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New Actors and Factors in Cross Strait Relations
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[Note: Due to cross-talking or distance from the audio recorder, some words and phrases are indiscernible and obscures the identity of some participants]

[Note: Some non-native English speakers.]

M. Terry Cooke: -- commercial side, but I'm also very mindful that I am the last in a series of six speakers. I'm the only speaker at this point between you and lunch, so I want to make it painless for you. I will be really just trying to focus on one point and two key questions, and I'll deliver them at the end of my 15 minutes.

So what comes in between, you have license to kind of zone out of, and I will, from time to time, look down, refer through my notes. What I'm going to do is divide my 15 minutes into three sections. And David, I hope you will nudge me on five-minute increments. And the first one is like a fast-forwarded movie, even to the point of blurring, just recapping the last 16 years or so of cross-strait economic engagement. This information is readily available in other places and I'd be happy to point you to them, to those places, if you'd like that.

Then, what I'm going to do, this is actually going back to a point that Shawn McHale made at the introduction, which is, that cross-strait relations, there is a very narrow perspective of what happens across the strait of Taiwan between two actors. There is a regional perspective and then there's a global perspective. In the second part, I want to zoom back like Google Earth and look at things globally for a moment. And then in the final part of my remarks, I'd like to come to a closer regional focus, but still with that global dimension in mind.

Now, if we go back to the 1992 consensus, at that point -- of course, just an agreement that was faxed, never publicly validated and still contested -- but at that point, China's output

was one quarter of what it is today, and China's share in global output was in the low single percentages whereas now it's up around 15 percent, it was a different world. Then December 2001, both countries joined the WTO, and then on April 11, 2008 Vice President-elect Vincent Siew met in Boao with President Hu Jintao and that signaled a major shift in the political impetus given this on-again-off-again process. Both sides committed to structural revitalization of their economic relationship.

Since that time, the volume of indirect trade between those two countries for the month in April when Hu and Siew met was about \$10 billion and there was about \$1 billion of monthly investment, so obviously a significant relationship.

Since that time, a whole blur of things have happened. In May, plans based on Vincent Siew's cross-strait common market framework to liberalize direct flights and other transport links to ease restrictions on Taiwan reinvestment in the Mainland. The so-called 40 percent rule to encourage greater investment in business activity in the Mainland by financial service firms, exploring the possibility of Taiwan firms listing on Mainland exchanges, regulatory framework on a more objective footing, normalization of economic and trade ties at the policy level, making cross-straits economic ties an explicit priority in national security and further opening the Taiwan market to Chinese tourists, agricultural products, and capital flows. June 13th agreement with passenger air transport from Songshan Airport which got underway July 5th, freight transport and cargo charters, tourism, changing ferry restrictions, clarification of visa rules; then in October the Chiang-Chen meeting; November talks in Taipei produced agreements on cross-strait air shipping and postal services with food safety thrown in because of a melamine crisis; Mid-December, direct daily flights launched as well as postal and shipping services ending the need to observe the pretense of going through a third countries'

airspace or territory. And in January cross-strait ties reaching a state of so-called mutual non-deniability, a set of financial issues teed up as the next area of engagement and 10,000 tourists expected into Taiwan around lunar New Year. Okay. That's history.

Switching to a Google earth perspective; for the last two years, at this time of year, I was in Davos, and right now, the global people at Davos, when they think about the economic driver are basically wondering whether the driver is going off a cliff. The point that I think is most important for making sense of the impact of our current economic crisis on cross-strait ties is to focus in on its impact on global trade.

The global economy has had a pretty good run over the last 30 years, but it's had its ups and downs. It had the tech bust in 2001. It had some shakiness in the early years of the 1990's. There was a big downturn in 1985-1986. Global trade has had an uninterrupted boom for 27 years and in fact during that 27 years, the piece of the pie of the world economy represented by global trade has grown from 23 percent of the pie to 32 percent of the pie, so an unbroken string of 27 years of not only positive growth but significant positive growth. The year we're looking at right now is a year in which World Bank is predicting the global trade will contract by 2.1 percent, and most private economists tend to be less sanguine than the World Bank.

