

# DEMOCRACY, NATIONALISM and SECURITY in the ASIA PACIFIC

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## **Panel III: Democratic Development in Taiwan and its Implications for Regional Security**

**DR. LO Chih-cheng:** So here comes our final session on the democratic development and consolidation in Taiwan and the Implications for Regional Security and the cross-Strait relationship in particular, and we are very fortunate and honored to have four distinguished specialists, researchers and practitioners with regard to Taiwan's politics and also to cross-Strait relations.



Our first speaker will be Mr. Richard Bush, who is also the co-host of this program. He is a long-time observer, practitioner and researcher on the issues related to Taiwan and greater China, and also cross-Strait relations, and he is more than qualified to talk about democracy in Taiwan and the implications—especially security implications—for cross-Strait relations.

Our next speaker will be Paul Hsu, who is a lawyer in a leading law firm in Taiwan and who wears many hats. He is also the executive director of the APAC Foundation which promotes a lot of international scholarly and policy exchanges, and he is also the managing director of the Asia Foundation in Taiwan. He is regarded as one of the leading experts on cross-Strait economic issues, so we are very fortunate to have him here today.

Then we will move on to Professor Chao Chien-min who writes extensively on all kinds of issues related to Taiwan's democracy and also cross-Strait issues, and I know he was a Visiting Fellow at George Washington University for one year, and then he has just come back to Taiwan. Are you still there?

**PROFESSOR CHAO:** No, no, no.

**DR. LO:** No, he has just come back to Taiwan and we are very happy to have him here today to talk about the differences or similarities between the pan-green team and pan-blue team with regard to cross-Strait policies. So he will give us different colors to describe different views about cross-Strait issues.

Finally, we are happy to have Dr. Lai I-chung, who is now the Director of the International Affairs Department of the Taiwan Think Tank, which is the leading think tank. We are both competitors and also partners in terms of organizing conferences and publications, and so on. He was the Director of DPP's Washington office for two years, and then he moved on to Japan as the Special Assistant to Taiwan's Ambassador to Japan, Ambassador Lo, and now he came back to Taiwan last year as the Director of the International Affairs Department of the Taiwan Think Tank. So he will talk about Taiwan in the Asian regional security, and the role and the future of Taiwan in those security mechanisms.

So we are very happy and fortunate to have four leading scholars here; let me turn my microphone over to Richard.

**DR. Richard BUSH:** Thank you very much. My topic is democratic consolidation and I have three basic propositions.



A lot of what I have to say I think will be no surprise to any of the people here. I think I am just describing a situation with which you are very familiar, but I think it is an important set of issues.

The first proposition is that Taiwan cannot avoid a choice concerning China. Taiwan is trapped by geography; its own economic survival requires economic cooperation with China. The basic choice seems to be between resisting Chinese power or accommodating Chinese power, and I suppose you could have a variation that would be accommodating China economically, but resisting it politically.

To not make a decision is to make a choice. It is certainly not my place to say what Taiwan's choice should be. I do care that Taiwan makes a good choice, and I think that the quality of Taiwan's choices will be a function of whether the choice is made from a position of strength or a position of weakness.

So the second proposition is that Taiwan must strengthen itself in order to make good choices, and it can do so in a variety of fields.

The first is economic. That seems to me to be, and to involve, building a knowledge- and service-based economy and making the necessary institutional changes to do that. To have a weak, uncompetitive economy means a weak negotiating position as choices are made about China.

The second area is military, and no one, of course, wants a war, but in order to reduce the risk of intimidation or coercion it is necessary to have a stronger military. God forbid that there should be a war, but if one occurs then the armed forces will have to hang on for several weeks, and this is a problem not just of hardware, but also software; it is also a problem of deciding what kind of resources to allocate.

The third area is diplomatic. From my point of view, I think it is very important that Taiwan maintains good, close and communicative relations with the United States. I think that there is also room for Taiwan to enhance its substantive participation in international organizations.

The fourth area is in Taiwan's legal identity. What I mean here is the sovereignty issue, the nature of the government here. This infuses cross-Strait relations in many ways and it will be necessary, I think, to choose which aspects of sovereignty are important to preserve and why.

A fifth area is psychological, the area of confidence. This, in a way, is a function of everything else, but it is also important for its own sake.

The most important field for self-strengthening—and this is my third proposition—concerns Taiwan's democratic system. Why is this the case? First of all, a strong political system is essential to self-strengthening in other fields. A weak political system cannot make choices when choices have to be made, or when it cannot make good choices at all. So the question is: is the existing political system well-engineered to cope with cross-Strait challenges and to make effective choices?

Some time ago I had a fear that Taiwan's political system would not adequately reflect the people's will regarding an arrangement with Beijing that was somehow defective, that the people's will would be distorted. I am coming to have another fear that, even if a good deal were offered, the political system would not be able to accept it. So I think, when I talk about political self-strengthening, what I am referring to is this democratic consolidation, the topic of my paper.

I would like to examine briefly the sources of weakness, as I see them, and I am a little bit reluctant to criticize another democratic system, but I think that it is important to address these issues squarely.

The first source of weakness, I think, is the electoral system because it contributes to a certain fragmentation of the political spectrum; it encourages personality-based politics; it creates space for radical points of view; and the frequency of elections constrains innovative policy-making. This I am sure is no news to any of you who have studied Taiwan's electoral system.

Second, I think that another source of weakness is just the fact that the authoritarian system persisted for so long and the transition of power has come only fairly recently. What I am referring to here, is the comment that is sometimes made that it has been difficult for the former opposition party to become the ruling party. And, it is difficult for the former ruling party, the Kuomintang, to become the opposition party. Presumably, or hopefully, this problem will be mitigated over time.

Third, there are some problems of government structure that Dr. Chu Yun-han, among others, has written about. There are no really good mechanisms for co-habitation

in a system that is neither presidential nor parliamentary. Perhaps there are too many checks in the system and too little balance.

