterinsurgency capability the military needs for the battles of the future.

The State Department is ramping up a civilian stabilization and reconstruction force that has no previous experience in the field or tradition of working closely with its military colleagues. The implications for America's force posture around the world could be significant. In Asia, for example, containment of China, hedging of China should that become necessary. Not suggesting that's our policy at the moment – will depend heavily on American air and sea power.

Since 1995, China has increased the number of its submarines by 38 while the United States has cut its number of submarines by 25. The gap could close very rapidly. What do this defense budgets mean for Taiwan and America's commitment to arm it against unprovoked Chinese threat?

Even more serious may be the consequences of reduced emphasis on force for American diplomacy. All negotiations are partly matters of understand and partly matters of leverage or relative power. Fredrick the Great once said it succinctly, "Negotiations without arms are like music without instruments." Obama may be gambling that diplomacy is all about understanding empathy and reaching out and not that much about relative power.

Meanwhile, his counterparts deploy military power with relative ease. Russia's sending troops into the Georgia provinces of South Ossetia and Abkhazia and keeping troops in Georgian territory outside these provinces even though the cease fire concluded last fall called for their withdrawal.

North Korea thumbs its nose at Obama's diplomacy firing off ballistic missiles even as Obama in \_\_\_\_\_ calls for the elimination of nuclear arms. Iran continues its pace with the uranium enrichment program. Now, it's all still very, very early, and the administration, in particular, has been waiting for the elections in Iran for – really engaging those negotiations.

But nevertheless, thus far, Obama has not really responded to any of these possible military challenges. The biggest test, I think, for Obama in getting the relationship right between force and diplomacy will be in AfPac – in Iraq and AfPac.

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In Iraq, the question will be what does he do if the Maliki administration fails to integrate Sunnis and Kurds into the Iraqi national military police forces? Will he insert forces once again as arbiters in this contentious relationship, or will he say that the United States has made its contribution and the problem, now, must be left to the Iraqis even if that means a return to civil war?

In Afghanistan and Pakistan, the issue is not only whether the counter-insurgency strategy used in Iraq is going to work, but if it does work, what kind of Afghan and Pakistan governments can guarantee it. Can the U.S. trust corrupt or military governments in these countries to safeguard stability? That is keep extremists from using these territories to plot and carry out violence against the United States

Or will the United States have to keep forces in these countries quasi permanently or perhaps place them there periodically until these governments become more transparent and dependable?

Markets and regulations. There is no doubt that we are witnessing a huge swing in U.S. policy and in the policies of most countries around the world away from markets, toward global governance and regulation. The question is, again, where will the pendulum stop and will it go too far?

First, one needs to be clear about the past from which the world is now swinging away. The past 30 years of the era of the so called Washington consensus has been extraordinarily successful. A point which is totally forgotten in the midst of the crisis today.

Now I wrote about this some 20 years ago, and the analysis at that time, a book called *The Myth of America's Decline*, I think holds up pretty well to this day. Let's take a look at what's happened over these last 30 year. World GDP grew by 145 percent or three point two percent per year – an unprecedented rate for such an extended period of time.

A major world trade round was completed – the Uruguay round and numerous bilateral and regional trade agreements negotiated and ratified such as NAFTA. A new World Trade Organization came to be, the WTO, and opened its doors for the first time to the world's poorest counties - most notably China and India.

Millions of poor people in China and India, not to mention, Mexico, Brazil and other developing countries joined the world trading system and rose out of poverty into the world's middle class. Inclusion of these countries in the G20, which has now supplemented the G8 on the global economic stage, is testament to the egalitarian consequences of growth under the Washington consensus. Trickle down actually does work to a surprising extent.

It also worked, in good measure, domestically in the United States. Over the past 30 years, the United States, which took the lead in opening markets to the world's poor, has prospered. Taking into account two mild recessions, the United States grew three percent per year, created over 50 million new jobs to accommodate growing women and immigrant entrance into the workforce, and household income, corrected for the number of people in a household, went up substantially.

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The floor, in other words, was raised substantially in this country even as – and it is true – that the multiples between the floor and the top income groups also grew dramatically. Now, none of this would have been possible without the liberalization and growth of massive global financial markets.

Remember, these markets did not exist in the 1950s, '60s and '70s, and they made possible the enormous mobilization of world savings, especially from China and India, which fueled the rapid economic growth of the past 30 years.

Now, global financial markets stand in the docket. They are railed against and demonized. Capitalism, we are told, is finally collapsed. Can you imagine that? Less than 20 years after the dramatic triumph of capitalism in the Cold War and the economic record of the past 30 years? Even Obama has fallen prey to this demagogue. He postures for political purposes against the hedge funds, the banking giants and the insurance industries.

He and the whole world risk overreacting to the current economic crisis and allowing the pendulum to swing completely out of control. Of course, mistakes were made by all the administrations under the Washington consensus. The Reagan years left behind massive budget deficits. The Clinton years blessed the unregulated growth of global banking and derivative markets, and the Bush years compounded errors of excessive spending and unmonitored financial markets.

But the benefits remain, and now the trick is to correct the errors without reducing the benefits. We need to regulate global financial markets more. No doubt about that, but we also need to stop the pendulum before we over-regulate and recreate the twin specters of the 1970s. Slower growth which comes, by the way, with lower risks. If you want to reduce risks in the world economy, you will also, as a consequence, reduce rewards at higher prices. Alright? Which will come with less competition – especially less open markets.

Now will Obama stop the pendulum in the right place? Well, the tests for him, I think, are twofold. First, can he stem a disastrous protectionist trend which emerging rapidly. A recent Washington Post front page story headlined the subtle ways in which protectionism is raging. The World Bank announced in April that 17 of the G20 countries have slapped on significant protectionist measures just since – excuse me – just since November.

Thus far, Obama has been silent on free trade. He quietly walked back his campaign pledge to renegotiate NAFTA, has done nothing to keep open the window to pursue free trade agreements. Most importantly, the Doha round, which by addressing agriculture, includes for the first time in a meaningful way, the developing countries in the trading system, is dead in its tracks. And Obama has yet to toss even a bone in its direction.

Second, can he lead a sensible regulation of global financial markets to tighten leverage ratios under the Basel Accords and to inject transparency into global derivatives markets? In fact, that is all that is really needed. All of the other stuff, micromanaging, bank bonuses, blaming hedge funds, preserving an automobile industry in American,

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etcetera are all political objectives that mean nothing or very little for the health and wellbeing of the future U.S. or global economies.

Now, finally, unilateralism and multilateralism. The fourth area in which American foreign policy cycles. ometime we lead. We sometimes we lead with assertiveness. Sometimes we lead by searching for consensus. The – there's no question that Bush tripped the wire of action or diplomacy in the direction of unilateralism and as he clearly went too far in that direction.

Now the question will be for Obama, will he trip that wire in the direction – in the other direction – that is in the direction of multilateralism. So far, Obama has gone the extra mile to solicit the support of the American people, its allies and the international community.

On critical issues, this stance has not yet paid off. Again, it's very, very early, but he has gotten very little, so far, from the allies either on support in Afghanistan and Pakistan or on help with disposing of detainees and related issues. He has settled for very weak UN declarations on North Korea's transgressions, and as I mentioned, little progress is evident so far on the negotiations with Iran or on broader Middle East issues. In fact, as we saw yesterday in his meetings with the Israeli prime minister, are potentially serious differences between the United States and its closest ally in the Middle East, Israel.

The tilt toward multilateralism raises justifiable concerns among allies other than Israel. Will Obama give China the continued lead on North Korea as Bush did even though China may not have a real interest in stopping North Korea's nuclear weapons program? It threatens North Korea's stability.

So where should the pendulum stop? Between assertive American leadership which implicitly involves some degree of unilateralism and accommodating American forbearance which risks inaction or potentially action too late.

Where will Obama draw the line and take a stand? On many issues, he struggles to find the middle ground which satisfies everyone or dissatisfies no one too much. He then defers to – he often defers to other institutions as he did to Congress on the stimulus packing. So whom is he grooming to take this role internationally?

By summer, the press should begin to heat up or turn up the heat on Obama in connection with all of the diplomatic activity he's unleashed, but if past is prologue, Obama will be hesitant moving stubbornly or searching stubbornly for consensus, perhaps kicking the can down the road as Clinton was accused of doing, until forces on the ground potentially move against him.

Will he then pull the trigger and act even if domestic, allied or international support is not complete as he would like? We really have nothing to go on in Obama's case. His redlines for acting alone are well concealed. This is perhaps the biggest mystery about a man who has always led by community more than by conviction.

To summarize and include – to summarize and conclude, American foreign policy tends to cycle between democracy and security, force and diplomacy, markets and regulation and unilateralism and multilateralism. The antipodes in this cycling coincide neatly,

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though not completely, with the two foreign policy schools of realism and world internationalism. Today, the realists are back in fashion with their emphasis on stability rather than democracy, deference to allies and international diplomacy, priority for domestic markets, government strengthening of regulations and decision making by consensus over preemptive action.