Now it's a truism, but if Westerners are not buying, there's a question of what need Asians have to make things. And it's very basic in the sense that the consumer activity in the U.S. is two-thirds of economic activity. In Asia, more than one-half of production leaves the region and is supposed to go somewhere. And if there is not money in consumer's pockets in the West and if there is not strength in balance sheets of companies in the West, there is a serious dislocation in the works. Now the global imbalance -- and on top of that you have a building block of global trade that has seized up. It's beginning to look a little bit better, but

trade finance, a fundamental lubricant of this whole system, has just not been available to get scoured unto the gears. Now, global imbalances that are now coming to the fore [sounds like] have been apparent for some time. We just didn't put the pieces all together in the same way. Forex exchanges have been extremely imbalanced for decades with Taiwan and China and Japan having huge surpluses, reflecting their strength as manufacturers, and U.S. as a consuming society; reflecting Asian strength as savers, reflecting a western tendency to spend but it goes beyond that.

We saw in the early half or the first half of 2008, a crisis of raw materials going haywire; again a reflection of the same fundamental imbalance while it looked like global growth was just going to continue upward and onward forever, there was an increasing demand for the raw material to make the things that we thought people would buy and prices went through the roof. The first leading edge of the change was when those prices tanked. But even after those prices tanked, you had sovereign wealth funds cropping up all through Asia and through the petro-states of the Middle East who had the job of recycling huge amounts of surplus capital and to find some productive outlet for, it became difficult given the imbalances in the system to find out how to spend so much money responsibly.

Global trade talks, the fact that they are stymied at this point, is another indicator of the pressure on the system right now. There has been a rise of power of the East, a global shift, and even beyond the trade talks there's the question of whether the post-World War II Bretton Woods institutions that were created to help manage all of these phenomena, whether they're really up to the task of handling it all.

So to end with this global perspective, the one point I would throw out is that there is currently a strange paradox we're looking at. It has been the operating assumption for this last

three decades through all these periods of sustained global growth that economic integration was a good thing and that it led to good outcomes. Currently, the countries that are in the best shape are the ones that are least integrated into the global economic system, and Bangladesh is sitting a lot prettier right now than, let's say, Korea.

My last point should only take about five minutes, so I should be staying on schedule. Let me shift to this more globally informed regional perspective by a skiing analogy. If you go back to that 16-year period of cross-straits dialogue whether it's a cooperative process or a competitive process, it doesn't really matter. It's like two figures coming down a mountainside. The question, I think, right now is not how many slalom gates they have managed or what points we're going to give those two figures on form. The question is whether there's going to be an avalanche that is going to make that a bit moot.

Taiwan is not in the strongest position right now because the timing, as you've heard from many of the speakers of these economic events, has come at an awkward time for President Ma, and it's hard for him to muster the political strength and support to make some of the changes that need to be made. Beyond that, the Taiwan economic model which has always relied very heavily on the tech sector is facing its own evolutionary challenges right now. When you have \$200 Netbook computers and most of the value in the value chain is migrating to Google's cloud and to services rather than hardware; that poses an adaptive challenge for Taiwan. On the plus side, it does have a relatively supple system for adjusting to a services economy, it is quite plugged-in globally, and it is at a small, flexible and nimble scale, globally, so that it can position itself a bit like a Holland or Switzerland and change relatively quickly, but it has a huge dependence on China. So whither China goes has import for Taiwan.

So switching to the question of where China can go, China's tech market and tech sector are in trouble for the same reason Taiwan's are. Consumer and real estate has been a huge bubble. Heavy industry supports, largely, the construction and real estate business and automotive. They are all kind of bundled together. They are all reacting to the bursting of the bubble. Banking, oddly, is one of the strong suits of China's economy right now, which is real head scratcher for anybody who's watched China's economy for a long time, but it is precisely because of its insulation from the global economy and the fact that "Cash is King" right now and the banks have a huge amount of cash through its old fashioned captive banking system, they've been lucky with the timing. That looks okay.

Now, the question is pump priming by Chinese government, what is it going to do? You need an effective service economy for a government pushing money into the system to create the linkages to pass that money down so that it is efficiently used. And this is an area where I think there needs to be real focus and it's not all that reassuring.

