

**The Brookings Institution  
Center for Northeast Asian Policy Studies**

**Asia Society Hong Kong Center**

**and The Faculty of Social Sciences,  
University of Hong Kong**

**CHINA, NORTHEAST ASIA  
AND THE NEXT AMERICAN ADMINISTRATION  
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**Welcome Remarks by Dr. James Tang,  
Dean of Social Sciences, Hong Kong University**

JAMES TANG: Good morning. On behalf of the Faculty of Social Sciences of the University of Hong Kong, and together with our local co-host, the Asia Society, I would like to welcome everyone, especially friends from Brookings and the many participants who have come from all over the region. The Asia Society has done most of the hard work for this conference and I think Ronnie Chan should be here giving this speech in his usual witty and eloquent way instead of me.

But anyway, we are really delighted that the Center for Northeast Asian Policy Studies under the leadership of Richard Bush at the Brookings has brought us this stellar collection of scholars and experts whose expertise on East Asia is very well known to us here. I would also like to thank Richard's associate, Sharon Yanagi, who had really made tremendous efforts in making this event run smoothly.

Let me very briefly turn to the theme of the conference today. The quadrennial ritual in American politics is over but the implications of its outcome this time may be more far reaching than any previous Presidential election since the end of the Cold War.

The world probably is less polarized over American politics than the United States itself. Like Europe, popular sentiments in Asia on the whole were more pro-Kerry rather than Bush. I think you probably have read a University of Maryland opinion survey of 35 countries in the world. In Asia, Kerry carried China 52 percent to 12 percent; Japan 42 percent to 23 percent and Indonesia, 57

percent to 34 per cent. Only the Philippines supported Bush, 57 per cent to 32 percent. India and Thailand, I suppose, were swing countries.

But Asian governments appear to be less apprehensive about a second Bush term than perhaps their counterparts in Western Europe. Asian leaders seem happy to have Bush for another four years and I think on the whole the media is less hostile to a Republican victory.

Scanning news media commentary in Asia, I detected that there seem to be some hopes that somehow the new Bush Administration would be different and the second term might become a little bit more flexible and perhaps even a bit more like Kerry's leadership would have been, had he won.

While our own South China Morning Post cautioned that it remains to be seen whether a second term will see Bush losing enthusiasm for the overseas interventions its neo-conservative advisers championed, editorials in other East



Asian countries seemed more optimistic. In Japan, the *Tokyo Shimbun* called on Bush to respect the criticism of his security policy humbly; in Korea, the *JoongAng Ilbo* stated that the new U.S. Administration should promote a cooperative foreign policy and regain the confidence of the international community. *The Nation* in Bangkok suggested that a kinder, gentler U.S. under the re-elected American President could work wonders in international relations.

Echoing that view, interesting to me, the *Beijing Youth Daily* stated that today's Bush is no longer the ignorant arrogant western cowboy of the past. Governments in the region, however, really will have to try to be creative in engaging the United States.

With a significant number of Americans (if not the majority), remaining deeply suspicious of American leadership, will the Bush Administration be sensitive to such sentiments in Asia in the next four years? Many here in the region who see Bush as aggressive, unilateral and perhaps even arrogant, will certainly welcome changes in his second term. This is in a way already happening for some because a United States preoccupied in Iraq probably has to accept the reality of accommodation in this part of the world and also work closer together with its Asian allies.

However, if Bush becomes too preoccupied with Iraq and developments in the Middle East, paying scant attention to the region, it might not necessarily be good news for us. Although a diverted United States with little interest in East Asia might be welcomed by some, to me I think it would be bad news. The United States is the world's single most important power with extensive interactions and interests in the region and in fact East Asian countries share common interests with the United States.

While we have bounced back from the Asian Financial Crisis, potential for conflict in our region remains high. Troubles over the Korean Peninsula and across the Taiwan Straits could easily turn highly volatile. And we have to bear in mind that such challenges have to be understood in the context of a rising China where dramatic economic, political and social transitions are underway. While China's phenomenal economic growth has benefited its neighbours, its relationship with countries which are also close American allies such as Japan and Korea are not all sweet and not sour.

Recent problems in Sino-Japanese relations and the example of the controversy between China and South Korea, I think, are just some examples of how things could turn sour easily.

In fact, the President of Brookings, Strobe Talbott, also reminded us in his public lecture that he delivered for the University of Hong Kong on Monday about the significance of the rise of India. We have not, I think, been paying that much attention to India in Hong Kong. But I think this is really something that is really worth paying more attention to.

I would also like to congratulate the Brookings Institution for the planning this event one month after the Presidential election in the United States. I think perhaps we are now in a better position to have a preliminary assessment of what a second term of President Bush will mean for East Asia. Today, I think we have in this room some of the world's foremost experts in their respective fields to guide our discussions on many of the challenges we have to face in US-East Asian relations.

In fact, the impact of the Brookings team in Hong Kong has already been felt beyond this room. This particular event and other activities arising from the visit of the Brookings team has already helped inform the Hong Kong community on issues concerning both U.S.-East Asian relations and developments in China. As I just mentioned, Strobe already gave an excellent public lecture for the University of Hong Kong. I must say that I am really pleased to report that the response to his lecture was overwhelming. Strobe trounced the audience with his analysis as well as humour. I am actually expecting that my students in the university will form a Strobe Talbott Fan Club very soon.

On Tuesday, I also went to Ken Lieberthal's lecture at the inauguration of the Centre on China's Transnational Relations founded by my very good friend David Zweig; I think funded by Ronnie. Ken Lieberthal delivered a very powerful talk and proposed innovative ideas which might help us in thinking through how to resolve problems about Taiwan.

I believe other members of the team have been very active in meeting many in the policy community here. In fact, today's event, if my understanding is correct, is part of the internationalization drive of the Brookings Institution with John Thornton taking the lead. John, as I think many of you might know, has started a program at the Tsinghua University. The more I hear about it, the more fascinated I am about this particular venture that he is now engaging in and I certainly hope that we here in Hong Kong can also benefit and contribute to Brookings' new activities as it becomes a global think tank.

Finally, I would like to express my appreciation again to our local co-host, Asia Society, which actually has been a perfect partner; Mary Lee, and Ann have taken care of most of the administrative responsibilities, managed all the logistics and to top things off, gave us free seats. I think Ronnie's support and both Mary Lee's and Ann's hard work deserve a round of applause. Thank you.

**Welcome Remarks by Ms Mary Lee Turner,  
Executive Director, Asia Society Hong Kong Center**

MARY LEE TURNER: Good morning, I am Mary Lee Turner. I am the Director of the Asia Society Hong Kong Center. I want to be a very brief bridge. Just to point out that the role that the Asia Society plays in Hong Kong is to bring people with different ideas -- important ideas -- together to discuss them. We see our role as being to educate people about the countries and cultures of Asia and relationships that impact this region. There is no place better in the world to have these discussions than Hong Kong because that is what Hong Kong is -- a bridge to many places with many points of view, an open and free society that can talk about issues and differences of opinion.



We particularly want to welcome the scholars who are here from China, from Taiwan, a group of people from Australia. This conference symbolizes Hong Kong at its very best and for that we thank both The Brookings Institution and we thank Hong Kong University. So, without anything else to say, I am

going to turn the program over to John Thornton. We are delighted to have him with us, a member of the Board of Trustees of the Asia Society and Chair of the Brookings Institution. Thank you.

**Welcome Remarks by Mr. John Thornton,  
Chair of the Board, The Brookings Institution  
Trustee, Asia Society**

JOHN THORNTON: Good morning. I will also be mercifully brief in order to get on to the substance of the program but I want to begin by thanking the Asia Society Hong Kong Centre, Mary Lee and my good friend Ronnie Chan, and I also want to thank the University of Hong Kong, in the person of James Tang, whom I just met yesterday, but I had a very interesting dialogue with him last night. I want to thank you for partnering with Brookings on this.

The second message I want to leave with you is I regard this day as a day of mutual education. The Brookings Institution has a very long, distinguished record in the United States. It is the oldest think tank in the United States. We like to rather modestly think it is also the best think tank in the United States but the truth of the matter is it is not nearly as global an institution as it could or should be. We have a very strong desire to make ourselves a more global institution. We have some very, very outstanding scholars and programs many of whom you will see today.



The Center for Northeast Asian Policy Studies has been very effective, very ably led by Richard Bush and has made a major contribution to today's program. But in addition to that, just this past year, we have decided to put a much better focus on China. We are constantly setting out to build what we hope will be the most distinctive center in the United States on China. We recognise what an ambitious undertaking that is and we do not think we will get it done soon but we hope that in ten years' time if we are sitting in this room, and if I were to ask you who in the United States understands China the best, you all would say Brookings does. That is our goal.

I realize from my own experience that to accomplish that is very, very difficult and so we are not at all naive about that which is why, returning to my theme of mutual understanding and mutual education, we realize we have as much to learn today as we do to impart knowledge. And we think that the better the Brookings Institution is, the better and deeper impact it can have on U.S.

policy, the better it will be for all of us. That is my principal message on behalf of Brookings.

I have also been asked to be the bridge to Henry Tang. I've actually been given many notes to introduce him and I thought to myself it is kind of silly for me to introduce Henry Tang in Hong Kong. So I am not going to do that. I am simply going to remark on what an outstanding public official Henry is, of the highest, highest quality, I would say of a global standard. Having met many, many public officials in my prior existence and advised many of them, I really feel that Hong Kong is in extremely good hands. We had a chance to talk yesterday about some of the issues facing Hong Kong, and facing Henry specifically and having heard the list, we quickly got out of the room thinking he had no time to talk to us anymore. He had to get back to work. Henry, we could think of no better person to open the conference than you, and I turn things over to you.

**Opening Address by the Honorable Henry Tang,  
Financial Secretary, Hong Kong Special Administrative Region**

HENRY TANG: Thank you very much, John, for those remarkably flattering



remarks. Ladies and gentlemen, good morning. It is my pleasure to join you here this morning to address a very key issue like the U.S.-China relationship. The United States has long been, and will continue to be an important, if not the most important player on the global stage. China, with its enormous population and a very fast blistering, growing economy, is gaining ground not only in economic prosperity but also in political influence well deserved on the world political arena.

This terminology “globalization” rolls off the tongue of politicians easily and has been growing for decades. With advances in telecommunications and advances in information technology and the ensuing reduction in transaction costs, we are now able to talk about true division of labor in a truly global sense. In 1993, the global trade figure was U.S.\$7,439 billion. About just a decade later, this figure doubled to \$14,863 billion -- just under U.S.\$15 trillion. Similarly, the average daily turnover in foreign exchange markets reached U.S.\$1.9 trillion in April 2004, which also is doubling the figure over 1992.

