

THE BROOKINGS INSTITUTION

CROSS-STRAIT RELATIONS UNDER THE
TSAI ING-WEN ADMINISTRATION

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Welcome:

RICHARD C. BUSH, III

Chen-Fu and Cecilia Yen Koo Chair in Taiwan Studies
Senior Fellow and Director, Center for East Asia Policy Studies
The Brookings Institution

CHRISTOPHER K. JOHNSON

Senior Advisor and Freeman Chair in China Studies, CSIS

STANLEY KAO

Representative
Taipei Economic and Cultural Representative Office in the United States**Keynote Address:**

CHENG-YI LIN

Deputy Minister, Mainland Affairs Council, Executive Yuan

Panel 1: Opportunities and Challenges in Cross-Straits Relations:

RICHARD C. BUSH, III, Moderator

Chen-Fu and Cecilia Yen Koo Chair in Taiwan Studies
Senior Fellow and Director, Center for East Asia Policy Studies
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Panel 2: Political and Economic Developments in Mainland China:

SCOTT KENNEDY, Moderator
 Deputy Director, Freeman Chair in China Studies
 Director, Project on Chinese Business and Political Economy, CSIS

CHRISTOPHER K. JOHNSON
 Senior Advisor and Freeman Chair in China Studies, CSIS

SZU-CHIEN HSU
 President, Taiwan Foundation for Democracy

DALI YANG
 Professor, Political Science, University of Chicago

CHIH-CHIEH CHOU
 Professor, Department of Political Science,
 Graduate Institute of Political Economy
 National Cheng Kung University

Lunch Remarks: Taiwan's Regional Economic Integration:

SCOTT KENNEDY, Moderator
 Deputy Director, Freeman Chair in China Studies
 Director, Project on Chinese Business and Political Economy, CSIS

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RICHARD C. BUSH, III, Moderator
 Chen-Fu and Cecilia Yen Koo Chair in Taiwan Studies
 Senior Fellow and Director, Center for East Asia Policy Studies
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P R O C E E D I N G S

MR. BUSH: Good morning. If I could ask you to take your seats, ladies and gentlemen, we will get started.

My name is Richard Bush. I'm the director of the Center for East Asia Policy Studies here at Brookings, and the proud holder of the Chen-Fu and Cecilia Yen Koo Chair in Taiwan Studies here at Brookings. It's my great pleasure to welcome you to our event today, Cross-Strait Relations under the Tsai Ing-Wen Administration. I think that we have an excellent lineup of experts to speak about these issues, and there are many sub-issues involved. So I think we will all have a lot to learn.

My main function as the convener is to thank a lot of other people for making this event possible. First of all, I want to thank the Institute for International Relations of National Chengchi University for cosponsoring this event, and in particular, I would like to thank my good friend Arthur Ding for all the hard work that he has done in arranging things on the Taipei end of this. On the Washington end of this, this is yet another in a series of close collaborations between the Brookings Institution and the Center for Strategic and International Studies, and I would like to thank Chris Johnson and Scott Kennedy for their leadership in bringing this about. There are a lot of staff people here at Brookings at CSIS and at IIR who have done the real work, and those of us who stand at the podium would not be at the podium without their hard work.

Finally, I would like to express my appreciation to Taiwan's Mainland Affairs Council for their facilitation and encouragement. That means a lot to us.

Actually, that's not the final thanks. The final thanks is to Ambassador Stanley Kao, who is the Republic of China's Representative here in Washington, D.C., and he's kindly agreed to take time out of his very busy schedule to make some welcoming remarks.

So without further ado, Ambassador Kao.

(Applause)

MR. KAO: Thank you very much, Dr. Richard Bush. And thank you all very much for having me this morning. And on behalf of TECRO, I'd like to, of course, thank and congratulate Brookings CSIS, of course, Minister Lin, and also the team of IIR, who put together such a wonderful and equally meaningful conference today.

Of course, National Chengchi University, of course, plays a big part in this exercise, and I am so very proud and extremely pleased. Also, Chengchi is my alma mater. And, of course, this is very important and a very interesting topic, and the President Tsai Ing-wen, of course, in her May 20th inaugural speech, and then followed by several media interviews and some public announcements, part of statements, she has repeatedly talked about one of the key party's agenda will be to maintain a status quo, I mean, a presumably dynamic status quo so as to pursue a consistent, predictable, and sustainable cross-Strait relations without compromising Taiwan's sovereignty and the political democracy and economic prosperity. This is the ultimate values and interests of Taiwan, of course constitutionally called the Republic of China and what the country stands for. And nobody, of course including Tsai Ing-wen herself would believe this is an easy job. But during her career as a teaching professor at Jen-da, and a chief trade negotiator, then one of the early mainland China policymakers, the imparted chairwoman, now the first female head of state. She and her team, including Minister Lin, certainly have their work cut out for her.

But I think one of the fair observations (inaudible) will be that, of course, she should not take anything for granted. She has to stay focused. But on the other hand, she should not be overly optimistic, nor pessimistic. Right now, stay calm, steadfast, realistic, and forward-looking. So I think that is a very fair observation.

I understand you are putting together some of the best and the brightest, most particulate thinkers and authors in this room and throughout the day, so I believe it

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will be a most inspiring and stimulating intellectual exercise. So I wish you good luck.

Thank you very much.

(Applause)

MR. JOHNSON: Thank you very much, Mr. Ambassador, and thank you, Richard, for hosting us here today.

My name is Chris Johnson. I'm the Freeman Chair in China Studies here at CSIS, and I just want to also extend my warm welcome to everyone for making the time to come and see us today.

I have the great pleasure to be able to introduce Deputy Minister Lin to come and speak with us. We're very honored that you have taken the time today to come and share your thoughts with us on this very important subject.

Just a few brief biographic notes. Lin Cheng-Yi is currently, of course, the deputy minister of the Mainland Affairs Council in the Executive UN. Prior to his appointment, he served as a research fellow at the Institute for European and American Studies at Academia Sinica, as well as the institute director from 1998 to 2003. From 2004 to 2005, he was the director of the Institute of National Relations at Chengchi University. And he also served as senior advisor for the National Security Council in 2003 and 2004. Dr. Lin holds a Ph.D. and M.A. from the University of Virginia, as well as a B.A. and M.A. from National Chengchi University.

So without further ado, please join me in welcoming Vice Minister Lin.

(Applause)

MR. LIN: Director, Dr. Bush, and senior advisor, Chris Johnson, Director (inaudible), ladies and gentlemen, good morning.

I'm deeply honored to be invited to attend the International Symposium jointly hosted today by the Brookings Institution, the CSIS, and National Chengchi University in Taiwan. The symposium takes on particular meaning and timing in the

unique context of internal and external development in cross-Strait relations. Today, I would like to talk on the current development in cross-Strait relations and offer five observations from a Taipei perspective.

Observations one. Starting with respect for the 1992 talks is the key to maintaining peaceful status quo across the Taiwan Strait. In her inaugural address on May 20th this year, President Tsai Ing-wen made it clear in 1992 Straits Exchange Foundation in Taiwan ended association for relations across the Taiwan Strait in Beijing, through communication and negotiation, arrive at a joint acknowledgments and understandings in the spirit of seeking common ground while setting aside differences in that Taiwan respect this historic fact. This emphasized that the Taiwan government will continue based upon the existing political foundation to promote the peaceful and stable development of cross-Strait relations. The new government in Taiwan will conduct cross-Strait affairs in accordance with the (inaudible) constitution, the act governing relations between the people of Taiwan and the people of mainland China and other relevant legislation. In this regard, the existing political foundation has four key elements.

First, under the 1992 talks between the two institutions representing each side across the Taiwan Strait, Taipei and Beijing to reach joint acknowledgment of setting aside differences to seek common ground. And second, the existing (inaudible) constitution order. Third, the outcome over the past 20 years of negotiation, almost 30 cross-Strait agreements were reached in the past more than 20 years and interaction across the Taiwan Strait. And fourth, the democratic principles and the will of the people of Taiwan.

Cross-Strait relations are a long-term process of dynamic evolution. Both Taipei and Beijing need to show patience and wisdom and work jointly to maintain the status quo of peaceful and stable development across the Taiwan Strait.

In her May 20th address, President Tsai tried to narrow down the

differences between the two sides of the Taiwan Strait, avoiding provocation and surprises to set up consistent, predictable, and sustainable cross-Straits relations. This firm push demonstrates an attitude and determination to conduct cross-Straits affairs, as well as to preserve the core values of the people of Taiwan in implementing the government cross-Straits policy.

Observation two. Opening the door for communication and consultation is the practical approach to handling cross-Straits relations. Over the past four months, since May 20th, the two sides of the Taiwan Strait have (inaudible) to understand and acknowledge each other in spite of diverging views on the development of cross-Straits relations, and they all exercise constraint, either in Taipei or Beijing, maintaining the status quo of cross-Straits peace and stability. It is consistent with the development interest on both sides, as well as with help of the international community, the Taiwan government believes that dialogue and communication are the keys to maintaining peaceful and stable cross-Straits relations and to setting up mutual trust between the two sides. Mainland China insists that the 1992 consensus is both sides of the Taiwan Strait are part of the One-China. It's the political foundation of cross-Straits interaction. It has temporarily, since May 20th, suspended negotiations with Mainland Affairs Council and (inaudible) Foundation in Taiwan, and this has presented challenges for cross-Straits official communication and institutionalized negotiations, making it harder to reduce such tension and its risk.

The government in Taiwan has handled major recent incidents, such as the missile misfire on July 1st, execution of the Taiwanese telecommunication (inaudible) to mainland China, a tour bus travel incident on July 19th, another major recent events in a timely manner based upon the well-being of the people and security consideration. We have used existing channels to keep Beijing (inaudible) home and updated in order to

reduce tension over these incidents. The Taiwan government just completed personnel arrangements on this past Monday for the check and change chairman Dr. (inaudible) making positive steps to stabilize cross-Strait relations. We believe that mutual concern and pragmatic handling by the two sides during the natural disaster and emergency in July highlighted the importance of maintaining a distant cross-Strait communication mechanism. It also demonstrates the goodwill and original intention of people-to-people exchanges between the two sides of the Taiwan Strait, as well as contribute to the building of mutual trust and menial development of cross-Strait relations.

Observation three. Mutual understanding and dispute management is the key to transforming cross-Strait relations. The two sides of the Taiwan Strait have been divided for nearly 70 years. During this time, Taiwan has developed as a democracy with a civil society and diverse public opinion, while mainland China has significantly deepened government reform and systematically transformed President Tsai or the (inaudible) Chairman Xi Jinping, courage in tackling corruption in the development for the Chinese (inaudible), deepen perspective, and even (inaudible) exists between the two sides of the Taiwan Strait. And it is these differences that create a (inaudible) and also a necessity for mutual understanding, pragmatic communication, and dispute management. We need to set aside our differences and seek common ground. Any negative greeting by one side or the other side's position in policy could better be avoided. Otherwise, it will only create more misunderstanding and concern and prevent the (inaudible) or the mutual trust and opportunity for cooperation between the two sides. We hope both sides can set aside the package of history and mutually ensure goodwill. However, the key is that goodwill and dialogue must be rooted in mutual respect for differing political systems and approaches to social function. Taipei and Beijing press are breaking (inaudible) since May 20th. We do not expect our differences can be eliminated or maligned but we do hope that we can manage these differences and adjust cross-

Strait relations to reduce suspicion and minimize the spread of cross-Strait cooperation and make this the new norm in the development of cross-Strait relations.

And observation four. Joint cooperation and prosperity is the new paradigm for the development of cross-Strait relations. Cross-Strait relations form a key factor imputing an Asia-Pacific security network. Taiwan will work hard to maintain peaceful and stable cross-Strait relations, seek to participate in international organizations, and their relative and related activities, contribute to the international community to bring regional peace and prosperity. We are (inaudible) mainland China, rising political and economic trends, and international inference. We hope that Beijing authorities will care more about the rise of the Taiwan participation in the international community. The Tsai Ing-wen government will continue to communicate with all parties and seek broad-based support including from mainland China to highlight Taiwan (inaudible), such as in the area of innovation technology and also the management of the knowledge-based economy, and enable Taipei and Beijing to play to their strengths and jointly contribute to the international community. (Inaudible) periods of slowing global economic development and the key moment for Taiwan as we seek a breakthrough in our economic development. With new thinking, we will adjust and continue to support and promote cross-Strait economic exchanges and cooperation. We will participate in multilateral and bilateral economic cooperation and negotiation. The Tsai government has announced the guidelines for the new southbound policy seeking a human resource, capital and innovation in order for Taiwan to play in the regional economy and finding new external support for the Taiwan economy. This new southbound policy is not politically (inaudible). Rather, it is complimentary to the development of cross-Strait economic and trade relations. We are waiting to jointly participate with mainland China on issues related to regional development, exchange views, and explore all possibilities for cooperation and collaboration.

And observation number five. Defending the values of democracy and peace is the significant (inaudible) U.S.-Taiwan relations. Taiwan-U.S. relations are at their best in (inaudible). U.S. President Barack Obama has encouraged the two sides towards a position of creating a link with the intention of promoting stability and (inaudible) development on the basis of dignity and respect. This has become the foundation for setting up cross-Strait peace and stability. The U.S. Congress recently, in May this year, passed a resolution to take concrete action of (inaudible) the important Taiwan Relations Act and seek assurances to Taiwan-U.S. relations. The friendly ties between Taiwan and the United States (inaudible) not only on long-term mutual trust and mutual benefit, but also more importantly, on shared democratic values and beliefs.

On Taiwan Strait-related issues, the U.S. has encouraged Beijing to encourage dialogue with Taiwan. This is an important force supporting Taiwan. Since President Tsai Ing-wen took office, the U.S. government has reiterated that cross-Strait peace and stability is consistent with American fundamental interests. We hope that the U.S. will continue to support Taiwan cross-Strait policies, convey to mainland China the importance of cross-Strait peace and stability, and urge Beijing to show greater flexibility and creativity and support the normal operations of cross-Strait negotiations and official communication (inaudible).

My concluding remark. What we hope for cross-Strait relations (inaudible) new cross-Strait situation, Taiwan will continue to leave the door wide open for cross-Strait communication and dialogue and work to create a friendly atmosphere and overcome deadlocks.

The Mainland Affairs Council would like to propose the following appeal and action:

One, each side of the Taiwan Strait should make an effort to show goodwill and gradually establish mutual trust. Each side should apply its wisdom to solve

problems, ensure goodwill that could be echoed by the other side and then accumulate and build mutual trust.

Two, the two sides should communicate regardless of the (inaudible) to build mutual awareness and understanding. Through communication the two sides can elaborate on their intentions and desire to cooperate without provocation and to forge a consensus on which both sides of the Taiwan Strait can identify and provide positive momentum or cooperation.

Three, the two sides should put the well-being and the interests of the people first. The well-being of the people on both sides is essential in the development of cross-Strait relations. We hope that with more contact between the two sides can align cross-Strait development in the direction and pass consistent with the public expectation, the people-first spirit can also provide momentum for further development between Taipei and Beijing.

Four, the Taiwan government is committed to promoting legislation, a cross-Strait agreement (inaudible). In maintaining (inaudible) cross-Strait interaction, we will make our effort to complete an effective in principle (phonetic/inaudible) that can best meet the needs of the societies so that cross-Strait exchanges and development will be continued on (inaudible) basis.

Five, the two sides should explain economic and trade exchanges in cooperation to bring mutual benefit, institutional economic exchanges and interaction across the Taiwan Strait can enable (inaudible) industrial competition and mutualism. We welcome the (inaudible) development of mainland China's economic investment in Taiwan to bring more mutual benefit.

Looking ahead, we hope that the cross-Strait differences should not be obstacles hindering the development of cross-Strait relations but rather could be positive practice in promoting dialogue in cooperation. This is the only way to prevent the two

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sides from slipping into the vicious cycles of suspicion and doubt, interruption, and stagnation.

At the same time the government of Taiwan thanks the U.S. for its longstanding support for Taiwan involved in the official and private sector. The deepening of Taiwan-U.S. relations and the U.S. information of Taiwan's cross-Strait policy are conducive to consolidating the pattern of peaceful and stable development across the Taiwan Strait and also (inaudible) the U.S. strategic presence in East Asia.

In closing, I wish the symposium every success, and in particular, I want to thank the Mainland Affairs Council. I would like to thank, in particular, Dr. Richard Bush for his leadership to make this symposium possible (inaudible) in Taiwan and also on the day of the Taiwan (inaudible) the island of Taiwan. I thank you.

(Applause)

MR. BUSH: Thank you, Minister Lin, for that outstanding presentation. I think that in spirit it was positive and forward-looking. In terms of its intellectual basis it was sophisticated. And in terms of its recommendations, it was concrete. And so we thank you very much. We're sorry to take you away from home on the mid-autumn festival, and I hope nothing bad happens with the typhoon that requires your presence there.

So we have time for just a few questions. I will identify the questioner and then ask that you wait for the mic, identify yourself. Keep your question brief. Obviously, Minister Lin is a very smart man. You don't have to give a whole paragraph when a sentence will do.

And so who would like to ask the first question?

Okay, the gentleman right there. John Zahn. I'm not surprised.

MR. ZAHN: John Zahn with CTI-TV of Taiwan Zhong Tian.

Mr. Minister, the difference, it looks -- the difference between the '92

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consensus and the '92 talks has been narrowing to some extent. Do you foresee any possibility of further narrowing in that respect? Thank you.