China's export economy model means that there really is not much trickle down to consumers. There's not much money in people's pockets. As long as the demographic imbalances that have resulted from well known population policies exist and as long as there is consumer insecurity, there can't be consumer-led growth without a safety net. It's a chicken and egg problem. Unless people know who's going to take care of them in 20 years, they're not going to spend money. They're going to save the money. But unless there's a lubrication of the system and unless people are spending money and unless the services economy is improving rapidly, there's no way to push money in to create a healthy infrastructure. So there's a little bit of a risk of a double dip, where China pushes a lot of money into the system. It's used very inefficiently because there are not these intermediate linkages, and then down the

road, there is a secondary dip after what's been an artificial boost. And finally, there are the political risks if the pump priming is not helping recent graduates or it doesn't address the eight to ten percent of the population that provides migrant labor throughout the country. There are all the attendant risks of instability. So, take a breath.

The one point I would make and then the two questions I would ask are the following; the point to make is that it has long deserved the understanding of cross-strait relations, particularly economic relations, to take too narrow a tunnel vision view of just what's happening between Fujian and the West Coast of Taiwan. It really needs to be analyzed and understood more systemically in a regional and global perspective. And the questions that I would leave you with are that the ultimate success of the recent engagement that has been achieved at a political level will be in Taiwan and China's ability to co-manage an extremely daunting economic environment that they are facing, it's probably not going to be enough to have meetings and plans and incremental advances. The two will ultimately be judged on their ability to co-manage an extremely difficult economic challenge.

And then the final question is, what are we really looking at with China in this moment of really almost unprecedented economic crisis? Is China going to be like the U.S. was in 1929? The U.S. was the most dynamic country in the world. It had the greatest growth rates. It had a trade surplus. It had benefited the most from the global system but it was hurt the most when the other established players withdrew as a result of the crash. Or, is China going to be able to harness its latent advantages to take market share during this crisis from some of the more established players like Germany. I think it's a major question. There's also a question out there whether China may absorb a lesser shock than some other global players because it's

partially insulated from the global economy, but will that lesser shock bring about bigger changes because of other factors in China.

David Shambaugh: Don't forget your nice watch. Okay. Thanks, Terry, very much. We have a very balanced set of presentations here and we, I'm told, can run just a few minutes over the 12:30 lunch period because we've started a little bit late, not too much, but let me take the prerogative of the chair if I can and start us off with one question for Bud and one for Bob if I can, and then we can open it up to you.

The question for Bud kind of arises out of Hu Jintao's December 31st speech and the mention of confidence building measures. He didn't use that term in the speech but what if the question is this -- and you may think it's rather unimaginable but I don't -- what if we woke up one of these days, open a newspaper, and the PRC announced what many have been calling for, for a long time, mainly a unilateral freeze on short-range ballistic missile deployments or even a reduction of them, a freeze on PRC military deployments opposite Taiwan and exercises around Taiwan? What, in other words, if Hu Jintao pulled a Gorbachev?

You may remember, those who are old enough, Gorbachev's 1987 Vladivostok speech, which he came to office and announced a series of unilateral freezes and withdrawals from the Chinese border and that really cemented the normalization of Sino-Soviet relations. Many people have been calling for this for a long time. What if indeed China got religion and decided to do it? First of all, I guess the question is what chances do you think there are of China undertaking such unilateral security gestures? But more importantly, what do you think should be the Taiwanese and particularly the U.S.' reaction? As a new administration has taken office, China has called on the new administration to reconsider, if not cancel, the Bush administration arms sales package to Taiwan announced in the fall. So what if we had a freeze

or drawdown, what would that do for the American side, at least, to consider continued arms sales to Taiwan? So that's the tough question for you and I have an equally tough one for Bob in a minute.

Bernard Cole: Thank you, David. That's certainly an interesting question. It would be relatively painless for China, of course, and most of the missiles in Fujian province are on mobile launchers, TELs, and it would be relatively easy to pull them back a thousand meters or so or even some hundreds of kilometers and then make it sound like they had made quite a concession.

The problem I see with that is that right now I don't think Beijing sees the need to do that. As they look across the strait and what's happening in Taiwan, they see a determination by the Ma administration to continue the Chen Shui-bian decision to go to an all-volunteer military which is going to, almost inevitably, result in a much smaller active duty Taiwan military. They see the Han Kuang exercises becoming biannual instead of annual which indicates a cutback in resources being allocated, at least at the operational maintenance level in funding the Taiwan military. They see no significant increase in the number of young Taiwan men who were becoming fighter pilots, a crucial area of Taiwan's defense in which they are very short of the necessary manpower. And although I'm not sure what the motivation would be for Beijing as opposed to Taiwan, where the motivation might be for Beijing, it is something like move a bunch of their missile launchers away from the coast or to at least announce that. What would be its possible effect in the United States? And here I am much less sure ground because the administration is so new. I think it would probably not evoke anything major like a decision not to carry forward with the F-16 sale, for instance, but as some folks in the room know better than I that the bureaucratic and administrative structure for approving and selling

and delivering aircraft of that sort to Taiwan can drag on for a long time. So I don't think that that move by Beijing would evoke much reaction by the United States.