Globalization means we are not alone any more. We are interdependent upon each other. National borders fade as we facilitate trade and investment and also as we minimize cross boundary impediments. Globalization maximizes the utilization of resources and also realizes its growth potentials. Yet, it also means

that should one of us fail, others might be dragged along with it. The Asian Financial Crisis serves as a reminder of the impact of global capitalism. When Asia gets a flu, the world coughs as well.

The implications of globalization are definitely very huge. In the economic arena, it means that there will no longer be a strictly “domestic policy.” Whatever you do in your country is bound to affect others through trade or through financial markets or other proxy hedges. This is especially true for big countries like the U.S. and China. It requires political leaders to think outside of the box, to think about not only the policy impact on your own citizens but also how it will affect the global equilibrium. Such considerations might at times be conflicting but in an increasingly interdependent world, they are, more often than not, one and the same.

Sustainable prosperity in a globalized economy is guaranteed not by unilateralism but by open dialogue, by positive engagement and more importantly, by mutual understanding. I am among those who regard the current state of the U.S.-China relationship to be at its best. While the U.S. Administration continues to have concerns with China over a number of issues including the trade balance, currency valuation and intellectual property rights, the U.S. and China have more in common today than they have disagreements. The U.S. can count China as a partner in its effort on counter-terrorism and China of course plays an irreplaceable role in promoting regional stability.

The Bush Administration’s relatively open position on free trade serves both the U.S. and also the world well. The U.S. and China have worked to develop a relationship that enables them to communicate with each other and address common challenges. I am confident that during the second Bush Administration, this relationship will continue to flourish under the leadership of our two Presidents.

Nevertheless, some people perceive that the real flash point of the U.S.-China relationship is the Taiwan issue. We of course welcome the clear articulation of America’s continuing adherence to the One China Policy, particularly that this assurance came from the highest level this time at the margin of the APEC Economic Leaders’ meeting in Santiago, Chile. The importance of the One China Policy to regional stability cannot be over emphasised.

Hong Kong offers a unique perspective on U.S.-China relations. On the one hand, we are part of China. Our motherland’s national interests are our own interests. On the other hand, we are a Special Administrative Region of China. Except for foreign affairs and national defense, we enjoy a high degree of autonomy. Our special status allows us to make economic policies without interference from global politics and foreign affairs. Indeed, we have long been recognized as the world’s free-est economy. We are a showcase of genuine free

trade and we are a clear example of the benefits of globalization and free trade and also free markets.

In the global trade arena, Hong Kong has long played a constructive role. Our credibility comes from practicing what we preach, particularly in the World Trade Organization of which Hong Kong is a founding member. And we have from time to time played a bridging role between the developed and developing camps. With a relatively long history of involvement in multilateral trade negotiations and non-partisan views on free trade, we can be an ideal honest broker. As you might know, the 6th WTO Ministerial Conference will be held in Hong Kong next December and this is again a testimony to the contributions we have made and will continue to make in global trade.

With the rise of regionalism, some people might regard multilateralism as failing or losing its lustre. Some might also perceive China's increasing influence in this region as a threat to U.S. interests. I beg to disagree. Regionalism grows out of the need for strategic alliances. In an age of interdependence, we prosper not on our own but in a mutually beneficial network. Cooperation and coordination with one's neighbours are just as, if not more important than one's own competitive advantages. It is through forming strategic alliances that we can maximize our maximum potential and bring prosperity to all.

In the bigger picture, regionalism is a building block for multilateralism. Just three days ago in Laos, ASEAN and China signed an agreement on trade in goods which will lead to a ASEAN plus one free trade area by the year 2010. ASEAN's initiative to form a stronger alliance with China is a natural recognition of China's growing economic power and political influence in the region. Such an initiative is not at the expense of the U.S. or on anybody else. Rather, a prosperous Asia is not only conducive to regional stability, but it also is a positive factor in sustaining global economic growth as well. Both of these outcomes should be welcomed by all, including the U.S.

This brings me back to the message that global prosperity is achieved by open dialogue, by open engagement and by mutual understanding. We compete not at the expense of others but to the benefit of all. Economic growth is not a zero-sum game. It is entirely possible that everybody wins. Political leaders should have the wisdom to see through the myth of conflicts and they should have the courage to take a firm stance on global interests. We might not see eye-to-eye on every issue but as Colin Powell said recently, "When we disagree, we do so candidly, openly and in a spirit of trying to find a solution to the disagreement."

On this note, I would just like to thank the Asia Society Hong Kong Centre, the Brookings Institution and the University of Hong Kong for organizing this important conference. I understand this is Brookings Institution's first conference of this sort in Hong Kong. We would like to thank you for your presence and this is exactly the kind of open dialogue that we need to build

common ground and forge consensus towards a peaceful and a prosperous world. Thank you very much.

MARY LEE TURNER: Mr. Tang has kindly agreed to take questions. As you know, it is Asia Society's custom so I know that this audience will have a number questions both about the Executive and perhaps a little bit about Hong Kong, so who will be first?

If I can perhaps ask the first question, then: when you think of Hong Kong's role, because we think of Hong Kong being a bridge on many subjects but I think about the importance of globalizing financial markets in Hong Kong's street. As Hong Kong becomes increasingly involved with Chinese companies as they go global, how do you see your ability to encourage those companies to meet evolving international standards? I mean, if Hong Kong is going to play that role which we hope that it can, how do you see Hong Kong leading China toward global markets?

HENRY TANG: I did not expect that first question in the morning. It is going to be a tough question. Mary Lee, thank you very much. Actually, Hong Kong has been very successful in being this portal for foreign direct investment into the mainland. In the last quarter century, China has attracted a huge amount of FDI and Hong Kong has been the leading FDI place for China.

I am pretty confident that we will continue to be successful in foreign direct investment but we will be even more successful in the going-out policy because I cannot think of a better place for Chinese companies when they want to go out to invest overseas as in many successful economies, free companies that want to be successful not just domestically but they want to be multinational companies and to invest overseas.

I really cannot think of a better place than Hong Kong because of all the infrastructure -- hardware and software that we have -- I will not repeat those. I am sure you are a very informed audience so you know all of this very well.

But I would just like to make one point. Hong Kong is a rule-based society and I emphasize that, a rule-based society that has been what made us successful and it is what will make us successful in the future. So, for Chinese companies or for any other companies elsewhere, whether you are from Taiwan or from the Philippines or Singapore or wherever the company might be, we apply the same set of rules to every company that comes here.

And so I have said this in the past and I will continue to say it, that we are a rule-based society. We are successful because of it and we will continue to adhere to that principle strictly and without bias whatsoever. So whether it is a company that adheres to the highest standards or whether you do not, do not come to Hong Kong if you expect to be favored simply because you have a special

relationship and you are not the kind of company that we need nor do we welcome it. We will apply that rule strictly and enforce it.

This is the way that we can maintain that integrity and this is the way we can encourage companies from all over Asia and including the mainland to come to Hong Kong because they will see that because we apply the rules strictly and fairly, so therefore it is a very, very good instrument for them to apply that rule in their respective organizations. If you want to do an IPO in Hong Kong, and where in the last ten years, we have raised over U.S.\$100 billion from mainland companies; if we want to do that, we have to play the game by those rules and they would show no favoritism. So, I think this is the way where we can help Chinese companies modernize and go global.

MARY LEE TURNER: Thank you very much. Yes, please at the back here. And if you would introduce yourself.

QUESTION: My name is Tomohiko Taniguchi, CNAPS Fellow at the Brookings Institution. I have two questions, if I may, one about the currency arrangement of Hong Kong. I wonder if you might want to update us on the long-term sustainability of the currency arrangement which is becoming more like an endangered species, if you like. Secondly, about the Asian bond market, each and every country has very much a fledgling capital market. They have a long way to go, so without having flourishing capital markets, functioning capital markets, it seems that the ideal Asian bond market seems to be a non-starter. I just wanted to know your opinion. Thank you.



HENRY TANG: Thank you very much. I will take the first question first: since we had the link for just over 20 years now, it has given us a very high degree of stability for currency. I know many investors, when they invest in Hong Kong, knowing that the Hong Kong dollar is linked to the U.S. dollar, has given that degree of stability and, as far as risk is concerned, it has minimized the currency risks that they are exposed to other Asian investments. So, I do not have any intention of reviewing that link now.

On your second question, which is a much more difficult question to answer, when the Hong Kong SAR government issued a U.S.\$2.5 billion bond issue in July of this year, it was the first issue we have done in a very, very long time. It is the world's biggest issue, multi-currency issue that we issued to both institutional and retail investors in two currencies.

It was very successful and when we set out to launch this program, we had three goals for this bond issue. The first one is because of our low interest climate

environment. Many of our small depositors -- "small" meaning, let's say he has \$10,000, \$20,000, \$30,000 in the bank -- it was earning virtually no interest, 0.001 per cent, so virtually no interest. It gives people a bad taste in their mouth because many of these are hard-earned dollars that they put into savings accounts and yet, with the interest they can't even buy a decent meal. It really gives them a bad taste in their mouths.

So we wanted to offer an alternative investment where we emphasize especially to the retail investor that any investment carries risk but this is an instrument where if you hold it until maturity, we gave them two years or four years tenures. If you hold until maturity, it will offer you a higher interest rate than the banks can and it will give you a steady payout. So, we offered them -- that was one purpose, we give them an alternative instrument to earn a higher and a steady rate of interest. It was very well received.

The second issue, the second point, goal, is for the Hong Kong SAR government to be able to manage our finances more flexibly. We have a very substantial reserve and one of the investment bankers in New York once said to me when I was there doing the pricing said, "the response it is going to be very, very good because they say you are a museum piece, you are a creditor economy, you have a very, very good credit rating. We know you're not going default on it and we don't know when you're going to do this again."

So, it offers us more flexibility in managing our finances. It's a more modern way of managing finances. Again, it was very well received.

The third goal of that bond issue was that we want to send a message that in Hong Kong, being a capital market we have been very successful in bank loans, the banking community is very active and very sophisticated, and also in the equities market, again, like I said earlier, in the last ten years, we raised over \$100 billion for Chinese IPO companies and now Chinese companies account for about a third of their total capitalization.

So, again we are very good in the equities market but we are still missing that third leg. That third leg is bonds. So, we went out a message saying that the government is doing this with this third leg in mind. We want to encourage more companies to emulate or to see the advantages of having a third leg for financing a project, and not just two previous very well known and very well experienced ones.

I must admit that we have not been that successful. Of course, one \$2.5 billion issue is not going to kick-start the market. But all of those who bought the market, the trading is very, very thin, both on the institutional and the retail levels. The retail basically is they buy and they just tuck it away and even the institutional ones, they actually tuck it away because they realize if they sell it,

what else are they going to buy? So they again also tuck it away, so we have not been very successful in that third leg and I'm still scratching my head on that one.

MARY LEE TURNER: Who will be next? Yes, Robyn.