But the pendulum swing toward realism can go too far, and Obama faces the challenge of knowing when to stop it and when to refresh America's commitments. Commitment to freedom, to an effective diplomacy backed by force, to a world market that must be risky if it is going to sustain high growth and to a style of leadership that does not – that is not subordinate to the slowest camel in the caravan.

The most successful American presidents have known when to stop the pendulum and how to balance the competing tendencies in the four areas I've discussed. I'm currently studying the four presidents who did this exceptional skill. They are Jefferson, Polk, Truman and Reagan – at least one of those might surprise you, Polk.

These four presidents did most to expand American freedom in the world. Jefferson to the Louisiana territories, Polk to the western territories, Truman to Western Europe and Reagan to Eastern Europe. Now, all of these presidents insisted on spreading freedom as the chief goal of American foreign policy despite the inevitable hubris and hypocrisy involved in such a goal.

They understood that leverage – that the leverage that force provided for their diplomacy, especially against tyrants who don't hesitate to use force against their own people, let alone against other countries. They championed open markets and commerce as the engine of entrepreneurship whose rewards are directly correlated with risk, and they accepted the mantle and sometimes loneliness of leadership that moves ahead of the crowd but also eventually brings the crowd along with it.

What's interesting is that in the case of these four presidents, given their aggressiveness, three of the four presidents left office as popular as they were when they entered it. Truman was the exception, but that's the point. He was the exception.

Leadership is much more than pragmatism and solving problems. It has to define those problems in the first place and do so on the basis of principles upheld by free people not just problems created by tyrants. It may have to be proactive. Yep, at times that comes close to preemptive not just reactive.

And while being out in front, it has to bring the majority of the people along at least in the free world. Obama has a proven ability to bring people along but an unproven record of where he wants to go. Here's how Elisa Massimino, head of the Human Rights First organization, summed it up in a quote in a recent Washington Post essay, "Pragmatism is not just taking the two extremes that are out there and finding some golden mean. Ideally, you want to see a kind of principled pragmatism which is really focused on the goal but with a clear-eyed sense of how you get there. If you get the right – if you forget the right direction or where the goalposts are then pragmatism becomes a kind of abdication of leadership." Close quote.

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Obama may be the smartest president ever. I think he probably is, but does he know where he is going? We don't yet, and that, at least initially, is somewhat disturbing.

*Audience:* First, I'm quite impressed by your comment, but I couldn't help wondering how similarly the current Taiwan government has adapted. Is that just the same approach as you described regarding Obama government or would – in Taiwan, we've also seen this paradigm swing from Chen Shiu-Bian to Ma Ying-Jeou. President Ma kind of pressed the reset button by introducing his policy of ABC aka Anything But Chen. So there's a diplomatic truce and also cross strait much more.

The question is – and you said that because you offered a couple of examples, for example, former President Bill Clinton. He emphasized the diplomacy in his first term and then, in his second term, he was forced. And there has been this honeymoon period between the Bush administration and the DPP government back in 2000, 2001.

At that time, the Bush administration still focused on unilaterally, but 9/11 changed the whole situation. The DPP government, at that time, failed to come up with more understanding of a switch of a U.S. foreign policy. But in the case of current U.S.-Taiwan relations, I would assume that because nobody knows who – where President Obama's going to lead the U.S. to towards us.

In case of a, let's say for example, if President Obama changed the – kind of replaced the use of force with the current diplomatic impediment, how would Taiwan react to that? I mean, apparently one of the biggest accusation on President Ma is that he moved toward the other side of strait too fast. And given the fact that Taiwan's economy and also political relation with China, Taiwan depended too much on China.

If there's one thing that when U.S. government changed this penalty come back again, from more diplomatic to a more, I wouldn't say contentment, but more of a hedging, how would Taiwan KMT government react to that?

I think this is something that occurs in Ma Ying-Jeou government has to take serious into.

*Henry Nau:* It's a good comment and, I think in there, somewhere a question. A lot of countries have had difficulties over the years dealing with American foreign policy precisely because this pendulum exists. It continues to swing in one direction after the other.

And I've – there's a very good reason for it. I think, frankly, something which is out of favor in Washington today has a lot to do with and maybe in a good way, and that is partisanship. I'm on a taskforce for the American Political Science Association that has looked at anti-Americanism, and one of the stunning pieces of data that we've come up with is that if you look at American public opinion from the early '50s on that is now almost 50 – five decades, four decades, you will find that during Republican administrations, Democrats become increasingly unsatisfied with American foreign policy – America's role in the world.

Under Democratic administrations, Republicans become increasingly dissatisfied, and the correlation is so consistent. It clearly reflects that Democratic and Republican

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administrations tend to have different views of the world, and they respond to the world differently. And as a result, of course, the American people resonate that in these public opinion polls.

So I don't think this is a problem that's going to change very soon. I don't think we're in the post partisan era by any chance. Would hope – just as I would hope in the case of a Republican administration, that there is a good and vibrant Democratic opposition. I hope that there will be a good and vibrant Republican opposition.

Other countries just need to be aware. They need to be beware, I suppose, of these patterns in the United States. Now one thing I will say about Asia and China is the policy has been pretty consistently bipartisan. Alright? It's been pretty consistently, I would put it, supported by both Republican and Democratic presidents for the last 30 years.

A remarkable achievement in a way, I think a remarkable policy on the part of the United States which has really given China the chance that China has today. I think we should be reminding China about that more often. They won't accept it. I understand, but just let them hear it and let maybe their people hear it.

We opened our markets to them. We took 30 – almost 35 percent of China's exports for quite awhile and basically helped them to access world markets worldwide. The hope was that we would integrate them into the system. They'd become stakeholders, and we would get along well with one another, in part, because China would become more transparent and accessible domestically.

Now, in some sense, we've made a lot more progress on one end of that bargain than we have on the other. There's been much more growth and strengthening of the Chinese economy and of the Chinese military than there has been, certainly, political liberalization in China. There has clearly been quite a bit of economic liberalization, and there's certainly more economic freedom, but we're still not there in terms of that relationship.

Now the bipartisan policy may be in some jeopardy over the next decade. It's clearly going to get a lot of pressure from the left in the Democratic Party over trade, and it's going to get increasing pressure from the right from the Republican Party over the absence of the payoff for having included an integrated China into the world economy. Where is it? Do we see any political liberalization? What going on? Why don't we see enough change domestically and political areas in China?

So the next decade could be a rough one for the U.S. China relationship in that respect having lots of implications for, certainly, our allies in Asia including, of course, our friends in Taiwan.

**Panel II: Analyzing Cross-Strait Detente:  
Implications for Taiwan's Relations with the US and the International Community**

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*Bruce Dickson:* Back to the afternoon session. My name is Bruce Dickson. I'm professor of political science international affairs here at GW. It's my pleasure to chair this session. The formal name of the session is Analyzing Cross Strait Détente Implications for Taiwan's Relations with the United States and International Community. Although the panelists suggested-- told-- me that they had no intention of sticking to that topic.

So let me make a quick introduction for the different panelists. I think all of whom are known and don't require much detailed information. Detailed information is available in the little handouts if you want to get more about them.

First of all, June Dreyer is professor of political science at the University of Miami. She's a well known here at Washington on her commentary and research on Taiwan affairs and Chinese security. Author of a popular textbook on China and currently engaged in a study of formal policy between China and Japan.

Bruce Gilley is currently assistant professor of political science at Portland State University. Had, perhaps, the unique distinction of having three University Press books before getting his PhD. Has continued that lucrative or productive strain most relevant to today's session is he's the coeditor with Larry Diamond on a book. The exact title is Political Change in China Comparisons with Taiwan – looking at how the process unfolded in Taiwan and the implications of it and whether similar process is possible within China.

And lastly, Rupert Hammond-Chambers who is president of the U.S. Taiwan Business Council. He's been with the council now for almost 15 years at different capacities. Well known speaker throughout Washington on aspects having to do with economic trade relations between Taiwan and the United States and the region more generally.

Each of the speakers will have approximately 15 minutes to enlighten us and then we'll have ample time for questions and answers afterwards. You can either speak here or at the table as you see fit.

*June Dreyer:* Delighted to be here and I hope you aren't – haven't been made too sleepy by that excellent lunch. And anyway, I am the one who didn't dissent from the panel title, and so I'm going to actually talk about the implications for Taiwan's relations with the United States and the international community, and I am going to start by saying that there is a significant amount of disagreement on just what is the status of cross-strait relations and that unless the – there – we can come to some consensus as to what's going on, it is very difficult for the United States and the international community to develop a policy toward what's going on.

And on the one hand, I read these positively gushy newspaper articles. Ed Friedman, I think, mentioned earlier today correctly that what is actually going on isn't necessarily what appears in the press. And I was astounded to pick up a copy of the New York Times last week. It's the 13<sup>th</sup> if anybody is interested.

There's an article there headlined Exuberance in Taiwan as Ties with China Warm, and it showed a young woman at a Taiwan brokerage office. According to the caption, she was staring avidly at some security monitor giving securities information. She didn't look quite as eager as the caption said, but nonetheless, there it was.