David Shambaugh: Okay. Great. Thank you very much. Bob, my tough question for you, it flows out of your really thoughtful and thought-provoking presentation, particularly at the very end. If balance is no longer a question in American policy towards the cross-strait situation, maintaining that balance, and if indeed, as you indicated, Taiwan increasingly comes in to the China's "orbit," -- I'll likely put that, I'm not sure how one would measure that -- but if Taiwan comes into China's orbit, what kind of contingency plans would you call for on review? What implications does that have for American policy, in your mind?

Robert Sutter: I think, logically, you can extrapolate what this would mean. I think, what are U.S. interests in East Asia? And the U.S. interests are in a favorable balance of power in the region. How do you assure that? Well, from the depths of the U.S. security interest and the economic interest wouldn't be affected seriously and there would be a values issue of Taiwan's system versus China's system that democracy and communism could be a problem. But from the security point of view, I think the U.S. sustains a balance in the region, it's the largest and most important power in the region and needs forward deployed forces. So it needs some sort of an understanding with Japan, it seems to me. And if Taiwan doesn't want to be part of this kind of hedging approach, well I think it can be worked out with Japan, and then, frankly speaking, the United States could work with China. I mean, I think China would be more than happy to sit down with the United States and talk about Taiwan if that's the -- I mean I think the option for the United States under this very, very remarkable change are pretty easy, frankly, because I think the U.S. is a very a powerful country and the China would, I think, be very happy to have some understandings with the United States over Taiwan.

David Shambaugh: Okay. Thank you, both of you. Terry, I'm sorry I don't have a probing question of your presentation [indiscernible]. Let me open it up, though, to the audience, and I have two make admonitions. First, no statements, only questions and brief ones, and please identify yourself and press the microphone button so we can all hear you. So, I'm going to start as I see sitting back there.

T.Y. Wang: T.Y. Wang of Illinois State University. I would like to raise a question to Professor Sutter. Bob, my question is very similar to Dr. David Shambaugh's question, that is, in Taiwan there is the opposition to Ma's rapprochement policy, is that they are afraid that this policy, if it ends up with, for instance, like signing of peace agreement ending cross-strait hostility, what would happen to this arms sales policy? And this is directly relevant to what you point out that this contingency plan -- that plan C -- and that's one thing. Another set of question is what if, as you point out, the if Taiwan's really been drawn into this China orbit, willingly or unwillingly, moving towards unification, what would you suggest to U.S. government in terms of a policy. Thank you.

Robert Sutter: Well, thanks. The peace agreement doesn't have to have the implications for arms sales that you say. Of course, this is something that has to be negotiated and all of these could work out in a way that's quite compatible with the existing kinds of U.S. relationships between Taiwan and the United States, but we have to start working on this. This is where contingency planning comes in, and I would assume that the new U.S. government is probably doing this. There probably are things going on between our governments, in various ways, that we're just not privy to. So I don't think this is necessarily an obstacle. It has the details and how it's worked out. And then on the broader, on Taiwan's -- I guess if I understood the second part of the question on Taiwan's willingness to --

T.Y. Wang: Willingly or unwillingly being pulled into this unification trap.

Robert Sutter: Yes. And if Taiwan moves in that direction and isn't willing to play the role that has it played in U.S. interaction with East Asia, well then the U.S. would have to adjust and those are some of the extreme things I mentioned or things in response to David's question, the things that the United States could do. The United States is not dependent on Taiwan. That's my basic point. The United States is a superpower and it's able to maneuver in ways that would be -- it has a lot of influence in different places. So it's not like the United States, "Oh, my gosh, Taiwan isn't our friend anymore and isn't doing what we want." I don't think that would be the reaction. I think it would be much more hard headed, "Okay, how do we adjust to this kind of a situation?"