QUESTION: Hi, Robyn Meredith from Forbes Magazine. Just going back to Mary Lee's first question: I wonder if this week's raid on the mainland Chinese company traded in Hong Kong which led to the arrest of a number of executives who were accused of fraud, suggests that Hong Kong may need to add in a lot more enforcement officers at the exchange.

As you said, a third of Hong Kong's market cap in equities is mainland Chinese companies which have quite a bad track record in corporate governance issues. Bank of China Hong Kong alone is one good example. Do you see the need for more enforcement here?

HENRY TANG: The fact that the ICAC raided the companies and arrested senior executives is a very good example that in terms of law enforcement we will enforce our law without bias and very strictly.

If there is a need to increase forces for enforcement, I am sure when they put up a case we will give them more resources in order to so. But of course this is internally, then they will have to put up that case for more resources, or they will actually reallocate some of resources that they already have.

As far as law enforcement is concerned, not just the ICAC, not just commercial crimes, but even petty theft on the streets, we will allocate resources where needed. This is a policy which I think works very well for Hong Kong, that we don't take a very strict five percent cut across all departments. We will review the importance of where more resources are needed and we will allocate resources to those departments that are in need.

MARY LEE TURNER: Yes, do I see hands? I learned from the chairman of the Asia Society, Ronnie Chan, that if you're on the stage you can also ask the last question.

We heard a compelling argument by a leading economist yesterday that given the trade deficits and given the fact that Europe is currently carrying the imbalance in their currency, that over time that both the Japanese and Chinese currencies must adjust themselves. We also have heard very clear messages from China that they are reluctant to make any change under pressure. What signals are you looking for?

HENRY TANG: I think what Premier Wen said the other day is a pretty good signal. He in fact said it very blatantly but I didn't expect to be that blatant. Privately for months we have been saying that the more foreign governments have

been pressuring the Chinese government to do something with the yuan, the RMB, the less likely it's going to happen. So what Premier Wen the other day is actually an affirmation of what we were privately speculating for a long time.

China will have to look at its currency in a multi-dimensional way because the U.S. has a very, very large trade current account deficit with the Chinese. But China as a whole, actually they are running a current account deficit now because they are importing a lot of stuff from others also. It is just from the U.S. they are exporting more than they are importing. But with many other trading partners they are importing more than they are exporting.

As far as the currency is concerned, China will also have to take all of these factors -- their current account with the other trading partners, what the valuation of yuan will do to its own currency, to its own economy, as well as other considerations that they will have in a more macro sense of what they are going to do with liberalization of the RMB. I'm sure they are taking in this role to reform -- that the liberalization or the reform of the RMB is something that is going to happen eventually. When that might be and the role that they will take, how much to do, and when, is something that requires a very macro consideration of the whole country and its relationship in the region and its relationship in the world.

So, it is not something that I can or should be speculating on very lightly but rather I can only say that all of these factors will come into consideration and nothing is going to happen when they are right under the spotlight and people say, "You should be doing something" because I think Premier Wen put it in very, very clear terms, basically saying, "Don't give your problem to me. You should take care of your own house before you try to blame it on us." That's all I can say.

MARY LEE TURNER: Thank you very much. We very much appreciate your participation. I know Brookings and Hong Kong U. join me in thanking you for being here and hope to see you again soon.

HENRY TANG: Thank you very much, Mary Lee.

(9.49 am)

(Short break)

(10.16 am)

**Panel I:  
The next American Administration and U.S. Policy in East Asia  
Moderator, Frank Ching,  
Senior Columnist, The South China Morning Post**

MARY LEE TURNER: I'm going to turn this discussion over to Frank Ching, a well-known Hong Kong writer.

FRANK CHING: Thank you, Mary Lee. Welcome to this first panel. As James Tang had said, some of the world's foremost experts are in this room and four of them are sitting here. The topic is the next American Administration and U.S. policy in East Asia. I will not introduce the speakers since you have all the materials in your kit.

Our first speaker will be Mr. James Steinberg. He is Vice President and Director of Foreign Policy Studies, Brookings, and his topic is "Neo-Cons, Realists and Internationalists: Where the Bush Administration Has Come From," and hopefully he will tell us where it's going.

**“Neo-Cons, Realists and Internationalists: Where the Bush Administration Has Come From”  
James Steinberg, Vice President and Director of Foreign Policy Studies  
The Brookings Institution**

JAMES STEINBERG: Actually, Frank, this is the advantage of having a tag team -- I drew the easier job, which is that I'm going to tell you where the Administration has come from and then Strobe's going to tell you at lunch where they're going.

The advantage that I have is that I get to have the benefit of hindsight in making the analysis. He gets the advantage of not being able to prove whether he's right or wrong for several years to come, so you won't know whether he's right or wrong until we come back and do this again in a couple of years time.

At first I thought characterizing what I was going to do as a historian's eye view, but I've now decided it's more of an archaeologist's eye view of where the Administration has been. But I do believe, and I will at least hint at some of the answers to the questions that Strobe will give a more explicit answer to, that understanding the dynamic that has taken place within the Administration over the past four years does give us some clues about what is going to happen, not



least of which because if you look at the composition of the senior national security team, it is the same people after all. Secretary Powell has gone but basically you're going to see the same key set of actors that are making the decisions.

So understanding where they came from and why they made the decisions, or why I believe they made the decisions that they did, I do think will give some insight into where they're going.

If you look back to the first campaign in 2000, and the kind of foreign policy that the President and his team articulated during that campaign, you had really the portrait of a pretty traditional Republican conservative view about what a national security strategy should be. Part of it of course was there was an element of what we all call in Washington, of ABC - Anything But Clinton - but to a considerable extent in both the President, the candidates' speeches and particularly in some of the campaign documents like Dr. Rice's article in Foreign Affairs Magazine in the winter of 2000, you saw some of the basic principles that you would really recognize as traditional realist/conservative Republican views - a very heavy emphasis on the importance of American power as the central point of national security strategy; a concern that under the Clinton Administration there had been an over-extension of the U.S. military in favor of a set of activities which were not directly related to national security, sometimes characterizes foreign policy as social work rather than dealing with the hard national security issues; a very significant emphasis on the role of great powers as the focal point of the organization of the international system rather than as we Clintonites would have had it on globalization and those kinds of deeper social and economic forces; specifically with respect to China, a classic realist view of the danger of China as a strategic competitor.

Interestingly enough, in view of the history, Dr. Rice's article said very explicitly that the problems with Iraq and North Korea could be dealt with through containment and that the strategies of containment that had been followed in the past were equally applicable to Iraq and North Korea, and of course the President's emphasis on a humble American foreign policy.

But very quickly, after the Administration took office, there were clear signs that there was something else going on in the Administration and it will be well known to many of you here, including my colleague two over the left, which we saw I think very dramatically with the visit of President Kim to Washington in the first months of the Bush Administration when, after Secretary Powell had indicated that there would be continuity in the overall strategy of dealing with North Korea, which would seem to be consistent with the idea of containment, the President quickly announced that he had a different view and was deeply sceptical about any form of engagement with North Korea.

Similarly, we saw very early on in the Administration a statement by the President with respect to Taiwan saying that the United States will do whatever is necessary to defend Taiwan. We saw the Administration's decision to declare the Kyoto Protocol dead, to announce that there would be no attempt to move forward with the comprehensive test ban treaty, to unsign -- which is an interesting concept in international law -- the International Criminal Court agreement, et cetera.

So, it's important to ask where might some of this be coming from? And that's where we introduced our friends, the "neo-cons." The neo-cons have their genesis back in the Cold War days and Strobe can tell you a little bit about that too. Many of them were veterans of the Committee on the Present Danger, a group that criticized the Nixon Administration and Secretary Kissinger for the policies of détente and engagement with the Russians, who believed that there ought to be an ideological confrontation with the Soviet Union and with Communism, in favor of the forces of freedom.

They clustered around an organization called the Project for a New American Century in the mid and late 1990s, with a very heavy emphasis on a kind of neo-Wilsonian view that the mission of the United States and the security of the United States depended on promoting freedom wherever it can and resisting the idea of compromising with authoritarian leaders.

Interestingly, there was an interesting overlap between the views of the Clinton Administration and the neo-cons on the Balkans, whereas the traditional foreign policy establishment, including Secretary Powell before he became Secretary, and others, were deeply suspicious and sceptical about the need for the United States to intervene in the former Yugoslavia. The one thing the Clintonites and the neo-cons had in common was a belief that that was an important mission for the United States.

So these were a number of individuals that came into the Administration from that perspective and, as I say, in the early going there were some hints that this would be an important voice in the Administration.

At the same time, even notwithstanding those early developments, there were also signs that there were traditional realist forces at play as well, the most dramatic of which I think was seen in the very quick evolution of the Administration's China policy, beginning with the EP-3 crisis and the decision rather than to seek and push for a confrontation over this to try to defuse the crisis and shortly thereafter Secretary Powell's trip to China which signalled the beginning of a very different kind of approach of engagement, notwithstanding some of the campaign rhetoric.

But we also saw, I think it's important to remember, that at the same time in the spring of 2001, the Administration under the leadership of Secretary Powell,

was pursuing a strategy toward Iraq of developing smart sanctions, a strategy of really continuing the policy of containment.

So, if you look going into 9/11 where the Administration was going to come out, I think it was very much in doubt at that point. But there's no question that 9/11 had an enormous impact on where the Administration was going. It clearly had a galvanizing impact on the President and it created an opportunity for the so-called neo-conservatives to try to move forward on their agenda.

We saw that very quickly after 9/11, in the now quite well-known Administration's National Security Strategy Report, which put a very heavy emphasis on the importance of promoting the cause of freedom globally, talked explicitly about a strategy of what they called pre-emption but was really one of preventive war and seemed to put the United States on a course that was going to be a significant departure from the traditional conservative realist view of American strategy and that got even further elaborated on in the President's famous axis of evil remarks in the State of the Union speech in 2002.

So, as we came to the question about how to deal with Iraq, which has obviously now become the center piece of the American strategy, we found sort of a very interesting coincidence in how the Administration was thinking about the world. For the neo-cons, the challenge of Iraq was at the center of this basic idea of the United States as a force for freedom and that the strategy of the United States should be to be the forward arm of freedom, in fact helping along Frank Fukuyama's end of history thesis by giving it a little shove in the direction of getting history towards its end and a triumph of democracy everywhere.

But you also had from the more traditional conservatives in the Administration an argument for invading Iraq that basically was focusing on the need to reverse what they perceived as a decline in the credibility of U.S. power in the world that Saddam had been defying the United States and others were being emboldened by that lack of response to the defiance and that if only we were to act decisively against Iraq that other dangers to the United States, whether they be terrorists or regimes like Iran and North Korea, would soon learn that you don't mess with Texas.