MR. LIN: In English, in 1992, (inaudible) means '92, but since May 20th, not only two are identical but also the common understanding, the joint acknowledgement (inaudible). So maybe in the future with the wisdom of leaders from Beijing and Taipei, they can focus on the beauty of the Chinese leaders (phonetic).

MR. WEST: Thank you very much.

Next question? Okay, (inaudible).

SPEAKER: Thank you. (Inaudible) with China, the (inaudible) News Agency (inaudible).

We all know that the communication channel between your department and Tao has been suspended. I'm wondering if you have any like second check or any other civilian channel to communicate with the other sides on the cross-Strait relations. Thank you.

MR. LIN: We have diverse (inaudible). Mainland Affairs Council and Taiwan Affairs Office. Even without the mutual two-side communication, we would still keep Taiwan Affairs office informed in any major policy development taken in the government. So it's one way but we are looking forward to bilateral communication. It takes two to tango and one to improve the cross-Strait relations.

And before going into the (inaudible) activities, we do have 23 cross-Strait agreements, and there are focal points in those 23 cross-Strait agreements. So in addition to Mainland Affairs Council and (inaudible) foundation, we still have the government agencies such as the Ministry of Transportation, the Ministry of Economic Affairs. They are responsible for (inaudible) and management in any communication with the Chinese counterpart. Beijing only suspended communication and negotiating with Mainland Affairs Council and (inaudible) Foundation, but as I just mentioned, the official

communication in other different government agencies still continues.

MR. WEST: Minister Lin, if I could ask to follow up with what I think is an implication of your remark, and that is that the working-level communication regarding the implementation of the 23 agreements continues as before and is basically smooth; is that correct?

MR. LIN: To a certain extent. As I just mentioned, we (inaudible) document from our Ministry of Transportation, and we are proposing to have the bilateral, for example, Economic Cooperation Forum. It is the vice minister labels but some delay in the process. But in the (inaudible) communication still continue but as I just mentioned, it takes two to tango but you are conducting an exercise related to a maritime issue, it takes two to sit down and negotiate and arrange a schedule.

MR. WEST: Another question? The gentleman at the back right on the row, right there.

MR. HSIAO: Thank you. Russell Hsiao with GTI, Global Taiwan Institute.

My question is -- Mr. Lin, thank you very much for your talk. My question is in President Tsai's inaugural address she mentioned the act governing relations between the Taiwan area and mainland area. And I was wondering if you could shed some light on the significance of this pillar within the framework and governing relations between the two sides and your personal observation on that matter.

MR. LIN: In the inaugural address (inaudible) constitution, in our constitution all together 175 articles, but in the amendment number one regarding how to meet the huge national (inaudible) and the act governing relations between the people of Taiwan and mainland China, and also in the very beginning mentioning to meet the (inaudible) requirement in hindering people-to-people exchanges (inaudible) the national unification. So the wording has been there for a very long time period. And that might be

the reason why Beijing in one hand they were satisfied with President Tsai's inaugural remarks, but on the other hand they believed it's necessary but not sufficient, they still continue to push the envelope, want the government in Taiwan to accept the 1992 consensus. This is the second TPP government. In the past previous TPP government and the (inaudible) government did not accept the 1992 consensus. In the current government, we have a different interpretation on the 1992 consensus regarding the meaning, regarding the historic context. It is a very sensitive issue and it takes wisdom, a leader, working (inaudible) to sit down to have a dialogue before that sensitive, touchy issue could be settled in the longer one.

MR. WEST: Thank you.

We have a very tight schedule today. I'm sure that we could keep asking you questions all morning but you probably have other work to do. And let me again thank you very much for your very thorough and thoughtful presentation and for getting us off to a very good start.

(Applause)

MR. BUSH: The title of this panel is Opportunities and Challenges in cross-Strait relations. By way of introduction I would like to go back to that word "under" in the title of our overall program, cross-Strait relations Under the Tsai Ing-wen Administration.

And I'd like to make the point that that word, under, has merely a chronological and not a causal connotation. What do I mean by that? We are talking about cross-Strait relations in the context of a new leader in Taiwan, a new leader of the Republic of China, Dr. Tsai Ing-wen. She took office on May 20th. She was pretty clear during the campaign about what her policies would be, and so it is not surprising that there might a change in cross-Strait relations as a result. But there's been a change in the approach from Beijing as well.

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One final point here. Tsai Ing-wen took office as a result of an election, and she does, and must reflect the views of the many people who put her in office.

But to talk about the opportunities and the challenges, and we hope there are more opportunities than challenges, we have four really outstanding experts. I'll just briefly introduce them because I know you have biographies available.

The first is my good friend, Arthur Ding, Ding Shuh-Fan, he's the Research Fellow and Director of the Institute of International Relations at National Chengchi University; Dr. Yan Jiann-fa, he's Professor at Chien Hsin University of Science and Technology; my good friend, David Brown, who is Adjunct Professor at the School of Advanced International Studies of the Johns Hopkins University; and Dr. Zhu Xhiqun, who is Associate Professor and Chair of the China Institute at Bucknell University.

So, Arthur, can you kick us off? You can speak at the podium, or you can speak down there; whatever you want.

MR. SHUH-FAN: Okay. Thank you, Richard. It's really my pleasure to work with Richard to organize this conference, and also thanks for the mix of support.

The topic assigned to me is about the opportunity and the challenge, so probably let me first address the current status in Taiwan Straits. Well, different terms have been used, a friend in Beijing, in Shanghai, says that it's so-called the pro-peace (inaudible), and remember in Taipei yesterday -- yesterday or a couple days ago, he says, stalemate without crisis. Anyway so either it's (inaudible), or stalemate without crisis implies that some kind of peace and stability has been stayed -- or has been there, had been maintained.

And this created a kind of an opportunity for moving forward. So I think that maybe -- Let me explain how it was made. There is no doubt I think that President Tsai, in her inaugural speech, really made a tremendous effort, in moving probably -- at least one step forward than what she said last year, at the CSIS I guess. Deputy Minister

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Lin he says that in her inaugural speech she mentioned Housing Constitution, the Act governing the Taiwan area and the China -- the Mainland area, and so and so forth.

So I think she really made tremendous effort moving her position, at least one step forward, or you can say it's two steps did not, did not matter at all. And in the direction that -- which commit, I will say, at least can partially or completely meet the expectation from Beijing, in Taipei, or in Washington, D.C., I think this is the contribution she made.

For President Xi, we know that Beijing's comments of her inaugural speech, is about so-called incomplete. Why is it incomplete? And why is it now so called the (Speaking in Chinese), earthquake and the mountain shake. I think this, for once involve definition of how should we interpret it, these four-character remark, (Speaking in Chinese). It's a goal, or it's an adjective to show his concern about the future.

I think it should be an adjective rather than a goal, because we look back to several years ago, when President Xi met the Former Premier, Vincent Siew, at the Bo'ao Town. President Xi also made the remark that so-called the cross-Straits issue cannot be delayed generation after generation. So, at that time people worry that it might be a timetable, but actually, several years has been passed, apparently as Siew is concerned he's urging his part, it's not a timetable.

So I think, how should we interpret another four character is that (Speaking in Chinese) means that, it's not a goal to heavily punish President Tsai and the new administration. It's again to show his concern about the potential consequence if President Tsai didn't somewhat motivate her position.

So, this is why this not one factor. Another one is, for President Xi, we all know that he's fighting often, war inside China. From politics, military and economic, he's fighting often war, and particularly he took such a -- he has taken such a harsh action against the so-called, those party or government official, which is charged as corrupt,

corruption. Then if you take such kind of a harsh action, then how can he take a somewhat military approach to President Tsai? So this way, also I think that President Xi also meeting President Tsai somewhere in between, I would say.

And to talk about the future -- Ten minutes is really quick -- To talk about the future I think President Tsai is committed -- President Tsai is very committed to what she has said, and so definitely we don't need to worry about, she might change her position. Particularly, I think it's very tough for her, because we know that her popularity has dropped almost below 50 -- around 50 percent.

And if we really read the town media, you know she has been attacked by his -- attacked from his -- the party factions, and also from the different social sectors. Particularly, also, from the Blue Camp, there's no doubt about it. But I think that although she's facing such kind of a difficulty in enmity, so called the drop in -- the decline in popularity.

But I think he definitely showed a -- met his commitment, and will keep her commitment, continue, because we all know, she used to be the Head of the Mainland Affair Council. She knows how difficult it is, and she knows the sensitivity, so that I think she definitely will keep his sic meant her? promise and her commitment. Particularly, she's a lawyer.

I think for President Xi, as I said earlier, he's fighting (inaudible) war, and I think that for him, priority is in domestic front. First, he has to finish something in the coming Plenary Meeting, the Central Committee Plenary Meeting sometime in October, and again, one year later, the so-called, The 19th Party Congress.

We don't know what the outcome will be, but definitely this will be definitely critical arrangement for him and for her so-called appointment. So, I think this way, the domestic issue should be -- occupy his priority, and Taiwan, as long as President Tsai keeps her commitment, and there's no hurry for President Xi to take any

kind of actions.

And also, President Xi already took some kind of so-called sanction, if you can call it, you know. We all know that the decline in number of the Chinese tourists, that the decline in the Chinese students, and so on and so forth. So, as long as, I think, President Tsai can keep her commitment, then there's no hurry for President Xi to take further harsh action against her and against Taiwan.

And I think, also the -- I think President Xi also worry that she should not be blamed for -- to break the current very -- the current -- the peace and stability, because once he take harsh action he cannot risk this kind of cost. So I think, overall, in the next -- at least before the end of the year, the Party Congress, next year the current peace and stability will stay.

And also we can see the sanction taken by Beijing is somewhat limited because we see -- although we see sanction, but Beijing also take unilateral actions to try to boost -- to try to deepen the ties with Taiwan. We see all kinds of summer programs to encourage Chinese student, and the program to help the Taiwanese younger generation to build on their so-called opinions.

And there's a rumor which says that, so-called a nationalist woman will be offered to the Taiwanese Pinyin (phonetic). So you can see, Beijing also try to -- is working hard so that the current very -- I would say, this kind of business, the business can be maintained in the near future, and for the both sides to find the other opportunity to make a break. So, this is my presentation.

MR. BUSH: Thank you very much. Right on time. Professor Yan?

MR. JIANN-FA: Thank you, Chair. Ladies and gentlemen; this is my great honor to be here, sharing my observation with all of the audience in this room. I would like to elaborate more based upon Dr. Ding's presentation.

Basically, I think we don't know that cross-Strait relations now are at a

stalemate. And that's because -- mainly because of our Beijing factor. As we know, that Beijing has cut all the formal channels, and even the think tank context -- especially the think tank concept with the green background. Even scholars are not allowed to meet our DPP members, like me.

And so this is a way of, Beijing now is trying to testify with Tsai Ing-wen's Government's capacities, and also the mind of the Chinese people. So I think there was a long journey to go. I think we'll have a lot of challenges ahead. And I think, basically, the reason why Beijing tried to cut all the formal channels, just because Beijing is trying to push Tsai Ing-wen to accept the '92 Consensus.

Because as you know, that if Taiwan accepts '92 Consensus then cross-Straits usually will become a domestic one. If cross-Straits relations is a domestic one, then the U.S. will lose the moral or legal ground to intervene in the Taiwanese issue. So I think this is the basis of the strategy behind Beijing's articulation. And of course we all know that now Xi Jinping is very busy. And now what Beijing's concern is only 19th Party Congress the end of next year.

So, he's trying to marginalize the Taiwan's issue, and because if -- As a matter of fact, if you see that the elections in 2014, and 2016, basically Taiwan's political landscape has turned green; so if Beijing faced this reality, then Beijing has to do something. But this is not good timing for Xi Jinping to take any radical approach against Taiwan, or even trigger a war. Because now he has encountered a lot of difficulties, challenges.

Internally speaking, especially economy, we know that Xi Jinping inaugurate Secretary General of the CCP in the end of 2012, and China's economy started to decline in 2012. So this is not a good time for Xi Jinping. And we also see that there are a lot of social complaints inside China, that's why Xi Jinping arrested thousands of lawyers for human rights.

And so a lot of difficulties inside China, and also we see that basically in the past three years, China has been -- I don't want to say content, but a lot by the United States and U.S. allies. From the Northeast Asia to Southeast Asia, we see THAAD. When U.S. and Korea decided to deploy the THAAD system, that means that China and South Korea relationship will not come back to the former situation. And China and Japan relations also turned sour, especially after the nationalization of fishing islands, Senkaku Islands.

And you see the ruling of the hate has claimed that basically China's Southern claim failed. And looking at Vietnam, Vietnam had a strong protest against China in May of 2014. Myanmar, Myanmar just shifted loyalty to the West. And India, you see that India now is very sensitive to the rest of China in Southeast Asia -- South China Sea and Indian Ocean. So, basically you will see that now Chinese diplomatic relations are very difficult. And so under these circumstances, I don't think this a good timing for China to take a radical approach.

So what will Xi Jinping do in coping with Taiwan situation? I believe Beijing will use the conventional means, that's called three wars, legal wars, media wars and psychology war -- psychology warfare.

And you will see that's why Xi Jinping now and his administration reiterated '92 Consensus or One-China principle again and again. And also we know that some media has been -- I would say, has been bought by a Beijing authority in Taiwan. So, they will try to promote '92 Consensus for Beijing Government, and also use the psychology warfare to try to (inaudible) the Taiwanese people, and even try to isolate them, the Tsai's Government.

Xi Jinping Administration also use some concrete measures like to control the four -- Chinese students and Chinese tourists, and even control, try to control the importation of Taiwanese agricultural produces. But I think this is only the beginning

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of the test. Taiwanese often compromise, if Taiwanese people compromise then, I believe they will figure another way. But if the kind of -- and they just fail, they will try another one.

So there is a long way to go. And so this is the opportunity for Taiwanese to testify our determination and our capacities. So this is why Taiwan has to do a lot in the internal reform, economic reform and social reform, that's very important, because this is the foundation for Tsai's leadership. And the other is Southbound Policy, because we have a lot of small to medium-sized enterprises lost money a lot in China.

And Chinese people always, especially scholars, criticize that we are the troublemaker, because we trigger the way of Southbound Policy, but basically this isn't right. If you look at the One Belt, One Road, One Road, is basically kind of a Southbound Policy, and that was proposed in September 2013, early in our Southbound Policy. So this is, we have to -- we cannot put all our eggs in the same basket, so this is a very important strategy for us.

And of course, I think it is quite a beginning for our testing, and we have to show our determination, and we have to be very rational, pragmatic and realistic, because we know that we are -- we should be responsible stakeholder in this region, and we know how it could (inaudible) the United States, even we have no formal links, but we have very strong, substantial links, and we also have very good connections with Japan and Southeast Asia.

So I think in this regard, I'm very optimistic about Taiwan's future, and I think if we can experience this hardship experience and testing, then we will revive. And so this is a good opportunity for Taiwan to survive, and try to get rid of Chinese domination. And someday, maybe, if we become strong enough we have more partnerships and more capacity to cope with China, to negotiate with China. Thank you.

MR. BUSH: Thank you very much; very good points. David Brown:

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MR. BROWN: I, too, would like to thank the sponsors for inviting me.

With 10 minutes I'm going to have to move quickly. My overall assessment of cross-Strait relations since Tsai Ing-wen's election, is that things are quite a bit better than I had expected. On the unfortunate or negative side, it is true there is still a fundamental divide between Beijing and Taipei, on sort of core principles, upon which relations will be based.

I don't expect Beijing to give up its core principles with respect to One China, and I don't expect Tsai Ing-wen to give up her core principles with respect to democracy. So, the chances of being able to bridge this divide are limited, but I see both sides trying to do that, and I hope they will continue despite the poor prospects.

On the better-news side, some things that people thought would happen haven't happened. The most important of which, I think, is that Beijing has exercised restraint with respect to Taipei's diplomatic allies.

And on Taipei's side, with the UNGA opening this week, we are reminded that Tsai Ing-wen is not pursuing Chen Shui-bian and Lee Teng-hui's approach to obtaining observer status in the U.N., but is focusing on ways for meaningful participation in specialized agencies, and this new term, meaningful contributions to the international community.

And despite the fact that the institutionalized communication isn't working, as Minister Lin noted, there are other ways of communication going on, to use his term, to a certain extent. And so, all communications hasn't been suspended.

Now, while there is an impasse on these core principles, things have happened, and each has had to deal with pragmatic issues as they come along, and some of these have been handled smoothly. I would start by saying that when the Oversight Bill was launched into the LY in February, I think it was, there were several versions that put it in a two-states context.

Tsai Ing-wen used her influence to put it back into a cross-Straits context,

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and then in her inaugural address said that relations of her government would be conducted on the basis of the Constitution and the statutes so far, i.e. that the way she's handling the cross-Strait Bill is put into a larger context.

Secondly, a week after her inauguration the WHA took place and lo and behold her Ministry of Health was able to go to Geneva and participate in a smooth manner, representing Taiwan's interest in international health. That was an accomplishment.

Thirdly, Minister Lin mentioned the tragic bus fire in July. This was a challenge for Beijing, it had to find a way to get its people to Taipei in order to deal with this issue, and so they organized a Tourism Association delegation that was made up almost exclusively of government officials wearing other hats, very creative. It was a pragmatic way to deal with things.

And then this week we've seen an example of the so-called Xinwan Agreement, being used for the exchange of convicts and people that each side wants to be rid of in the legal area. And all of these seem to me to be examples of pragmatic ways both sides have worked to handle issues.