And the article went on to explain that Taiwan stock index has just risen the most since 1991, and the currency had rallied after the government allowed Chinese investment for the first time since the civil war ended sixty years ago. So exuberant. That's the 13<sup>th</sup>.

On the 16<sup>th</sup>, we see two massive demonstrations, one in Kaohsiung and one in Taipei involving hundreds of thousands of people who are unhappy about what's going on in cross-strait relations.

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Now on the first point, the exuberance, hardly a day goes by that you don't see something that is positive. SAT, the Straits Exchange Foundation and the – its China counterpart, ARATS, Association for Relations Across the Taiwan Straits, they have – they're handling cross-strait relations. There are direct airline flights between Taiwan or some people prefer the ROC and the PRC. There are Chinese pandas in the Taiwan zoo. There are going – Chinese police, we hear, are going to set up offices in Taiwan to help deal with cross-strait crime.

Taiwan was given observer status in the World Health Organization, and the former ambassador equivalent to the United States, Steven Shun, said the next step is a peace pact. So all that sounds very good.

And on the other hand, you also have general anger at some of the actions of the Ma Ying-jeou administration which took office just exactly a year ago. There was this really I mentioned to protest the Ma government's plans to pass an assembly and parade law that is very restrictive. And since I'm going to try hard, Bruce, to keep to that 15 minute, I'm not going to tell you why it's been considered too restrictive, but we can do that later.

Petitions – we have petitions protesting this elective prosecution of officials of the former administration including leaks from the prosecutor's office and other perceived aberrations of the judicial process. Fairness in reporting – I was a signer for one of those – several of those petitions.

And there's a generalized feeling that sovereignty is being eroded. The opinion polls in Taiwan, which somebody is bound to bring up, are all over the place, and you can – whatever your firm conviction, you find a Taiwan opinion poll to back whatever you want to believe.

Now what about the United States government? It's reacted by saying positive things about the cross-strait rapprochement, and to be fair, United States policy has said from the very beginning that any solution to cross-strait problems must be a peaceful one. And certainly what goes on looks like peace is breaking out all over. And so that's what we always said we wanted.

And the United States has responded as most of us predicted it would by repeating the time honored mantra that we respect the three communiqué at the Taiwan Relations Act as if somehow the people who were saying this were unaware that the Taiwan Relations Act is not – contradicts the three communiqués and unaware that the 1982 communiqué – the State Department's own spokes – legal counsel said, three days later, it has no legal force whatsoever, and furthermore, it's been a dead letter at least since 1992 when Daddy George Bush agreed to sell the F16s, and arguably, it was a dead letter before then.

Okay. Now repeating mantras can actually be considered a reasonable strategy when there's so much uncertainty in the cross-strait relation because we can always say, as we've been saying for years no matter how much policy does change, our policy hasn't changed. We're for peaceful solution of this situation, and we respect the three communiqués and the Taiwan Relations Act.

And so these expressions of support continue when Barack Obama was campaigning for the presidency, he said he supported Ma's policies – mentioning, in particular, Ma's efforts to forge better relations with Beijing and get greater international space for Taiwan on basis that do not counterproductively raise the sensitive issue of sovereignty.

Now this shows Barack Obama, on the one hand, to be an intelligent guy. You always knew that, and it also shows him to be a politician because he's just said that he approves of doing something that can't be done. Okay?

Functionally, it is impossible to give Taiwan greater international space that does not raise the issue of sovereignty. I'm prepared to argue that one in a Q and A if anybody's interested. Secretary of

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State Hillary Clinton made a statement early on – the mantra – we inherited the one-China policy, and she adds since one of the most successful American foreign policies ever.

This makes me wonder about the status of those other foreign policies that are less successful since for the past 30 years, every time I see people list potential flash points across the globe, the Taiwan strait issue comes in number – somewhere between number one and number three, and when you consider the competition – that hardy perennial Israel Palestine and nuclear nonproliferation, that ain't bad, but it sure doesn't sound successful to me.

Alright. Now one of the thorniest questions the new United States administration is going to face is armed sales to Taiwan. This is another very sticky issue. The Taiwan Relations Act says only that the United States shall make arms available to Taiwan not that it has to force Taiwan to make the – to take the arms.

So what are we going to do if administrations – what happened throughout the Chen administration is, the Chen administration says, "We want X," and the United States says, "Okay." And then the legislative nuance is, "No, we're not going to let you." So partisan bickering, and this drove officials in the United States bananas.

I was a member of the U.S. China Commission. You heard our chair, Carolyn Bartholomew, this morning, and we had a lot of arguments therein. And somebody would say – I'm cleaning up the language slightly here for the audience but, "What the dickens do these people think? They want my son to fight for Taiwan, and they're not willing to buy arms to defend themselves?" This was a very difficult issue here.

Okay. Now, what arms are going to satisfy Taiwan's need to protect itself – especially given the fact that there doesn't seem to be a consensus in Taiwan on what weapons are needed and what numbers. Carolyn mentioned very astutely that people who are about to get jobs become very quiet about what they really think, and in this case, we have Dennis Blair who has been appointed Head of the National Intelligence Counsel.

And he says, Taiwan should not be so defenseless that it feels it has to do everything that China says, and China cannot be so overwhelming that it can bully Taiwan. Now this is a matter, I suppose, of calibration, but how do you calibrate when one side can't seem to decide what it wants and the other side is going to express anger about whatever it gets sold?

So this is one of those dilemmas that is going to be really, really hard to resolve. And now, it may sound as if there's consensus in the Obama administration on the broad outlines in policy. The devil is always in the details, and you can see misgivings within the American bureaucracy on this matter.

There was an interesting article in the Strait's Times which is Singapore's leading English language newspaper and arguably Singapore's leading newspaper. Last week, those of you who read the paper know it takes a normally – how do I put this diplomatically? A very friendly attitude towards the People's Republic of China. Okay?

The reporter had an interview with the PacCom commander, Timothy Keating. The reporter, since he does work for the Strait's Times said, "I repeatedly pointed out to Keating that China had said that its goals in naval expansion were strictly defensive." And the admiral replied –the reporter says the admiral barked – the admiral barked, "Prove it. We can see their ships. We can see their army. We can see their airplanes. We've got the transparency part pretty well, but it's a statement of intention we want. Why are they doing what they're doing? What do they intend to do with these arms?"

So a very different thing from repetition of the mantra and talking about, "Well, we've got to get the arms sales right somehow." The chairman of the Joints Chiefs of Staff, Admiral Michael Mullen, last

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week again, told a Navy League – no, it was a couple of weeks ago, Navy League conference – it was early May – that China's military buildup appears aimed at the United States.

This is just about the same time that two Chinese vessels – and the phrase that's always used – came dangerously close to the US Victorious which is a submarine hunting ship conducting routine operations in international waters in the Yellow Sea. And in March, there was a similar incident involving five Chinese ships and the USS Impeccable about 120 kilometers off Hainan Island.

The latest issue – the May issue of the Institute of Naval Proceedings contains an article entitled A Chinese Anti-ship Ballistic Missile Could Alter the Rules in the Pacific and Place US Navy Carrier Strike Groups in Jeopardy. There are also fears about Chinese hacking into U.S. websites, military websites, the electricity grid and other sensitive sites.

Now this is an international reaction to Taiwan. I remember that part of the title, and the United States is not the only power that's concerned. Australia announced in April that it's going to spend over \$100 billion over the next 20 years to boost its naval and air war fighting capacity. They're doubling the submarine fleet. They will be 100 new joint strike force fighters and new spy planes and new surface warships.

And according to an article in one of Australia's leading newspapers, the Australian, the rise of China will shape Australia's defense planning for a generation. In other words, this – a very expensive buildup -- is not directed against Papua and New Guinea or Indonesia.

Okay. Now India is also increasing the size of its defense budget, and it's casting around for allies. It is buying new equipment, and then there's Japan. Somebody made the statement this morning that Japan has just disappeared. It's given up. I could not disagree more. Japan is on the defensive. It hasn't given up. The Japanese don't give up that easily.

Tokyo is particularly concerned because it has territorial disputes with China. If Taiwan were to be absorbed into the People's Republic of China, that would mean that its territorial waters – that is China's territorial waters was already overlapped with those of Japan and involved some oil and gas rich areas would become still more contentious.

And the same could be expected, obviously, for the United States. American ships are already being harassed in international waters by Chinese ships, and you then add Taiwan absorbed into the PRC. You extend the range on which those American ships can be harassed.

Now I don't really expect any more of, from the U.S. administration, than repetition of the same mantra. Henry Nau talked very eloquently about partisanship. What is interesting is how, even though it sounds rhetoric on China, sounds very partisan before an election, after the election, things change completely. I am near the end.

The Clinton, you remember famously, accused George Bush the First of coddling dictators from Beijing to Bagdad, and it took him about five months before he started coddling Beijing as well. I have a terrific cartoon on that. Didn't bring it with me. I'll tell you about it later.