Male Voice: I'm Garrett [indiscernible]. Professor Sutter, you talked about asymmetry and hedging in assessing what we should do. It always emphasized Taiwan's best asset, its vibrant democracy, we have talked about the beacon of democracy in East Asia. Among many observers, there's a feeling that the recent rapprochement has gone at the expense of its democracy; use of the judiciary against the opposition, events surrounding Chen Yunlin's visit, so my question is how we can ensure that the Taiwanese really have a fully free and open decision on their future that all options are open and that they are not being railroaded in one direction or another.

Robert Sutter: I guess my basic -- I'm not sure this is something I'm very expert on. These are domestic issues in Taiwan, how do we judge these trends, these kinds of things. Taiwan looks like an awfully vibrant democracy to me, even with these issues that have come up recently. And so, they have a system where they select their president and they select their legislatures and they make their decisions. And so this is something that I think any

government in the United States would respect. If their administration makes these decisions, then I think that would have a big impact because I think they would see this as evidence of a democratic system making a decision.

David Shambaugh: Okay, I'm going to come back to this side. Yes, sir?

Michael Choi: Michael Choi with the Commerce Department. My question is for Dr. Cooke. Recently Korea opened up its beef markets, but with huge protests and it almost, how can I say, deep-sixed the U.S.-Korea bilateral trade relationship. I think there were also similar concerns in Taiwan with pork. Do you see these kinds of, I guess we can say, food safety issues as a credible threat to trade. And if so, what do you think would be the best way to address it?

M. Terry Cooke: Well, I think China, as a result of its extremely fast economic development over a very short period of time, now has a more impressive hard infrastructure than it has an impressive soft infrastructure, and the fallout of its soft infrastructure tends to be in the area of safety and certification of products that it exports and the fallout of its soft infrastructure, domestically, tends to be in areas of corruption and lacks of environmental protection. I think one of the things about hard infrastructure is it's easier to put in place than soft infrastructure and can be done faster. So I think there will be a long-term structural tension as China grapples with how to put in place the soft infrastructure of safety and certification to satisfy its trading partners. And a great case of this is intellectual property protection because there are three levels in intellectual property protection: there are the rules on the books, there is the enforcement of those rules by the authorities and there is the consumer consciousness. You need all three for an effective regime. And China generally has pretty good rules on the books. The problem is that there is very little enforcement and even less consciousness.

David Shambaugh: Okay. Gentleman here. Nadia, next to you, please.

Dexiang Gao: Dexiang Gao from CSIS. My question is for all the presenters. It is sort of related to Professor Shambaugh's question. Like several weeks ago, President Hu Jintao addressed the importance of building a military mutual trust mechanism or in some scholar's interpretations, confidence building measures, CBMs, across the strait. But the trick is this, even though both sides are [indiscernible] on this respect, they differ significantly in terms of its priority. Like for Beijing, of course, it considers politics first and military second while Taipei prioritizes military first and then politics. So I guess my question is how would you predict the future development of this CBMs or military mutual trust mechanism and whether it would lead finally to a peace agreement across the strait? Thanks.

Bernard Cole: First, I'm not sure I agree that Taiwan prioritizes military first in looking across the strait. As I commented just a few minutes ago, it seems to me the steps that are being taken prioritization in both the Chen Shui-bian administration and the Ma Ying-jeou administration do not prioritize military first. In fact, I had the privilege in September of 2000 of being a member of a small group that had an interview with then newly installed President Chen Shui-bian and then this past April I again was member of a small group that had an interview with then President-elect Ma Ying-jeou. Frankly, they gave the same little talk which emphasized the importance of improving the economic and social conditions for the people of Taiwan, not the military infrastructure. Having said that, I think, as I indicated earlier, that as we see the apparent easing of tensions, if you will, the willingness to increase conversations across the strait that we can be relatively optimistic about an eventual peaceful resolution of the situation.

David Shambaugh: Terry and Bob, do you want to add on this question? I mean I would only observe that I think that the military CBM dimension of the cross-strait policy of the Mainland has obviously been lacking to engage or sought to engage the island on all other levels; cultural, political, commercial, but not on a military -- so this is, to some extent, providing a little bit more balance in their policy, but Hu Jintao's statement is quite vague, welcome but vague. That's a good thing. I think vagueness, sometimes ambiguity; it means you can write the specifics in step by step. Military CBMs, like others, are incremental, and I think there is scope for them particularly starting perhaps with military -- I mean there already are, in fact, exchanges going on between retired military officers. Taiwanese officers to the Mainland, they visit regularly, and they not only visit their relatives when they visit the Mainland, they talk with both active and retired service PLA officers. It's sort of codifying that. Joint patrols of the strait, coast guard activity, a variety of things have been discussed. So I think, personally, I welcome the PRC for bringing that dimension into their already existing policy. The reason I asked Bud the questions is what are the implications for Taiwan, if they go even further, what are the implications for Taiwan in the new Obama administration? But I think it's a good step forward. I am going to go to back to the back, but I saw your hand next.