But there was also a third element among the more traditional internationalists who argued that we needed to deal with Iraq because Iraq had been defying UN Security Council resolutions and posing a threat to the international order and that I think, as I see, you know, can help explain why somewhat improbably Secretary Powell joined the forces in favor of acting in Iraq not because he necessarily shared either the neo-cons' view about promoting freedom or the conservative's view about the need to use power for the sake of exerting power, but rather because there was a case for strengthening the international consensus behind non-proliferation and dealing with weapons of mass destruction.

So, you had this perfect storm of convergence of the three trends in the Administration in favor of invading Iraq. Unfortunately, since they didn't agree what the purpose was, it made it very hard to have a post-invasion strategy and we're all living with the consequences of that today.

So, here we are, and the question is, as we look at this array of forces and where the Administration ended up at the end of the first term, who's up, who's down and how does that lead us to think about the second term.

Well, first you don't hear a lot about the axis of evil any more and indeed, when the President and the Administration talk about the situations in Iran and North Korea we don't hear a lot of talk about regime change any more. We hear talk about diplomacy and engagement as a part of the strategy.

With respect to Taiwan, which is obviously of great interest here and which we'll have a lot of opportunity to talk about here, we've gone in the space of four years from the President announcing that he would do whatever it would take to defend Taiwan, to what, in my judgement is the most clear and unequivocal statement of concern and resistance to any move towards independence by the Taiwanese, notwithstanding what you would think from the neo-cons' perspective of the very strong appeal of the quite remarkable democratic freedom that we see emerging in Taiwan; and in general, an Administration which does not seem at the moment to be pushing the envelopes of any of the key elements of the neo-con agenda.

Does that mean that the era of the neo-cons is over and that we are going to be back to either a more internationalist or traditional conservative view? I think it remains difficult to say. I think as long as Iraq is the principal preoccupation of the Administration, it is going to be difficult for neo-cons to make the argument that we should go on with the next stage of the crusade, that it's important on the neo-con agenda to prove that Iraq has worked.

But if, and I think it's a question mark "if," there's always the possibility that two years from now we find democracy taking hold and flourishing in Iraq, then I think you may see an effort by those forces in the Administration to rally back around those objectives.

Conversely, if in fact we continue to find ourselves mired down there, then I think the appeal of trying to take this the next step on the agenda will be much less.

But what we will see, I think, is also a continued focus on the more traditional conservative views of American foreign policy that what you have now in the Administration with soon to be Secretary Rice, Vice President Cheney and Secretary Rumsfeld, are individuals who, in terms of their own views and careers,

have been ones who continue to remain skeptical about the value of traditional diplomacy, skeptical about the role of international institutions and largely focused on the traditional tools of American power. And I think that's what we will be watching carefully as we try to see the evolution of the first term into the second.

FRANK CHING: Thank you, James. Our next speaker is Richard Bush, who is the Director of the Center for Northeast Asian Policy Studies. He will talk about U.S. foreign policy toward east Asia.

**“United States Foreign Policy Toward East Asia”  
Richard Bush, Senior Fellow and Director, Center for Northeast Asian Policy  
Studies,  
The Brookings Institution**

RICHARD BUSH: Thank you very much, Frank. Thank you all for coming. I am going to look forward but have a fairly narrow focus, and that's east Asia. I want to do that, first of all, to free Strobe to talk about the big picture and anything else he wants to. The other reason is that it's the only thing I know anything about and Strobe knows a lot about a lot of things.

As you can completely understand, there has been a flood of speculation in the last month since our election about what it means for east Asia. Some speculation is very good; some is odd; some is pretty off the wall. But, you know, a change in the American government is like dropping a huge boulder into a small pond and it creates huge waves and everybody wants to know as soon as possible whether they're going to get swept away so that they can get out of the way.



This election was no exception. I think one of the most pessimistic speculations that I heard came from a group of South Korean officials and analysts who visited me and who had developed a pretty good logical case for the hypothesis that fairly soon we were going to see U.S. military action against North Korea. Probably the most optimistic assessment that I heard came from some people in Taiwan who thought that the second Bush Administration was going to be fine, that he had done a lot of nice things for Taiwan. This ignored the fact of course that most of those nice things had occurred in the spring of the first year and that in the last year, as Jim has suggested, we have seen a public stance that lays down some markers, defines some lines and this was ignored.

Now, we all know that these various kinds of speculation are just that, speculation. There are a lot of variables here at play, a lot of things are not known yet and it's the early days and circumstances can change. If we'd been sitting here four years ago, who could have imagined 9/11 and the profound effect that that had on the world and U.S. foreign policy.

So what I have to offer today are my own speculations to add to the pile, and I fully understand that they could be overtaken by events very quickly and I look forward to hearing the perspectives of my colleagues to my left, Ambassador Hyun, and Professor Jia, because I think their perspectives are very important.

Let me start with what I told my South Korean visitors on their hypothesis about the possibility of war. My own view was that there were good reasons why the United States really doesn't have a military option against North Korea. First of all, the core of our problem is North Korea's nuclear program and we only know where one part of that is, the facilities at Yongbyon.

The location of the nuclear weapons that we believe North Korea has, the location of the enrichment facilities, whatever it is, we don't have a clue, so we could only take out a third or a quarter of what really bothers us. Second of all, although our air assets and naval assets in East Asia are considerable, our ground forces are really stretched. Third, and this I think is the most important thing, a military attack on North Korea would put at serious risk an important asset of the United States and that is the U.S.-ROK alliance. If we lost the U.S.-ROK alliance in order to take care of our North Korea problem, I think that's a bad deal for the United States and I think Ambassador Hyun will probably explain why I come to that conclusion.

Let me turn now to the subject that is on everybody's mind, and that is cross-Strait relations. I think we all understand why this could spin out of control, that between China and Taiwan, you do have a clash of intentions. There are a significant share of the population in Taiwan who would like a totally independent country. Some people, particularly officials in Beijing, fear that that is President Chen Shui-bian's intention. China is building up its military power in fear that it might be put into a situation where it would have to use that power to prevent what it most wishes to avoid. And finally, there is the capacity on both sides of the strait to misperceive and miscalculate. President Chen thinks that his freedom of action is actually greater than it is and that China over-estimates what he has in mind.

Given all that, and in spite of the fact that election time in Taiwan is a time for biting your nails and being very nervous, I'm actually cautiously optimistic that this issue can be managed over the next three or four years.

Let me tell you why I am optimistic and then I'll tell you why I'm cautious. I am optimistic, first of all, because I think there is emerging, in spite of election

campaign statements, the clear possibility of mutual restraint on both sides. That's not to say that they're going to solve this problem, but each side understands that its actions can have dire consequences. President Chen, in his May 20th inaugural address, made commitments about how he was going to do constitutional revision and what the content of that constitutional revision was, that he wasn't going to touch on sovereignty, that he was going to use the procedures laid out in the evolving ROC constitution.

The United States had an important role in encouraging him to make those commitments; we take them very seriously. The State Department spokesman, Richard Boucher, reaffirmed just this week how important we take them. And I think that we should continue to take President Chen at his word.

At the same time, there is evidence that China is prepared to be restrained as Taiwan undertakes its constitutional revision project and signals that if constitutional revision does not take up issues of sovereignty, like the name, the territorial scope of the Republic of China and so on, it can accommodate. I hope that is true. I think that would be the basis for muddling through the second Bush Administration and the second Chen Administration.

The other reason - and I won't go into any detail here - is that constitutional revision in Taiwan is actually pretty hard to do and the rules of the process seem to dictate that the only proposals that will pass are those that have a broad consensus. You can't do this if you have only 51 per cent or 52 per cent of the legislature, which may be the most that the DPP and pan-Green gets in the election a week from Saturday.

Now, why am I only cautiously optimistic? First of all, I think that Chen Shuibian will continue to be under pressure from his more radical pan-Green supporters and that he will feel the need to sort of respond to that in some way. However, there will also be pressure in the United States.

There is danger that Taiwan and China will misread each other but I think the United States will discourage envelope pushing. I think all this indicates the continuing importance of the United States as a stabilizing factor but I am confident that the Bush Administration understands that that is its role and it has developed experience on how to do it.

Let me talk briefly about Japan. I think from the Bush Administration's perspective, Japan has been a success story. Prime Minister Koizumi was able to use the transforming effect of 9/11 to make significant changes in Japan's security policy. Who here would have imagined even two years ago Japanese troops in Iraq? I think that the second Bush Administration will encourage this process. It's already sent signals about revision of Article 9. But there are many issues still to be discussed and this, I think, will be controversial within Japan. It's certainly

controversial in this region and we have seen that as U.S.-Japan relations have gone from strength to strength, Chinese-Japanese relations have deteriorated.

Just one word about the region in general: you know, if there's anything I worry about it is that the United States will not have the capacity to pay the sort of attention to the region that we should pay. This is not to say that we should try to block China from playing a more influential and I think positive role, but I think we should be in the game as well. Thank you very much.

FRANK CHING: Thank you, Richard, for that very enlightening presentation. We now turn to Ambassador Hong-Choo Hyun, who is now a Senior Partner of Kim & Chang. He will talk about the U.S. foreign policy that the Republic of Korea would like to see.

**“The U.S. Foreign Policy that the Republic of Korea would like to see”  
Hong-Choo Hyun, Senior Partner, Kim & Chang, former Ambassador to the  
United States**

HONG-CHOO HYUN: Thank you, Mr. Ching. To begin with, I would like to make follow-up comments or an observation on what Mr. Bush has said about the possibility of a military strike against North Korea. I totally agree with him. It think it is not possible at all and not desirable, of course.

He had three reasons to back up his argument but I think most importantly the reality of the Korean Peninsula does not allow any military action against North Korea. Even in the old days, when the North had just a single nuclear power plant complex in Yongbyon back in 1993, there was a serious discussion in the Clinton Administration whether or not we should strike the North by military. But it was ruled out at the time as the capital city of South Korea is within artillery range of North Korea.



President Roh Moo-hyun suggested, "Why don't you move the capital city of Seoul to the south of the country safe from the artillery fire from North Korea?" But our constitutional court said you cannot do that unless you change your constitution. To change the constitution you need two-thirds of the vote in the National Assembly, a majority vote in the National Referendum. So we cannot do that anymore. The government doesn't have any means to do that.

But even without that, simply the reality tells us that it is not a viable option. This may be a classic case where the intention, design is somewhat

constrained by the reality of the war. So that is my observation about his comments.

During this U.S. Presidential election this year, Korea watched the outcome with a keen interest. The United States is the most important ally for South Korea and their troops are in South Korea to protect us from possible North Korean attack and any change in the foreign policy of the United States will affect us greatly so we watch it very, very closely.

According to some of the observers, the Korean government is accused or criticised for being too friendly to Senator Kerry, particularly the government of President Roh Moo-hyun who is viewed as being supported by the liberal younger generation in South Korea.

Whether Korea was really in favor of Senator Kerry or of President Bush, I think is not very clear-cut as some of critics would like to say. A fairly large percentage of the conservative population, which is a fair percentage in South Korea supported President Bush in the belief that he will provide a sort of more secure environment for the Korean Peninsula because his firm stance against North Korea is well known and to deal with North Korea they believe we still need a firm hand.