Okay. Now this administration has a lot of other things on its mind – the financial crisis, nuclear proliferation in North Korea and Iran and perhaps elsewhere that they haven't told us about yet. There's Iraq. There's Afghanistan. There's the Israel Palestine and lots of domestic problems like Social Security and Medicare possibly going broke sooner than we thought they were going broke, and the older I get, the scarier that becomes.

Now also, I would say what happens to Taiwan is also of huge concern not only for the United States but for very important American allies like Japan, like India and like Australia. And if I have an observation from my studies of past history and political science and even from my own life, I would

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say this, it's always the problem you don't think about that seems to cause the most trouble, and let's just hope that the current inattention to what's going on in the Taiwan strait isn't going to be the Achilles' heel of Pax Americana. Thank you for your attention.

*Bruce Gilley:* Well, thank you for coming and thank you for having me here, and I guess I was put on the afternoon program because the hope that I might stir up some passion. So here it goes.

A recent Congressional research service report asks – quote – what U.S. policies should be if Taiwan should continue to move closer to or even align with the PRC? Recent developments in China Taiwan relations are confronting the United States with an unprecedented challenge. One that reveals, in my mind, the deep ambiguity in the 30 year relationship between Taiwan and the United States since ties were ended with Taiwan in favor of China.

Since the early 2000s – and then, I think, accelerating under the Ma Ying-jeou presidency in Taiwan, Taiwan and China have moved into a closer economic and political embrace even. The reasons for this are complex, but at root, concern the fundamental interests that Taiwan has in having closer relations with China and the fundamental interest that China has in asserting its sphere of influence over Taiwan.

The consequences of this are what I'm going to describe as the looming Finlandization of Taiwan, and I'm going to argue that that's not a bad thing, and the United States should embrace this potential change. By Finlandization I mean Taiwan's acceptance of Chinese strategic interests in preventing the drift of the island away from Chinese sovereignty in return for economic integration with China and Beijing's acceptance of Taiwanese autonomy in a limited voice in international foray.

The questions raised by this trend are multiple. Why is it happening? How does it affect U.S. interests, and how should the U.S. respond? And I'll argue here that the comparison to Finland is quite an instructive one, and in many ways, forces us to reconsider Finlandization normally understood as a bad thing – to think of it instead as potentially a good thing that would be in the long term interests in the United States which, in the end, is a peaceful rise of China in Asia.

Taiwan China relations have gone through long periods of warmth and cooling. Cooling, obviously, we think of the Mao-Cheng period. A warmth that began really in 1979 with the end of shelling of offshore islands and **Ye jeng-ling's** 1981 statement to Taiwan compatriots.

In 1995 to 2005 period, I think emerges as a second period of tension in the Taiwan Strait that forced both sides to rethink the nature of their relationship. From Beijing's perspective, the damage wrought by the tense relationship between 1995 and 2005 led to a rethink. I think this began under Jeng's admin, but it was mainly taken up by Hu Jintao.

The grand strategy was essentially attempts to unify Taiwan were not worth it and that the island's de facto independence should be accepted. China's peaceful rise was at stake as Asian nations band-wagoned around the U.S. Public opinion in Taiwan had become stridently anti-China. And so in a series of initiatives that I think really begin – perhaps you could date it with Hu's four point speech in 2005 – but a series of contacts that began across the strait prior to the 2008 election in Taiwan. Beijing reconceptualized the Taiwan issue. It went from being a national emergency, an issue of urgency, a question of eliminating a potential national security threat to an issue of a management, a headache, an issue that was not urgent, one that could be dealt with through engagement rather than through threat.

And so what we've seen, in my mind, in the last several months in the Taiwan China relationship is really an acceleration of a trend that began well before 2008, Ma Ying-jeou, is in many ways, at the right time and the right place. And what's interesting, in terms of thinking of Finlandization – in other words – the political aspect of Taiwan's closer relationship with China – is that the developments in

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recent months have gone beyond simply economic interchanges. Although, let's not forget, that the impediments to economic relations across the strait were always themselves political.

So to remove economic barriers – in particular, on Chinese investment – the tourism in Taiwan has serious political overtones in terms of an improved political relationship. But there are the most explicit political aims – not just the World Health Assembly invitation but also, going back, if you look at how China has dealt with Taiwan and WTO, it has very quietly stepped aside and allowed Taiwan to take on leadership roles within the WTO most recently as the head of the recently acceded members groups within that body.

Again, sort of emphasizing that China's change of policy on Taiwan predates 2008, and I hear – I'm not sure if this happened, but the DPP mayor of Kaohsiung was going to go to Beijing and Shanghai this week. And to me, that signals a real normalization that goes beyond economic and financial relations to include political relations.

Understanding China's second *détente* phase, as I'm going to call this, is critical to knowing how the U.S. should respond. In essence, there's always two broad ways to interpret Chinese foreign policy on Taiwan. One is that it's a result of nationalist ideology. Here, Taiwan represents a barrier to Chinese greatness, a humiliation inflicted on a rising nation by foreign powers and unless CCP seeks to reunite the island with China, the CCP, itself, will face a legitimacy crisis.

If so, then the second *détente* is merely a tactical shift intended to force Taiwan into reunification through indirect means. This is the carrot instead of the stick, but the nationalist underpinnings of this policy are clear. The alternative view is the Chinese foreign policy sees Taiwan as a means rather than an end – that this is really an issue of geostrategic thinking on the China side.

On this view, which I think has been articulated best by Alan Wachman in his book, *Why Taiwan?* China cares about Taiwan because of its geographic location. It represents a potential strategic threat to China because of the way it can be used to cut off sea lanes to constrain China's power projection.

From this standpoint, the second *détente* is a tactical shift intended to achieve China's strategic objective of reducing the strategic threat represented by Taiwan through Finlandization. The interest here is about sphere of influence on China's rising role in Asia not the takeover of Taiwan per se.

China has no interest in occupying or even in any way ruling Taiwan. What it does have an interest in is expanding its influence in Asia and becoming a dominant power in that region. So from this perspective, Taiwan needs to be understood as a means and not an end to Chinese foreign policy.

And I find that latter argument to be much more convincing. If you look at the domestic sources of Chinese foreign policy on Taiwan, there's actually not a lot of evidence of strong nationalist sentiments driving that policy. A recent survey by the Horizon Research Institute in Beijing found that only 15 percent of those surveyed believed that military action was necessary to deal with Taiwan, and 58 percent believed that military action should actually be ruled out and that economic and other forms of social integration are a better approach.

So I don't see it nationalist imperative driving China's policy on Taiwan. I do see a geostrategic imperative driving that policy, and I think that that's a similar logic that has informed Taiwan's own shift towards China. **Wong Jeng Wei** says this, "Beijing views the Taiwan issue and cross strait relations as an integral part of China's comprehensive rise in world affairs rather than as an isolated issue purely affecting national pride alone. It is endeavored to make the Taiwan issue an asset rather than a liability during China's emergence as a world power.

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So from a Taiwan perspective, the move to closer integration with China reflects a view that Taiwan's interest lie not in challenging China's claims to the island but in realizing the benefits to be had from closer economic and even political integration. Long after the U.S. has gone home from Asia, let us not forget, Taiwan will still wake up and find itself living next door to China. China will still be a day's boat excursion from Shanghai, and so Taiwan has no interests in preserving the island as a geostrategic threat to a rising China.

This, I think, is where we see the fundamental divergence of U.S. and Taiwan's interests. For many years, U.S and Taiwan had a parallel strategic interest in protecting Taiwan from Chinese attacks. Now that China itself has rethought the Taiwan issue, that divergence is starting to become more clear.

There is obviously a justified concern in Taiwan about being lured into a trap of integration with China, but I think we should distinguish between oppositional politics and oppositional views. Most controversies in Taiwan, as far as I can understand them concern how the Ma Ying-jeou presidency should pursue closer relations with China less so on whether that should be the aim of current policy.

So where does this leave the U.S.? U.S. core interests in Taiwan are not the core interest of Taiwan's people anymore than U.S. core interests in Egypt and Saudi Arabia represent the core interests of those peoples. The U.S. is, for the first time, finding that its commitment to Taiwan and its democracy, which served a very valuable role in Taiwan's democratization period, is diverging from what the Taiwanese themselves want and seek in their relationship with China.

Taiwan has always played a strategic role for the U.S. First, as a bulwark against a communist expansion. More recently, as bulwark against an expanding China. Congressman Royce, if you listen to his words this morning, talked about Taiwan as having a strategic position in East Asian shipping lanes and talked about the relationship with Taiwan as being important in order to deter China from being on the wrong course.

For the most part, Taiwan's own anticommunist position has led to an alignment with these initiatives, but the evolution of tactical and strategic thinking in both Beijing and Taipei, which I've earlier described, is leading to a change, a divergence of Taiwan and U.S. interests.