Fourth, I think that we can all agree that there are some problems in the Legislative Yuan itself; party discipline has been weak; policy specialization is not encouraged; it is fairly easy to obstruct initiatives, even though they seem on the surface to be good; and there is also a good bit of conflict of interest.

Finally, there is the role of the media in politics and fostering a certain kind of political competition.

So, in conclusion, I think that political self-strengthening here, or what is referred to as “democratic consolidation,” is important for its own sake, but it is also important to ensure that Taiwan makes good choices in cross-Strait relations. If there is any place in the world where a consolidated democracy was needed, it would be here, because the choices that will be faced affect the long-term future of 23 million people. The problems of the political system increase the appeal for more radical forms of change, and if there is paralysis, it could increase instability.

Of course, we all understand that political self-strengthening is very, very difficult because it entails vested interests; it, basically, affects the power of the people who will have to make the change. Sometimes it seems that there is a need for a crisis atmosphere to even begin the process. I cannot say how Taiwan should go about it, but I do think the quality of Taiwan’s democracy will affect the quality of Taiwan’s choices about its long term future. Thank you.

**DR. LO:** Thank you, Richard. Now, I turn to Professor Hsu for giving us economic aspects of political development and also implications for cross-Strait relations.

**PAUL HSU:** Thank you, Mr. Lo.



You mentioned different colors a while ago. I am trying to do a no-color analysis of the cross-Strait situation and the best way to do it is to pretend for a minute, that I am a Martian from outer-space, looking at cross-Strait activity. Now, I see a couple of things that are very intriguing.

One is the ever-growing trade and economic interaction between Taiwan and Mainland China. Another very intriguing thing that I see is really the rapid transformation of China. It is so rapid that they, themselves, are getting confused between the choice of capitalism and socialism.

Now, the particular issue I want to talk about is the economic, social and cultural interaction resulting from the exchange of visits by millions of people. Suppose I am a Martian; I see millions of people are visiting each other. How will this result in the transformation of China?

Now, a related issue will be how the future transformation of China will affect the security of Taiwan? Now suppose we have two directions: one is that they are going to be very militaristic and they want to use force to take Taiwan. Another direction is they do not want to do that and they would rather focus on the internal transformation of their social, economic, legal and, eventually, political system.

Now, this must have an effect on Taiwan's security, so how should Taiwan react to the future transformation of China? By saying that—I am not a Martian any more—we have to concentrate on what chips Taiwan has, or we simply refer to it as the Taiwanese advantages that could be useful in enhancing Taiwan's role in the future. I just want to point out a few of Taiwan's advantages.

The first one is the abundant experience in the development of our manufacturing sector as evidenced by the first economic miracle. That really encompassed a period from the 1960's through the 1980's.

Now, a developing manufacturing industry, when you analyze it, is not that simple. It is not just sending out factory-manufactured goods. It also involves developing the capability of doing contract manufacturing; dealing with the customer; and also dealing with the market, and so on; and then doing quality control and managing people from different places and different educational levels; and developing the sourcing capability and sourcing components' parts. So it is a whole lot of things, and Taiwan's advantage is a result of the accumulation of these experiences.

So if our industry now sets up a factory in Southeast Asia or in China, I think they still acquire a lot of know-how that belongs to themselves. This is an accumulation of experience during the past 30 years. It is not so easy for other people to learn. I am not saying that other people will never be able to learn it; but that is certainly a Taiwanese advantage.

The second advantage is strong entrepreneurship. Now, if we take a 20 year period; let us say today this year is 2003, let us take 1993 and 1983. So we take each of these years and apply a theory of what are the largest 50 companies in any economy, in any country, in 1983, 1993 and 2003, and see whether there are any changes. I think I mentioned that to Morris [Chang] once and I know Morris would say, "What do you mean 20 years? You know, last year TSMC just turned 16 years old, and this year, it's only 17 years old".

Now, an interesting thing to watch is whether there are any changes, and you can apply this to any country. My brief statement, subject to challenges from anybody, is that the United States and Taiwan probably had the most changes in the past 20 years. In other words, because of entrepreneurship, there are new players coming into this list of the 50 biggest companies.

We can look at Taiwan; we can look at the United States. For instance, 20 years ago not too many people may have heard about Microsoft; and 10 years ago nearly

nobody had heard of AOL. But in Taiwan we have the same phenomenon; 20 years ago nobody heard of TSMC, but how about 10 years ago: Had anybody heard about Veisheng (VIA) or Kwanta (Quanta)? You know, we can just go on and on. So this is another Taiwan advantage: strong entrepreneurship resulting in endless start-up companies and some of them will grow into medium, small-sized companies and eventually grow into large industries.

Another certain advantage is Taiwan's business network. Now, how does Taiwan business play the role of integrator of regional and global resources, to become an important player in the global supply chain?

In terms of the supply chain: the role of Taiwan's industry in the global product supply chain is simply to receive the purchase order and supply the goods from Taiwan-owned factories in Vietnam, China, Thailand, Malaysia and everywhere. Now, this is very interesting, I call it a "triangle"—you can call it "golden triangle" as well.

Let me give you some interesting figures, subject again to challenges and analysis. In the year 2002, according to United States government statistics, China had the largest trade surplus with the United States at around \$103 billion, because China's exports to the United States reached around U.S.\$125.1 billion, and imports are only U.S.\$22.1 billion. This is USTR's figure.

Then, according to Mainland China's statistics—I think their customs statistics—her trade surplus against the United States was around U.S.\$42.7 billion, with exports to the United States around U.S.\$69.9 billion, and imports around U.S.\$27.2 billion.

Now, let me couple these statistics with some other statistics. I'll raise a question, probably to Frank: What is the relationship between Hong Kong and China? Does Hong Kong enjoy a trade surplus against China, or a trade deficit? Now, as many friends would say, the immediate reaction is that Hong Kong is a free port, and Hong Kong products enjoy a trade surplus against China. But the truth of the matter is the opposite. China, in 2002, enjoyed a trade surplus against Hong Kong of \$47.8 billion.