So, because of that, the picture is not that clear. So, in some sense, South Korea is now a nation divided. It is not only the United States which is divided. South Korea too is becoming similar to the United States in many cases.

There is a deep divide now between two groups of people. One is the conservative group of people who did not question the importance of the security commitment or our alliance with the United States and who traditionally are anti-communist, anti-North Korea and all of this older generation was basically the generation who has experienced the Korean War.

But this new generation who were born after the Korean War and the end of the Cold War; they have a totally different view. They are the beneficiaries of economic growth and democratic freedom and they think differently. They are questioning a lot of the knowledge and existing propositions and they question mostly our alliance with the United States. They see the United States from a very suspicious eye. That is what is happening, fortunately or unfortunately.

So, between these two groups, they not only differ on who they want to be the next President of the U.S., but on all subjects, whether it is domestic, political, social subjects, but also on foreign affairs; particularly on dealing in North Korea, they have a deep divide.

When I was asked by Mr. Bush whether I can say something about what kind of U.S. foreign policy Korea would like to see, I had some difficulty. In the

past, I wouldn't have that difficulty. I could say, one, two, three, four, these are a sort of consensus views supported by a majority and this is what they want; but not any more.

We have two divided groups with two different thoughts or ideas. But even with that I do not think this perceived difference between the two camps in reality will be that big a difference because there are a number of reasons why it should not be so. The first reason of course is limited choice in options.

On the Korean peninsula and in the world, there is not much choice you can make, whether you like this direction or not, there are always some constraints and as some of the scholars noted very recently, the reality works as a constraint on the intention of individual and the policy of any government. So that is, I think, what is happening.

It is true that this new emerging political force represented by the younger generation is now supporting President Roh Moo-hyun's government, and in our legislature in the April election of this year, the Uri Party, which is a government party, governing party, now has a majority, although the majority is rather slim. So even someone might say, "Okay, they can do whatever they want." But this is not the case; we have very strong conservative elements in the Korean population and without taking consideration of the conservatives' view, I think government will find it very, very difficult to move ahead on whatever major subject that they would like to pursue. So these two realities will constrain the choices of the policy for the Korean government.

Having said that, we do still have a laundry list, a wish list towards the new Bush Administration. Traditionally, there have been three national subjects in the case of Korea. One is to maintain peace and stability for the unification of the Korean Peninsula; secondly, to promote continued economic growth for the prosperity of the Korean people; and third, maintaining good relations with all the surrounding powers, the famous saying -- probably you know, that Korea is like a shrimp. When two whales are fighting, we will be crushed. Maybe Korea has grown into a fish the size of a dolphin, but still we will be crushed. We do not want to see that happen.

These are the three main sorts of policy laws, and U.S. policy has been affecting these, directly or indirectly.

With this new administration, the second Bush II, we have a number of points we would like to see happen in U.S. foreign policy. The first one is continued engagement of the U.S. in East Asia and particularly in North Korea, on the Korean Peninsula. U.S. engagement is a success story, nobody can deny that particularly for South Korea and we do not want, all those difficulties of managing the Middle East, running the war in Iraq, to erode the commitment the United States has in Asia and particularly in South Korea.

In South Korea's case, the younger generation has challenged that commitment. But even with that challenge, the interests of both countries dictate that the U.S. should engage. I will not dwell on this subject any longer because most of you I think agree on that.

In this regard, even though the progressives do not agree with how the U.S. engages but generally they support this engagement of the U.S.. There is no doubt about that.

Secondly, on the way of dealing with North Korea, we do not want any military option for the resolution of this difficult subject of the North Korea nuclear program. So we do want peaceful negotiation, diplomacy, not war, for the resolution of this issue.

Thirdly, we do want the United States to maintain good relations with all the major powers in the region. That means, of course, China and Japan. Recently, we have seen that U.S.-China relations and U.S.-Japan relations are going well and we are very comforted to see that. We would like to see the United States paying more attention to the history of the region when they developed relations with the key countries in East Asia. If they disregard historical reasons, even with all the good intentions, the United States can run into some big problems. So, being sensitive to the history of the region is what Korea can ask of the United States.

Further, we would like to see the United States support South Korea's effort to reach out to North Korea. We used to stress a few years ago the primacy of North/South dialogue in dealing with the Korean Peninsula issue. I think that still is very much in our minds today.

Of course, Korea single-handedly cannot deal with North Korea, particularly the nuclear issue and we support the six-party talks, there is no doubt about that. But while these talks are going on, Korea also should maintain some form of communication in context with North Korea in preparation for the day when the nuclear talks are over; then South Korea will be in the very forefront in the efforts to reunify the northern part of the Korean Peninsula.

Maybe, by engaging with North Korea while this nuclear talk is going on, maybe the South Korea approach can induce North Korea to be engaged in the dialogue and providing them more chance to make their strategic decision to reform. Basically, we would like to make North Korea (inaudible) to the resistance from the south. Maybe someone will accuse that it is bribery? Well, in reality in some parts of the world bribery is still the way of conducting business. Maybe the purists might not like that but that is I think one of the things we have to understand.

Lastly, we would like to see the United States support free trade agreements. Free trade agreements are proliferating, particularly China's aggressive policy on this subject. It will become one measure of how the issues will evolve in East Asia and broadly Asia. Korea would like to have FTA with Southeast Asian nations and until now we haven't discussed that in great detail with any great sincerity, but we are now sincerely thinking about concluding a free trade agreement with the United States. A free trade agreement is, of course, for the economic benefit of the countries involved. But there are also some strategic interests involved, as everybody knows.

So, we would like to see that happen and until this point the United States has been somewhat lukewarm in its support for an FTA but we would like to see the United States somewhat being more forthcoming in this effort and help East Asia having this free trade agreement. The purists once again will say this will be a stumbling block for the global arrangement. I do not think it necessarily has to be that way, depending on how you make it; we can make arrangements without blocking the global trade agreement and WTO.

We now have the Bush II Administration. Everybody seems to think that the Bush Administration can have a choice both either to continue this way or follow a kinder, gentler approach. Depending on that, we will be affected but once again I am not an expert really, on U.S. politics and its foreign policy, but again I tend to believe that reality will check whatever impulse or temperament of the Bush II Government.

I wouldn't worry too much, and maybe the Bush II Administration will be good news for East Asia, with the firm stance on security -- resolved to go after terrorisms and he is of course a known quality and he will be less protectionist in trade issues, we hope, at least.

So, with that, I think depending on how the East Asian countries cooperate and work with the United States I think that Bush II Administration can be good news too.

One thing which comes to my mind at this juncture is his remarks about political capital. Maybe all of you know that right after the election Bush said, "I now have this mandate and I now have the political capital." One thing we learned from our past lessons is that political capital is a very perishable commodity, which has a very short shelf life. If you don't use it in a timely manner and wisely, by the time you need it, it will be gone.

Now I think it is the time to use the political capital. That is my concluding thought on this issue. Thank you.

FRANK CHING: Thank you, Ambassador Hyun for that presentation. Even though, as you pointed out, Korean society is widely divided, you still managed to identify a significant number of areas where there is generally consensus.

We now turn to our last speaker, Professor Jia Qingguo, who is Associate Dean of the School of International Studies, at Peking University. He will tell us about the U.S. foreign policy that China would like to see. I expect that China is probably less divided than Korea.

**“The U.S. Foreign Policy that China would like to see”  
Jia Qingguo, Associate Dean of the School of International Studies, Peking University**

JIA QINGGUO: Thank you very much, Frank, and also I would like to take this opportunity to thank the Brookings Institution and also the Asia Society for letting me speak here. I feel privileged and honored to share this panel with my colleagues and also to speak in front of this distinguished audience.



Actually, Chinese, as I can tell, I think were quite euphoric; well, still quite euphoric about the Bush Administration. I think many people think that probably it's in China's interests to have the Bush Administration, even though if you asked them to vote they would vote the other way.

Actually, I was a little bit concerned about this euphoria, so I wrote a paper listing the potential challenges and dangers with the second Bush Administration, which was published not long ago. I share the view that the Bush Administration's China's policy has been quite successful, especially after 9/11 and the relationship is in general in good shape.

Of course, some of my colleagues do not agree with me in China. They believe that the relationship is not in good shape because of the Taiwan issue. I also share their view so my view is divided myself.

My assignment is the U.S. foreign policy that China would like to see. Remember, the Bush Administration officials said that they want a relationship with China, candid, constructive and cooperative. I'll be candid in my outline of the wish list.

Again, before I talk about what we hope the Bush Administration will do, what I'm going to say is my own view, or my own perception of what most of the Chinese would like to see. I think China is a very pluralistic society now. Nobody can represent the Chinese in general.

In a word, I think Chinese hope that the U.S. would exercise its leadership with respect. At a bilateral level, I think the U.S. probably should respect China a little bit more, especially China's core national interests and Chinese people's aspirations. You know what I'm talking about: Taiwan. Most of the Chinese would hope that the Bush Administration would stop selling weapons to Taiwan and of course most of the people also realize that this is probably not possible, so they hope that the Bush Administration at least would exercise some restraint in selling weapons to Taiwan, would observe the August 17th communiqué, what it committed to.

Of course, we also hope that the Bush Administration would openly and publicly support China's peaceful reunification. I think this is not against U.S. principle. I think the U.S. has been saying that, okay, we are for a peaceful resolution of the Taiwan problem. It has also said that we are opposed to Taiwan independence. So that leaves us with one option, that is peaceful reunification. Of course, as long as it's done peacefully, it's not violating American principles.

If the U.S. can say this, of course I think the Chinese people would feel much happier. I think the U.S.-China relationship is in very good shape in some ways but there is always this underlying distrust on the part of the Chinese on the Taiwan issue for the U.S. As long as the U.S. does not say that it supports China's peaceful reunification, the Chinese are wondering what the U.S. is up to: separating Taiwan permanently from China? And that hinders our full cooperation with the U.S.. That also creates a lot of internal polemics with regard to what we should do in our handling with our relationship with the U.S.

On the trade issue, we hope that the U.S. would adhere its principle of free trade and fair trade. We hope that the Bush Administration in its second term would resist protectionist measures and whether the economical situation is good or bad, we hope that the U.S. Government will be consistent on the free trade and fair trade principle.

On the human rights issue of course we hope that the U.S. Government would help us, but not lecture us. We hope that we have more dialogues on an equal and mutually respectful basis. Also we hope that we have more programs, more projects to help China to improve its legal system and also to improve the human rights situation. I think that is more effective than publicly lecturing.

I think the last Bush Administration during the last four years has done a pretty good job in this respect, from the Chinese perspective of course.

At the international level, we also have some wishes. Most importantly, we hope that the U.S. will show greater respect for the world, the interests and the aspirations of people of other countries.