Vincent Chen: Thank you. My name is Vincent Chen with the *United Daily News*, Taiwan. I have a question for Professor Sutter. Bob, you were suggesting the need for new Taiwan policy review. Well, given the current situation, are you envisioning a more conservative or progressive review compared with the old 1994 one? What elements should be reviewed? Thank you.

Robert Sutter: Well, thank you for your question. I think I indicated the areas of concern that I had in how the United States needs to look at this kind of situation. When you

do a Taiwan policy review, it becomes very politicized and publicized in many cases. The last time we did this, it wasn't a very fruitful exercise. So I think maybe this is something that has to be done quietly. Maybe it's not a formal review. My point is that we need contingency plans. We have contingency plans except we don't talk about a lot on a lot of issues. And so that's what I'm concerned about. If a Taiwan policy review would be helpful in this regard in a formal full blown one that would be good.

I do think that Americans might -- look at Taiwan -- might have to have a mind change, and this is going to take some work, in other words, to stop thinking in terms of balance. This is really hard to do. This is what the Chinese, I guess, call Cold War thinking, you see, and yet, if you look at the record of how the U.S. has dealt with this issue over the years, it's balance. They're always talking about balance and I think the implication of what we're seeing is imbalance, not balance. And so, therefore, how do you come up with a coherent policy? And I think you can do this in various ways, but I think that discussion has to take place in the United States, it seems to me, for the United States to be brought along in a positive way in this kind of new approach to cross-strait relations.

David Shambaugh: Okay. One followup for this and then Nadia you're next.

John Zang: John Zang with CTITV of Taiwan. Just a quick followup to Vincent's question. Basically, again the question is for Professor Sutter. You know, a lot of us, when we think of another policy review, we are thinking of like in 1994, further relaxation of U.S. policy towards Taiwan for instance, you know, relaxation of governmental exchanges, senior official visits. Are you thinking -- when you're talking about another policy review, are you thinking along the same lines or are you really thinking about some fundamental change in terms of the

U.S. policy towards Taiwan because I have a sense that we are thinking in different terms?

Thank you very much.

Robert Sutter: Thank you for your question. I think that we are thinking in different terms. My emphasis is on contingency planning. One set of contingency plans could be very supportive of Ma Ying-jeou, working to help him deal with China, strengthening Taiwan in this type of situation. And the other is to look at the situation where the United States and Taiwan don't have the same objectives, and therefore, the United States needs to plan for that. So this does involve a review. I think maybe I used the wrong words for Taiwan audience when you say Taiwan policy review, then it's 1994 all over again. No. That is not what I'm talking about because that produced a mouse [sounds like]. I mean it was just nothing that came from this, you see, and with a lot of publicity. That's just the opposite of what I hope takes place. I'm thinking of a very substantive analysis and assessment, and my sense is that I think that will happen, I think, in our government. I hope it does. And I hope the Congress is brought in on this. So it is very different what I'm talking about.

David Shambaugh: Okay. I think we have time for two more questions and I have seen two hands, Nadia and then next.

Nadia Chow: Nadia Chow with the *Liberty Times*. I have a question both for Professor Cole and Bob too. In the past, we heard Professor William Murray's suggestion or recommendation of porcupine strategy has been considered by Ma Ying-jeou's government, but also we see a strong reaction or criticism from the military within Taiwan. I wonder, from your contact with the Taiwan military, what kind of message do you get, because as you said, it's really hard now to keep with the balance, especially military balance in Taiwan Strait. If

you want to see Taiwan to do more, what do you want to see? If we cannot deploy offensive capability, what kind of balance do we expect from Taiwan? Thanks.