What is Taiwan's trade situation with China? In 2002 Taiwan enjoyed a trade surplus against Mainland China of around \$21.5 billion.

Now, you put all these figures together, where are the missing millions of dollars? They are not in China, and they are not in the United States. Suppose China customs did statistics based on FOB [Free On Board], China; and USTR did their statistics based on CIF [Cost, Insurance, and Freight] landing. So there are huge differences, and what percentage of that is enjoyed by Taiwan's industry? Where did they find their profit?

So for all these questions, I do not have definite answers, but I have some ideas—and this subject will probably lead to discussion later—to see what the role is that Taiwan industry plays in this triangle relationship.

Then Taiwan's fourth advantage is its unique business role in the vast China market. I think even our President Chen mentioned once that European and American companies should partner with Taiwanese companies going into the other Asian markets, including the China market.

Another advantage are the abundant resources in financial and capital markets. Our laws and regulations so far are still somewhat backward. We have a new Vice-Minister of Finance aggressively promoting the capital market and I think this is the right direction—to have Taiwan's abundant financial resources better utilized, not just within Taiwan, but also outside Taiwan, belonging to Taiwanese industry and Taiwanese individuals.

The last, but not least, of Taiwan's advantages is management and experience doing business in Asia.

Now, based on those advantages, let us look at the phenomena of the cross-Strait relationship. I think Taiwan offers a lot of opportunities for strategic alliances with foreign companies. I just want to mention three brief points. If foreign companies partner with Taiwan's industry and business to enter the vast Asian market, could that be an advantage?

Second, if foreign companies partner with Taiwan industry for a role in the global supply chain management, could that be an advantage?

Then, the third proposition I make is, if foreign companies partner with Taiwan business to develop a whole range of high value-added, knowledge-based service industries in the Asian market, could that be an advantage?

By saying that, I strongly feel our first economic miracle is the manufacturing industry. Our second one should not be a manufacturing industry based on low-cost labor and low-cost operation. If we have a second economic miracle, we should be focused on the high value-added service industry and high value-added and knowledge-based service industries.

The other point I want to mention, besides the opportunities Taiwan can offer, is the structure issue. In the course of Taiwan's economic development, we have encountered some dilemmas, and we must make necessary reforms. However, during the process, we did manage to foster a very strong private sector; we did manage to encourage venture capital industry; we did manage to encourage start-up companies; and all this also brings up all kinds of structure issues. Structure issues are how to continue to encourage innovation and entrepreneurship in start-up companies; how to continue to encourage the development of financial and capital markets; and how to enhance women's entrepreneurship into business and I mention this because of the APEC women's initiative in the Mexican ministerial meeting that was adopted, called "best practice guidelines" enhancing women's entrepreneurship in start-up companies.

Altogether, Taiwan made three initiatives which were accepted and included in the APEC ministerial joint statement.

Now, having said that, we put the structure issue with the future transformation of China and then see what the effect will be into the whole region. Speculation on the future transformation of China will be very interesting.

I think certain issues have surfaced which are maybe already subject to popular discussion. One is, ‘Would the private sector receive proper legal protection through constitutional changes in China?’ And the other is, ‘Would the private property ownership, including land, receive proper protection in China through constitutional changes?’

Now, I am sure in the years to come that many, many issues which were taboo in China will be surfacing for public discussion. I do see that Taiwan has an opportunity to influence those transformations and those changes, with a notion to ensure Taiwan’s future security by changing China’s structure in the future. I think I will just stop right here and participate in further discussion later.

**DR. LO:** Thank you. I feel more optimistic after listening to your talk.

Anyway, I think it is election season in Taiwan so people are very interested in knowing whether the cross-Strait issue will be one of the important issues, or even the defining issue, during the campaign. In any case, I think it is very important for us to know the policy positions of different parties with regard to China—whether they are converging or diverging—so we are very fortunate to have Professor Chao to talk about that issue. Thank you.

**CHAO Chien-Min:** Thank you very much, Dr. Lo Chih-cheng.



Dr. Lo wanted me to write a paper on the issue of cross-Strait relations from a domestic point of view, to see whether there is a difference or there is a common ground between the two camps; the pan-blue and the pan-green.

Well, he did not tell me what he had in mind so I thought I would write both, converging and diverging, and also I understand I made another huge mistake: I wrote too long a paper. So in my presentation, I will concentrate on the differences between the two camps in their Mainland policies, and also a possible prediction, if I may, which is very dangerous in our business, as to which, if any, camp is going to be the winner, and what is going to happen to our Mainland policies should either one of the two camps win the election.

First, in my paper, I write about the internal differences within the ruling party, the DPP, and also the factor of democracy in our cross-Strait relations. It is very obvious in what we have seen with President Chen Shui-bian, I think. In his inauguration address

it is very clear he was talking about one policy or one set of policies, the so-called new middle of the road. He said he proposed the “five no’s” policies and also he asked Dr. Lee Yuan-tze to form a cross-party non-partisan commission to study the possibility of our formula of “One China,” and he talked about the future of “One China” and he also said that according to our constitution, there was no problem with China. You know, he was very clear, he was trying to resolve the very difficult differences between the two sides, Taiwan and China, regarding the political issue.

Of course, later on in his New Year address in 2001 he took a step a bit further by saying that he did not object to a possible political integration. The term “political integration” in English is not really *quanshen*; it is not very telling in English, but in Chinese, you know, there is a *tongyi* and *tonghe*. *Tongyi* is unification, and *tonghe* is integration. So in Chinese, there is a huge difference. You talk about possible political integration by using *tongyi*, one word from the Chinese word of unification. So you see it appears to me it was very clear he was trying to do something, to resolve this thorny issue of political difference between the two sides.