Now some things haven't been handled very well, and the most important of those is the way Beijing has continued to force or entice other governments to repatriate people who are ROC nationals who committed crimes, or accused of committed crimes, or even some who have been judged to be not guilty of crimes, have them sent off to Beijing into the never-never land of criminal justice in the PRC. Now, that is a very negative development.

Now, each side has serious concerns nevertheless, very serious concerns about what the other side is doing. If I were to look at Beijing's side of the equation, their biggest concern is that the Tsai Government is pursuing a policy of dis-unification, as they put it, which is designed to sort of consolidate the sense -- from their

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view, to consolidate the sense that Taiwan is a separate society, completely separate from the Mainland, and in the months ahead, the LY is going to be considering the Transitional Justice Bill, and that is going to raise other matters of concern to Beijing.

Now on Taiwan's side, you don't hear much about what their fundamental, underlying concerns are, but I think I know what they are, and that is that Beijing will use its very considerable international influence to frustrate her effort to revitalize the Taiwan economy. In part, by expanding and broadening Taiwan's economic relations around the world, but particularly under this government, through their new Southbound Policy which is going to require the negotiation of all kinds of new agreements with various governments in Southeast Asia to facilitate the kind of expanded economic ties that Taiwan wants.

And behind that, if we ever get TPP approved in the United States, and that becomes a reality, that Beijing will use its influence to block Taiwan's participation in TPP. So there are very deep mistrust and concern underlying the relationship despite the fact that some things have been handled skillfully.

Now, I'm cautiously optimistic about the future, for some of the same reasons that have been mentioned. I'll put them in a different way, it's because I think that if you look at the last nine months, you will see signs that each -- it is in each side's interest, to maintain this kind of some somewhat stable peaceful relationship and prevent it from running off the rails into a period of tension.

It is in Xi Jinping and Beijing's interest for the reasons -- one of the reasons that's been cited. He's got too many other problems which are more urgent and more pressing. But Tsai Ing-wen has helped him out by taking a moderate approach, and with Tsai taking this moderate approach he can in effect put the Taiwan issue aside, while he manages all of his other problems and steers through the 19th Party Congress problems.

But he has another interest, and that is, every Chinese leader must have a policy towards Taiwan that seems to have some prospect of being successful. And his policy that he has accepted is, the so-called Peaceful Development Policy, and that requires him to keep working at strengthening people-to-people ties, at least with Taiwan.

Now, if you look at Tsai Ing-wen, I think she has two compelling interests as well, to stay on course in a way that should be reassuring to Beijing that she's not going to pull a (Speaking in foreign language), sudden change of course, the way they fear.

And those interests are, first of all, that she wants to be reelected, and to get reelected she has to do two things. She has to show the people of Taiwan who elected her that she manage cross-Strait relations successfully, maintain peace and stability and deprive the KMT of this way of attacking. And secondly, she has to revive the Taiwan economy, because if it doesn't revive she's going to have a difficult time persuading people to let her stay on. So, I think those reasons, explain why things are better than expected, and give us hope that they will remain manageable in the future.

Now, I'm supposed to come up with some opportunities, and I'm going to go back to something that's been mentioned a couple of times, and that is this language that Tsai Ing-wen used, which was that we will conduct relations based upon the Constitution, the cross-Strait statute and other laws.

I think that was an extraordinarily important statement, and one of the reasons why she got a partial completion on her grade from Beijing. But I think Beijing is fearful that she's going to do this (Speaking in foreign language) change of course at some point, that she can agree and interpret the Constitution in a different way. Isn't she the one who helped Lee Teng-hui interpret it in a certain way 15 years ago? So they are afraid.

Anyways, I hope they will take another look and find a way to use this

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statement, and maybe combine it with something else so that a new formula can be found. And the second area of opportunity is cross-Straits economic relations, and Mr. Lin, in talking about the future, said they want good economic ties with the Mainland. I think it's in Beijing's interest; it has been in Beijing's interest since '79 to promote closer economic ties, because they see it as a way of tying Taiwan to the Mainland.

So both have an interest in this, and I believe that eventually, maybe two years from now, they will find a way to come back to the Merchandise Trade Agreement Negotiations, and the Services Trade Agreement, because if they don't do that, other countries are going to be much more competitive in the China market than Taiwan is, and it will not be in either Beijing or Taiwan's interest to let that happen.

I apologize for going over. Thank you.

MR. BUSH: Thank you very much, David. Professor Zhu?

MR. ZHIQUN: First of all, I thank Dr. Bush and the other organizers for having this conference, and having me here. Within the time allowed, I'll focus on the relationship at the official level, but I want to point out, first of all, that this is a complicated and multifaceted relationship. Below the official level, you have the societal level, individual level, I want to add a dose of hope, and optimism, perhaps, by pointing out that at the now official level, actually the relationship might not be that bad.

For example, from the Mainland's perspective the public views towards Taiwan are not monolithic. I think most of the mainlanders who have traveled to Taiwan and thousands of students who study in Taiwan, or who have studied in Taiwan, tend to have very fond views of Taiwan, and they are very impressed by -- obviously by the freedom of press, the cleanliness of Taiwan, and hospitality, and of course the Taiwanese food.

But of course when we talk about the relationship from the official perspective, it can be frustrating. I want to add a few observations that have been

mentioned, and then I also want to offer some comments on what we can do to move forward. First of all, I think both sides need to be commended for what has been happening so far.

Obviously, President Tsai has been very cautious. She doesn't want to provoke Beijing and she's taking a non-confrontational approach, and Beijing also has been practicing strategic patience. I think if you compare Tsai Ing-wen and Chen Shui-bien or Lee Teng-hui, I think probably Beijing lost hope in Chen Shui-bien or Lee Teng-hui soon after they took office. But right now I think Beijing still holds hope for Tsai Ing-wen, because from Beijing's perspective, you know, she only gave an incomplete answer, you know.

The answer is somewhat satisfactory, you know, maybe not completely satisfactory from Beijing's perspective. So Beijing is giving her more time to think about it, maybe to elaborate, to clarify her position. But of course, right now, Beijing has shut down the communication channels, and President Tsai has repeatedly said that she respects what happened in 1992, but she cannot publicly endorse the '92 Consensus.

So the question is, when will Beijing run out of its patience, and what Beijing will do next is unpredictable. And I think a largely it depends on what Taipei will do next.

And secondary, I think the other panelists also mentioned that cross-Strait relationship perhaps not the priority for both sides, and I agree with that. But on the other hand, the other side of the coin is that public dissatisfaction or pressure is growing on both sides. I mean, we know about all these demonstrations taking place in Taiwan, so it's interesting to see whether the DPP Government will think that improving relations with Beijing may help rectify the situation at home.

On the other hand, some of my colleagues mentioned that Xi Jinping is preoccupied with domestic issues. He may not do anything before the 19th Party

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Congress next year. And I agree with that, however, public pressure may also be mounting inside the Mainland. For example, recently there's a prominent scholar in Beijing who is talking about the timetable for settling the Taiwan issue by 2021. And also, remember President Xi Jinping is a strong man, he has strong sense of mission with or without public pressure he may still do something about Taiwan, as part of his Chinese dream.

Another observation is that interestingly for me, the United States, the biggest external stakeholder has taken a hands-off approach so far. We all know that the shortest cut between Taipei and Beijing sometimes is via Washington, so perhaps Washington should do something, you know, to nudge the two sides to talk to each other, but I haven't noticed any efforts from U.S. side, at least publicly.

For example, when asked to comment on Taiwan's participation in the U.N., the U.S. State Department repeated it's a long-standing One China policy, based on the -- through communiqués and Taiwan Relations Act.

And a number of U.S. Congress -- And Members of the U.S. Congress visited Taiwan recently. They also expressed their support for Taiwan's democracy, but I don't think there's any indication that these Members of Congress encouraged cross-Straits dialogue. So, Washington's silence, or inaction, is very interesting, and I think it warrants some analysis.

Now, moving forward, what can we do? I think flexibility is key, especially for Beijing. I think by now Beijing fully understands that it may be unrealistic to hear the words '92 Consensus from Tsai Ing-wen's mouth.

But the question is, will Beijing accept something that is very close to '92 Consensus? I think it should, and perhaps it will. I mean, we all know that Taipei and Shanghai Forum, when they had -- Taipei may have challenged the -- did not really endorse the '92 Consensus. Of course you can argue that he's just at the municipal-level

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official, and he's not a DPP member.

But still I think what happened is very interesting here, because (Inaudible) was quoted as saying that the two sides of Taiwan's Strait belongs to the same family, now each action -- So, if President Tsai can move along that line, say something similar to that respect, I suspect that Beijing may be very happy to accept. I don't think that Beijing will necessarily insist on hearing those four words, the Chinese words, right?

Next, I think, Taipei also needs to be pragmatic. I think a simple cost and benefit analysis perhaps can help President Tsai and the DPP Government to more clearly define its position, and meet Chinese side halfway.

For example, what can Taiwan gain by refusing to recognize '92 Consensus? And on the other hand, what will Taiwan lose if President Tsai explicitly or implicitly endorses the '92 Consensus? I think this calculation may help the Taipei Government to make decisions.

Now, I want to also talk about this '92 Consensus as a precondition. I think probably many people in Taiwan, and maybe in this audience, think that that's a precondition, but I think from Beijing's perspective, this is not a precondition, because this was a consensus -- this was a foundation of relatively warm economic and even political relations in the past eight years. And it is also consistent with ROC Constitution.

So, Beijing can argue, actually, the new government in Taipei is attempting to change the status quo by refusing to endorse the '92 Consensus that laid the foundation for the past eight years. And because of President Tsai DPP background, I think that's why Beijing wants some reassurance from her that she's not seeking formal independence. If a KMT individual is in power, maybe Beijing will not insist on that point. I think that's something we need to bear in mind.

And also, from Beijing perspective, President Tsai's position on cross-

Strait relations has not been very clear because sometimes she talks about, I will say, Constitution that should guide the cross-Straits relations, sometimes she's talking about constitutional framework. Now remember; constitution and constitutional framework are different things.

The Constitution is basically a One China document, the constitutional framework means, what is the situation in Taiwan now based on democracy, human rights, and President Tsai can easily use the public opinion in Taiwan which is largely the anti-CCP as the foundation for her policy. So, that's why I think, you know, that Taiwan's Government -- Mainland Government wants to know exactly what President Tsai thinks.

So, I hope that things will change very soon, and as we speak here, I think probably Dr. Teng Hui Mao is reading the People's Daily in his office, and waiting for a fax from Beijing. I hope that that fax from Beijing will come soon with the words saying that: Let's talk; and congratulations. I'll stop here. Thank you.

MR. BUSH: Thank you, all, for those great presentations. Because you have shown such great discipline in time, we have 27 minutes till the coffee break. I am frankly bursting with questions I would like to ask, and things I would like to say, but as Moderator I must show great forbearance, and respect for the audience, and just moderate the discussion.

So, please raise your hands if you want to ask a question. Wait for the mic, let us know to whom the question is addressed. Keep the questions simple, so we can have other people, as many people as possible ask questions. So who would like to go first? I see a hand back here; right to your left, Tony Kane, sorry.

MR. KANE: Tony Kane, from American Councils for International Education. This might be a little off topic because nobody mentioned it, but I was surprised that nobody looked at one of the challenges in the cross-Straits relationship as being, what's happening in Hong Kong, and the way Beijing sees at least some kind of

Taiwan behind that. Is that because it's -- Did nobody mention because it's not really an issue, or? I'd like to hear some view of that.

MR. BUSH: Anybody wants to do that, or I can take a shot. Just briefly, I think what connects the two is the greater anxiety in Beijing about national security, and they see situation in Hong Kong, the situation in Taiwan as national security issues, and they see both of those going badly. And, you know, they also see a certain amount of interaction. The question they don't ask themselves is, how do our own policies create these situations that we are having such difficulty with?

So the next question. Jacques De Leeuw, great; it's up here, four rows back; right up here, sorry.

SPEAKER: This is Jacques De Leeuw, of Pennsylvania. To follow on, on Tony's question about broadening the framework a little bit, no one said much about the U.S. election and how that might change opportunities and challenges, the third party to the cross-Strait relationship. So I throw that to whomever on the panel. And for Jiann-fa in particular, if you would comment on how he sees relationship with Japan as affecting opportunities. You mentioned it briefly, but if you could say a bit more.

MR. BUSH: Okay. We are having the last panel on U.S., Taiwan, China, but in deference to Jacques, but does somebody want to talk about the U.S. election and what it might mean? Dave, you are the representative American.

MR. BROWN: One, I'm grateful that Taiwan issues are not part of the campaign. Secondly, I'm one of those who don't see how Trump can get the 270, and therefore the question is, will Hillary Clinton's election have any big impact on these issues, and my answer would be no. I think she fits into the main stream of American policymaking, the way she handled things when she was Secretary of State would not lead one to think there will be any significant change.

MR. BUSH: Okay. I happen to agree with that. Does anybody want to

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talk about PRC-Japan relations, and how that might affect Taiwan? Arthur?

MR. SHUH-FAN: Okay. Actually I have many friends in Beijing and Shanghai, they really worry about the potential -- the coalition relation between Taiwan and Japan, particularly after May 20th. But we all know that although, for instance, for the Japanese version or the TIA has been there for several years but had never been -- become a reality.

So, I think as time goes by and those, particularly those know the Japanese politics and the Taiwan politics, if both groups in Beijing, they work together, they probably have -- I think they have -- they should have a better picture of, you know, how far the Taiwan-Japan relation can go.

There's no doubt the Prime Minister Abe, or Japanese Government and Prime Minister Abe, really want to improve the relation with Taiwan, but there's some kind of -- we all know there's some kind of limits, because there's no kind of formal, diplomatic relation there, so that is what I know.

MR. BUSH: Do you want to comment on that? Go ahead, please.
Yeah, please, if you will --

MR. ZHIQUN: Of course, we know that Beijing has been very upset about the relationship between Taiwan and Japan. I think just because of the historical memory. But I think the best way to resolve the issue is to democratize Beijing politics. Looking at the Chinese tourist in Japan, they are very -- a lot of Chinese tourists to go to Japan because they love the culture, they love the goods there.

And so basically this is not a -- So the key issue is Beijing itself, not the people, not the Chinese people; so now we have to see what is the key to resolve the whole issue across Taiwan Strait, across Japan and China, or the world; so basically the point is Beijing authority. If Beijing can start its democratic reform, and to treat their people nicely, then I believe there will be prospect to look forward. Thank you.

MR. BUSH: Okay. Another question? The person right in the back, and then I'll come to Deng Wei Yu.

MR. HERALD: Scott Herald from the RAND Corporation.

MR. BUSH: Hi.

MR. HERALD: Hi, Richard. I'd like to ask the panel, as a whole, if they could, to weigh in on the issue of maritime disputes. Obviously this is an area where China and Taiwan, in certain perspectives have a confluence of interests, that confluence of interest is also somewhat problematic from the perspective of the United States, and from Taipei, which does not want to perceive, or have anyone perceive it as being sucked into an anti-Japan, anti-Philippines, pro-Beijing position.

We've had the PCA ruling, that PCA ruling was responded to by Taipei in a way that was not uniformly welcomed across the region or in the United States. So I would just ask, now that we are two months after that, do you see any further steps where this is going to create problems for Taipei? Do you see any further evolution of Taipei's position? Or have we passed all of this, and this is now a non-issue?

MR. BUSH: Arthur?

MR. SHUH-FAN: I'll try my best, Scott. I think we all know that President Tsai had different position over the so-called South China Sea, different from President Ma. President Ma has quite a traditional Chinese way of thinking, so the use of land belonged to -- so-called, the Republic of China or China.

But I think for President Tsai, he not deny -- not publicly deny the so-called use of land, but he needed to probably endorse the use of land. He used this term, but put this issue in the so-called international law context. So there's a different -- you can see the difference between President Tsai and President Ma, and also different from Beijing's position.

So, I think that President Tsai is really -- take a very careful approach,

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because I think she knows this is a very sensitive issue among Taiwan, Beijing and the United States, and probably so-called Taiwan's neighboring countries. So, President Tsai really takes a very careful approach. If my interpretation is correct, but I cannot speak for her, as President Tsai, that she probably put the traditional claim in the context of the so-called international law. It's different from President Ma's position.

MR. BUSH: Okay. Other comments? Deng Wei Yu?

SPEAKER: Thank you. Deng Wei Yu, with China Review News Agency. You all seem to be quite happy with the status of the cross-Straits relations now, but as Professor Zhu said: The key problem is, when will Beijing lose its patience? So my question for the panelists is, based on your estimation and your communication with the Chinese scholars, what's the timetable that the cross-Straits relations enter the next stage? Will it be the Double Ten Speech? Or, will there be any events or incident could change the momentum of the cross-Straits relations? Thank you.

MR. BUSH: Speculations here? Professor, again? And then we'll go to

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MR. JIANN-FA: We need a timetable in life. But if we stick to the timetable life will be very hard. So I cannot offer you a good answer, but you may ask Xi Jinping. But I think Chinese always play tricks. This matter of psychological warfare, and taking some example like Hong Kong issue, Umbrella Movement, Asians are very hot on this event, but finally, Beijing compromised. On the Japanese issue, China triggered a lot of protests in 58 cities, but finally, Xi Jinping compromised.

In the Vietnamese case, Vietnam triggered the protest against China, finally China compromised. So, a lot of compromises, so I don't think we have to be so pessimistic to Chinese. Chinese are very flexible, they just stick to the principle, but technically they are very flexible. But what is the principle? Principle can last for 100 years, even 1,000 years, so we have been very patient, of course we have been very

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strong. Beijing only respects a strong side, a strong party, so that's why I think we have to survive on our own. Thank you.