As a result, I think the U.S. should expect and indeed embrace potential looming changes in its relationship with Taiwan. Firstly, it needs to rethink the role that Taiwan plays in U.S. grand strategy in Asia. If, as is reasonable to assume, Taiwan's role must still be how it helps to secure the containment or peaceful rise of China, then this implies significant change in tactic given the new cross straight détente.

The Congressional Research Service Report warns that the Ma government could reach a swift accommodation with Beijing that may complicate U.S. regional interests. In order to see beyond that sort of zero sum view of the Beijing Taipei détente, Washington should understand the liberal logic behind Taiwan's embrace of China.

In a sense, Washington and the United States needs to be willing to lose China for a second time. In this case, the island of Formosa, must be allowed to walk into the PRC sphere of influence. In part, this is making a virtue of necessity. Taiwan is already walking in that direction, and attempts to bring it back would likely backfire.

However, I think there is a tactical reason that does actually correspond to U.S. interests to allow this – to allow this Finlandization of Taiwan if that is the direction that Taiwan goes. Namely, that if Taiwan, which finds itself in a closer political and economic relationship with China, will be a positive, transformative influence in China's domestic politics.

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The U.S. needs to maintain its general strategy of not interfering in the cross strait relationship. In the past, that meant not issuing visas, not selling critical arms systems. Today, this means not interfering in the drift of Taiwan into Beijing's embrace. It should simply stand down into a passive position dedicated to the status quo as defined by the two sides.

The tragic dimension of the security dilemma that has always bedeviled U.S. China relations is that in seeking to contain a rising China, the United States has played into the very geostrategic fears of encirclement that have, in turn, prompted Beijing to rearm and expand its military capabilities.

Taiwan is making an historic departure. It is seeking to break the tragic dimension of the security dilemma with its own potential self-Finlandization strategy, taking itself out of the game, breaking the security dilemma that haunts the Washington Beijing relationship.

And let's not forget that Finlandization might have ended the cold war. Finlandization brought about the Helsinki process. The Helsinki process, according to Cold War historians such as John Lewis Gaddis, reasserted the importance of moral values and shared universal commitments to human rights that eventually undermined the moral authority of the communist party of the Soviet Union and led to the dramatic transformation of Europe.

So this current integration is a test of liberal approaches to international relations, is a rejection of militarized approaches to international relations. And if it's true that the Taiwan China issue continually has ranked among the world's greatest hot spots as a result of the last ten years of the militarized approach to this dispute, perhaps it suggests an alternative approach has little to lose.

There are some practical upshots of this for U.S. policy. Military relationships between the U.S. and Taiwan will need to be thought of much more carefully. There's a reasonable and understandable concern within the Pentagon that a closer Taiwan China relationship could lead to the loss of sensitive technologies, intelligence and information.

The U.S. should also expect that the Asian's only regional security forms that are developing will take the lead in defining future security architecture for the region once Taiwan is removed as the lynchpin of U.S. security strategy in the region. But the upside of all this, as I have said, is that Taiwan's embrace of China contains within it the potential of great liberalization in China itself.

Already many prominent Chinese liberals such as **Jian Bul Shu** of the Chinese Academy of Social Sciences or even **Shun Li Jun** of the National University of Singapore argue for the importance of learning from Taiwan for the purposes of political development in China. Taiwan is, in their minds, an asset for the political modernization of China. It's a comparative experience that holds great promise.

Ma Ying-jeou has unlocked that potential. It is this thinking and this role for Taiwan that holds out the best promise for civilizing and redirecting China's regional ambitions. Having allowed itself to be removed as an obstacle to this ambitions, Taiwan will find itself on the inside of the dragon – a Trojan horse so to speak.

A robust Taiwan democracy, that has become a regular political participant in the politics of China, will help to be a powerful impetus for emulation in China far more than the nativist and demagogic Taiwan under Chen Shiu-bien being ever was much less the militarized Cold War Taiwan under Chiang Kai-shek.

The United States, it should be noted, has played an exemplary and heroic role in maintaining cross strait peace and protecting the growing foundations of Taiwan democracy since 1949. Today, the historical burden of the U.S. is in the process of nearing its end. Both sides of the strait are moving into a longer term relationship of economic and potentially political integration that will be of greater benefit to Taiwan and that will eventually be of greater benefit to the United States itself.

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The U.S. should understand and embrace this historic change. Thank you.

*Rupert Hammond-*

*Chambers:* Thank you very much. I wish to thank GW and the Formosa Foundation, and I see Terri Giles back there. Hello, Terri. Thank you for all of your leadership.

Well, I'm going to stick a little bit to the title and then wander off in a couple of different directions and maybe come back to it at the end if that's okay with everyone. I think I'm going to end up perhaps disagreeing a wee bit with Bruce at the end of this on his direction.

I'm not really going to talk about sales. I'm sorry. I'll just apologize for that right now. I like to talk about economics. Sometimes I like to talk about sales but not today. And I've also mixed some polls in there too, and they do support what I'm saying. So I hope that's okay with you too.

I want to talk a little bit about Ma government policy and how it's challenging an Obama team that's still coming together. [Kurt] Campbell isn't even at state yet still, and he's the – clearly a key guy in the interagency process that will drive U.S. policy towards Taiwan. So until he gets into place, it's difficult for us to get a read on the direction that Mr. Obama will take our country's relationship with Taiwan.

But President Ma is certainly taking his country in the direction, and that direction is markedly towards improved relations with China. We're reading about it often – everyday. Economics underpins a significant part of what he's doing at the moment for a number of different reasons, but I think, basically and simply, because it's a good place to start.

It's reasonably uncontroversial. The peoples on the two sides of the Taiwan Strait want to improve their quality of life, want to improve economic opportunity, and they can speed or expedite that process by working more closely together. So improved economic relations is a good platform for reducing tension and raising the quality of life of Taiwanese and Chinese citizens.

Taiwan has had it pretty rough over the past 12 months – as rough as any economy in the world candidly. In December and January, exports halved and given that, 70 percent of Taiwan is industrial production, it's had a dramatic impact on Taiwan's economy.

The Ma government, in my view, has somewhat struggled in its response. Its initiatives have ranged from spending vouchers -- we tried it last year with tax cuts. It just adds a lot of money to our debt and doesn't really have that much of an impact to increase consumer consumption -- to reducing taxes in personal and business investment areas and then he's – Taiwan's also got a significant infrastructure spending package that the Legislative Yuan is mostly sitting on at the moment, and that's not moving particularly quickly.

None of these domestic actions have, are having, much of an impact. Taiwan is principally reliant on to external dynamics which are mostly out of its control. The first is the China market for raising economic activity. The Chinese, actually, have done a pretty good job with their stimulus package.

I don't know if any of you have cause to read about it, but the one thing China does when they want to do something, they get on with it. And the Chinese stimulus package has focused a considerable amount of money on infrastructure investment. It's funny because a couple of years ago when we were talking about how that was overheating the Chinese economy, now we see it as virtuous.

And Taiwan's businesses that are invested in China – and that's many of them – are very well positioned to take advantage of this economic expansion and this flow of money. Construction, IT

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are two areas that Taiwan businesses are doing well in. Taiwan companies have such a broad and deep exposure to China's economy that any activity will have an impact, and it is.

As China's overall economy expands and possibly accelerates in the coming year or two, so Taiwan will see a lift in its own economic fortunes – marginal lift but a life nevertheless. And as I will talk about in a little bit more detail later on, the challenge for Taiwan, in this area, is to continue to unwind the barriers that make or have made much of the investment by Taiwan businesses illegal. We're going to talk about ECFA, the Economic Corporation Framework Agreement, again in a little while, and that's where that largely fits in.

The net result over the past 15 years has been an increasingly complex set of financial frameworks that set up Taiwan's businesses in places such as Hong Kong to keep money they need to invest in China and profits that they earn offshore. It's terrific, in my view, to see President Ma's government work so diligently on winding these restrictions. I personally do think that the endeavor that he's taken in this area is a positive development.

Unwinding restrictions, and it's surely having an impact on Taiwan equities which have risen over 40 percent this year. But the best – ultimately the best and quickest way to lift Taiwan's economy would be to create an amnesty for Taiwan companies to fully declare their China operations and create incentives to rationalize their operations and repatriate their offshore funds.

When I was in Taiwan in February, I got to see [Mac Chai Li](#), and we got into this a wee bit. Regrettably, Taiwan doesn't really have a plan to an amnesty plan, and the analysts that the counsel gets to interact with -- and I get to talk with regularly who are based out in the region -- there really is consensus that an amnesty program for Taiwan businesses, at this juncture, would have a significant impact on capital flows back into Taiwan. And we're talking hundreds of billions of dollars, really significant sums of money.

Such an effort might bring back as much as \$250 billion into Taiwan. In the longer term, for Taiwan -- and this is a sort of second issue -- Taiwan needs a global economic rebound. There's just no way of getting around it. Taiwan exports approximately 70 percent of its economic activity. China is its largest export market now, yes, but even there, over 40 percent of what Taiwan exports to China is packaged, assembled and re-exported to the G3 economies alone – the EU, U.S. and Japan.