But on the issue of cross-Strait exchanges, I think a lot more happened than on the political front. Of course, he started the so-called small three direct links between the offshore island, Quemoy, and Mainland China, and Matzu and Xiamen, and he also ended the “No Haste, Be Patient” policy proposed by former President Lee in 1994, and allowed high-tech industry to move to China to invest. Can you imagine high-tech industry? Now Mr. Chang [of TSMC] is here. High-tech industry in Taiwan is our crown jewel and he, you know, President Lee resisted so long with so much power to prevent that from happening and President Chen allowed that, little bit over a year ago, and a three-inch wafer foundry was allowed to make investment in China.

He also allowed Taiwanese banks to set up branches in China earlier this year. He also allowed for the very first time, direct charter flights to be flown between the two sides so that the Taiwanese who are living in China could be taken back here to Taiwan to celebrate the Lunar New Year. So I think it is clear, on both a political front and an economic front, he was trying to do something in order to create a better cross-Strait environment.

But, on the other hand, we are also seeing him saying, “if you accept the ‘One China’ that would mean the end of the country,” and he proposed “one country on each side of the Strait.” Lately he is talking about referendums and a new constitution. I understand our guests from America yesterday were there creating some new history? President Chen just set a new deadline for the enactment of a new constitution, although it appears to me it is really a bit premature to seriously talk about a new constitution because as we learned from Richard, who is going to initiate the constitutional conference, procedurally it is not really very clear.

So we are really seeing two President Chens, but I think this has something to do with our domestic politics because, as Taiwan is being democratized, I think it is inevitable that the politicians will play to the ears of the voters and I think this has a lot to

do with that; so, Cross-strait relations have been further complicated by Taiwan's domestic differences and the issue of Taiwan becoming a democracy.

Secondly, the Blue and the Green. Of course, the conventional wisdom is that there is a huge, magically different contrast between the two camps. One is for "One China," the other says there is no consensus on the issue of "One China." One is for unification; the other is for independence. One is pro-China; the other is Taiwan-centered. One is for direct-links; one is more cautious. So, many people are saying that the two camps really have nothing in common there, and actually many people would go as far as to say that beyond the issue of cross-Strait relations, there is no difference between the two political forces, the Blue and the Green. Some people will even go that far.

But I would argue actually there are a lot more common grounds between the two camps than they are willing to admit. Actually, I think there is really not too much differences between the two sides. You see, on the issue of China, I do not think there is any pro-China group here in Taiwan; probably a very small one, but by no means pan-blue, which has the majority -- which still probably commits the majority of voters. Traditionally the pan-blue takes about half, 50 per cent of the votes, more than pan-green has been able to garner. So if over half of the population in Taiwan is pro-China, can you imagine what is going to happen? I think that is political language, and election language.

So on the issue of China I think this year's [election will take] the same position: that is, China is not a good neighbor. Well, it is good. There is a huge market there, but politically, I do not think anyone here is pleased with China's heavy-handed policies. So on the issue of China I think they agree that China is being weighed too heavily on Taiwan, and the Chinese market is good, basically good; I think even within the DPP, I think the opinion has been converged on the issue of unity of the Chinese market.

I think years ago, about a decade ago, in 1995/1996, if you remember, there was a huge debate within DPP as to whether Taiwan should engage China and to what extent should the engagement go; there was a huge debate there but I think, even within the party, the opinion has gradually converged; the Chinese market is good for Taiwan's development and we need the market, the huge market, in order for us to further develop our economy. So on the issue of the Chinese market I think there are two sides. There is no difference there.

The issue of sovereignty, which appeared, seems the greatest, the biggest difference between the two. Well, if you really look into the positions taken by the two camps, they all agree: Taiwan is an independent country by the name of ROC. If you want to put "on Taiwan" behind that, it is okay, but I do not see that anyone is for the PRC's "One China principle" and some people are for, maybe some people in the Pan Blue camp, are for "One China policy" or "One China principle," but that is by no means the People's Republic of China.

Also for the pan-green people, I think it was made very clear three or four years ago in the DPP's 1999 resolution on the future of Taiwan, that says this is an independent country by the name ROC. So you see there is a big bridge there. There is no difference there.

How about Taiwan's center? Who would want a China-centered policy in Taiwan? That is politically suicidal. So I do not see any China-centered policy here but, again, let me remind you when it comes to politics, especially when it comes to elections, of course there is a pro-China camp, but since no one here likes China, that could not be a very effective campaign strategy.

What about unification? As Chu Yun-han just said, the majority of the people here still want a status quo and if you ask my opinion, of course it is very difficult to gauge exactly what the majority of people think deep down in their minds, because this is way too sensitive an issue for them to really give their hearts to you. They are not going to tell you what they really think because they understand the severity of the issue. But if you ask my opinion, I have been personally engaged in several opinion surveys carried out by National Chengchi University Center of Election Studies. Since Chu Yun-han is not here any longer, actually I think ours is much better than theirs.

Why do you ask my opinion? I will not be surprised if a fair proportion of those who want to maintain the status quo also want independence. If you ask my opinion, my gut feeling is that there is fear among those who want to maintain the status quo. They do not dare, or they do not want, to express their opinions, so there is really no pro-China. Pro-unification is really not an option here.

How about what is going to happen after the election? Well, I am convinced that, once the election is concluded, I think all sides—or at least the two sides—would go back to what I could term “middle of the road” policy. I think if the pan-green wins the election—which, of course, they might—[they will return to the “middle of the road.”] I think that what we have been seeing in the past few months, the kind of brinkmanship, is more for the election.

So, once the election is settled, I will not be surprised if the newly elected President Chen would start again talking about a “new middle of the road.” “Another possibility—whether the issue of China might be an issue to be negotiated over the table.” I will not be surprised if he continues that line of argument.

But if the pan-green wins the election, I do see it as a little more difficult on the cross-Strait issue because of this particular “One China” issue. I think there is a huge difference right now between Taiwan and China. Beijing does not seem to trust Chen any longer and the policy of “listening to what he says and watching what he does” was concluded when the President stated “one country on each side.” Beijing does not seem to trust Chen any longer. So that would, of course, create new obstacles for cross-Straits relations.