MR. BUSH: Professor Zhu?

MR. ZHIQUN: I don't think there is a timetable right now, but at the same time, we also have to be aware that President Xi has this strong sense of mission, especially the Chinese Communist Party is talking about this 100 years anniversaries, by 2021, 100 years anniversary of CCP; 2049, the 100 anniversary of the PRC founding. I think he has a strong sense of historical mission, you know, to solve the Taiwan problem.

You will remember, Deng Xiaoping said that our generation doesn't have the wisdom to solve all these disputes in Japan and Taiwan, right, but the future generations to resolve those problems.

But I think President Xi Jinping has said several times, that we cannot put off the Taiwan issue indefinitely, so that's some sort of a soft deadline I think. So I'm not that optimistic and Professor Yan. I think, you know, this will be a big problem in the next 20 or 30 years.

MR. BUSH: David?

MR. BROWN: I can't think of anything that is realistic and likely that will cause Beijing to be impatient. I can think of things that are unlikely that would cause Beijing to become impatient. One would be if the KMT collapsed as a party, and there was no prospects whatsoever of it coming back into power. Now, that would undermine the credibility of the Peaceful Development Policy.

But I think Beijing is reasonably optimistic at this point, maybe that Tsai Ing-wen may be a one-term President, and that Xi Jinping would have an opportunity, at the very end of his time, to return to the effort that he was pursuing with Ma, of trying to move cross-Strait relations forward. If there's a split in the PRC leadership and over which Taiwan is an issue, then there might be a faction arguing for a different policy.

And down the road, if the PRC got to the point where the PLA could come to the leadership and say, we are confident that we can solve this problem militarily; then I think they might become impatient. But I don't see that happening in the foreseeable future either. So, no likely way of it happening, but several unlikely ways it might happen.

MR. BUSH: Arthur, did you have a comment?

MR. SHUH-FAN: I'll piggyback on Jiann-fa's comment that the risk from DPP's perspective, these kinds of timeline, October or -- Actually it's kind of a psychological warfare launched from Beijing that created pressure against President Tsai for her to make further concession, further concession. So, you know, this kind of so-called timeline idea probably is not realistic, because I would say any political leader, probably would not make concession under this kind of a pressure.

I would say either, you know, look even for Beijing leader, you know, in the '70-'80 when Beijing was relatively weak, then pressure from United States, then Deng Xiaoping stood up. So I think, so-called the October -- the expectation of the October statement and, you know, probably for the further concession, I would say it's not realistic, although it's not completely impossible, but for me, a little bit unrealistic.

MR. BUSH: A couple of comments. Beijing does have the option of accepting less than Tsai Ing-wen saying the words they want to hear, in exactly the way they want to hear them. There is a spectrum between absolute clarity and absolute ambiguity. So instead of worrying about -- Well, we should worry about Beijing losing patience, we should also think about Beijing's changing expectations.

The second thing I wanted to say -- Oh. Sort of along the lines of David, of the unlikely but unexpected, I'm not sure there will be a sort big faction or division within the PRC over Taiwan, but I can imagine one of Xi Jinping's enemies, and there are not few of them, in the run up of the 19th Party Congress, making an issue of Taiwan, just

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to put Xi Jinping on the defensive. And this is not a policy battle, it will be apolitical battle, but he may decide to take some actions in order to respond to this.

Did I see Mike Fonte's hand? Yes, I did see Mike Fonte's hand.

MR. FONTE: Thanks for great presentations. Mike Fonte, I'm the Director of the DPP Mission here. Just a quick comment; there has been a comment that the U.S. have been quiet in the cross-Strait issue, and I agree, publicly, but I can tell you that there's been a lot of conversation, of course, going on behind the scenes, and I think that's true, particularly on the South China Sea issue.

That is, the United States clearly does not want Taiwan to become provocative in any way, and to have said, publicly, we accept the decision that the nine-dash line no longer is valid, and historic orders argument is no longer valid, would have been a very provocative statement I think, by the Tsai Administration. So, you can see, again, I think, Dr. Tsai being very careful in her presentation about how to speak about issues that don't provoke, but also don't agree necessarily. I just want to make that as a quick comment. Thank you.

MR. BUSH: Comments from the panel? Okay. Another question; yes, Ching Chen?

SPEAKER: Ching Chen Yu from Chengchi University, and also the Brookings Institution. My question goes to Dr. Yan. Actually I enjoy your speech, and my question is, you mentioned about some mass media in Taiwan right now, the attention in accordance with Beijing's talk, right? And the other issue in my mind is that, well, we do find some people in Taiwan in terms of different careers need to spread -- they do spread their idea about why they don't -- The government do not say the '92 Consensus.

So my point is that I'm not going to discuss the idea of '92 Consensus, or '92 talks, instead I try to say that, well, is that a good sign for a Taiwan to present different ideas at this moment for the new government to formulate its own policy to

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Mainland China. That means it was just in ideas, and even conflicting ideas in our society. And that's my comments here. Thank you.

MR. JIANN-FA: Of course, we needed some innovation of the new idea, new formula, but it takes some time, because Taiwan is a democracy, so we have to negotiate inside Taiwan. So, I think this is a process, but now, you will see that Tsai has (inaudible), ever since the presidential election, she has been focusing on domestic issue, internal issue, because this is our main concern. And we -- But for the external relation, we just keep a low profile; and realistic and responsible, so this is the policy that Tsai Ing-wen has been taking. Thank you.

MR. BUSH: There's a question way at the back.

MS. TSAO: My name is Nadia Tsao, Washington Correspondent for Liberty Times. I just --

MR. BUSH: Could you stand up so we can hear you a little better?

MS. TSAO: Sure. Yeah. I have a question about the KMT's role here, or not many people talk about it. I think the last time when Chen Shui-bian got elected, you know, the Chairperson, Ling Tsang went to China to open a new dialogue, and to change the whole dynamic. And after this election, you know, what role do you see that KMT is playing?

And we know that recently Hung Hsiu-chu, put in a new party platform with the '92 Consensus but ignoring One China -- in different interpretation, which is a key ingredient for President Ma's China Policy. So, do you see KMT is changing its strategy, and how Beijing viewed KMT's role? Thank you.

MR. BUSH: And I might ask how voters would view KMT's role?
Anybody want to answer that? Arthur, do you -- go first?

MR. SHUH-FAN: Well, already that KMT will be perceived as deep-blue and pro-China political party, is really my concern if Chairwoman, Hung Hsiu-chu pushed

her idea and people -- I don't want to make a kind of speculation, but I think from what I can see, it's quite detrimental to KMT's development in Taiwan.

MR. BUSH: Other answers. David?

MR. BROWN: I am mystified. How the KMT believes that adapting this position will improve its ability to appeal to voters in Taiwan. And I've asked that question to several people within the KMT and none of them have provided an adequate explanation. I did hear, however, that when they were in Beijing they got the exact same question from the people in Beijing.

MR. BUSH: Anybody else? Professor Zhu?

MR. ZHIQUN: We all know that CCP is used to dealing with the KMT, but I think things are changing especially with the new Chairwoman, Hung Hsiu-chu, who really, even within the KMT does not represent the mainstream say of thinking in Taiwan. Rumors from Beijing indicate that the Chairwoman Hung wants to visit Beijing like Ling Jang did, but I think Beijing is very cautious now actually, is kind of unwilling to receive her right now. That's what I heard. Thank you.

MR. BUSH: I think I'm going to bring this panel to a close. Do any of the panelists have a final thing they want to say? Well, I want to thank each of you for outstanding and stimulating presentations. You can see from the quality of questions the impact you've had. I want to thank you for your high-quality questions.

I apologize in advance for the configuration of this room, so it's going to be sort of complicated getting back there, and getting your coffee. If you want to go to the restroom, the sneakiest and best way to do it is to out one of the side doors, and then go through the middle corridor. But we will reconvene at 11:15. And thank you again.

(Applause)

PANEL 2

MR. KENNEDY: All right, we are going get started again. We have one

more panelist to arrive who is going to -- It's like a 737 here, it's a little corridor to get everyone to come on and off the plane.

I'm Scott Kennedy. I'm Deputy Director of the Freeman Chair in China Studies at CSIS, and also Director of our Project on Chinese Business and Political Economy. And it's an honor to be moderator for this panel on political and economic developments in Mainland China.

This is a topic over which you could have a full day or a full week conference, and we are going to do it in 75 minutes, for you. And I think, of course there's a whole range of questions one could ask, some things that are on my mind, that I hope the panelists touch upon, although they have every right to ignore anything that I'd suggest or ask.

The first has to do with the lead politics, and the centralization under Xi Jinping, and where things are going toward the 19th Party Congress. Hopefully they've already received detailed briefings from the leadership and will just report on that for us today.

The second has to do with Chinese bureaucracy both at the central level, and between the central government and localities. And those relationships have evolved, become I think in many ways, potentially, different from how they've been prior to Xi Jinping's arrival, and that certainly could affect how China engages with Taiwanese.

And lastly, the economy, which I think everyone is aware, faces a great deal of challenges and has a lot of volatility. China is currently implementing what they call supply side reforms, or which in some areas means reducing overcapacity, and in other areas increasing supply of high tech and high value-added goods.

In addition, they've got a considerable amount of debt as well. No small challenges, all of these things ought to affect how Mainland China engages Taiwan and vice versa. Luckily we have four terrific panelists. I'm not going to go into detail about

their careers. You've got their biographies, and we are going to go along this order which conveniently represents the distance from which they traveled to get here.

So we are going to go from farthest to closest. We'll start with Szu-Chien, who is the President of the Taiwan Foundation for Democracy. Then Chou Chih-Chieh will go next, and he's Professor at National Cheng Kung University. And then from the south side of Chicago, my son goes to school on the north side, a little bit further away; Yang Dali, Professor at the University of Chicago; and then my partner in crime at CSIS, the holder of the Freeman Chair at CSIS, Chris Johnson.

So, each speaker will talk for about 10 minutes, you are happy to come up -- welcome to come up here, or sit where you are, we've got someone in the front who will remind you. Regardless of whether you are standing here, or you might just speak closely through recording purposes, and so all of our friends in the back and around the world can hear your thoughts. So, we'll start first with Hsu Szu-Chien.

MR. SZU-CHIEN: Thank you, Scott, for your introduction, and to thank Brookings Institution, CSIS and IR for inviting me to this very important event. Today I would like to talk about -- the title of my talk is Xi Jinping's big chess match. I have this metaphor to describe what he's facing.

From last panel we heard about remarks like, when is Xi Jinping going to lose his patience, I hope it's not his temper. And also timetable for Tsai Ing-wen. Actually there's a very hard timetable for Xi Jinping himself; that is the 19th Party Congress. That is a very hard constraint on his calculation. So here is the metaphor of chess match.

I think Xi Jinping is facing four chess boards at the same time. The first and most important one -- This elite politics is actually the central of the picture -- the center of the scenario that he's facing power struggles within his ruling block, and he's also, at the same time, facing an economy that is not only slowing down, but also faces a

lot of pitfalls. And he is also facing a state-society relationship which he has put heavy hands on.

Pressed down a lot of NGOs and activists and lawyers, but lastly, but not the least, is the diplomatic security environment that China is facing. The thing is, with the elite politics has ramification on all of these domains. But at the same time, the way he manages these domains, or their own independent logic, for example, the structural adjustment of economy -- The economy can also have implications for foreign environment, for example, when you are -- this global economy is slowing down, and then China has this One Road, One Belt strategy, which will have very far-fetching strategic geopolitical implications.

So, actually China needs a more friendly international environment which sometimes is doing the contrary. And if the domestic stability is not good, then there is an incentive for an authoritarian regime to appeal to some kind of external conflict to divert domestic pressure. So, these things are linked together, but at the same time, as I said, the way that things evolve in this domain, independently can also have reversed impact on elite politics.

For example, the extent to which the economy has been well managed, the oppression or suppression that the regime has put on the society, and the repercussions from the international environment can all lead back to the pressure within the elite politics. As we all see, this year, there has been some public letter registered to -- registering a complaint to Xi Jinping himself, on the website of Xinjiang, you know, a letter from some comrades.

Within the letter, exactly, was about this point, you know, and all these mistakes that they accuse Xi Jinping has made on these things; so this is I think the chess boards that Xi Jinping is facing.

I'm going to skip some of these more theoretical things. But this is my

academic view, that China itself is a post-totalitarian or totalitarianism, so there are certain constraints constraining its transition. So pretty sure it's really difficult for post-totalitarian regime to transform into a democracy very easily.

You know, some people say both previous KMT -- Some people say KMT and CCP, they are all party states, so they should go through a same trajectory, but I have reservation on that, because KMT was actually have half authoritarianism, it has election already, you know, when it moves to Taiwan, but in China there is no substantial meaning for election.

And that this is a commitment problem. There are two kinds of commitment problem, one kind of commitment problem is between a dictator and his ruling colleagues that there should be some kind of balanced power, balanced among the factions, or the dictator should adhere to the explicit or implicit rules set among themselves, so that they don't have to worry about challenging each other, but these things have been broken by Xi Jinping's practices.

Sometimes Xi Jinping doesn't have other choices, because sometimes the other factions are imposing personal threat to himself, so he has to fight back very harshly, so his concentration of power and in discriminatory oppression of civil society actually exacerbates the problem of commitment and problems.

So, we also talk about Xi Jinping's enemies from last panel: Who are his enemies? Actually, Xi Jinping has this perception that there is a threat to overthrow the regime by a clandestine coalition between overseas opponents for the, so to speak, (inaudible), and domestic instigating elements.

But actually, there is no one in the civil society that can really impose credible threat to the regime. They are all very separated, and there is no opposing political party. So the real enemy actually comes from within, particularly the threat to his personal power within the Ruling Elite Circle. I identify three groups of enemies within

the Ruling Elite Circle.

The first one is the Jiang Zemin remnant faction. I think most of the anticorruption campaign is waged against this group of enemy, because they have posed threat, personal threat to him, close to a coup.

And the second group is the Communist Youth League. We have seen news reporting that the Communist Youth League School has been -- ceased to recruit new students. I think that's a very detrimental decision.

And the third, actually the most important group of enemy is the Princelings' families, because these Princelings families, they are the ones who originally supported Xi Jinping to come to power, but they are also the ones that is -- the most important obstacles for his reform, particularly on the state enterprises -- state-owned enterprises. And they are the ones; they are also the ones that could become potential alternative rulers.

So, Xi Jinping is facing this situation that it is really difficult to overcome the corruption problem because the corruption problem comes from within, particularly those Princeling families. So, Xi Jinping, he needs an alternative -- an alternative legitimate source beyond the party, that's what he needs. So I think it is unlikely to have a direct transition to democracy, but more likely to transition to a new dictatorship, new form of dictatorship with a more democratic sugar-coating appearance.

So the implication for cross-Straits relations is that, why is Xi Jinping losing his patience? Because he has too much challenge within, that is the reason. Not because Tsai Ing-wen complete half of the answer. She is still completing the answer.

You know, why would anyone lose patience? I don't lose my patience with my students if they answer the exams. You know, you should keep the patience and encourage them, right? I never lose my patience. Otherwise I would be a bad teacher. And then why it's always China losing its patience, why it's not Taiwan? Because it's

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more powerful, okay, that's only logic. Not that we are doing wrong. So that's one thing.

And I will say '92 Consensus is actually not serving Xi Jinping own purpose, that's because once you hold on to this yardstick, you are pushing yourself to the corner of the room, not Taiwan. Because once you step away from that, as Richard said, you'll be challenged by your internal enemies in the Party Congress.

So, we would encourage them -- We will not lose our patience. We would encourage Xi Jinping to think otherwise for the benefits of both sides. Thank you.

MR. KENNEDY: Thank you very much, Szu-Chien. Okay. We are going to turn now to Professor Chou.

MR. CHIH-CHIEH: Thank you, Chair. Thanks a lot to be invited at this conference, and I want to share my observation about the events in China social economic development, but because of the limit of time, so I think I would like to focus on the societal dimension in China.

I think that China's resident society is basically stable, but certainly not peaceful. It is to say that although the social arrest is still under the party-state's control, but it revealed the extent of the difficulty of comprehensive deepening reform.

Firstly, in terms of the social protest, according to my own research in the field of study, the most protesting subject are people from social vulnerable groups, such as farmers' workers, and the migrant workers, and that they are also -- I mean during the past two years, and they are also above 20 percent of protests initiated by people from the middleclass. That's a new situation, such as teacher, business person, self-employment individual and the business owner.

So, it shows that the middleclass is to -- traditionally the middleclass is exempt from the conflict, but this new situation show that the middleclass is not exempt from the conflict caused by the transforming social structure, and it has to stand out for their own rights and benefit. As for the issue of protest, nine-tenths concern is

materialism, which means the pursuit of food, clothing, and the rights of survival.

About one-tenth concerns post materialism. It shows that the most protests are still driven by the pursuit of material benefit. So the government, the use of the suppression as means to response is higher than the past. On the contrary, the percentage of the use of the negotiation has decreased rapidly, shows that the face of the -- the government, they are faced with the pressure of the (inaudible), especially local government has increased the use of suppression as a means of response.

So, the local government's previous strategy of paying money for peace, we can say that using the renminbi to resolve internal conflict has started to change. As for the management of the social organizations in recent years show that the three major trends, for me.

The first one is relaxation of the dual management system. The second one is the purchase of public service by the government. And the third one is, establish the core angles. And for the relaxation of the dual management system, some organizations in most provincial cities are only required to register at civil affair authorities.