The point is simply that Taiwan is ultimately reliant on the global economy rebounding, and until that starts to take place, it will continue to under-perform economically. I'm going to keep talking about economics. Why is this relevant? Because, as I mentioned, a considerable amount of domestic pressure on Ma is a function of the economic recession, and his engagement with China is pretty much the only substantial area in which he can show practice initiative to the Taiwan people that he is attempting to address some of the fundamental issues challenging Taiwan's economic health and wellbeing.

GDP plunged eight percent in the fourth quarter last year. What does that mean? GDP is the broadest measure of economic activity and has a strong, long term relationship in the profitability of Taiwan businesses. Consensus analysts expect Taiwan's economy to contract this year six, seven percent, maybe as high as ten percent.

Ma actually gave a pretty extensive press conference. I don't know if any of you had an opportunity to read some of the transcript. Today he gave that. Basically on the first year anniversary of his taking control he pointed to the second half of this year as the time in which Taiwan will rebound. That fits neatly with our own president's assessment and indeed many of our economic officials and non-government analysts who view some sort of rebound, probably pretty soft, at the end of the year.

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Trade fell off a cliff at the end of last year, unprecedented for Taiwan. You were talking about export drops in the region of 50 percent in November-December-January timeframe. Simply that means, before then ten widgets a month, after that, five widgets a month. I mean that's catastrophic. I mean there's really no other way to characterize it.

We've seen a rebound. That's encouraging. Is it a more substantial rebound globally? We're seeing this not just with Taiwan but generally within the supply chain. Is it a more substantial rebound that reflects the global economic activity rebounding in a sustainable manner? Or is a somber leave simply a refilling of inventories after an overreaction over the Christmas period to the credit crisis of the autumn?

I don't think there's an answer to that yet. I think the best we can do is cross our fingers and hope that it's the former, but trade should pick up through the rest of the year for Taiwan, and Ma will then be able to point, I think, to some degree, on improved economic relations with China and some of the areas after China in \_\_\_\_\_.

40 percent increase in asset prices this year, that increase puts Taiwan's market basically at the forefront of all markets around the world that have experienced mostly distress other than the last six to eight weeks where we've seen equities rise somewhat. Most analysts are pointing to the fact that Ma's engagement with China has a great deal to do with that and further cross-strait liberalization should focus global institutional money on opportunities for a more integrated relationship.

Alright. Let's talk ECFA for a second. A quasi free trade agreement with China is a good idea for a number of reasons, but as I'll touch on afterwards, I'm becoming increasingly concerned about the direction the Ma government is going, and I'll explain why in a minute. The impact of regional agreements on Taiwan's competitiveness in China is real. ASEAN plus one and ASEAN plus three will start to have an impact on Taiwan's competitiveness in the mainland market.

Indeed this issue caught fire after Taiwan's petrochemical industry earlier this year brought the implications of ASEAN producers moving to zero tariff in China at the end of this year to the attention of the Ministry of Economic Affairs. It was that dynamic that actually sprang the issue into the Taiwan mainstream and forced the Ma government to take a more public position on what its intention was for a free trade agreement with China.

Taiwan's companies need to be able to play on a level playing field, and the ECFA should play that role. What we expect of the counsel is at the SEF-ARATS meeting in Taiwan November or December this year, that a framework will be agreed upon, and then the 18 to 24 months following that, they will prioritize those industries that are directly impacted by the royal ASEAN plus one and ASEAN plus three. But basically, over that 18 to 24 month period, we'll see the actual negotiation and the meat and potatoes of this deal.

It's the right framework to build neutral trust incorporation across the Strait. After a challenging prior eight years of Chen Shui-bian rule, belligerent Beijing and a Bush administration that became angry at Taiwan and, even with the change to Ma, remained angry. And that, regrettably, was the way President Bush left office.

The numerous economic initiatives undertaken over the past 12 months have reframed Taiwan-China relations both in the matter in which it's perceived as well as materially. And perception is important. The number of tourists is steadily increasing. We're over 3,000 a day. The target for this year, I understand, is about 600,000, and global markets – the global government's markets and key regional sectors -- are all responding favorably to this change in the prevailing wind. That's the picture right now.

It'll have a positive impact on Taiwan's attractiveness as an investment location. A reduction in

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tensions coupled with a removal of barriers will better integrate Taiwan into Asia's most important growth market. This, in turn, allows Taiwan to play to its strengths when highlighting why investing in Taiwan makes more sense than China. IT, quality of life, to name two issues.

And of course, as I touched on, the repatriation of capital. So persuading the Hung Chi's of the world, Acer, as some of you may know it by, to base their operations in Taiwan, do their R and D in Taiwan, to integrate their China and Taiwan operations in a manner in which Taiwan can regulate and tax those businesses.

Finally, these business repatriate, as I mentioned, significant sums of money that they hold offshore. It's good for America. It reduces tensions. On the face of it, that's a deliverable right there. The reduction in cross-strait cost will positively impact the supply chain. Those are cost savings that will be passed onto us as consumers at some point. And of course, the reduction in military tension although I – again, I'm not persuaded that that's – on the face of it, I see the reduction in tension as a function of economic and political dialogue. But from a military standpoint, the Chinese are going great guns on military modernization. There's been no reduction. There's been no attempt to reduce. None of that. They continue to invest as quickly as they possible can, enforce modernization, and a Taiwan contingency remains a particular priority for the PLA.

So that runs, in my view, contrary to the notion that everything is heading off in a hunky-dory direction. The U.S. has a profound interest in signing an FTA with Taiwan, and I'll touch that in a minute. I know I've just got a couple of minutes. Right? Yeah.

So is it all gravy? Are we just moving in a direction where it's all just going to be fantastic? I don't believe that's the case for a minute. I believe that President Ma's policy course, while in the short term, is apparently positive, could, in the long term, raise domestic and regional tensions considerably.

First, I'm not convinced that the Ma government has a U.S. policy. I don't see it, and I don't – in my experience, I don't see how Taiwan government can have a China policy but not a U.S. policy. And here, this notion of a Finlandization, what I see in Taiwan – what I saw in Taiwan in 2008 was the end of eight very difficult years for Taiwan with a president that left and whose fortunes have fallen even further – who left office and left its citizenry with a view that they had to make a dramatic change, and even then, 42 percent of the electorate vote agreeing. 42 percent of the people still said, "We're with you. We're with the things that you felt were important."

When I look at Ma's engagement with China, I believe that he's making the right case about closer ties with China and what they can deliver – that it will break Taiwan out of its isolation, that he has returned Taiwan to a sustainable partner with China that underpins Taiwan's sovereignty – which I think is debatable and opens the door to new opportunities which I think is possible.

In the middle of April the MAC in Taiwan released some interesting poll data, and I'd like to throw out a couple of data points. The first was that Taiwan support for the status quo stood at 91 percent – the status quo – de facto independence. There is close to zero appetite in Taiwan for unification with mainland China and Taiwan.

However, Taiwan support for ECFA, in the same poll, stood at 71 percent, an impressive number even if, realistically, it's probably a wee bit less. I do believe that the people of Taiwan support improved relations with China, and that superior access to their market with increased flexibility on issues such as WHA plays well domestically. But the same set of poll data noted that over 60 percent of those who support an ECFA condition that support on Taiwan signing other FTAs with global trading partners. They see it as a means to a global end, not a China end, and that's where the money ball is.

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My read of the past 12 months has Taiwan citizens supported only if these leads to greater global participation in organizations like WHA with other FTA partners such as United States. If President Ma is unable to deliver on a broader stage, then support for his China's policies will quickly erode, dramatically increasing domestic tensions.

Such an increase in domestic tensions will reduce Ma's ability to engage China and negotiate with China, which will, in turn, reduce Chinese willingness to make concessions. This week's demonstrations, whether 600,000 or some lesser number, were still a strong showing of the degree of angst a large majority of Taiwanese reflexively feel about closer China ties. You can throw in the 20 percent of swing voters who aren't so reflexively dogmatic but represent the best example of supporters of the status quo, voters who shied away from the DPP's confrontational policies in '08 could easily shy away from Ma if he moves too close to Beijing.

President Ma needs to articulate clearly what his goals are for his relationship with America and then match those public statements with the private outreach he and his colleagues conduct with Obama's team. This is what we will quietly hear as time progresses over the next few months and year.

It is one thing for President Ma in a CSIS event to say, "We want an FTA. We want F16s." It is another thing for him to have that message delivered privately by those who represent him in the engagement that they have – the unofficial engagement or the public engagement that they have. All the different mechanisms that we have for communicating with Taiwan and I am, at this moment, suggesting to you there's a possibility there's a disconnect between the rhetoric of the president and what is being discussed privately.

In my view, it should include a board effort to persuade President Obama to launch FTA negotiations with Taiwan. I think that's essential both for the interests of the United States as well as from the interests of Taiwan and for the relaunch initiatives such as cabinet level visits to improve communication.

Finally, President Ma's policies vis-à-vis China have created an opening he can walk his country through if he chooses, but it'll take leadership and courage on his part. He needs to champion these matters publically and often while pressing his colleagues to do so in their private engagements with the U.S. Thank you.