The way that President Chen will continue the political agenda, namely whether he will be so determined to push for the new constitution, I would say is another wild card. If that is the case, I think that would create more instability. Taiwan's politics in the past three years has concentrated on politics instead of economics, and also [pursuing a new constitution] would even heighten the already large differences between the blue and the green regarding the agenda for the government.

But what if the pan-blue wins the election? I do not necessarily see a better tomorrow in terms of cross-Strait relations, if that camp wins the election. Why? Because I think it is very clear that that is their Achilles' heel. Right now you have already seen pan-blue politicians talking less and less about China. Actually, I have not heard them talk about China in the past two or three months. They used to refuse a referendum. Right now they are for a referendum. They used to refuse the new constitution; and right now they are for it. At least they are not against the concept any longer; so you see how much Taiwan politics has been affected by the advent of democracy.

In order to win the election, I think the politicians in the Green camp and politicians in the Blue camp have also changed, all in the name of winning an election. So if they want the election, I think it is very difficult for them to stand the pressure coming from the new opposition, the pan-green condemning as, you know, pro-China selling out the interests of Taiwan and all that. I think that would be too much for the pan-blue to take and for them to take any new initiatives.

I think I will just stop here. Thank you.

**DR. LO:** Thank you very much. We should have had Professor Chu in the same panel too, so we can have "one Taiwan" different interpretations. One of my friends used a term to describe Taiwan which I do not really agree with: he said that Taiwan is a country with multiple personalities. So you have a Taiwan during a campaign; you have a Taiwan after the campaign; you have a Taiwan when the KMT is in power; and you have a Taiwan when the DPP is in power. So it is quite confusing for outsiders when reading politics in Taiwan. But I think Professor Chao offered a very good discussion about what is really going on in Taiwan.

Now, we will turn to Dr. Lai to talk about Taiwan's search for strategic identity. This is the first time I have heard the term "strategic identity," which I think is very different from the theme we talked about earlier—Chinese identity and Taiwanese identity—so he will tell us what he means by that. Thank you.

**DR. LAI I-Chung:** Thank you, Mr. Chairman, and particular thanks to the organizers for giving me the opportunity to be among the distinguished panelists and audience. I was asked by Professor Lo Chih-cheng to write something about Taiwan in East Asia, and I looked at democracy and nationalism as the two main things in the conference, so I just used this opportunity to ask myself a



question. When I returned to Taiwan this April I started to ponder: I noticed the phenomenon that in the past 10 to 13 years -- is there any major foreign policy debate happening in Taiwan?

Just looking at the past 10 to 13 years, the world has been dramatically changed, and the post-Cold War era is upon us. In the United States you have so many debates that you cannot describe any one as a major one. When I was in Japan, Japan was struggling itself, kind of muddling through what its role will be in the post-Cold War world, in order to define where the country should be heading in the future.

So the question is about Taiwan's foreign policy debate; when I look at it, I do not see any major debate. The lack of debate itself is quite a phenomenon and I describe it as "the two puzzles."

So the first puzzle: there is predominant discussion about contemporary Taiwan and the regional security of Asia Pacific, which puts much of the attention on Taiwan's present and possible future status and its effect on cross-Strait relations.

This is based on the hypothesis that it is Taiwan's status per se pursued and reacted to by the Beijing government, which will affect regional security. And if we compare this with the discussion regarding how regional security is affected by other nations in this region—Japan, for example—we will discover that it is what Taiwan is or will be, rather than what Taiwan thinks and does, that is the center of the security discussion. So that is the first puzzle.

Now, the second puzzle is that if you look at Taiwan's location, it is at the mid-point of a figure of historical importance, the Ocean Silk Road in East Asia. Taiwan entered world history during the period of great voyages as an island that connects Northeast Asia and Southeast Asia. This geographical position illustrates that the diplomatic history of Taiwan should have a very strong maritime character. There are several other nations in East Asia with similar geographical characters, like Japan, the Philippines, Indonesia, and so on. When you look at their diplomatic histories, how they interact with the rest of the region, you can describe them as maritime nations.

However, judging from Taiwan's external behavior, it is difficult to identify Taiwan as a maritime nation. Taiwan can best be said to be an area with a geographical maritime character. So this is the second puzzle to me.

And the problems of those two puzzles have existed for a long time, but it is not until the last ten years that the problem of those puzzles started to obtain political significance or political implications. As the democratic process accelerates, the dimension of what Taiwan thinks and does, rather than what Taiwan is and will be, will definitely merit more attention in order to contemplate the regional security development of which Taiwan is a part.

Of course, the second puzzle probably will be addressed as Taiwan thinks and does more and more about itself, and its role in the Asia Pacific region. And, as a result, Taiwan will become more like an international player, being for itself, rather than being in itself. If I am allowed to borrow Karl Marx's metaphor, describing class consciousness—that is “class-in-itself, class-for-itself.”

So when that day comes, I believe Taiwan's foreign policy intention, in addition to what Taiwan thinks and its status, will be an integral part of the discussion of Asia Pacific regional security.

Since we are talking about democratization, one thing about the democratization in the past ten years is the so-called “nationalism phenomenon.” Now, in terms of how this phenomenon enters into the democratization process and Taiwan foreign policy discussions, basically it is that on the political front Taiwanese nationalism vies to establish a state independent of China. On the cultural front, Taiwanese nationalism calls for a new identity different from China and centered on Taiwan.

And Taiwanese nationalism, as I attended the parade ... (change of tape) ... the report on China ... by arguing that only through using the name of Taiwan can it be worked. But basically, we can describe those arguments as the political extension of the identity debate. That is, the Taiwanese identity versus the Chinese identity, or some form of the so-called “pro-unification, pro-independence debate.” And this phenomenon can be attributed to the fact that the unresolved problem on national identity started to become an issue in the foreign policy area, especially in the China policy discussions. Since Professor Chao previously talked about the DPP's 1997 China Policy debate, if you look at the China policy debate and try to peel through several of the levels, basically, that discussion was designed to solve the issue of how the DPP should look at China, rather than its policy towards China. The argument regarding the assessment of China's future development was not sufficiently raised. That's my own opinion. Because I am a DPP member, I think I am entitled to make some criticism.