First, we hope that the U.S. would serve as a moral example rather than moralistic imposer. We hope that the U.S. would improve itself both in terms of freedom especially at the time when the U.S. is confronted with the terrorist threats, how to maintain maximum freedom while combating terrorist threats effectively.

We hope the U.S. would improve on its democracy so that we don't have to wait for too long after the election. We hope that the U.S. would make headway in improving its situation of equality, taking real efforts of creating a situation which we both have equal opportunities and also equal distribution. I think if the U.S. can take leadership in that regard, I think the world would have much fewer problems with regard to the growing gap between the rich and the poor.

And we hope that the U.S. in this regard will respect other countries' intelligence. They know if the U.S. are doing better and they would emulate the U.S. If the U.S. can tell them: this is the right path to go, through example, rather than through putting pressures on other countries.

Secondly, we hope that the U.S. would attach more importance to multilateralism in its international efforts. Well, I think the U.S. Government has been basically pursuing a multilateralist policy. But over recent years, there has been a tendency towards a unilateralist approach. Actually, I wrote a paper last year making this point that basically the U.S. foreign policies are too multilateralist despite the view of many people that it is not unilateralist. (??)

We hope that the U.S. would show more deference to the views of the international community. We hope that the U.S. will show greater respect for international organizations. We hope the U.S. would be more consistent in abiding by international law. Thirdly, we hope that the U.S. will try to follow rule-based behavior rather than pursuing a cause of American exceptionalism.

The U.S. is the only country -- Americans are the only people who don't have to make fingerprints when they apply for visas. And the U.S. Government has been seeking exemption of U.S. citizens in the international criminal law case. And the U.S. has withdrawn from the Kyoto protocol. This exceptionalist behavior - I think is not fair to other countries and at the same time I think it's going to alienate the U.S. from the international community. In the long run, I think it does not serve the U.S. interests. I think when America is viewed as one of "us," then the U.S. is more likely to get more support from the world. If the U.S. is viewed as one of "them," then I think ultimately it's going to hurt the U.S.

In conclusion, I would argue that leadership with respect is a leadership that lasts. So we hope that the U.S. will exercise this respect both for China and for the international community, more so than before. I think in the long run the U.S. is probably going to benefit as well as the international community from this kind of effort. But of course a wish list is a wish list. Most likely my wish list will not materialize. I can only wish and I hope at least some of it can come true. Thank you very much.

FRANK CHING: Thank you, Professor Jia. As you know, the U.S. describes its relationship with China as being "candid, constructive and cooperative." China, when describing the relationship always says "constructive and cooperative." It never says "candid." But Professor Jia today I think has been very candid.

I was interested to hear him mention the August 17th, 1982 communiqué on arms sales. I think that the U.S. keeps saying that it abides by the three communiqués in the Taiwan Relations Act, but I think the August 17th communiqué has been a dead letter ever since 1992 when the first Bush Administration decided to sell F-16s into Taiwan. Certainly, I remember a conversation I had with Ambassador Hummel who helped to negotiate that agreement, and he was very unhappy that the agreement that he helped to negotiate was, he felt, being violated.

Anyway, we now have about 45 minutes for Q and A. Like Mary Lee, I will exercise the prerogative of asking the first question.

I'd like to ask one of our two visitors from the U.S. whether they think that American influence in this region is bound to recede with the rise of China.

JAMES STEINBERG: Influence in traditional international relations tends to be seen at zero-sum terms and I think that a lot of the assumption behind the expectation, particularly in the region, that U.S. influence will recede is just as a natural consequence of this. If China becomes more influential that will obviously have an impact on the U.S.

There is at least one scenario or road map in which that would not necessarily be a bad thing in the sense that if there is the kind of stable constructive relations that Ambassador Hyun talked about among all the powers in the region, then the U.S. essential security role will become less front and center than it has been during a period when there has been deep tensions or even confrontation between the countries in the region.

But I also believe very strongly that precisely as China becomes more influential, there is an argument that the U.S. has even a more powerful reason to sustain its influence in the region because I think all the countries in the region are better off when there is a balance; when there are multiple important actors in the region, it creates a greater freedom of space and opportunity for all the countries

to develop along their own paths without feeling that they have to conform their political, economic or social strategies to a single dominant power. I mean, the best architecture for the region in the long term is to have multiple important players and especially the U.S. as a counterweight, not to keep China down, but simply as a balancing factor in the region.

So, I think it is certainly conceivable and desirable, as China becomes more influential, for the U.S. to sustain over the long term the very significant role that it has in the past, although ideally it will be less of a military role and more of a political and economic one. Whether we can do that or not I think is quite questionable, because I think that we are preoccupied with the challenges of the Middle East and terrorism. I think it is hard in the U.S. strategic community to keep focused on issues of long-term engagement as opposed to near-term crisis and to make the kind of wise forward-leaning decisions.

One of the things that would be critical to making that happen, as I say, is to really begin to develop an architecture where the United States is embedded in the region. That's where I take some concern about the Vientiane Summit and particularly the decision, not simply on the free trade area which I have no problems with, although I'm a little bit more of the conventional view than Ambassador Hyun is on the question of how bilateral FTA's affect the broader trade agenda, but rather this decision to institutionalize the ASEAN plus 3 format at the KL summit next year and going forward.

If the forum and the places in which decisions and consultations take place in Asia consistently are where the United States is not present, I think it becomes more and more difficult for the United States to play the kind of long-term engagement for all and I think we have allowed the trans-Pacific forum of APEC to wither and filling that vacuum is these kinds of structures like ASEAN plus 3. So, I would be concerned about our ability to sustain that unless we can re-invigorate the kinds of consultative forums where the United States is an integral player.

FRANK CHING: Thank you, Jim. Actually, that sounds a lot like what the Clinton Administration was saying previously when --

JAMES STEINBERG: Surprisingly? Yes.

FRANK CHING: -- Mahathir wanted to set up this East Asia Economic Caucus. So, I'm not really surprised. The floor is now open. Can you please identify yourself before asking the question and say to whom the question is directed, which member of the panel. Thank you.

QUESTION: My name is Oknim Chung, Professor of Sunmoon University. I was a CNAPS Fellow from 1999 through 2000. I have several questions to each panelist.

Number 1 is to Dr. Bush. As you said, South Koreans are very much concerned over the possibility of U.S. preemption against North Korea. There are some reasons, even though the United States may declare that it doesn't have any plan to attack the north.

The first one is the redeployment of the U.S. forces on the Korean Peninsula. They moved to the down side of South Korea and also they will reduce some troops by the year of 2008. The U.S. is very active in its proliferation security initiative with other countries, which is targeting against North Korea in some sense. Even though the United States developed some sort of military operation plan by updating the operation plan 5027, and also the United States under the leadership of Rumsfeld created operation plans 5030 and 5029, which involve the regime change of North Korea.

So, quite a few Koreans don't have any worry about the possibility of the provocation from the north but they are worried over the possibility of U.S. preemption. But fortunately enough, there is nothing happening on the Korean Peninsula. Even though North Korea made it clear that it has nuclear deterrents against the United States, but there is no preemption initiative by the United States, even though the 2002 National Security strategy made it clear that the U.S. opens the room for preemption against such axis of evil as North Korea.

So, I am wondering what is the salient point of the United States, of the U.S. patience about the North Korea nuclear issue? Is the red line still in existence or has the red line has moved to another point of view? And this question is naturally moved to the second question.

FRANK CHING: Do you think you can confine yourself to one question at a time in the interests of allowing other people to ask questions? We can come back to you later.

QUESTION: Okay. Let me add one more question. It's very simple -- the U.S.-China relationship and its policy approach towards Taiwan on the one hand and North Korea on the other -- will there be any linkage between the Taiwan issue and the North Korea issue with regard to the U.S.-China relationship?

RICHARD BUSH: The second question is easy to answer. I don't think there will be any linkage and officially, as I understand it, there's never been any suggestion from China that it should be linked.

You cite in your first question a number of reasons why people in South Korea are worried about U.S. intentions and I think it's perfectly understandable that people might reach those conclusions. I do think that some of these activities are being done for other reasons. I think that the redeployment of U.S. troops

south of the Han River is actually being done to strengthen the alliance and to make U.S. forces less of a burden on the South Korean people.

I think there's a logic in the reduction of our troops there but I disagreed with the way that it was done, that led to questions on the part of South Koreans of our intentions. I basically agree with Ambassador Hyun that the reality of the situation places limits on what the United States can do. So, with respect to the changes in plans, I really don't know anything, but I remember a Chinese phrase, "Plans are plans, reality is reality."

FRANK CHING: Next question.

QUESTION: Thank you. Tomohiko Taniguchi, CNAPS Fellow once again. Professor Jia, each and every democratic nation, whether it is Korea, Japan, not to mention the United States and even Taiwan, has a range, a spectrum of opinions about almost everything from red to blue. Is there a range in your country about Taiwan? If there is, what sort of range are you talking about? And if there is not, why not?

PROFESSOR JIA: Thank you for your provocative question -- just kidding. Well, I would say that Taiwan is not a country. On this point, I think there is no disagreement in China. Also, there have been differences in China with regard to the Taiwan issue, ranging from fighting the war today to peaceful reunification. There are a lot of views among the Chinese with regard to how to deal with the Taiwan issue.

Some of the most impatient people want to fight a war to take back Taiwan now, but of course I think the majority of the people are taking a more sophisticated approach. In other words, they think that time is needed to solve this quite complex problem. And of course, the best way for China to realize unification is through improving itself. If China can make itself more stable, more prosperous and more politically progressive, ultimately I think Taiwan residents would see the light and also would find it rewarding to rejoin China, to support a unification, and the Chinese people should have the confidence in doing so.

So, I think this is probably the majority view. I don't know. That's my personal perception.

QUESTION: Ken Lieberthal, Visiting Fellow at the Brookings Institution. This could be for Jim or Richard or Ambassador Hyun. On North Korea, we've heard what the Administration is not able to do, which is to exercise a military option. I agree completely with the reasons that have been given for that. What we have been left in the dark about is what the Administration will do because we're currently in a very peculiar situation. We've got a very muscular foreign policy on the part of the U.S. overall, but it has produced a situation where North Korea



has its nuclear program going along full blast and the U.S., in the words of Secretary Powell in Beijing a couple of weeks ago, has no red line on this issue. Yet, we have a President who has declared, in my view rightly, that having a country like North Korea producing nuclear materials and potentially nuclear weapons is an unacceptable threat in a world of terrorism and rogue nations.

So, the question is whether you anticipate a particular direction that the Administration will go in and what it's really resolved in the North Korean nuclear issue, or do you think that effectively the Administration is going to sit back and let a six-party process continue, even though the process is not producing substantive progress, and just hope that people direct their attention elsewhere and not recognize the policy failure that this effectively amounts to.