*Audience:* I'm Mike Fonte. I work as the Washington liaison for the DPP, Bruce, if you don't mind, I'm going to go after you a little bit.

I think the one poll that was quoted that stands the test of everything is the one about the election. Yes, President Ma won 58 percent of the vote, but as Rupert pointed out, 42 percent of the vote also went to the DPP.

I think the question is what was the question that was asked in that poll? That is the election poll. Was it Finlandization or was it an economic relationship – a better economic relationship? I would pause at that. I think a large chunk of that 58 percent were voting for a better economic relationship with China which President Ma posited as the way forward out of Taiwan's economic difficulties.

And I think the question that many of the people that I work with in the DPP are concerned about is whether Ma has taken that vote and turned it from an economic question into a political question and gone, as you say, towards a self-Finlandization.

I think Ma is going in the direction. I don't think it's safe to say that Taiwan, as a whole, wants to go that direction. I think that's what the DPP demonstration of this past weekend was pointing towards. That the political implications of what Ma is trying to do concern a large number of people in Taiwan,

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and I think the other poll – there are many polls, but almost every poll shows that a vast majority of the Taiwanese people want the status quo that they have now. That they don't want to be another Hong Kong.

They look at the Tibetan example of nice relationships and signed agreements with PRC leadership and see what it resulted in. They look at the Hong Kong example and don't see, in either of those examples, a happy model for the future of Taiwan in a political way.

So I want to state that case and say that I don't think that calling Chen Shui-bian a nativist demagogue really helps to advance the question of what do at least 40 percent of the people of Taiwan want, and is Ma willing, at this point, to work in a democratic way to win those people over?

*Bruce Gilley:* I agree with you. I mean we don't know where Taiwan's going right now, and we do know that, unlike Finland, there's a bunch more heterogeneous set of public preferences in Taiwan. So what I was addressing was if a consensus emerges in Taiwan in the direction of a closer economic relationship with China and closer political relationship with China – in particular – not pressing sovereignty issues.

And it's interesting that, as a DPP person, you're now sort of talking about the status quo as what the DPP represents, but that's not what the DPP represented under Chen Shui-bian. So there's clearly a shift towards a more status quo, or even engagement-with-China attitude across the political spectrum in Taiwan.

The question I pose is, if that moves in the direction that it has been moving, how should the U.S. respond? And my main argument is rather than being alarmed by that, the U.S. should embrace that change. And I think that there is a good clear liberal logic that would justify such a change.

I'm not advocating it because I'm not a Taiwan citizen. So it's up to the Taiwanese to decide. But I'm suggesting that it's not something that should raise alarm bells and potentially, in a longer term sense, would hold a lot more potential to resolving the cross straight issue than what I've described as the militarized approach of the 1995 to 2005 period.

*Audience:* My name is Gerrit van der Wees, editor of *Taiwan Communiqué*. I also would like to take issue with the proposal of Finlandization. I am from Europe, and I have a number of friends from Finland. They see it as something that was forced down their throats, and they didn't like it at all whatsoever, and they speak very glowingly of the resistance against the Russians for many, many years. And they really were very delighted when Perestroika happened and basically Finlandization was ended and it became a normal country internationally.

So how do we ensure that the people in Taiwan have a free decision on it? And you said, "You don't live in Taiwan and you don't vote there," but how can we ensure that they do have a free and open decision on their future, particularly in view of the fact that China is by far not Democratic yet at all? By all accounts, it is still a very repressive authoritarian country, and if you read people like Jim Mann, it's going to be like that for quite some time to come. So how can we support democracy in East Asia and ensure that there is really a genuine choice for the people in Taiwan and they are not a pawn on somebody else's chess game?

*Bruce Gilley:* Yeah, I mean I guess they've been a pawn on someone's chess game since 1949, and I would love the day when they weren't, but they find themselves in the uncomfortable position of being squeezed between two giants. The obvious answer, which is not really an answer, it's a question begging one, but we will know that it's their sovereign choice as long as Taiwan democracy remains robust. And several speakers, Julian in particular, have talked about the importance of Taiwan democracy, and I couldn't agree more. And the things that are suggested in ways that Taiwan democracy might be eroding are indeed of concern. But if we were to accept sovereign choice and that Taiwan is a

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precedent of democracy, then we need to be willing to accept the democratic legitimacy of a Taiwanese decision to move in the direction of a closer relationship with China.

And there's a kind of a meta-level issue. You might say that the process in Taiwan is democratic, but if it is operating within an environment of a rising China which constrains the incentives for Taiwanese to vote or choose certain things, then is that democratic?

You can't blame China for rising. You can't blame China for having an expanding economy, and you can't blame China for having geostrategic interests that accompany its expansion. So I don't see this as a fair criticism of saying that Taiwanese choices are constrained by a rising China. It is true, but I think, in an uninteresting way.

*Audience:* I agree with you. If there's – we can't blame China for rising – the constraint that's there. But what we can say as U.S. citizens and our foreign policy is that – don't you think if we're going to say, "You have the choice, Taiwan, and we support that, so if you want to drift this way, that's fine," that we can't then turn around and say, "Shame on you, Taiwan, for wanting to be independent."?

So, I think for the United States, wouldn't you agree that a more clarified position is, "We'll support you no matter what and whatever that has to do with."? And there are some considerations to that, I agree, but we can't just have it one way. "Oh, we'll support you if you go this way because it's easier for us."

If we're supporting the democratic process, we have to support it if they choose independence. And if that is the choice, there are all kinds of implications for that. So, I'd like to hear, you know, to June, maybe, you guys to talk about that, or others, about why are we only supporting your choice if you choose what we tell you to choose?

*Bruce Gilley:* Yeah, I mean I think that's right. You know, you respect the decisions of the Taiwanese people, whatever sort of relationship they choose to pursue with China, whether it is a closer relationship as Ma seems to be developing, and as what is kind of extrapolated as potentially Finlandization. Because I'm trying to say, "What's the worst case scenario here?" That if Tai And I'm trying to argue that the worst case scenario is one that we should think about, be prepared for and embrace based on an alternative logic of what would bring peace to the cross-strait relationship, and to Asia more generally.

On the other end – but one would want to put sort of constraints on that, right? wanes democracy collapsed, we might say, "No, we're not going to accept any sort of decision reached under that sort of political system."

But on the other end, if Taiwan declared independence, no, that's a constraint, right? Because there is an international understanding – there's an international law and agreements in international relations that constrain the ability of peoples to declare independence. So I think that's a – there are limits to that.

But there's substantial room to maneuver for Taiwan to choose its course within certain boundaries. And, again, I'm not advocating Finlandization of Taiwan, and I'm only sort of suggesting that if that's the direction it goes, and if democratic process remains robust, as I believe it is in Taiwan, that that's something that should be accepted.

*June Dreyer:* It seems to me that the United States talks a good game about supporting democracy, and sometimes we even act on it when we're scolding Iraq or Afghanistan. But we have really not been very supportive of democracy in Taiwan. We say we are, but in fact we're not. You know, where is the protest? It seems to me that the right to a referendum, I mean it's in our Declaration of Independence. It's in the Taiwan Constitution. It's part of Sun Yat-sen's sanminzhuyi. And what do

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we say when the people of Taiwan want a whole new referendum? Our consulate in Taipei is, "No, no, no. We don't want this." And certainly we're just going to protest. This Assembly and Parade Law is extremely restrictive. You have to be a Taiwan citizen, so suppose you're an illegal worker, or a legal worker, and you find yourself being oppressed by your employer. That means you can't assemble and you can't protest? Why aren't we saying anything?

There are any number of aberrations of democracy being perpetrated. You saw Freedom House dropped a former ace reporter in China, and they dropped Taiwan from 32<sup>nd</sup> to 43<sup>rd</sup> in their 2009 report vs. 2008. That's a pretty sharp drop in one year, and that's the Ma Ying-jeou administration. Chen Shui-bian was detained for more than four months, which is improper according to Taiwan's judicial rules.

Why aren't we saying anything? It seems to me that democracy is going in the opposite direction here. And while we're big about lecturing human rights in other countries, we don't say a peep about what's going on in Taiwan.

*Rupert Hammond*

*Chambers:*

I think we give Ma too much credit for how far he can take this. There's this presumption that he can walk this forever and that all the Taiwan people are just going to allow this to continue. Again, I would make the case that there is a significant minority in Taiwan that is reflexively uncomfortable about the direction that Ma is going.

There is a middle part of Taiwan that will move depending on how extreme they feel the presidency is, and then on the other end, again, a similar percentage of the country that's set in its views. But Ma's constraint about how far he can go, that constraint is domestic in origin. And I believe we're going to see the limits of that constraint manifest themselves in the next 12 to 18 months. Ma has to deliver on ECFA. Let the Chinese strike their heels.