However, the relaxation just applies to organization helping the government with economic and the social governance, such as business technology, charity and the community service sectors. Secondly, the purchase of public service by the government means that the governments provide funds and the resources to attract civil groups to apply for the participation in social service.

Thirdly, establish of core -- so-called the core organizations, means to have existing civil group or new (inaudible), serve as the core organizations to share management of relevant grass root organizations, or maybe you can say, other assistance organization. Or lay the laws for organization to allocate the resources so as to achieve the government core of managing people with people, or managing

organizations with organizations.

So the three tendencies show the government's intention to involve social organizations in public service. And for the overseas NGOs, all we know that the most recent change is the Overseas NGO Management Law, and the Ministry of Public security is entitled to monitor overseas NGOs, and to check their funding resources -- funding sources, and the development of their projects.

Previously, the Ministry of Civil Affairs was the central minister that worked the most closely with overseas NGOs. But according to the new law, the new law drawn up by the Minister of the Public Security, so it implies that it will further its control of overseas NGOs, and the possible negative consequence we are still observing.

So, generally, the government adapted both soft and hard approaches for the social control. The yields of the social policy and the warfare to try to disagree with the public, this content; this is a kind of a soft approach. While the pressure on the protest on regulation of NGOs, cyber control, and the arrest of human rights lawyer, and some dissidents, how to approach this.

So we can see the facts of the social unrest, and mostly constrained by the party's forceful control. However, many problems are not resolved. Perhaps to some degree, the ruling by law emphasized about Xi Jinping might be a way out. But in fact, there's a little difference between Xi's policy in social control, and the laws in the Fijing Tao, and the Jiang Zemin's eras, for me. But the implementation of Xi Jinping's major in the policies has been much more significantly enhanced.

So my concluding remarks is that Xi now face a critical moment, just presented by Professor Szu, so therefore -- especially the pressure of the slowing economy continues to grow. So, therefore, the political situation in China is characterized by the management of economic issue with political means.

As the economic outlook becomes severe, the control of public opinion,

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the Internet and its party elite, and official, becomes stricter, so we can witness Xi on the one hand, his sense of urgency to many reforms, try to run all the reforms simultaneously. And, on the other hand, a clear sign of a more authoritarian rule. That's all my point, and I beg you, comments. Thank you very much.

MR. KENNEDY: Thank you. Yang Dali?

MR. DALI: Okay. So people can see. In fact, I see on the screen here a very interesting set of -- from Professor Hsu's presentation, the chess match. In fact, I want to mention that President Xi in fact like sports, in fact there are investors who invest heavily now in soccer because that's one of the sports that he likes, so Chinese investors are buying football teams in Europe in particular. And in fact there is speculation that some of those investments may even be listed back in China.

But in fact, some of you may also know President Xi likes another game called Go, and in fact when you read Henry Kissinger's book on China, he also starts with the fact that Chinese leaders actually -- so this is important in thinking about thinking, because Go is much more strategic game that's played more for the long haul. And of course one of President Xi's former friends is in fact this Go player by the name of Yuanping.

But what I'm thinking, however, is President Xi likes all those sports, besides chess, but he's playing them simultaneously. And that actually shows the kind of crowded agenda that he has. He has so many positions besides the presidency, besides the chairmanship of the Central Military Commission, he is also taking on leaderships of the economy, the foreign policy, reform, military reform, cyber security, you can go on and on.

In fact, even if only a small proportion of the reforms that have been announced are fulfilled, he will be considered to be very successful. The challenge, however, is many people in China fell like that, in fact, he's moving fast enough on many

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of those issues. In fact, some of the disenchantment comes from the fact that he's set such an ambitious agenda, and only so much has been achieved.

But I think they are wrong in that regard, because a couple of the reforms that he has already launched, in fact, all in particular related to the anticorruption campaign, you may -- and you read actually every day there are officials who are being -- who commit suicide in some localities, whether it's Shenyang or Liaoning, there are more officials inside the jail than outside, at the senior levels.

And at the same time, really, in many ways, has changed the dynamics of the bureaucracy which is among the issues that Scott has mentioned. Many officials that used to be, but would have been very aggressive in pursuing certain kinds of construction projects in the past, were not willing to do them because they cannot get the cut anymore, and it's a political risk. Risk avoidance is key for Chinese officials today, throughout the bureaucracy, and it's about avoiding the risk of political trouble in many ways, and that's very important.

The other aspect related to the anticorruption campaign is in fact, in the military. We know that the two Former Vice Chairmen of the Central Military Commission, one died while awaiting -- basically awaiting his death, otherwise he would have been prosecuted. The other has been, essentially, thrown in jail. It's a set of -- in that sense it's the senior military establishment. Actually it's not a joke, the saying is: The Communist Party lost many more Generals in the anticorruption campaign than the entire Japanese campaign, a war in the 1930s and '40s, which is true in many ways, actually.

But part of the issue really relates to the fact that the Communist Party, the Red Army didn't fight the Japanese as aggressively, so sort of a -- So, in this connection, in fact, President Xi has launched this far-reaching military reform, including a reconfiguration of the military command system. In fact, you really the anticorruption campaign in order to pursue the reforms, he needs the authoritarian sort of approach in

order to be able to pursue reforms in various sectors, and especially in terms of the military.

And of course, in the meantime, this system waits to consolidate to really establish control, because one of the big challenges for the Chinese leadership, in fact, is that when you become the President people do not tender their resignation. You have to replace them over time, and you need to bring in your own people, and of course finding one's own people is also another challenge in the process. As a result, I think actually you can see the kind of -- the (inaudible), really what Arthur had mentioned to be all front war that President Xi is actually pursuing. And that's really the big challenge in this regard.

Now, I do have to say that in this context, however, the leadership is very confident, generally speaking, they still have that confidence, of course they were the most confident in or around 2009 to 2012 when the China model was at least Zenith in many ways. But if you read President Xi speech to the G20 Meeting in Hangzhou he, in fact, included a line basically saying that China needs to propose solutions for issues of global governance.

Now that's actually not aligned to be missed, because it again shows that the Chinese leadership are saying that China not only has found a way to continue to grow, but in fact that they actually now are in the leadership position in terms of thinking about the global issues, and they want to be playing host, for example, to the G20, but also doing other issues -- on other issues as well.

In fact, historically, Chinese leaders -- You have to go back to the time of the Anti-Japanese War when, for example, President Yang, at that time, and President Roosevelt were constantly in communication. Today, of course, you have a Chinese leader who is actually communicating and meeting with the most famous leaders of the world, regularly. And he's around when President Obama, he actually has retired and so

on.

So, therefore, he's acting as a global leader in a way that actually was not easy in the past in this regard. And in this case I think I want to mention very briefly, actually, the grand strategy in this case, because when you think about this ambition, the national ambition of being a global leader, you connected with the One Belt, One Road Initiative of China helping its domestic economy, but really reaching out to the Middle East, to Europe, and of course to other parts of the world. That's a very ambitious agenda.

It just helps -- It just happens to help with the domestic economy but that ambition, however, harks back to Chinese history, to the Silk Road in particular. It also help set in national security issues. For example, going through Pakistan would help to deal with -- ameliorate the security and Border Act, in terms of all the major sources of oil going through the Malacca Strait potentially.

Now, in this connection I do want to mention that the South China Sea disputes and the East China Sea, of course we can pause on the details and other issues, but it really fits into this global strategy of establishing, or certainly making China stronger in terms of global strategy.

And of course, as you all know, you go back to (inaudible) and all those, these strategies fundamentally is also to establish such a position for China so that it could win without having to fight, right. That's the ideal instance of this kind of strategy.

Of course it doesn't always happen that way, but fundamentally, however, this is very important. And of course in terms of the South China Sea and the East China Sea, it's so important to China's global reach in terms of the blue -- in terms of the oceans, and in terms of the global strategy in there.

In terms of, also, of course in this connection, of being able for China to stand up, and you looked at this morning's paper, in terms of what the Philippines

President just mention, it actually really plays to that. And of course in that context, Taiwan fits into -- the approach that Taiwan fits into this broader context.

Now, I do want to mention in my last minute or so, in fact, it's not that the Chinese leadership did not see what's happening in Taiwan coming, they did. They rushed to complete the deals with the Ma Ying-jeou Administration, in particular. The 23 agreements were their way to ratchet up relations across the Strait, so that actually they can really put a flaw in terms of this relationship. And in the context, however, they also anticipated that there would be some turbulence, but they don't really send it back to the pre-Chen Shui-bian era in many ways.

And of course, I think the talks really are also indicated that relations continue with the agreements already, but at the same time they can be patient in fact. I do want to mention, with the half-minute remaining, is that foreign policy and national policy today, however, are not just left to national leaders to decide.

You look at North Korea, for example, the public sentiment in China is turning. Likewise, in the past the Chinese leadership was able to use nationalism to affect relations with Japan. But today so many Chinese from the Mainland are traveling to Japan, they love it, it turned out.

And those kinds of sentiments are extremely important, and for the same reason, the leadership recognizes that nationalism is a dangerous weapon, in fact, to use, whether it's in regard to Japan or North Korea, or Taiwan for that matter. So in this context, I think actually that also helps to affect -- sort of really affect the framework for cross-Straits relations. Thank you for your attention.

MR. KENNEDY: Terrific. Thanks so much, Dali. All right, our last presenter, Chris Johnson?

MR. JOHNSON: Thank you, Scott. And thank you to my co-panelists. It's difficult to wrap up after all those good comments. I'm going to try to focus my

comments a little bit more on the specific issue of the leadership transition that will be taking place next year, because I think while we've heard a lot today, about Xi Jinping is fighting a multi-front war with foreign policy and the economy and other issues.

I think it's fair to say that most of the indications that we are getting, especially within the last month or so, is that his focus is now tunneling in very, very tightly on the Party Congress. There are several reasons for this, I think. First of all, President Xi has shown himself thus far to be very much a traditional Chinese leader, and in that I think his view is people first, and then policies.

And so he understands and continues to understand, and is reminded every day by the set up that he currently faces, that getting the Politburo right, and to his liking next year, will be incredibly important, and I think has a lot to do with a lot of the perennial questions that we are facing as analysts, such as: Is reform in China dead?

You know, I'm just back from Beijing actually last night, and I'm quite struck by the sort of tone that you hear, that fewer and fewer people who are willing to sort of suggest that while, you know, the long-standing view, has been well, he's cracking down now, but then once he gets his way at the Party Congress, he'll remove the mask and show himself to be Chinese Gorbachev, or whatever some people think.

I can't see any indication of that, but more and more you get a sense of very much a gloomy picture, and it's because it's hard to see any elites in the Chinese system who are happy at this particular moment. Certainly, as some of my colleagues have highlighted, the high-level elites in the leadership don't like Xi Jinping very much. They are losing a lot of their power and influence because of his growing power and influence and his strength in the system.

Business elites in China are happy for a number of reasons, especially SOEs given the pressures they are facing and the likelihood of coming reforms. The only people who seem to be happy with Xi Jinping's leadership are the broad masses of the

Chinese people, wherein he continues to still be quite popular, and I think that's something worth looking at.

Secondly, I just want to touch on the fact that, I think the challenge for us as analysts looking at Chinese domestic politics arguably now is the most difficult it's been in at least 20 or 30 years. I find it very difficult to try to get a sense of the directions. I think there's a couple of reasons for this, one, as we've all seen and heard, Xi Jinping has made the system extraordinarily opaque.

There are very few people now in the system, I think, who really know what's going on, and even if they know what's going on, they are not quite sure where Xi Jinping is, and this is very much part and parcel of his political style, which is to keep his cards very close to the vest, look very steady as he goes along, and then when no one is looking swing around from behind and smack whomever his opponent of the day appears to be.

And then the second thing is, I think we see a situation in which the dynamism across Chinese society, and its role in the world and in the region is such that the cycles, if you will, of the pendulum swinging on policy within the system, are much faster than before. You know, when you had -- In the past when we had these groupings dueling amongst each other, you know, it might swing this way for six months, and then this way for six months. I find it quite interesting that it seems to be swinging almost monthly if not faster, and especially in recent months.

If you look especially on economic policy, you know, from the May 9th, authoritative person article that got so much attention with regard emphasizing the supply side structural reform, and worries about debt loads and so on, to what is very clearly in the last few weeks a swing an expansionary fiscal policy within the government spending. Clearly, there's a lot of tussle going on inside the system.

So, to look at it from the perspective of, what is the best way, the best

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framework to understand how Xi Jinping is thinking about this, it's helpful I think to take a look at a few clues that we saw before the leadership went off for its summer vacation and policy discussions at Beidaihe, after that took place, and then look a little bit at Xi Jinping's strategy for the Party Congress.

I would say in advance of the Beidaihe Meetings and, you know, I know there are still some analysts who dispute whether the Beidaihe Meetings take place anymore or not, all I can say is our team CSIS looked at the issue very closely, and strangely enough from July 30th to about August 12th, there were no appearances anywhere of any Politburo Standing Committee Members, save one, and that was Liu Yunshan, at Beidaihe. So our sense is, most likely they definitely went up their annual policy consultations.

Prior to those meetings, it's quite striking that Xi Jinping hosted a Politburo Meeting, I believe it was July 28th or 27th, right near the end of July, where he signaled that the theme for the Plenum this fall, which will come up next month, would be these new disciplined regulations for the party. And I find this to be quite striking in terms of what it tells us about Xi Jinping's agenda and how he thinks. Six plenums generally are about either culture or ideology, or both, in the Chinese system. So I find it quite striking that Xi Jinping's definition of culture and ideology is anticorruption. That's very telling.

Secondly, it was not by coincidence that right after that Politburo Meeting the Organization Department of the Party, and the Party's Discipline Inspection Commission, announced that they were sending out joint teams into the provinces to oversee succession in the provinces. So, clearly it was a message of intimidation, I think, from Xi Jinping, before they headed off for these discussions. That, I'm watching you, the anticorruption campaign continues afoot, and don't mess with me. I think was basically the message.

So what has happened since they seem to have concluded those meetings? Well, one, Xi Jinping held a very significant meeting on August 17th on his Belt and Road Initiative. And we saw the entire leading group of the leaders who oversee the Belt and Road Initiative, but more importantly, several key provincial party secretaries, many of whom are Politburo Members, talking about their experience with Belt and Road, and so on.

So as to, in my sense, remind everyone in the collective audience, in China, that this is my signature initiative, I'm pushing this forward, and I'm claiming the agenda here. Secondly, we continue to see the anticorruption campaign moving on. We just had the fall of the Tianjin Mayor, and long-term Acting Party Secretary, that happened while I was there, and his quick replacement with the Li Hongzhong, the Party Secretary from Hubei.

There's lots of speculation, obviously, about what that means, but interestingly is the effort to try to define, well, a lot of people, and a lot of analysts had thought Huang Xingguo, Tianjin Mayor, was close to Xi Jinping, so why did he get collapsed. I think it's a sense on Xi Jinping's part that he's trying to signal to the system: Any of you who thought that the anticorruption campaign is going to slow down any time soon -- this is another, you know, sort of argument you get very regularly -- you are off base.

Turning to sort of his strategy for the Party Congress, I think what we are seeing developing, picked up in some of the comments by my colleagues, is what you might call, Xi Jinping's agenda for the Party Congress versus what you might call the agenda of the system, however you want to define the system inside China.

Xi Jinping's agenda in my assessment is best described as disruptive for the Party Congress. And what do I mean by that? If he gets his way my sense is that he will do several things that we would not expect. The first is, he will not signal the

succession, is my sense, if he gets his way. Obviously, in the last several rounds of this, at the mid-cycle Party Congress we know who the next leader of China is going to be.

In this case, I don't think that's going to happen, if he gets his way. For several reasons but I think actually, the primary one is the sense that he feels he has to have as much power and authority as he possibly can for the second five-year term, or maybe the second on the way to the third. No one knows. There's a lot of speculation on that.

Secondly, I think he will ignore a lot of the patterns of promotions that they have been sort of using in the last several rounds of Party Congresses. The so-called age restrictions, it's important to remember that these are not rules inside the Chinese system, if it's not in the Party Constitution, it's not a rule. Jiang Zemin invented these for purely political purposes, and there's no reason that Xi Jinping, with the power he has, can't maneuver those some more.

But more importantly, I think he's going to strike at the sort of step-wise institutionalized-looking to weigh patterns of promotions. So, take for example, the U.N. Child, the current Vice President, a Politburo Member, certainly by the practices they've been following for the last 20 years, he should be going to the Politburo Standing Committee, obviously there's lots of speculation that he might go to the jailhouse instead, we'll see whether or not that comes to be true, but I think if Xi Jinping gets his way he won't be there.

And so who is opposing Xi Jinping's agenda? We've had some comments from one of my colleagues as to who these groups might be. Again, I prefer to look at it as what we might call the system, by which I mean, those who want to see those patterns that they've been following for the last several rounds of transition, continue to be followed.

Why? Because they understand that Xi Jinping is doing to make a play

for a maximalist win at the Party Congress. And if he is successful the groups that have been sort of influential in the last 20 years are going to lose. And he will have a much stronger hand. So the question really boils down to, can Xi Jinping amass enough power, and persuade enough people to be able to disrupt those patterns that the system has been following for some time. So, let me stop there, and welcome questions.

MR. KENNEDY: Terrific. I think a very nice coverage of what's going on in China politically, economically. Some variation in terms of how much pressure people feel Xi is under, versus how confident he ought to feel. I think one thing would be, you know, who is right, and who is wrong? Are people underestimating Xi, or is Xi overconfident? It's got to be one or the two. And then just simply the differences in perceptions also ought to affect how people behave and where things are going.