And there was no discussion about what Taiwan should do to respond to various possible Chinese future trajectories, and no discussions on Taiwan's anticipation of China's future role, and no discussion about what instruments should be used to obtain the policy goal. And most importantly, Taiwan's national interests in this debate were not clearly articulated and debated.

In the non-China foreign policy area, such as discussion about China's bilateral relations with the U.S., Japan and other countries, my view is that the substance did not go beyond the tradition of making good friends and establishing more diplomatic relations. But Taiwan's post-Cold War debate of the United Nations also has been focused on how Taiwan should join the UN, and on the relevance of the United Nations to Taiwan's future development. The predominant focus was on China and on Taiwan's strategic anticipation regarding the several key external relations and the emphasis on joining the UN, but not on the UN's relevance about Taiwan's foreign policy and strategy. I believe that we really thought that Taiwan's foreign policy discussion was still very

domestic oriented. The identity realization still plays a major part of it. This emphasis also reveals the internal problem of “they are the Ruling Party’s foreign policy practices,” due to the fact that the ruling party, at that time, was not able to lead and shape, or defeat the opposition’s charges despite the ruling party’s dominance in practicing Taiwan’s external relations for the past 50 years.

Also in the past ten years, especially after the changeover of the government, another important change invoked by the democratization process is a gradual opening of Taiwan’s foreign policy practices to the general public. One important change brought by the President Chen Shui-bian administration’s foreign policy practice is the emphasis on non-governmental organizations and the “all people’s diplomacy,” which is *quan min wai jiao*. Some of the NGO advocates’ campaigns that were originally put on the back burner by the previous administration were given a much higher priority in the current Chen Shui-bian administration foreign policy practices. And this presents a very different or, I would say, positive attitude toward the non-governmental sector in conducting foreign affairs.

Despite the lack of foreign policy debates in the past ten years, I think, when I look at it, that I can still identify some traits by picking up various discussions on Taiwan’s foreign affairs practices. As democratization deepens, those traits will have greater impact on foreign policy decisions, and will become more mature along the way. And I will discuss them in the following.

Basically, what I see is that there are several schools of thought in the foreign policy community. I will use the two axes to describe them. The horizontal axis or the X axis, since I am a physicist by training, is: What do you see in Taiwan’s relationship with the Asian continent, or Mainland China, to be more specific? On this end, on the right-hand side, my right-hand side, is that people tend to see Taiwan as a part of maritime Asia. And on the opposite side, people see Taiwan as an extension of continental Asia. So that’s one axis. But I think there is another important axis that can help us to distinguish. On the vertical axis, the Y axis, the top will represent the realist school of international relations theory, and the bottom will represent liberalism. So we have the four quadrants. I will locate those foreign policy traits in the four quadrants. So first, I think there are some important notes that we should be aware of.

First of all, it is important that opinions can be best described as “leaning” rather than “the policy,” due to the lack of mutual debate on the consequence of their proposals. And the other thing is that this map of thought is provided for convenient intellectual comprehension. It does not exactly describe the real debate because it did not happen.

Another important thing is that the horizontal axis, that is to see “Taiwan as maritime Asia,” or “Taiwan as continental Asia,” does not really correspond to pro-independence on Taiwan for maritime Asia and pro-unification for Taiwan in continental Asia because when we talk about foreign policy, it is how you position Taiwan in this part of the world, and how you are going to conduct the relationship later. This is independent from how you see Taiwan’s future and which country you identify with.

So let me first discuss the first quadrant, which is “realism with Taiwan as part of maritime Asia.” This school identifies Taiwan as a part of maritime Asia, and the natural security order is to construct a regional balance of power in favor of Asian maritime democracy. And this will be obtained through first developing a strong alliance system, linking several Asian offshore maritime states, of which Taiwan is a part. Then this alliance system will act as an anchor to force the continental Asian state to look back to the continent, in order to balance each other. And these maritime alliances pivot the point of the balance of power in the Asia-Pacific. So that is the first quadrant.

The second quadrant is, “the realism with Taiwan as an extension of continental Asia.” There are several variants here and basically, the common thread is to see Taiwan as an extension of continental Asia, now facing the not-so-friendly continental regime in China. Having a good relationship with a strong outside power – the United States – to ensure their safety against China’s invasion is essential for Taiwan’s security for the time being. However, the future diplomatic practices of Taiwan depend on what kind of regime China has. On the other hand, Taiwan should also be aware not to be dragged into the U.S.-China conflict, to be trapped into the cross-fire. To avoid such unnecessary consequences, this school basically argues that Taiwan should first ameliorate the cross-Strait relations before any meaningful foreign policy initiative can be employed.

And now go to the third quadrant; that is “liberalism with Taiwan as the extension of continental Asia.” Basically, this school thinks that Taiwan is an extension of continental Asia and not only should ameliorate the cross-Strait relations, but also all other relations. But also, they argue that Taiwan should devote more resources and energy to interacting with China, since that is where Taiwan’s future development lies. They believe that the more intense the economic and political engagement with China is, the less likely that China will attack Taiwan.

Now go to the fourth quadrant, “liberalism with Taiwan as part of the maritime Asian region.” This school basically argues that Taiwan is a part of maritime Asia. The liberalism traits come from its view on multi-lateralism in Taiwan’s relationship with major powers, which are competing for dominance in this region. And this school tends to place more faith in multi-lateralism as evidenced by their various campaigns, such as Taiwan for United Nations and Taiwan for WHO and other activities, aiming to bring Taiwan back to the international societies. And this school’s preference for multi-lateralism also leads them to take a somewhat distant attitude from outright supporting the United States in their international affairs if no Taiwan security issue is concerned. They see the current Bush administration, more or less, supporting the unilateral state and have not been very comfortable about it.