What if the negotiations become a bit difficult or contentious, or he does build – he's already building an expectation that some sort of framework will be signed at Christmas. This path that has undertaken is strewn with pitfalls. And, again, one of the points in all of this, I'm absolutely convinced that the majority support that exists from Ma's policies is conditional on those policies rewarding Taiwan for a greater international role. And what if the Chinese decide that Taiwan isn't going to have a greater international role, or that with its WHA status is going to be conditional? We don't even know what conditions the WHA status – Taiwan's participation in WHA came with. We just know that Taiwan can do it this year. Well, what about next year?

*Audience:*

I'd just like to ask Rupert a follow-up on this ECFA. You spoke very positively about this agreement and said, "I think it was the right framework to build trust," and that global markets were already responding favorably. But what do you make of the lack of transparency with which this agreement is?

*June Dreyer:*

Okay, as you implied there, and what makes this agreement so particularly scary, is the disparity in size between the PRC's economy and Taiwan's economy. So if it is not carefully negotiated, it could be a recipe for the swallowing of Taiwan into the PRC's economy, and this is what worries people. And I see Ma as Ah-Q. (*Laughter in background*) And for those of you who are not familiar with it, this is a character. And Luxun is China's most famous writer, and Ah-Q is his symbol for everything he doesn't like about China. He's a Chinese writer. And Ah-Q is always denying when things happen, and I see this with Ma Ying-jeou all the time. And if somebody is saying – well, you know, there was a memorandum of understanding signed between the mainland and the Animal Right's Association saying that Taiwan is a province of China, and Ma will say, "Well that doesn't affect us because we didn't sign it." Jesus, you know? So this is denial up and down. "It doesn't affect our sovereignty because we didn't sign it." Horse feathers. And that's the politest way I can think to put it.

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*Bruce Gilley:* I think we have to be very careful to project our conception of what constitutes a robust democracy onto Taiwan. You know, United State's democracy is very, very unusual in global perspectives. It's adversarial in nature. It's strong legislature. It's judicial review. I mean these are not normal features of a democracy. Most democracies have strong executives, no judicial review, and legislatures who have the power to pass, but not initiate or initiate a limited amount of legislation. And the standards to which we are holding Taiwanese' foreign policy, in terms of participation, accountability, transparency, are so high that I wonder if Japan or South Korea would meet these standards in terms of how they make foreign policy. I mean I somehow doubt it. Foreign policy is generally a very executive-led sphere of every government. It's particularly the case in Asian countries. And there's a danger here -- sort of discrediting -- using the discrediting of process in order to disagree with outcomes that by any standard are democratically arrived at.

*June Dreyer:* I disagree completely. I think this is a mischaracterization of democracy. And, sure, the United States has its unique features, and so does Taiwan, because it has that -- it's a quasi presidential quasi parliamentary system. But look at British democracy, and you talk about a strong executive. I mean the Prime Minister is the leader of the party -- the Majority Party and Parliament. This is not an executive situation. He comes out of the Parliament. And the Japanese system, the same way. And they have very noisy parliamentary debates there. I was, in fact, astounded, because I grew up with the idea that the British are very proper and very well behaved, to find that they're throwing spitballs at each other and saying very nasty things to the Prime Minister.

And, you know, there's also the saying about the French that they are simultaneously the most patriotic and the most anti-government people on earth, so they have a very noisy democracy. And in my limited -- my daughter is married to a Frenchman, and in my somewhat limited experience there, the French national pastime is le grève, the strike, and so the executive has very limited power to do what people don't want.

*Rupert Hammond-*

*Chambers:* I understand what you're saying, and I recognize that we do have a unique democracy here. And for all its quirks, it works for us. I think I believe that. But I also believe that the Taiwan people have got democracy unlike almost any other people's around the world and that their view of democracy does embody some of the more robust interpretations we have of our own, including a voracious appetite for transparency, which I think is driving -- it's continuing to drive reformative institutions. And that, again, will increasingly press Mr. Ma to be more transparent about what he's up to.

And I want to come back to this issue of transparency, because I think it's absolutely critical here. We actually have a working example already of the lack of transparency, and that's WHA. That was not arranged SEF-ARATS, and we're led to believe that SEF-ARATS is the sole mechanism for talking between Taiwan and China, but we already know that Lien Chan's Kuomintang-CCP effort is up and running, and those guys are still moving backwards and forwards and talking about stuff. Yes, PK Chiang is talking with his counterparts in the SEF-ARATS, and then WHA pops up. Well, where did that come from? Where was that negotiated physically? Where were those meetings held, and who was in those meetings?

So, again, this issue of transparency I think is key. And if pressure is not increased, we're going get more of that, and that is going to -- that's going to cause considerable trouble down the road.

*Audience:* Jay Loo. I'm with the Institute for Taiwan Studies. I'd like to comment on one statement that Professor Gilley said, and then ask you a question as well. If I put it correctly, you think that Beijing doesn't think Taiwan issue is urgent. It might not be interested in like occupying Taiwan quickly. My comment is, I remember when just before Chen Yun-lin visited Taiwan recently, he had a press conference in Beijing, or somewhere, and he kept saying that again and again, We have waited so long -- too long already. Implication was they want to push for unification very quickly. That was the implication. Also, the PLA is still planning large scale military exercises. More recently, what? 50,000

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troops. They often simulate invasion of Taiwan. So, I'm not that complacent about their intentions. That's my comments.

The question is, you also said Taiwan wants to embrace China, or something to that effect, and that might not be bad for U.S., or for U.S. interests. I don't know that it's right to say, "Taiwan wants to embrace China." It's more like the radical wing of the KMT, as you present it, but the Ma administration. The general consensus in Taiwan, the largest majority really doesn't want to unify with China. Like a January survey by the *Common Wealth* magazine, only 6.5 percent supported unification. The rest were either for formal independence or status quo. So, another thing, does Ma really presents the Taiwanese opinion there?

Now about whether this is good for the U.S., I would want to ask this question. If the U.S. really take Ma's policies and support it and sort of sacrifice a long time ally, a democratic ally, what would this do to the U.S. Japan alliance? What will this do to America's geostrategic position in East Asia?

*Bruce Gilley:* Well, quickly, I think it's quite clear that their sense of urgency towards reunification Taiwan has declined, and you can see that in many official statements. And the point is that force modernization in China is not solely aimed at Taiwan, and indeed I now have a new description. I'll call it the "Frederick the Great Strategy", based on our lunchtime talk. It's aimed at enhancing China's global and regional power. So, that's one point.

When I said "Taiwan wants to embrace", of course I agree with you that what Taiwan wants is up in the air right now. So we're seeing the strings of a new change and a certain direction, and I was thinking about where that might go if it continues. But I didn't, by any means, say "unify". I agree that Taiwan – no part of the Taiwan political spectrum virtually would seek unification with China. There would be nothing in it for Taiwan, as no part of the Fin political spectrum ever wanted to become a Baltic Republic of the Soviet Union. And I agree with you that this has profound implications for the U.S. role in East Asia, and I think that requires a real deep strategic rethink about what exactly U.S. interests are in this region, and whether they might not be well served by this sort of change.

*Rupert Hammond-Chambers:* When negotiating, whether you're negotiating a contract or anything, you need to have a goal. And as Bruce noted just now, Taiwan doesn't know what it wants, and you can interpret all different reasons why there isn't consensus in the different positions. But ultimately, there isn't a central goal.

China absolutely knows what it wants. Every decision it makes is focused on a single goal – unification with Taiwan. So, Taiwan decides to engage and negotiate in the absence of a goal with an entity that has a very specific goal. How can Taiwan manage the decisions that it makes or address the challenge that China faces when China is so focused on their goal? I think that's really key. As much as Taiwan negotiates with the Chinese, it runs the risk that it's closing doors that it may need to keep open down the road.

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*Shawn McHale:* Thank you, I want to thank the panel for a very engaging panel. Earlier on when I was talking to some member I was trying to invite, I like disputes, it's the academic in me, I like fights of some sort. I like to thank you for giving different point of view. No violence, no food was thrown. It was a success. Congressman Berman is tied up in Congress so he will not be actually making his appearance here unfortunately. In my concluding remark, I'd like to reiterate something. I like to thank Terri Giles and the Formosa Foundation for cosponsoring with us and of course with the staff of the Sigur Center, Deepa Ollapally, Erin Robinson, Alan Campana, and of course Ed McCord and Bruce Dickinson as moderators of the panel including other people who have helped this conference in various ways.

In the end of the conference, in the end of the conference, one of the purposes of the conference is to ask questions and give answers. As you can sort of tell from the last panel, the answer to the US-Taiwan relation is murky. Gives us another chance to have a conference on a similar topic. Even though it is murky, even though many questions are thrown out and many different perspectives were perhaps proffered, it certainly is an enlightening conference in terms of articulating, in the short term and the longer term, some of the key conflicts, issues, problem confronting Taiwan-US relationship but also cross-strait relationships. In that sense, we can only look forward in this particular town, Washington DC, makes it even more intriguing in the months and the years to come in the new administration.

Once again thank you. Last but not least, thank you to the members of the audience for your questions and participations. Thank you.

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