But I'm not going to -- What I want to do now is turn to the audience, and have you all feel free to ask questions again. Wait for the microphone, identify yourself and your institution, and keep your comment in the form of a question. Let's go to the far back.

MR. HO: Gregory Ho from Radio Free Asia. My question is about successor. I don't think -- I will see the Hong Kong successor issue which is the more imminent and more experimental to test who inside the party have the control of a city that the most important among all, now we call that C.Y. Leung who is under Tung Chee-hwa, and Tung Chee-hwa somehow trace back to Jiang Zemin, so we all said that C.Y. Leung is somehow like from the Jiang Zemin faction.

Until nowadays we don't see him announcing any campaign for the reelection for the next March. So, my question to the panel will be, if the Hong Kong succession issue will be a battleground or a test field for the current internal struggle of the CCP's elites, or who will be the next successor in these special (inaudible) region? Do you have any names in your mind? Thank you.

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MR. KENNEDY: Who would like to take this one? And I'm proud of your diction, you said succession not secession, and that's important to keep in mind in thinking about Hong Kong these days, so who would like to take this question? Chris?

MR. JOHNSON: I just would -- I would only say that it doesn't strike me that the issue of succession of the Chief Executive is going to be something that's going to cause real trouble inside the Chinese leadership. My sense is the leadership appears to be quite unified on the approach to Hong Kong.

I think the issue to probably emphasize is, will Beijing take the opportunity that they have to have a look at the recent election results in Hong Kong and determine whether they can be confident enough to pick one among several candidates that appear to be emerging that have some credibility with Hong Kong-ers, and are just seen as sort of toting Beijing's line. But that's the only I have to say.

MR. KENNEDY: All right. Dali?

MR. DALI: I would like to add that in fact the challenges in Hong Kong, since we had the conference on cross-Straits relations actually, the trouble in some ways in Hong Kong are really good in terms of -- when in comparison with the issues in Taiwan. Because Hong Kong constantly looms on the mind of Mainland leaders nowadays, so as a result they have to spend a lot of time on considering and thinking through the Hong Kong issue.

MR. KENNEDY: Szu-Chien?

MR. SZU-CHIEN: I don't have any clue about a name. But I've heard from some of my Hong Kong friends about the Fishball Rebellion issue. They think that the way the local police handled this issue was very unusual, unusually harsh, which actually has the effect of destabilizing Hong Kong's order, and does not serve the purpose of Beijing. So a lot of people have a lot of suspicion on who is behind -- who was behind this. And so that's one thing I heard about.

Another thing I have to say, and following Dali's point, since this is talking about cross-Straits relations, I have to tell you, from Taiwan's perspective it has a very bad example -- it's a very bad example of one country two systems, given what's going on in Hong Kong, on to Taiwan. This formula is losing a lot of credibility given what's going on in Hong Kong. So, I don't know if that's in the mind of Beijing's leadership, but that is very true. Yeah.

MR. CHIH-CHIEH: I think to some degree Hong Kong's election's result maybe can serve as kind of an indicator for the hardliner and the softliner in (inaudible). Because right now the possible the three candidates for the next year's (inaudible), one is the Lian Cheng-ying, and the other two is Tsang Yok-sing and Tsang Jing-kwa, and all we know is that Tsang Yok-sing, it's just three weeks ago, became Time Magazine's figure on the front page, and the title said by the Time Magazine actually is, "Hong Kong's Hope."

So, it's a very strange shift, because we know that Tung Chee-hwa's, for the long time, he served as the -- like a Speaker of the Hong Kong's Legislative Council, and he's kind of the soft line of pan-Beijing's politician. And Leung Chun-ying (phonetic) represented the hawkish ways of the pan-Beijing's politician.

So, if Leung Chun-ying can run his -- can be elected for his second term, that means that Xi or the hardliner toward Hong Kong's situation to take advantage, and especially after De-jiang's visited Hong Kong one-and-a-half months ago, Leon Chun-ying shift his approach, hawkish approach to soften toward the so-called the pan-democratic front in Hong Kong.

And even keep a more mild approach to those, so-called the radical Hong Kong independence, those young generation, we call those a post and pro revolution, those politician. And those young persons, most of them, they were elected as the lawmaker in this just-past election.

So, I think the next indicator for Hong Kong's election and from Beijing perspective is that those radical -- those radical pro-independent, new lawmakers can be or not invited by Beijing to visit Beijing, because that's a chasm, because these are all new lawmaker, especially the pan-Beijing where the soft pan-Democratic lawmaker can be invited to Beijing.

So, this time we can observe this new generation, those post umbrella revolutions, the leader of those movements, especially for those who get elected as a lawmaker can be -- whether or not that they can be invited to visit Beijing.

MR. KENNEDY: Thank you all for your comments. Okay, right here in the fifth row.

MS. TSAO: Nadia Tsao with the Liberty Times. I have a question for Mr. Christopher Johnson. I think many people in Taiwan should know that for the term policy -- that Xi Jinping is really the dominant figure, can make all the major decision; because we saw a lot of speculation that sometimes he has, you know, people trying to pretend to help him, but actually hurting his Taiwan policy.

And so, from your perspective, is he really, you know, totally in control of the Taiwan policy? And early on Richard mentioned, there seems to be a change of expectation from Beijing to Taiwan's response, especially on the '92 Consensus. You know, from her inauguration people thought that Taiwan may already past the major challenge, but later on we saw a different demand. Do you recognize this, or do you have a different opinion? Thank you.

MR. JOHNSON: Thank you. And I certainly will welcome my co-panelists' views on this as well. My own is that he is firmly in control of Taiwan policy, like he's firmly in control of most other elements, for all of their elements -- policy, from what I can tell. So, I don't think there is any great struggle over Taiwan policy.

His views are probably -- do tend toward the more firm, but as we've

heard already this morning, he's been willing to show some level of flexibility in his approach. I think that one of the concerns we talked to an earlier panel about unlikely, but unexpected possibilities that could come up.

One of those I think is that, you know, the sense that I get when I look at this problem is in the previous administration when they were pursuing the policies of pro-engagement, there's always a constituency on the Chinese side, on the Mainland side that argues, we have given Taiwan quite a bit. You know, whether it be ECFA or early harvest, and so on, and yet on the core issue of sovereignty: What have we gotten in return; nothing, right?

And I think that people who were pushing the policies, Hu Jintao and his colleagues of the sort of engagement, we are saying, yes, but she'll admit that the economic benefits have been pretty nice, haven't they? And those others I think then would say, well, okay, I guess you are right, right? And struggle along with that.

With the seeming shift in some of the economic strategy under the Tsai Administration, looking more toward the South Policy and so on, I'm concerned that the voices that argue that we are not getting anything will get louder. In other words, if that economic leg is perceived in the Mainland as being somehow kind of kicked out from underneath the relationship, the voices could get much stronger, and I'm not sure how much persuasion Xi Jinping would require to listen to them.

MR. KENNEDY: Okay. Anyone else? Let me do a two-finger on this. Not on Taiwan policy, but on a person who, to me, looks like the Bureau Chief of Administrative Reform in Beijing, a gentleman named Li Keqiang. Also the Premier, but doesn't seem to be doing much of the Premier's typical duties, but there's been a lot of reporting, and maybe this is just an echo chamber about the tension between Xi Jinping and Li Keqiang.

And what this means for the back and forth in policy, perhaps, that Chris

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cited, or the level of confidence that Xi Jinping may or may not have, and Dali said that Xi feels relatively confident playing all these different games at the same time, but does that mean -- then one would wonder why does he need to be -- amass power and leave the Premier with very little.

Li Keqiang is coming to the United States next week, but it's his first trip outside Asia this year. He has been allowed to go as far as Mongolia and Laos before this trip. So just curious what you all see in that relationship between these two pivotal figures?

MR. DALI: First of all, in fact, I think to this day there hasn't been a formal announcement of Li Keqiang's visit to the U.S., from the Chinese side. The Canadian side has already indicated, and is announcing that he's visiting Canada, and so on, so it's really a very interesting kind of phenomenon. I think you are absolutely right in this context, that there was actually, internally, some criticism of the relationship in the sense that Li Keqiang was so significantly overshadowed that he simply came the -- became just so focused on the one issue called innovation.

So, as a result, and as you said, there was some discontent related to that. Now, I don't want to go into the complexities but in fact, part of the issue is also because some of the policies of innovation, especially in the financial sphere, produce repercussions that didn't help Li Keqiang because of the fraud and so on, with the P2P initiatives and all that.

The other fact was that initially when Li became the Premier, his first initiative, in fact, if some of you may remember, was on organization. That immediately created a phenomena of many villages pushing their residents into high rises, and a lot of land confiscation, and Xi essentially put that to a stop. So, as a result, I think actually this is an evolutionary relationship in a way, and of course as Xi has taken on the leadership group positions, whether it's finance and economics and others, so he simply, he has

dominated.

So there are other possibilities to think about it, but overall though I do think actually he's sort of weighing his -- on playing so many games simultaneously, you have to drop the ball from time to time, to sort of -- it's just impossible to keep everything in the air, as a result. But at the same time, some of the issues of reform is simply so difficult to tackle including the issue of debt, right.

But let's also keep in mind that the debt level in China has reached the U.S. level. In other words, it depends on how you pose the issue. It's high, but it's also every other major developed country has debt levels that are just as high as China's. The Chinese economy has to slow down, but at the same time so there is significant effort to reform as well, or certainly in terms of dynamic changes with Chinese economy is shifting to more economic and service sectors, and so on.

So, all of those, actually are issues on the docket. But my sense is actually, when it comes to --in the end I think a lot of the issues would be: What would be the role of Li Keqiang going forward? Would he continue to be the Prime Minister, or is he going to be shifted to another position? By previous rules the two -- the only two people who actually are at the age to retain their seats on the Politburo Standing Committee, and that raises very interesting issues definitely in there.

The other issue is also, a lot of the ministerial changes will be very interesting, I think, actually, just sort of including also at the provincial level. And again typically it's the Party Secretary who dominates the scene compared to the Premier. But he is not -- Certainly, I mean he has certain influence in there to sort of -- so I think this game will continue.

But I do want to mention one final point. Li, actually is very interesting in the sense that he has not been -- number one, he's not being considered to be corrupt. Number two, he's also being seen as not being really doing -- really pushing his own

faction, or something like that. So, he played a very interesting political game, so it's very hard for Xi to -- except for policy errors, it's very hard for Xi to say, you are my enemy, or something like that.

In fact, Li gains a lot of the sympathy by not being seen as very aggressive which is a very interesting kind of situation in the Chinese context at this moment.

MR. KENNEDY: The sort of anti-Bo Xilai. Chris?

MR. JOHNSON: No.

MR. KENNEDY: No? Okay. All right. Yes, here.

MR. HARDING: Thank you. I'm Harry Harding of the University of Virginia, and Hong Kong University of Science and Technology. My question is for Professor Chou, and I would invite him to say a little bit more about what he sees as the evolving relationship between the, call it the party state, and the Chinese middleclass?

If I understood you correctly, you argued that protest, discontent is beginning to spread upward, if you will, in the structure from the lower classes, farmers, working classes, up to the middleclass. But that at the same time the party states responds to that, and those are largely material concerns, the party states response is not to negotiate material or policy solutions, but rather to crack down.

And if I understood that correctly, then I'm curious as to what you see are the costs and benefits, or benefits and risks, of that shift in approach. Because I would that, first of all, material concerns are far easier to deal with through negotiation, than concerns that involved more fundamental, structural issues, and especially if they begin to morph into concerns about values, freedom of speech, press, democracy and so forth, freedom of assembly and organization.

And doesn't a crackdown response increase the possibility that the concerns will begin to morph away from purely the material, and over to the more

basically political. So I don't understand the logic of that trend, if indeed, and I have no doubt that your analysis is correct. I many have misunderstood it however. If, indeed, that's occurring I would see this as a rather risky strategy over the longer term.

MR. KENNEDY: Go ahead. Yeah, Professor Chou?

MR. CHIH-CHIEH: Okay. I think my point is that according to my own observation, some of the middleclass group, they do show their willingness to participate in, to some degree, the policymaking, or the least that they can express their interest. And, to some degree they also -- that through the kind of protest, but as you just mentioned, and also as well as in my presentation, most of their interest is the focus on the material needs.

So, it's easier for the government to persuade or try to control this kind of unrest from the middleclass through the kind of economic profit to them. But to some degree those so-called the middleclass, for example, the business person, or even the teachers, they will cooperate to some human rights lawyer, and try to protect their own interest through expanding the channel for them to express their own opinion. But there's a bottom line, they can, aware of this kind of bottom line.

So, for them it's there are kind of a red line where the bottom line for those middleclass they will not close that. But to some degree because sometimes they will use their -- they will utilize the social status or their resources through a kind of an indirect way to incorporate it with some, as I said, the human rights lawyer or other group, they feel unsatisfied to the current social situation.

But it's also easy for the government to provide some of the material, profit for them so -- and rather than to presume some -- the hawkish or very hard way to quiet down the middleclass, middleclass levels, or middleclass persons, their processes.

MR. SZU-CHIEN: I agree with Professor Harding's observation that this is a strategy that has not served its own purpose, but I think the root of the problem

comes from what I mentioned in the presentation, that Xi Jinping's regime harbors this, I think a false perception, that there is some kind of clandestine coalition between external opponent forces and the internal elements, rebellion elements, and some of the NGOs or civil society forces are identified by Xi Jinping regime as the instigating elements.

For example, his lawyer's group has been, I think, intentionally rounded up, you know, as a showcase, because it has very clear overseas connection. You know, it's a showcase that such a conspiracy enemy exists. I think he has a deep sense of insecurity. So this is why in the later stage of Hu Jintao's regime, a lot of scholars studying politics has identified the phenomena that the authoritarian regime can coexist with the burgeoning civil society.

And they say it's a sign of authoritarian resilience, but that resilience is gone, because of this kind of false perception. Thank you.

MR. KENNEDY: Another question? You are asked out, I guess. I guess your stomachs are speaking to you. That could be. We've had a full discussion, a good 360 on domestic politics and economics and social change. I was just trying to recall my single Huntington Reading as you all were going back and forth on that last question, which I'll think about during lunch.

Which reminds me to explain, for lunch this afternoon, you are going to go back through the doors in the back of the room across the hallway to the Summers Room, which is where we've laid out the buffet for everybody, and you are welcome to eat there, or in here, or outside in front, depending on what you feel about the temperature.

There is another conference going on to our side, so you don't want to go out this door and take their food, because that won't leave enough for them, but of course that's where the bathroom facilities are.

So, we are going to adjourn right now, and then I think we are going to

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come back at just before 1:00 o'clock. And then we'll have a luncheon presentation. I know this one you won't want to miss. It's going to be fantastic.

So, enjoy your lunch and see you all in just a few minutes. Please join me in thanking the panelists. (Applause)

MR. JOHNSON: Okay, we're going to go ahead and get started; if everyone could please take their seats. I'm going to be welcoming my colleague, Scott Kennedy, to come up here and to be our lunch speaker. Scott has been working on this project for several months now, looking at sort of Taiwan's effort to reorder its global economic relationships and think about the implications of doing so for not only its trade relationships in the region, its relations with the U.S., economically and otherwise, and globally.

So, with no further ado, I'd like to welcome Scott to the podium. Thank you. (Applause)

MR. KENNEDY: Good afternoon. Now that you've eaten a lot and your stomachs are busy digesting I'm going to try further to put you to sleep (laughter). You know, I've been interested in Taiwan obviously a really long time. I was a student there in 1989; lived with a family in downtown Taipei. That year that I was there I spent studying Chinese, teaching English, playing pool, not necessarily in that order of priorities, but you'd be surprised that when you play pool the opportunities you have to use complex sentence structures are amazing, because if you don't, you know (speaking in foreign language). (Laughter) So there's a whole lot of practice. And I remember paying in the pool hall and someone describing to me that what -- I was describing to them my American life and that I moved out when I was 18, to which they responded, well don't your parents love you? To which I said, you know a lot more than you should. (Laughter) In 1991 I did my first trip to Huangshan and while I was climbing up I ran into this gentleman from Taiwan. And he was really frustrated, not because Huangshan is

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tough to climb, but he just felt so out of place in mainland China. And he showed me his watch and he said these people don't value this watch, and he held up what must have been a very expensive watch, not knowing that 30 years later doing something like that, if it was caught on WeChat would get him busted. And he said not only do they not understand the value of this watch we don't have the same values (speaking foreign language). And I thought, having lived in Taiwan, having traveled in China, I could see his point. But that was a really interesting turning point in the cross-Straits relationship because he was followed by hundreds of thousands, if not millions, of Taiwanese and then billions in trade and investment, and Taiwan's economy has been tightly integrated into China's economy since then.

Now, at the time most people thought this was a good thing. They thought globalization is good for growth, makes things more efficient, you compete and do better, get better value. Tom Friedman had his McDonald's theory of peace, if you remember, that greater economic interdependence reduces the chances of war. I think there are plenty of McDonalds in Taiwan and across China. But that's not the dominant idea now, especially in Taiwan. The free movement of goods, money, and people create dependence. Vulnerabilities is the way many people in Taiwan now think about this. And if you look at polling, and in Taiwan people are polled there -- how can they be polled so often? And I've got some data here. This question on dependence on China isn't actually asked as consistently enough as I'd like, and it's asked in a few different ways, but it basically shows that there are lots of anxieties about the relationship. Yes, on the one hand people think that greater ties help the economy. On the other hand, they think over dependence is a bad thing. Of course if you ask the question is over dependence a bad thing usually people will say, of course it's a bad thing. I talked to one senior official in Taipei on one of my research trips and he told me that the problem isn't dependence or interdependence, it's what he called asymmetric dependence. I was trying to understand

what asymmetric dependence was. I think I got the general idea, but he had a hard time articulating specifically what asymmetric dependence is. There's no really good political theories in political science or international Asian scholars that really explain that.