The future role of Taiwan is described as “the Switzerland of Asia”, meaning that they hope Taiwan will stand neutral, if balance of power competition occurs. However, it says very little about the future of Taiwan-China relations except to wish for a China that is, if we accept it, amenable to an independent Taiwan and hopes for good China-Taiwan relations.

And I will also identify three key areas about how those four schools look at regional security, multi-lateralism, and democracy. I will just briefly describe them. In terms of regional security, I think the first quadrant I just outlined, that is “the realism with Taiwan in maritime Asia” tends to place the U.S.-Japan alliance in a crucial position. Taiwan security is in the hands of this maritime alliance, and is less impacted by the U.S.-China or Taiwan-China relationships. It is the demise of the U.S.-Japan alliance, not the improvement of U.S.-China relations, that will raise security concerns for Taiwan. So that is the regional security perspective of the first school.

Both the first quadrant and the fourth quadrants, that is “liberalism with Taiwan as part of maritime Asia” and “realism with Taiwan as an extension of continental Asia” view Taiwan security through U.S.-China-Taiwan trilateral relations. The improvement of U.S.-China relations will automatically raise the alarm, fearing that Taiwan’s interest will be compromised during the U.S.-China interactions. Those schools worry particularly about entrapment in a conflict in which the U.S. is involved, thus a logical inference is that they tend to take a less enthusiastic attitude towards the U.S.-led alliance’s advancement in Asia, or in the world. This is my own opinion. Both schools will not be as supportive of Japan’s normalization, as compared with the first quadrant or especially with the second quadrant, the “realism with Taiwan as part of continental Asia” school.

Since they believe that Taiwan is an extension of the Chinese Mainland, in their opinion, the presence of an indigenous Asian maritime power, like Japan, not the distant maritime power like the United States, is not as conducive to Taiwan’s benefit.

And I am going to talk about multi-lateralism, compared with those schools. Basically, the liberal school tends to support multi-lateralism. So I’ll just leave it as that.

In terms of democracy, that would be a very interesting thing because the first school, that is “realism with Taiwan as part of maritime Asia,” has already given voice to the desire to foster alliances with other Asian democratic maritime states. And they believe in democracy because they want to engage to preserve and promote democratic values in this region. And also they have more or less a belief in democratic peace.

As for the second school, that is “realism with Taiwan as part of continental Asia;” they have more or less talked about democratic peace. And also, they fear that if China is undergoing democratic transition, it may exhibit very adventurous behavior. As for the “liberalism with Taiwan as part of maritime Asia,” there is a strong belief in democracy, which is supposed to be the objective and also the means.

Now I’ll just go to the conclusion since I’m running out of time. That is where the so-called the “strategic identity” enters. This is the question of how Taiwan should view itself and others in the world. So the principal reason for not asking this key question in the past has much to do with the history, especially if we look at the past 400 years. There were several changes of ownership of Taiwan and Taiwan’s strategic

orientation was changed accordingly. Also, Taiwanese people have never been in charge of their foreign policy until very recently, when it is more or less possible to participate in foreign policy decisions due to the democratization process.

We can examine the historical development of Taiwan's regional identity. In the 17th century, the Dutch administration, when they occupied Taiwan, saw Taiwan as a stronghold for their northern trade advancement. And later, the Ching Dynasty saw Taiwan as an offshore island that probably created some instability in its eastern shore provinces. When Japan occupied Taiwan, it tended to see Taiwan as headquarters for its southern advancement into Southeast Asia. The United States today views Taiwan more or less as an important strategic island, checking China's ambitions in the Pacific Ocean. So each regime, or country, brought with it its design to position Taiwan in Asia. Thus Taiwan's regional position is constantly changing. And the frequent administration changes and the constant reposition of Taiwan have left Taiwan with no stabilized institutional memory to establish Taiwan's strategic traditions, and to conduct Taiwan's foreign policy accordingly.

This unique historical experience helps to demonstrate the fact that despite Taiwan's location of significant geo-political importance, the degree of strategic awareness in the current state of Taiwan's foreign policy debate and practices is still very low. Some people even describe this lack of geo-strategic focus as "strategy drift." However, as the democratization process deepens, the greater public participation could amend this shortcoming and Taiwan's strategic tradition can be established. And the process of searching for Taiwan's strategic identity could very possibly change the substance of the identity debate, that is, whether we go back to the earlier so-called "Taiwanese identity versus Chinese identity." And the question basically of "Who am I?" will be answered by facing the question of "Who do I want to become?" and "What will I do?" and "How to achieve it?" And I believe if that day comes, that will mark the beginning of the normalization of Taiwan's foreign policy exercise.

Thank you.

**DR. LO:** Thank you very much. The floor is open and we still have ten minutes. Please seize the final opportunity.

**QUESTION:** As you described, Chen Shui-bian might like to try to do something to improve relations with China, but China doesn't trust him and won't talk to him. China would be more willing to do business, but the green camp's Achilles' heel is if they appear to be soft on China, they can be accused of selling out Taiwan. But does that mean, no matter who wins, there is going to be a stalemate situation continuing, or do you see some way out?

**DR. CHAO:** Well, I think Beijing has realized that they cannot wait forever. I think their policies actually towards the DPP have changed significantly. Number one, they don't say "One China" is for everything, like the three direct links. They used to say "One China principle" and claim that flights within the three links had to be "domestic."

They don't say that any longer, and they say the three links can be negotiated through private channels, and it doesn't have to be from a semi-official organization, SEF, to its counterpart in China, ARATS. So I think China's position is also changing because I think they also, belatedly, have come to the realization that this political party and this president might be in power for a long time.

So I think, well, I do see possibilities of changes after they left China, whichever camp wins the election, and the three direct links seems to be the first issue. I think Taiwan cannot afford to wait any longer on that issue. I think that would be the first to go on the table.