**JAMES STEINBERG:** Let me take a shot, and I think I'd like to hear Richard and Professor Hyun's view as well. I'm going to say something extremely provocative about this, which is that I believe that the Administration is not very seriously interested in resolving this question. The reason I believe that is because I think they believe that North Korea will not give up its nuclear program and that trying to enter a deal is a dead end because either they won't agree to do something and then cheat on it, or that the deal will be so full of holes that it isn't worth having; and that therefore they basically believe in a regime change strategy but a slow-motion one. That is, they're not going to invade, they're not going to use military force.

But they think that the only answer to the nuclear program is a different regime, and ultimately unification with South Korea and that at least so long as North Korea is willing to keep its nuclear program unprovocative, that is not test and not do something that kind of forces everybody's hand, and they keep this sort of out of the limelight, that this is really a better option than a meaningless or a phony deal.

So, they have to, on the one hand, say it's unacceptable because they don't want to send a signal to other countries that having nuclear weapons is okay, but there's no sign at all of seriousness of this Administration in trying to resolve the problem. There is neither a serious threat, nor is there a serious offer on the table.

That to me is a real preference, which is that you're not really working very hard to solve it. They don't want it to be a crisis because they've got a lot of other things on their hands but I genuinely don't believe there is a lot conviction they're trying to reach a solution through six-party talks.

RICHARD BUSH: I agree with all that and I apologize, I was going to say something about this, about what they would do, but then I simply forgot. What I was going to speak to is the short term.

I think that it already appears that the Administration feels that it has the tactical advantage because North Korea did not come to six-party talks meeting in September as they promised. So, it is trying to energize other countries to push North Korea to come. I agree with Jim, I don't believe they're doing this because they've seen the light and want to have a deal. They're doing this for the tactical reason of proving that North Korea is not serious and to create a justification for increasing the pressure side of our policy.

Our policy has been a combination of pressure and diplomacy. For a while, I believe the Bush Administration will try to increase the pressure in the UN Security Council perhaps through PSI and other things, and to accelerate the strains within the North Korean regime that might speed up the process of regime change that Jim has talked about.

I don't think this will work, because I think that China and South Korea, among others, need to be willing partners in this strategy and I think China and South Korea have a different view of the situation. So, the Administration will be brought back to something else, and muddling through, perhaps.

To answer one question from Professor Chung, I think there is one red line and that is the export of fissile material elsewhere. I think everybody understands that and we hope for restraint on North Korea's part to not create a crisis for us.

HONG-CHOO HYUN: During the Presidential debate, during the campaign period, North Korea was prominently featured as if it is one of the major foreign policy issues for the United States. But listening carefully and reading between the lines, and in the context of the campaign and U.S. domestic politics, I have a feeling that the North Korean issue was used as a kind of simple excuse to attack the current Bush policy by candidate Kerry and in case of President Bush as a way of saying Mr. Kerry was being well, wishy-washy.

So I do not believe, although Kim Jung-II's name has been mentioned three or four times, I honestly believe he doesn't deserve that honorific mention but this was not dealt as a kind of priority issue.

About the six-party talks, some critics are saying that this is simply a temporary arrangement, that while this war in Iraq is going on, the U.S. hands are tied and the election was going on and so there's nothing much you can do directly tackling this issue itself. So a six-nation forum is a convenient way of postponing all decisions until some time comes.

Well, there may be some plausible point but I think the Koreans basically supports this six-party talk because it is one way to make North Korea engaged and one way to make China engaged. China should play a very important role, not only in this nuclear issue, but in the unification process. That is a fact. So, because of that, we are supporting six-party talks.

But when the six-party talks fail, what can we do? Mr. Bush mentioned a number of things the United States and the other countries can do, short of military action that is, and maybe they could be effective because the North Korean situation continues to deteriorate and there is no hope that North Korea will last like this forever.

So that might work and by the time this sort of non-military but strong measure is trying to be enforced, what will be the South Korean position? Well, some people say that Korea will not join in that effort because there has been quite a sort of hesitancy on the part of Korea in joining that effort and making North Korea being angry and running away from the dialogue table.

But my gut feeling at this point is that South Korea will eventually join the multi-national effort to pressure North Korea if the six-party talks fail. There is this big advantage in maintaining the six-party talks. All the countries tried everything to persuade North Korea to stop this and that, and then they didn't and we will have more frustration in choosing whatever we would like to do.

For the South Korean government, that government on the present role, so far has made a pragmatic decision when it involves the key issues like our relations with the United States, our security alliance with the United States, and things like that. A good example is sending the troops more than 3,000 Korean troops to Iraq at the request of the United States. Had it not been for the request from the United States, Korea wouldn't send those troops to be Iraq. That was against the opposition from his own constituents who favor something different from the government.

So if that kind of moment of truth comes, South Korea will once again make a pragmatic choice. That is how I believe at this point.

QUESTION: Paul Hsu from Taipei. A question to Ambassador Hyun but other panelists may feel free to comment too. As compared the cross-Strait situation and the North-South Korean situation, it is somewhat amusing -- maybe I shouldn't use this word, but it is somewhat amusing to see that the political leader from Taiwan and PRC are not having any opportunity to shake hands or to say hello. But the business people have been all over. You can look at different way. You can say Taiwan business takes the position that to hell with government policy, for our business survival or for market share we just go ahead and do whatever we want.

But actually you don't really see any force to stop them from doing so. On the other hand, there may be some encouragement from time to time to make their business operation viable in China.

But the North-South Korean situation you have political leader have the opportunity of shaking hands and seeing each other eye to eye, smile at each other. But what about the economic interaction? Has that been encouraged? What are the reaction of the private sector, the business sector about investing in North Korea? What about North Korea's reaction to open up, to welcome investment from South Korea? South Korea made a lot of investment in China. So, what is the situation there?

HONG-CHOO HYUN: Well, my sense is that while you were addressing that question to me, you're aiming towards some different audience. In case of South Korean and North Korean economic exchanges, we, South Korea, continue to provide economic assistance and currently there are number of major projects going on, including one, the special economical zone project, just north of DMZ in North Korean territory. North Korea set aside a certain size of the plot to develop into a manufacturing sector and for the import.

South Korean investments started pouring in but it is not yet a fully operating stage. We just cut the tape. And the first operation will start from 2006, at the earliest.

We also re-linked the railway between North and South Korea, which had been destroyed during the Korean war. Even at the criticism of conservative elements in South Korea, we continue to send to North Korea the fairly large numbers of tourists under government subsidy in some cases to Mount Kumgang where North Korea has a scenic spot and the many South Koreans or North Koreans would like to be there and they are paying quite a large sum of cash to be there. Not many people like it but government supports it at least.

So, that is what we are doing and beyond that, some of our medium-sized industries made an investment in North Korea as early as in the eighties. They are still there producing some goods, mostly garments and things like that. So we would certainly like to keep it that way. And, as I have said earlier, what we try to do is to make North Korea elected to desist(?) from outside world and mostly South Korea. And that will give them incentives to continue their dialogues and continue to have the more open and diverse system and each economy can really prosper.

So, I guess that will lead to a more sort of meaningful, significant changes within North Korea. So that is our hope. I don't know whether this will be successful but at least that is a hope. Usually, economic changes are followed by political change. That's what they learn once again from history.

FRANK CHING: I'd like to give a chance to people in the back of the room.

QUESTION: Robyn Meredith from Forbes. I have a question for Professor Jia, two really.

First, on human rights, I wondered what your -- you said that China is open to changes from the west and help from the west on human rights and I know a lot of the laws have changed recently, yes we still see these high profile cases of, for instance, the New York Times researcher who has been arrested apparently in retaliation for a report the New York Times had on political change in China.

So, on the one hand you have China continuing to do things that the world community feels are clear violations of human rights. On the other hand, you say that China does want change. Can you explain this dichotomy?

And second, on democracy, briefly. You said in response to an earlier question that China wanted to gradually move towards more political expression. In the past China has said that if only -- China needs more time. If only the population was more educated, wealthier, et cetera, it would be appropriate to have democracy and China would eventually move there.

That seems at odds with the case of Hong Kong which China clearly has -- has stated it doesn't want democracy and yet this is a well-educated population quite used to the political process. Can you explain that, that apparent contrast.

JIA QINGGUO: Well, two very difficult questions, thank you. First of all, I think the general trend developed in China is greater protection of human rights. Earlier this year, the Chinese government, actually NPC, the National People's Congress, amended the constitution with the support and the encouragement from the Chinese government to include a clause on the protection of human rights. And I think there is greater awareness and also consensus on the part of the mainstream policy community in China that greater efforts should be made to improve the human rights situation in China.

I'm not particularly familiar with the New York Times reporter case but I think whatever happens it should follow the legal procedure to settle it.

QUESTION: (inaudible)

JIA QINGGUO: Well, I'm not familiar with this specific case but I think the Chinese Government needs to probably explain why and also I think according to the Chinese constitution and the legal courts, I think the person has a right to defend himself.

With regard to democratization in Hong Kong, I think the process has been going on. Hong Kong was ruled by the British for a long time; it never had a democracy and now is having some democracy after the return of Hong Kong to China's sovereignty. I think Hong Kong is making progress.

Also, with regard to how fast the progress should be made, it depends on development of political consensus within Hong Kong and also dialogues and consultation between the Hong Kong Government and also the Central Government.

Now, we had a schedule of gradually introducing democracy in Hong Kong. But what some people are urging is to overturn the previous arrangement for a gradual phasing of the democratization process in Hong Kong. Rather, they want democracy now. If we believe in the rule of law and in the contractual arrangement we had before, probably we should be a little bit more patient and follow a gradualist approach.

And of course nothing is unchangeable but the change should be done on the basis of consultation and also consistent with the spirit of cooperation. Thank you.

QUESTION: I'm Jeffrey Lim. A question for Mr. Jia with regard to Taiwan. What do you think events other than President Chen stepping and declaring independence for Taiwan would constitute trigger points for China to take serious countermeasures against Taiwan? I mean, what we see in the press recently is President Chen talking about doing a referendum in 2006. And 2006 is obviously just a little more than one year away, so I'm just interested in hearing your view on what China would do if President Chen decides to implement the referendum.

And for Mr. Steinberg and Mr. Bush, I'm also interested to hear your views on what steps you think the Bush Administration will take, whether it would condone or provide tacit approval through inaction, if President Chen were to do the referendum, other than just arbitrating the situation and sell weapons to Taiwan?

JIA QINGGUO: What is the trigger point? I don't know. Let me put it this way: different people have different red lines in China and to some people the red line has already been crossed so it's time for war, and for others they prefer to wait for more time. Our government has said that it would exercise greatest caution and would explore -- would make maximum effort to explore all the alternatives and we hope that this would be a peaceful process, the peaceful reunification.

But what needs to be done has to be done when the situation really deteriorates to the extent that nothing else is going to be effective. From the Chinese perspective, represents a failure of our policy to some extent. But if Taiwan authorities really does something that can mean to the majority of the

Chinese people that this is the red line, then probably we would have to face a conflict in the Taiwan Strait.