Taiwan is the only place I've ever heard the word "red supply chain". I usually heard the word "red" and China tied together in the United States, but that kind of stopped in the early 1990s. And in Taiwan it's one of the most common phrases now to describe the fears of this dependence on China. So that gets me thinking, you know, what is this relationship and this concern and what could Taiwan do about it?

So the title for today's talk that was in the materials really doesn't do justice to what I want to talk about and doesn't do justice to my research assistants. So I want to thank and point out Brian Bumpus (phonetic) and Cho Ming Da (phonetic) who are here in the audience today. Everything that I'm going to say that is accurate they get credit for, anything that's wrong I'll take full responsibility for. And so today what I want to do in a short amount of time is answer these three questions, how did we get here, how did we get to a situation of this engagement and deep ties? Secondly, does Taiwan have anything to worry about? Are their fears well grounded? And then, thirdly, what can Taiwan do about it or what are they doing about it and what are the prospects for those actions. That's going to bring me to talk a lot more than about Cross-Strait relations.

So the first question is how did we get here? So as you know Taiwan Cross-Strait policy has evolved over time. Originally there was mutual antipathy, a state of war, very little linkages. You'll see -- this is on a photo I took in Jinmen (speaking foreign language), you know, the calligraphy of Chiang Kai-Shek, because of state of war. And to the right is the little peephole you can look at to look at the enemy across the other side in Shamen (phonetic). This was in 2005 and it just so happened that my guide for that trip, actually I saw her here today. So really terrific. So a different period when there weren't economic ties and integration. But that changed in the 1990s and actually

the first project I did when I worked at the Brookings Institution in the early 1990s for Harry Harding was a project on greater China and this idea that integration economically, socially, would spur political integration and be a positive thing. And as we looked around all the different -- there were so many different ways this was described and different constituent units, but basically it was anything of these things would be good for economic or political reasons. And this idea of being overly dependent was not in the forefront of people's minds. And as a result of that you got the Wang-Koo Talks, or should I say the Koo-Wang Talks. I never know, it depends on which audience I'm in front of, who to mention first. The PRC rolled out the red carpet for Taiwan. And when I say red carpet I mean that in two senses, not just a lot of positive economic policies, access to land, et cetera, tax benefits, but the united front policies as well. This had both economic and political motivations.

Now the Chen administration when it came into office in 2000 started with an aggressive push to expand economic ties with the mainland. And they cancelled the no haste, be patient strategy and caps on mainland investment. Beginning in 2002 Chen started to finally link his concerns with the political relationship to the economic relationship, but he still pushed forward with the three mini links, (speaking foreign language) trade, air, and mail. And who spearheaded those policies for him early in his presidency? Well, that was obviously first the person that helped negotiate Taiwan's entry into the WTO, who then became the Minister of Mainland Affairs Council, a person who is still significant in Taiwan politics today, I would suggest, President Tsia Ing-weng. Now of course things have changed. Now under Chen Shui-bian it's really interesting that Taiwan's export dependence on China rose to a highest point ever, it was surpassed 40 percent in the final year of his presidency. It's come down slightly since then, but even under the DPP ties continue to form with very little slowing down.

When Ma Ying-jeou came into office in 2008 he pursued to push things

even further, institutionalized ties beyond the relationship that would -- supposed to adhere to WTO principles, since both Taiwan and the mainland are WTO members, and so pursued ECFA, the Economic Cooperation Framework Agreement, which they signed and then the various agreements that are part of that. And this is basically parallel to the WTO commitments as well. But it's with those ties then and the political disagreements in Taiwan that generated a lot of concerns and, you know, debates about what ought to be done.

So there's a question then about whether or not Taiwan should be worried. And I think there's really a two-part answer to this, which is one is about the past and the other is about the future. The first is have cross-Strait relations so far hurt Taiwan's economy? And the answer is that we really don't have a lot of good evidence to tell us that in fact it's caused a lot of pain. People are familiar with the data that shows that there's a close relationship, the amount of trade, you know, the almost 40 percent of Taiwan's trade exports go to China, which is higher than anyone else. I think South Korea comes the closest with about 20 percent, and the amount of investment that's in China. But the linkages between those things and bad things happening in Taiwan, the evidence is really pretty darn weak. Now the idea is movement of all of that manufacturing and investment to mainland China would be a disincentive to invest in Taiwan and would lead to a structural growth in unemployment in Taiwan. Some scholars note that unemployment reached 5.2 percent in 2002 and 5.9 percent in 2009. And investment dropped from 24.4 percent in 2000 to 18.3 percent in 2009. Well, 2002 could be linked as much to the pop of the dot com bubble and lingering effects of the Asian financial crisis as much as to the supposed, you know, large sucking sound from China stealing jobs away. And as for 2009, that doesn't strike me as the really -- a normal year in the global economy from which to look at data to see why Taiwan has problems with unemployment. Everybody in 2009 had a big massive unemployment

problem. The U.S. was obviously over 10 percent, even worse as well.

So I'm concerned that we actually don't have enough data yet to confirm that this close dependence has really been problematic so far for Taiwan. And if you look at the general data at employment, first you can see that employment, except for that little moment in 2009, has continued to rise in Taiwan, not in agriculture, but even in industry there's been consistent growth in employment as well of course as in services. And if you look at the composition of the economy in terms of just jobs, which is what most folks are worried about, not just here but in Taiwan as well, you know, the share of employment in industry has only dropped marginally over the last 15 years. And if you look at sector by sector, it's hard because there's not perfect data. Brian and Ming Da have struggled as best they could to find data on sectoral employment and other statistics the level of granularity that we want, but essentially it shows that even in the sectors like ICT, manufacturing, which have invested the most in China, moved the most factories to China, their contribution to GDP is still high, it's growing, employment in those sectors is growing, the average monthly wages are still growing in those sectors and, in fact -- I don't have the data here to show you right now, but in each of those sectors there's a shortage of workers for the type of jobs they want. So not the other way around. But if you look at sectors like real estate, non tradable sectors, those sectors are facing more problems. And those sectors that could be tradable but decide for whatever reason they don't want to engage with the mainland, they're growing amazingly slowly. Part of the time I was in Taiwan I talked to companies that are in medical equipment, which has strenuously avoided investing in China, the consequence of which they told me was on the positive side very stable gradual growth, on the other hand, no booming growth. It's still a very small corner of the Taiwan economy, and that's strange to me because Taiwan has the world's best healthcare system, much better than the United States. And so the medical equipment industry in Taiwan should be growing and

successful and be a platform for Taiwan to export and invest abroad, but it's not occurring.

So I may sound Pollyanna-ish, you know, and especially since a lot of times I talk about all the problems of the Chinese economy and what it could create for everybody else. And of course, you know, folks in the United States, we talk a lot about the problems with China's economy and the problems with globalization. And there's a very good study from 2013 that shows about a quarter of the drop in manufacturing jobs in the United States since 2000 are a result of Chinese imports. But Taiwan is in a different situation vis a vis China compared to the United States. Obviously its exposure to China is much greater than for the U.S., but Taiwan is in a different part of the global supply chain. They're in assembly and manufacturing primarily whereas the U.S. is at a different spot, and Taiwan has been able to maintain that advantage. Secondly, mobility of labor. How many people from Taiwan have been able to move to China and continue working? Well over a million. In fact, TSMC, which holds almost 60 percent of the world's market share in semiconductor manufacturing, is just about to invest in a \$3 billion plant in Nanjing and half of those workers are going to come from Taiwan. So mobile labor that Taiwan has that the U.S. doesn't. And I suppose a lot of people in this room who are from the United States who perhaps want to live and work in China know those numbers have gone up, but I don't think we'll ever get to the numbers for Taiwan.

In addition, finally, Taiwan has very limited imports from China and as a result has a huge budget surplus. I think most people are aware that even though both are members of the WTO Taiwan still keeps a lot of barriers to Chinese imports, certain types of investment, some limits on travel and immigration, which the U.S. couldn't do. I know the U.S. is having this debate about whether they might be tougher on China. I don't think the U.S. -- it would have to take a lot to get to the U.S. to be on tough on China as Taiwan is on China I think. And so that puts the U.S. and Taiwan sort of having

a different effect, the relationship.

Now, on the negative side this limitation of imports from China and the surplus that Taiwan enjoys actually could be a negative because it might generate higher prices in Taiwan, it might mean -- but have a negative effect on wealth and consumption in Taiwan, but it does have these other outcomes, but they're different from the United States.

Now, looking ahead, I am actually much more worried about Taiwan and its relationship with China and the effect on its economy than has been the case so far. And that's for a few reasons. The first is China's emphasis on growth through extensive intervention in the economy. You might have been able to, you know, not be firm on this before, but China has really embraced state capitalism, you know, entirely, very techno nationalist policies under Xi Jin Ping, and this rise of this red supply chain, if you want to call it that, can replace Taiwanese firms, exporters and those that invest in China, and that could be a very significant challenge. And so if China grows in that direction it could be a significant challenge for Taiwan. Conversely, if China has a massive slow down, like the problems it's had, and that lasts for a while, that would also be negative for Taiwan because China would import less, foreign invested enterprises in Taiwanese would not produce as much, and this sort of black hole of the Chinese economy would suck Taiwan down with it, as it would many of its neighbors as well.

And then lastly, the volatility of China, regardless of whether it could -- the problem of China is not just whether it might do super well under state capitalism or have a debt blowout, but the volatility. And that up and down is going to have massive effects on financial markets, including those in Taiwan as well. So I'm less worried about the past than I am about the future of the relationship.

So what can Taiwan do about this to address these worries and reorient its economy? I think the first thing that it can do is try and limit the vulnerabilities it has

versus the PRC, which it's doing. So what are the kinds of things that Taiwan is trying to do? Well, not a whole lot of changes, but some at the margins. I mean some constraints on investment of high technology, but very limited. So TSMC when they announced their \$3 billion investment in Nanjing that's coming up, they at the same time announced new investments in Taiwan as well. And obviously there have been lots of conversations about the need to protect intellectual property and careful of what you take across the straight. And I think you're seeing that in a lot of different industries in Taiwan. There's also constraints on further agreements. I think this morning there was already conversation about the oversight legislation so that any potential future deals across the straight had the endorsement oversight of the legislative UN and not just the president.

So will these things have any effect on cross-Strait economic ties? I think just a little, little bit, not a whole heck of a lot. Maybe in some individual cases some business people will listen to the advice of the government or they'll be careful before they plan, but I think for the most part these will be symbolic moves as opposed to having a big effect on the direction of Taiwan's economy. Why are Taiwan firms in China and trading with China? They're the same reason Dell is there, Amazon is there, Eli Lilly, General Motors, and Ford, because (1) China has got a big massive market, and (2) it's part of the global supply chain. And in ICT in particular, where Taiwan dominates you have to be near your partners, your suppliers. And so if Dell is there, TSMC is going to be there. If Qualcomm is there, Acer is going to be there. It's very good sense, just like why are so many firms in Silicon Valley, the same reasons. And so Taiwan firms are in China because everybody else is and it would be crazy to expect them to change and move simply by themselves.

Now the investment environment in China has deteriorated and every survey shows that, if you look at the American Chamber of Commerce, EU, other. And in 2014 it was reported that 13 percent of their members has moved or were planning to

move out of China. In 2015 25 percent gave that. So almost double. And from what I understand, when the survey comes out at the end of this year it's going to be a lot more than are thinking about that as well. So if those companies all move, or think about it, then Taiwanese would too. But they're going to be pushed out of China, they're not going to be pulled in a different direction from Taipei most likely.

So the main question, Mark, that I have on this is that is instead about economic fundamental per se, is what happens if the discussion that occurred this morning continues and Xi Jin Ping continues to give Taiwan a time out the way I give my kids and doesn't want to engage and only continues at the working level, but nothing is achieved at a higher political level? How long does either side have patience and what does that mean for regular business? Might Taiwanese business be inclined to move sooner from China because of this? So far this hasn't had really any effect on Taiwanese businesses, and the ones I talked to said they do business based on the global markets, global circumstances, and cross-Straits relations don't mean -- they try to minimize its relevance in what they do. So in any case, so if that red carpet disappears for Taiwan firms, then I think there could be a possible change.

All right. So what's the second thing that Taiwanese are trying to do? And we've talked about that some, which is diversify their economic ties, particularly with ASEAN. They are trying obviously what they call a new southward strategy. And there was an old Southward Strategy, or a Southern Strategy, that President Lee Teng-hui implemented from 1993-98 when he rolled out a whole series of policies aimed at ASEAN, South Asia, Australia, New Zealand, related to investment protection and tax agreements, trade, banking, and a whole range of areas and signing agreements and was actually relatively -- accomplished quite a bit, both at the commercial level and at the diplomatic level. The new southward strategy has in some ways replicated, but gone in somewhat different directions. The most important, at least initially after President Tsai

came into office, was the creation within the presidential office of the new Southward Strategy office. And the first director was a close ally of President Tsai, Huang Chih-fang. In mid-August this office issued guiding principles and an implementation on September 5. It has about a 4.2 billion NT\$ annual budget broken down several ways. These are the largest portions. But that's not a ton of money. In my house we could figure out how to spend it, but for a government it's probably not enough. But in addition to that there's significant emphasis on promoting trade, infrastructure projects, talent exchange, resource sharing, bilateral and regional agreements, and creating a warning system for the relationship that Taiwan has.

Now, will this have an effect on Taiwan's relationship with others in Asia? Well, I'm unsure of this, how it will pan out, and we'll just have to wait and see. There are some things that would concern me. The first is the stability of the policy making process in Taiwan. The person who was appointed to head this office originally, Huang Chih-fang, has just been appointed to be Taiwan's new Representative to Singapore in the wake of problems with original appointee -- should we say had him need to resign. And so no one was in that job. And then there was an announcement that this office was going to be merged into another negotiating office that will then put under the Executive UN. So there is a question about sort of organizational institutional leadership for this policy. And then they'll need to staff this office as well.

The next issue is can you persuade Taiwanese businesses. And when I was in Taiwan last year in the summer and then just following in the press I saw a variety of anxieties expressed from Taiwanese businesses about being pushed beyond what made business sense to them. And Taiwanese businesses are pretty independent minded, and so it's going to be a challenge to get them to do something which they wouldn't already thing of because they're also super smart. But I think the other challenge is I think persuading governments around the region to fully embrace this

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policy. For all of these countries in the region, and I've put up there -- I don't know if you can see this, this is the worst slide with all the numbers, the teeny little bitty things, that we assembled is the rank -- where does Taiwan rank in terms of export importance for countries in the region. And in 2000, for some countries in the region Taiwan was an important destination. Except for I believe Brunei and -- that's basically it. For everyone Taiwan has dropped a lot of ranks. And these are just the rankings. If you go by absolute dollar terms Taiwan is far less important, has just fallen for most. So it's going to be really difficult for Taiwan to persuade these countries around the region that the relationship with them is so important that they ought to consider alienating China as a result of these ties. I think that's a significant problem. The other is what kind of projects Taiwan is going to bring to these other countries.

And so I've also gone and talked to representatives from the different governments in ASEAN and some of them are worried that the projects that are going to show up on their doorstep are going to be labor intensive manufacturing that generates a lot of pollution. Taiwan is a diverse economy, lots of highly educated labor, factories, many different kind of industry, so a lot of different types of businesses could go to Southeast Asia or elsewhere, but I think right now ASEAN, you know, they feel like they're in a really good position, that they can pick and choose. So it's going to be incumbent on Taiwanese companies and the Taiwan government to bring their best projects to Southeast Asia, otherwise that red carpet that they originally saw in China isn't going to be the same one that they get in ASEAN.

So in addition to emphasizing the new Southern Strategy Taiwan is also focused on entering into formal agreements as well as another solution to this over dependence problem. And everywhere I went in Taiwan -- and you heard it today as well, this hope that Taiwan will be part of the second group of countries that join TPP. And they've been encouraged to do a gap analysis, which started under Ma Ying-jeou,

that's continuing now. But implementing those changes isn't going to be easy, it's going to be very challenging to bring all of Taiwan's economy and regulation to where it would fit with TPP. But I think a bigger -- this is where obvious challenges, you know, is who is going to be willing to step up for Taiwan to say yes, you should be able to join. I think the U.S., if all the facts were aligned properly, probably would be willing to say yes. My guess, not knowing anything, but my guess. But could you say the same for Brunei, Malaysia, Australia, and Canada? What would their calculation be? I think it would be challenging?

Taiwan has also for a long time been interested in signing a bilateral trade and investment framework agreement with the United States. And they point to South Korea's FTA with the United States as something that gives South Korea comfort, another market, deeper ties to the global economy beyond Asia that helps balance its relationship with China. But those negotiations have taken a very long time. I think you could sum them up in one word. I don't know, I could ask others who are better, but ractopamine, that goes into the ban on U.S. pork that contains this; the ban on U.S. beef containing this was lifted in 2012 but this other one is still there. And so those are big challenges. There are others related to technology policy, services, and others, but nevertheless these are -- the negotiations haven't moved forward.