**DR. LO:** Thank you. Mr. Sun from the United Daily? But this is not a press conference.

**QUESTION:** Thank you, Mr. Chairman. I am Anjia Wu. I come from MOFA, coordinating council on North American affairs. I have one question for Dr. Chao. As far as I know, President Chen Shui-bian already said that a rewriting of the constitution is tantamount to Taiwan independence. He also said that ROC is a sovereign state; Taiwan is also a sovereign state. So there is no need for Taiwan to declare independence. As to mutual reunification or integration with China or not, shall be decided by the majority of the population here, through referendum. However, I read the news report today. Yesterday, Chairman of the KMT Lien Chan said that a common election strategy for the KMT is the so-called "Republic of China versus Taiwan Republic." So what is your comment on what Lien Chan said yesterday? Thank you.

**DR. LO:** Okay. Thanks.

**DR. CHAO:** Well, of course a new constitution is not equivalent to a new country, but it could arouse some suspicion. I think many people overseas are worried about pushing the envelope, and also people are talking about the frog theory. It's a very interesting theory. The cooking frog theory is that if you put a frog in hot water, the frog would certainly jump out of the water because it's too hot. But if you put the frog in cold water and heat it up gradually, it could die [without realizing how hot the water has become]. I think if you stay here in Taiwan we don't see the danger coming: new constitution, new referendum. Of course it is not independence.

For some people that worry about it, it's possible, it's a pushing of the envelope effect. For some other people, of course, it is a very exciting moment. Exactly because of that, I think the Taiwan Strait, from Taiwan's perspective, is standing at a turning point, exactly because some people are very worried, some other people are very excited because a new mode of operation might be there: a new constitution, new relations across the Strait, really depending on which side looks at the situation.

**DR. LO:** Thank you. Mr. Sun?

**MR. SUN:** Thank you, Mr. Chairman. My question is for Mr. Richard Bush. Richard, my question is this: You know, President Chen has made many declarations, and now

the latest information is that he is talking about making a new constitution for this country. I would like to know, in your assessment, what kind of reactions may come out from the U.S. government about this? Thank you.

**DR. BUSH:** Thank you for the question. Even though I have the same last name as the president, it's a little bit difficult for me to speculate because I'm no longer in the government. I think, first of all, that no one in a democratic country like the United States can object to a fellow democracy like Taiwan trying to improve their system – so that the system better reflects the will of the people, so that the system performs better. That is unobjectionable. I think that the issue is more how the PRC perceives that project. Do they see it as a political reform, or do they perceive it as a cover for something else? And if there is a danger that they see it as a cover for someplace else, how do we manage that situation so that it doesn't get out of control?

**DR. LO:** Any other questions? Ms. Shih.

**QUESTION:** This is Lisa Shih from China Times. My question is also to Mr. Richard Bush. You just gave us some conceptual guidelines regarding how Taiwan should strengthen its democratic political system. It's interesting to me that you have both old fears and new fears. Your old fear is that the political system will not reflect the people's will regarding a bad deal made with Beijing; and your new fear is that the political system would not be able to accept a good deal. So my question is, would you give us more elaboration on what you mean by a "bad deal" and what you mean by a "good deal?" And also, concerning your new fear, do you imply that Taiwan has failed to catch some "good deals" over the past few years? And also, in the future, just as Dr. Lo has said, that Taiwan has different personalities sometimes, we might have different personalities before and after the election. Do you see any window of hope after Taiwan's next presidential election?

**DR. BUSH:** Those are good questions. You caught me out on some bad terminology. And when I say a "bad deal" and a "good deal," in a way I'm talking about a hypothetical situation. When I talked about a "bad deal," I was really referring to the Taiwan of ten, fifteen years ago where there was an anxiety here that a small group of people would conclude an arrangement with the PRC, and that somehow the people would object, but they wouldn't have the democratic ability to register that objection. And that is no longer a problem. When I referred to a "good deal," what I meant is that if the PRC suddenly responds to Taiwan's concerns, to respond to Taiwan's positions about its sovereignty, its concerns about its role in the international system, about the question of the use of force, and if China, sort of, makes an offer based on that recognition. Now I don't think that's going to happen any time soon, but perhaps we can agree that such an approach would be much more in Taiwan's interests than one-country, two-systems. And then it raises the question of how the political system would respond? Would it recognize this as being in Taiwan's interest?

I think the window of opportunity, the earliest window of opportunity, is some time in 2005, because that will be after your presidential election, after your legislative

election in which the balance of power in the Taiwan political system will be established for some period of time. That may be the period, the point at which Mr. Hu Jintao is able to establish himself as a key policy maker on Taiwan issues. And who knows whether he will be more creative than his predecessor, but if he is more creative, that may be the time that we see it for the first time.

**DR. LO:** Thank you. I think we are about to conclude the conference today. Personally, I have learned a great deal from the presentations and discussions of today's long conference. I hope that you share the same feeling with me.

And I would like to take this opportunity to thank the staff from CNAPS and Brookings. They have done a great job in putting all this together. And also, I'd like to thank overseas and also local participants for participating in this very lively discussion today. And hopefully, in the future, there will be more gatherings like this, either in Taipei, or in Washington, DC. Let me pass the microphone to my co-host.

**DR. BUSH:** Thank you very much. I would like to re-echo all the expressions of appreciation that Dr. Lo made. I would particularly like to reinforce on behalf of Brookings and CNAPS, our deep gratitude to your staff and to you, for all the hard work that you did. It is very easy for us to parachute in right before a conference, but you had to do the work here. I would also like to thank the audience for your excellent participation, your sharp questions and for staying through what has been a very long day. Usually, when you have an all-day conference at this point, maybe there are three people in the audience, and they are related to the people on the podium, or they are waiting for their ride home. But the fact that you stayed, I think, is a tribute to you, and we want to thank you very much.

(End)