Bernard Cole: First of all, Mr. Murray is a retired submarine officer, and so, he particularly feels strongly that Taiwan should not invest in submarines as a defensive measure. But I think what he was talking about in his porcupine strategy refers directly to what Professor Sutter was discussing in terms of the imbalance which, in my view from a military perspective has long existed across the Taiwan Strait, if we're just comparing Mainland China and Taiwan. So I think that what -- well, I don't want to put words in Murray's mouth -- but I do think what he's talking about is creating in Taiwan a situation, perhaps analogous to what Singapore at one point thought they were facing with respect to Malaysia, which is just making themselves too hard to swallow or so difficult to swallow that it would really give Beijing pause, and this probably does not include things like submarines. We can get in an endless discussion about which particular system most creates those porcupine spines on Taiwan.

I think the present element in Taiwan's defense strategy, which I most strongly disagree and which I think is most telling, is this determination for an all-volunteer military. There has been nothing in the development of the 2000 Defense Acts that were passed in Taiwan, or in either of the present or the past administration that leads me to believe that Taiwan will be able to field a viable all-volunteer military. I just don't see it in the card for various social, political and economic reasons.

David Shambaugh: Okay. Thank you and our last questionnaire please. Turn the mike around. There you go.

Peggy Chang: Peggy Chang with the *Voice of America*, China branch. My question is also related to the arms sales. Beijing has recently said the arms sales package, this arms sales

is hurting the U.S.-China relations. My question for Professors Cole and Sutter is that from your observation with the Obama administration, do you see this arms sales package moving forward if he only has one term in the next four years or I mean in the next two years? How would the Obama administration deal with what's already passed and do you see the F-16 request moving forward? Thank you.

David Shambaugh: Who wants to start? Bob, do you want to?

Robert Sutter: Not really. No. (laughter) I don't know what they'll do. And I think we're right in this current period of -- well, background. The most important U.S. element to influence the situation in the Taiwan Strait, since 1979, has been arms sales. That's been the big club. That's been the big thing that we've done. And we do this other stuff also, but arms sales is it. So that's been our past practice, but it's a very crude weapon in a lot of ways and it's very provocative to China and so forth. And as I tried to indicate earlier, we want a good relationship with China and we're seeking this positive sum relationship; China, Taiwan, the United States.

So, why do this now? I think the proclivity to do this kind of thing is reduced in the current atmosphere, in the current context. When will that change? I don't know, but I think it's the idea that we would somehow disrupt the situation. Ma Ying-jeou is trying to find this reassurance policy; we're talking about CBMs with the China; Taiwan's talking about CBMs. We've all this progress. Why would we do something like this? I think it makes it lower, just logically, it makes it lower on the policy priority. So I think they would probably do it, but I just don't know when and how and so forth. And right now, I think it's not a good time to do it.

David Shambaugh: One other -- maybe I'll add another element to this question and that is the U.S.-China military to military exchange program, which the Chinese suspended when the Bush administration announced the arms sales package for Taiwan. I may be mistaken on this, but I think this is the first time that the PRC has ever explicitly linked arms sales to Taiwan to U.S.-PRC mil-mil exchanges. So, they have set down the condition that mil-mil exchanges cannot be resumed until the U.S. sees the light. They're not specific, but they obviously insinuate that the Obama administration not move forward with the Bush arms sales package. And if the Obama administration does not move forward, then from the PRC's perspective, mil-mil can resume.

Well, what happens if the Obama administration does move forward? Then we have a suspended military to military relationship with China that China caused. Okay. They're the ones who took the action. I think there's a little Chinese proverb about he who ties the knot has to untie the knot. So they are in a not unusual position of tying a knot and then pointing at the other party saying you untie the knot. But it's all because of this linkage between arms sales and mil-mil that, I maybe mistaken, although somebody told me that back in 1994 or something that they had made this linkage before. They've always been unhappy with arms sales. They've protested and done various things, but they have never tied it explicitly to U.S.-China military exchanges. This is the first time and that's not a good thing. They have put themselves in a corner on this issue, I would say, and they have to get out of that corner. And the U.S.-China relationship without a military component is also not a comprehensive relationship. So the Obama administration I think has to deal with this, I think a lot of issues they have to deal with, but this is one of the more urgent ones, I would say. But Beijing tied the knot, so they have to untie the knot in my view.

Okay. Well, we've run a little bit over, but I thank you for your questions. We had a very lively session. I thank particularly our presenters, Terry, Bob, and Bud for very good presentations. We can now, having given a lot of food for thought, we can now give thought to food and adjourn for lunch, which is one floor down in the Lindner Commons Room. So join me in thanking our panel for a very good session. Thank you.

[End of transcript]