As far as myself is concerned, I think there are quite a few indicators to observe. One is the declaration of independence, of course. The second is revision of the constitution, especially the stipulations relevant to the question of sovereignty, and also the development of weapons of mass destruction or medium or long-range missiles in Taiwan. And also, if Taiwan conducts terrorist activities against the mainland, I think all those things as red lines that would bring about military conflict in the Taiwan Strait.

RICHARD BUSH: Thank you very much for your question. I would begin by noting that there are referenda and there are referenda. Last year at this time President Chen was proposing a process of constitutional change that was seemed to me extra-constitutional. It was outside the provisions of the existing ROC constitution and it included referendum.

Since then two things have happened. One is that he made pledges that constitutional revision would follow the procedures of the existing ROC constitution and proposed that the sovereignty issues that Professor Jia mentioned not be on the agenda.

Second, on August 23rd, the legislature in Taiwan approved constitutional amendments on how to amend the constitution. Up until this time, it's been a two-stage process where the legislature takes action and then a National Assembly vote occurs.

This two-stage process is in the process of being changed and after this current package of amendments is passed, some time next year, the two-stage process will be different. The legislative part stays the same but the second stage is approval by referendum, a vote of a majority of eligible voters. So this means that the big package of amendments that President Chen is thinking about when he committed to change the structure of government in Taiwan will first be addressed by the legislature and then through the popular referendum.

Two things are interesting in this. First of all, as I said before, each of these two stages will require what we would call super majorities, more than just 50 per cent of the people voting or the legislature's voting. And so that has some implications for what is approvable and what is not.

The second interesting thing is that China did not respond at all to this change in how constitutional revision will take place, which seems to suggest that China too focuses on whether a constitutional change is being done through the established process or not. That is a concern that the United States has. I gave my reasons I think why this situation could be managed, assuming that each side exercises mutual restraint and the United States plays a proper role.

QUESTION: Stapleton Roy with Kissinger Associates. I'd like direct my question at Jim Steinberg. I thought you were brilliantly successful in being provocative in your answer to the earlier question. It seems to me that we've ignored one of North Korea's greatest strengths, which has been the ability to make Korea policies of every other country look bad. They've certainly done it with the Clinton Administration, with the Bush Administration, they made the Kim Dae Jung Sunshine policy look bad. They've made the Japan policy on kidnapped people look bad, they make China's policy look bad in terms of promoting reform in North Korea.

So, you equated failure with lack of seriousness and it would seem to me that the same indictment could be placed against Beijing because it hasn't found the way to promote the de-neutralization of the Korean Peninsula, and does that mean they're not serious on the question?

I would like to reverse the question to you and give you the opportunity to be in charge of the Bush Administration policy in the second term and what is it that the Bush Administration could do so that we would see success and therefore equate that with seriousness because it seems to me that where you were most provocative was assuming that because of the absence of progress, therefore, there's a lack of seriousness and that I found too provocative to even challenge.

JAMES STEINBERG: I accept and I welcome the chance to continue the provocation. The only way in which one could say that, putting it the reverse way, that this is a successful policy, is if you genuinely don't think it matters that North Korea has nuclear weapons. If you don't then it's fine: they have nuclear weapons, we don't care. So far Japan hasn't got them, so far it's not clear whether this is having an impact on Iran or others. And so the benign version is we've lost control of the non-proliferation treaty but so what, it's not going to lead North Korea to be more aggressive and it's not leading to a cascade of others.

That's not the Administration's position. It's not its public position, and I think for good reason it's not the public position because they know perfectly well that were they to condone them (Secretary Powell unfortunately, I think, came close to doing that) others would simply say, "What's this all about?" I mean, if it's good enough for North Korea, it's good enough for everybody else and the creditability of using international mechanisms to stop what I would view as an uncontrollable cascade of proliferation would be over.

So, we have the situation in which I think correctly the Administration acknowledges that North Korea having nuclear weapons is a bad thing but they don't want to be seen as falling into the trap of negotiating with a country that can't be trusted.

I would reverse the premise. I don't think the Clinton Administration was enormously successful, although I think it's a much more complicated story because frankly nobody did a pretty good job of leading up to the understandings behind the Agreed Framework.

We are not without fault in that and I have plenty of criticisms of our own reasons. We lost control of the Congress. As a result we were basically not serious about living up to our commitments under the Agreed Framework and the whole thing eroded. Whether it would have made a difference, I don't know, but at least it's important to put that on the table.

I think we need to put a serious proposition on the table that will be acceptable to our six-party partners, which I do not believe we have done today. I think the South Koreans and the Chinese have made that clear privately, although they're, I think, not going to embarrass the Administration publicly.

And I think that if we are not successful, I take what Ambassador Hyun said seriously, which is that South Korea may well be prepared to put pressure on North Korea and make it look down seriously at some choices about whether regime survival is really in place.

But right now North Korea correctly concludes that the Administration is putting regime survival in place and there's no serious path out of that because there is nothing serious on the table in terms of what the Administration is prepared to do. I have no idea. I mean, you know, people spend hours and hours in these seminars trying to figure out what they would and would not be prepared to do. I have no idea. Maybe other people do.

But I know how you find out, which is to put a proposition which is broadly agreed to be an acceptable one on the table and then make clear that there are consequences for not doing it. And I would like to think that that's where we're going in the second term and so what I would do in the second term is to say: okay, let's get down to it now. Here's what it looks like. Here are the steps and here's where we would get to if there were really a dismantlement of the program. And I would say to my partners in the six-party talks: here's where we're prepared to go. Where will you go with us if the North Koreans are still unwilling to do it? And get some serious commitments from China and South Korea and I think Japan is the least hard, to be serious about it if they don't.

There's no guarantee that that would work but it seems to me that it would reflect a seriousness of purpose that was commensurate with the seriousness that we say we care about trying to actually resolve it.

FRANK CHING: Time is rapidly running out. We may have time for two short questions.

QUESTION: Benjamin Sain with the Voice of America News. I'm just wondering if in light of the events in Iran, if that's changed the details in the negotiations with North Korea, if anything's changed, if we've learned anything from that experience?

JAMES STEINBERG: I think it's too soon to say, in part because it's very unclear what the Administration's real attitude is towards this negotiation with Iran. On the one hand, like with North Korea, they don't really want a crisis right now. I mean, they've got their hands full, and this is in some ways even more complicated because of Iran's geographical position.

On the other hand, if you read the statement of our representative at the IAEA, we acquiesced in the decision. We basically said we thought it was a disaster and that the agreement was a lousy one.

So, there's a part of me that would say that what's happening here is another reflection of what I believe is the Administration's deep strategy which is that it doesn't believe in these kinds of agreements and doesn't want to be seen as acquiescing in what it views as less than satisfactory agreements. By the way, this is also in part response to Stape's point. I understand that. I mean, they have reasons to be concerned about past behavior, and certainly with Iran, I would be pretty concerned about the credibility of these agreements too, when you listen to what the Iranian authorities are saying about the seriousness with which they take the agreement.

What I would guess is happening here, which is that on the one hand they don't want a crisis; on the other hand they don't really believe in the process that the Europeans are pursuing, and so for now they will let it go along, but they want the world and the Iranians to know that they're not particularly persuaded that this is an effective strategy for solving the Iranian problem.

RICHARD BUSH: Just to make explicit the point I think you're making, they don't want the Asian analogue of the Europeans taking on North Korea as their project.

FRANK CHING: One final question?

QUESTION: Richard Koo from Namura, Tokyo. I was told that my name was already mentioned in this place before I arrived here. This is for Professor Jia.

Everything you said about Taiwan and how to unite to Taiwan, I fully agree with you, that China should show the way. But I'm afraid that's not the way it's coming across with all these military statements from your military leaders, use of neutron bombs and all of that, which is alienating Taiwanese to the nth degree.

The other point about this problem is that Washington now talks about status quo; let's keep the status quo and everything will be fine. But, as we all know, a democratic state is always changing. I mean, the reason the U.S. Constitution lasted for so long is because it is flexible. Once you open a can of worms called "Taiwan democracy" and then the native Taiwanese who experienced history slightly differently from what's written in the Chinese textbooks, are now moving in a very different direction.

Instead of insisting on status quo, wouldn't it be much better for both Beijing and Washington to encourage a new constitution in Taiwan that is much more in line with what everybody would like to say; that is, an anticipated democracy that you cannot change this democratic force and then try to make arrangements so that the new constitution will not offend Beijing or Washington.

I think in that way there should be plenty of room for negotiation. But, of course, to negotiate you have to meet the other guy eye to eye. What do you think of that?

JIA QINGGUO: Thank you very much for another good question. Well, first of all, I think all this interpretation about Chinese government threats against Taiwan is a biased coverage. I think the Chinese government has said a lot of nice things about Taiwan. They are never reported and people just pick on those more militant terms against Taiwan separatists as if the Chinese government has been repeating and saying those things all the time and every time. That's not true. The majority of the time the Chinese government has been saying nice things to Taiwan: come back to the mainland. Let's work together for a better future. It's good for both of us and it's good for the world as well as the region. I think that message must be carried across.

With regard to a revised constitution, I think if the Taiwan authorities can agree that it is not inconsistent with the principle of one China, I think there is a lot of room for discussion. I don't think the Chinese government is so stubbornly opposed to any kind of constitutional revision or even developing a new constitution, as long as Taiwan recognizes that there is only one China and Taiwan is part of China. So, if that happens, we are very flexible, I can promise you.

RICHARD BUSH: Just a quick comment: I think from the point of view of the United States, there is a positive view towards certain kinds of constitutional change. Let's leave aside whether this is a new constitution, a revised constitution, those sort of labels. But I think that the view of the Administration is that constitutional revision that provides the people of Taiwan with a political system that better represents their views is a good thing. Good government is always a good thing, in the United States or Taiwan or China, or any place else.

I could argue that good constitutional change in this form in Taiwan is actually good for China. And so for the United States government, it is how it's done, is it done according to the prescriptions of the current constitution? And is it done in a way that is not unnecessarily provocative to China? I think by leaving sovereignty issues off the table is a way to do that and implicitly it meets Professor Jia's qualification as well. Thank you.

JIA QINGGUO: I would say that probably for a lot of people revising the current constitution, even without touching the sovereignty issue would be regarded as provocative because such deep-felt distrust against the Taiwan authorities so far has taken steps from bad to worse in the eyes of these people, actually in the eyes of most of the people in China.

So, they are particularly sensitive to anything that the Taiwan authorities are doing now with regard to the revision of the constitution or revision of the textbooks or whatever, they say will be closely scrutinized, not from the best perspective but rather from the worst scenario kind of perspective.

FRANK CHING: I would like to thank the audience for asking so many good and provocative questions and please join me in thanking the panel for providing the candid answers.

(12.06 pm)