So what can Taiwan do besides these things? And so where they have the most power to make a difference with their economic future is domestically with what goes on in the Island. And so changing -- so the first thing that you hear about with Taiwan is that it doesn't have enough electricity or clean water, and it needs that in order to encourage factory production and things. And one of the clearest policy signals that the new government gave since it came into office is that the goal of going non nuclear no later than 2025. That's extremely admirable, it's a decision made on principle, but it also creates a lot of challenges for a place like Taiwan that has a difficult time creating

certain types of renewal energies like from solar, for example. So the answer is supposed to be a combination of renewables, natural gas, and conservation. And people who do the math on this say it's going to be really hard to make that equation work to have enough power to propel Taiwan. If you think of a company like TSMC that uses so much electricity in their foundries. That's a big challenge and I don't have a good answer.

There's the efforts to reduce regulation in open markets. It's not going to happen though quite quickly. But the other issue with domestic politics is just sort of the seeming -- I wouldn't call it indecision, which is what some write about in the press, because I think actually there's been a lot of decisions made and President Tsai has only been in office a little over 100 days. But I think it's not that there's not been decision, it's that decisions go back and forth. There's a decision made in one direction and then a decision -- a change in the other. And sometimes that change is dependent on who's protesting today and who's yelling the loudest. I get that at home and I try to hold, but then I change and then, you know, I think it's very difficult. I think the Tsai government is still getting their bearings on not just what their long-terms goals are and principles are, but how they can still deal with the day to day challenges that people in Taiwan face and balance those things. There's this emphasis also on new strategic industries and trying to replicate the success of ICT. And a lot of people talk about pharma, biopharma, and these other sectors, it's going to be a challenge for Taiwan to replicate the success of ICT no matter how much they try. And it's really difficult to pick winners no matter how successful you've been. And industries that have been chosen as part of these new strategic sectors -- from what I can tell they weren't scientifically chosen, they were chosen in part because they were important gaps in Taiwan, but not necessarily because Taiwan would have a comparative advantage in producing these. And then in terms of where they're supposed to be produced, they were sort of spread out across the Island, I think as sort of to help the entire Island as opposed to just sort of the northwest part of

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the Island, which seems to get most of the investment.

So this is where Taiwan can probably get the most bang for its buck, but it's slowly moving against politically entrenched interest groups. And so, you know, I guess you had to challenge his -- you know, you could try to take on China and deal with Xi Jin Ping and those others, and a lot of attention has gone there -- and work with Southeast Asia, but dealing perhaps with the domestic challenges I think are going to be either tougher, but they're where probably I would put most of my attention actually.

I want to stop here because I've already gone on way too long, but I think my bottom line is -- and I'm going to take a U-turn in a second -- is that there's a lot of things that -- so far they haven't suffered as much from deep integration as people fear. On the other hand they could, and there are a lot of things that they could do but would be difficult to do.

And then I want to take one more little turn for you, and that is despite the fact that it's going to be really difficult to modulate the relationship with China, with other neighbors, and with the U.S., I'm still not super worried about Taiwan's economy. Its economy is still in my mind a pretty healthy economy. These are the basic numbers up there. I know that it doesn't show you what average people feel like in terms of real wages and things, but this is pretty good unemployment numbers, it's pretty good growth. And one of the numbers that I think is most important is private and domestic investment in Taiwan, which has been growing rapidly. You can't avoid the global economy when you're a country like Taiwan because of its size. And it's done a pretty remarkable job of where it's gone historically. And so although there is going to be a lot of to and fro and a lot of criticism, and reading the Taiwanese press I feel like boy, this person deserves an F, and of course the poll numbers ought to be going down. But on the other hand, give credit because -- over the long-term.

So I'm still pretty optimistic about Taiwan despite these real challenges

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that they face, that would put any political system to the test.

Thank you very much. (Applause)

MR. BUSH: Thank you very much, Scott. That was a great presentation. I learned a lot and I sort of -- I guess the thing I take away is your optimism. And so now I'm going to have to back and rethink some things myself.

I really admire it when people stay at a conference after lunch (laughter) because you figure they've had the main incentive for staying for a few hours and then that incentive is gone, but they still stay. That's great. But I think the real reason is that the last panel is a really great panel in terms of its personnel. And so I'd like to invite them to come up to the podium now so we can get started on the last panel. So please.

MR. BUSH: The title of this panel is U.S.-Taiwan-Mainland China Relations Within New Political Environments. We sooner or later have to come back to this triangle, but we are in a situation with political transitions going on. Tsa Ing-wen was inaugurated on May 20. The United States finally will have an election on November 8. Xi Jinping in 2017 will be sort of campaigning for re-selection.

It's an environment that has more than average interest. To help us explore this, we have four great scholars. First is Ming-Yen Tsai, who is Professor of the Graduate Institute of International Politics at National Chung Hsing University. My good friend, Bonnie Glaser, who is a Senior Advisor for Asia, and Director of a really new and exciting project at CSIS, the China Power Project.

Professor Suisheng Zhao, who is Professor at the Josef Korbel School of International Studies at the University of Denver. He is the Director of the Center for China-U.S. Cooperation, which is doing great work. He is also the editor of the Journal of Contemporary China, which is making a major contribution to sort of the dissemination of knowledge about China.

Without further ado, Professor Tsai. I'm sorry. I missed Professor Lin altogether. I'm really sorry. I was on the wrong page. Another friend, Wen-cheng Lin, who is Professor, College of Social Science at National Sun Yat-sen University. I'm very embarrassed. Professor Lin?

PROFESSOR LIN: Thank you very much. Dr. Bush, ladies and gentlemen, good afternoon. I am glad that I get to have this opportunity to come to attend this symposium to share my views with you. I would like to thank you for inviting me.

Also, I must say to make a presentation in Washington, D.C. is a difficult time for me because Washington, D.C. time and Taipei time are completely opposite.

I was asked to make a presentation on the relationship among the United States, China, and Taiwan, so I will focus on the bilateral relationship, the Taiwan cross-Strait relation, and the United States' relations with China.

Taiwan is a small party in the relationship between the United States and China. (Inaudible) I think Scott's presentation made my presentation easier. I believe the cross-Strait will change, especially economic conditions is quite asymmetrical.

(Inaudible) Scott gave you some data.

In terms of investments, in terms of trade or in terms of tourism, change is quite asymmetrical. Scott already gave you the figures for China and Hong Kong, accounted for 39.4 percent. Investors in China don't trust the government's officials because it is underestimated. Taiwan's investment in Mainland China is more than \$200 billion U.S. dollars, of course, the official figure is \$157 billion U.S. dollars.

In terms of tourism, the tourist industries, Chinese employees only made 5.5 million trades in 2015, and the Chinese employees only made 3.3 million trades in Taiwan in 2015, so our tourists are also concentrated more to China's economy.

(Inaudible)

The problem is that we are a Democratic society. We cannot tell our tourism where they can go, so regimes, it is quite easy for them to manipulate, so Chinese employees are not coming to Taiwan.

That is just the data for you to understand the kind of asymmetrical economic conditions between the two sides. Because of time limits, I will be brief.

In terms of investment, China's investment in Taiwan is \$1.5 billion U.S. dollars compared with Taiwan's investment in Mainland China, it is nothing. Tourism, I just mentioned. (Inaudible) Of course, I, myself, contributed. (Inaudible)

I believe that China must be very frustrated because of the so-called economic integration, cross trade or free trade. There was a survey to indicate Taiwan people's attitude toward unification or independence. In the eight years under President Ma's leadership, cross trade relationship was quite good, but China gave a lot of economic favor to Taiwan. It did not change the Taiwanese people's attitude toward unification or independence.

If you consider the trend in terms of cross-Straits unification, the trend in Taiwan is moving toward independence. I can understand that China is frustrated.

Persistence of Beijing's hostility in Taiwan not change. So, in the future, social and economic integration between the two sides (Inaudible).

(Inaudible) So much happened in the culture (Inaudible) they talk about cross-Straits relations, they talk about President Tsai's policy toward Mainland China. I think I will skip this part.

Scott also mentioned about President Tsai's policy. Before President Tsai took office, we predicted China might use economic means to punish Taiwan, to put pressure on Taiwan. (Inaudible) Cooperation with China in Southeast Asia or South Asia. We need to find a way for our businessmen when China's economy slows down.

The United States Government's response is quite positive. The United States responded to President Tsa's policy, and of course, China continued to say no.

Beijing's responded to President Tsa (Inaudible), it might be just Beijing's trade is too pushy. Beijing continues to say no, to see how they will respond. (Inaudible) Restructuring of the power in the party faces a series of challenges (Inaudible) cross-Straits relations for the time being.

The worst scenario (Inaudible) against Taiwan, so will continue to increase the pressure (Inaudible) the so-called 1992 consensus. My understanding is President Tsa cannot accept the 1992 consensus, at least in the near future, so (Inaudible) cross-Straits relations.

(Inaudible) to be part of China, then you will have all the benefits, your economy will be very progressive. For Taiwan to be connected with the outside world, and keep one door open, that door is open to China.

The relationship between the two giants, many times they emphasize, Beijing say cooperation, emphasize the importance of cooperation with each other, but there is serious major mistrust between the two countries.

There are areas or issues for the two countries to cooperate with each other, but there are conflicts of major interests, but according to some Chinese scholars (Inaudible), the problem come from the so-called structure conflict.

(Inaudible) According to a survey conducted, 11 countries in Asia, in 2010 (Inaudible), ten years, in 2020, only two countries left who believe (Inaudible). Beijing to deal with the United States (Inaudible). I think it is affecting our future relationships between the two countries.

Who will be the new U.S. President. If Jinping restores his power, will he become more flexible or continue to be so assertive, implication for Taiwan, Taiwan's

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option (Inaudible). How is Taiwan to accept a model, I don't understand, one country's model, it is unlikely. It is no longer attractive.

This morning we talked about Hong Kong. Hong Kong, what happened in Hong Kong. One country pushes a model for the people in Taiwan. It is unlikely for people in Taiwan, and not supported by China.

We will continue our transition approach, but one question in our mind is whether we can trust them or not.

Thank you very much. (Applause)

PROFESSOR TSAI: Thank you, Mr. Chairman, and good afternoon, everyone. In this panel, we were assigned to talk about U.S.-China-Taiwan relations. My colleague has covered U.S.-China relations a lot, so I'm going to focus my presentation on U.S.-Taiwan relations and cross-Strait relations.

In terms of U.S.-Taiwan relations, I have a very optimistic attitude. The reason why I say so because our countries share common concerns and like to maintain the status quo and stability around the region. We all want stable relations with China. However, cooperation with Beijing -- our own security and economic interests.

Based on this positive thinking, I think what the U.S. and Taiwan can do next is to have more context, so as to coordinate our policy actions and to prevent making any kind of surprise to each other. That is the number one thing I think we can do.

The number two thing our countries can do is to think of long term programs to support the economic and security partnership between our countries. The first one I'd like to emphasize will be about TPP. We know the United States is now having policy debates over TPP issues. We totally understand.

However, I still want to use this chance to share some perspective from Taiwan. Basically, we think TPP is not only an economic or trade issue but also a

strategic and security issue. What Taiwan wants from TPP is to use TPP as an impetus for Taiwan to carry on upgrading for domestic enterprise, and also we hope TPP can offer a very good approach for Taiwan to become part of an international free trade system, which is proposed and established by our friend, the United States.

Taiwan has shown very strong interest in a second round on TPP negotiations. Even so, it will be a very, very long process to persuade domestic society into accepting such a high standard FTA into the final TPP, just like what's going on in the United States right now. So maybe in the coming years, both U.S. and Taiwan can cooperate with each other to figure out a way to benefit from our cooperation on TPP issues or to promote our cooperation on FTA.

What can we expect from such cooperation is to promote powers on economics through trade diversification, and to consolidate the economic partnership between our countries. That is the first thing I would like to emphasize.

The second thing I would like to point out talking about cooperation between our countries, the United States has been the major source for Taiwan on military hardware and oil. In the future, we should continue our cooperation.

Compared to China, Taiwan is much smaller in terms of military size, so we need to figure out a kind of smart strategy to push for Taiwan's defense modernization. So far, Taiwan has highlighted some priorities. We would like to facilitate integration between our military hardware and software. We would like to push for the connections between our civilian society and the military forces.

Of course, all these things would require U.S. expertise and assistance. So, maybe in the year ahead, we can have some cooperation in this nature to make Taiwan's military forces become a more flexible force in the future.

Now I'm going to share a concern over U.S. arms sales to Taiwan. As I mentioned, the United States has been a major force for Taiwan to get an advanced

weapons system. However, there is a concern in Taiwan about the U.S. decision to sell weapons to Taiwan. We know Washington made very clear before selling weapons to Taiwan. Washington need to take into account the Beijing factor.

There is a proposal in Taiwan which argues that Taiwan may be able to consider the possibility to produce a weapons system on our own, particularly for those sensitive weapon systems, that the United States may not be able to offer to Taiwan, submarine and jet fighters. Of course, we know it's not that easy for Taiwan to produce such advanced weapons systems on our own without any help from the United States.

Maybe in the coming years, both the U.S. and Taiwan can work together to evaluate the potential or possibility for Taiwan to produce a weapon system on our own. There may be a way for Taiwan to pick up its defense capability and to consolidate the security partnership between the United States and Taiwan without hurting Washington's relations with Beijing.

Now I'm going to spend a couple of minutes on cross-Strait relations. Basically, I think the current relationship between the two sides of trade -- in Taiwan, we use a term (Inaudible) to describe the current situation. The reason why cross-Strait relations are becoming so difficult is not because a new person came up, it is because of public opinion after the presidential election this January.

With a newly elected president, Taiwan has to figure out something, create something new to serve (Inaudible). This is the reason why Taiwan is not able to use our constitution system to handle Taiwan's relations with China. Our constitutional system contends with China spirit somehow on the one hand, and on the other, it also reflects the political reality that Taiwan has been outside the control ever since 1949.

This is new try to nail down between Beijing's existence and Taiwan's general public's expectations for greater political autonomy.

I think any kind of move to stabilize cross-Strait relations should be encouraged, to stick to our constitution system is a very big move made by the TPP, so maybe in the future, in the months ahead, the United States can create a kind of active or constructive law to encourage both sides of the Strait, particularly Beijing to resume official contact with Taiwan. We need to avoid any kind of misunderstandings or misperceptions across the Taiwan Strait.

So, that is my presentation on U.S.-China-Taiwan relations to share with our friends here. Let me stop here. Thank you. (Applause)

MR. BUSH: Thank you very much, Professor Tsai. Bonnie?

MS. GLASER: Thank you, Richard. I'm going to limit my remarks to U.S. policy toward Taiwan. I'm going to start by looking back. It was suggested to me to talk about U.S. policy during the transition. I'll touch a little bit also on the campaign period, because I think we can draw some lessons about U.S. policy toward Taiwan going forward from U.S. policy as it was conducted during the transition. Then I will very briefly look forward and identify some of the factors that will influence U.S. policy going forward.

I'm going to identify basically six themes about U.S. policy toward the transition. The first is that the U.S. remained even-handed and respected Taiwan's Democratic process, so of course, the United States hosted both of the main candidates. Tsai Ing-wen and Eric Chu both came to Washington, and in contrast to 2012, there was no either public or background criticism of any candidate.

Interestingly, when Ma Ying-jeou went to Singapore and met with Xi Jinping, there were questions afterwards that were posed to Assistant Secretary of State Danny Russell about whether this meeting would somehow help either the KMT or the DPP, and he stated the U.S. does not pick sides in the face, but rather has a strong stake in Taiwan's democracy, economy, security, and stability in the Taiwan Strait.

Second point, the Obama Administration has focused on the need to preserve cross-Strait peace and stability. This really has been, I think, the core of U.S. policy during the campaign and the transition.

The reemergence clearly of cross-Strait tensions would pose serious risks to American security and interests. If it is a military confrontation, it is one in which the U.S. could be drawn into, and even if diplomatic tensions rise, then the danger exists that the Taiwan issue becomes more prominent once again in the U.S.-China relationship crowding out other issues dominating the agenda and making it difficult to address other things in the relationship at a time where we have a much more competitive relationship with China and a lot of issues that need to be dealt with.

Of course, a leader that has a style of decision-making that involves very few people, so that meeting bilaterally between the two presidents has become even more important than it was in the past.

Even eight months before the election when Susan Thornton gave a speech here at Brookings, she emphasized that the critical component of U.S.-Taiwan relations was stable management of cross-Strait ties.

A particular element of this that the U.S. has been concerned about during the campaign, the tradition and today, is the nature of the channels between the DPP and China. These channels of communication, are they reliable, and can information be exchanged reliably or is there a potential for miscalculation, is there a need for the U.S. to play a more active role and maybe even a mediating role.

So, of course, if we go back, there was a more active U.S. policy during the transition and involvement between the two sides of the Strait. We did not see -- my third point would be that the U.S. did not get directly involved in any mediation, and really had a more passive -- played a more passive role than it did in 2000.

I think this was partly because China was not putting an enormous amount of pressure on Taiwan, there was little coercion, lots of calm statements about the consequences that would follow if Taiwan didn't accept the 1992 consensus, but that was primarily the gist and focus of China's policy.

Beijing really didn't put a lot of pressure on the United States to urge Taiwan to accommodate, so my analysis is Xi Jinping has greater confidence in his ability to deal with Taiwan, he has a better tool box within which to manage Taiwan, and really did not want to see the need for a lot of U.S. involvement, and simply, I think, laid down markers in his meeting with President Obama about not playing a negative role.

I think another reason why the U.S. didn't get involved in more active mediation is that the United States had a degree of confidence that there were some reliable communication channels between the DPP and the PRC, and of course, as Tsai Ing-wen became inaugurated, she has spoken more publicly now about these channels. You may have seen her interview, for example, that she gave to the Washington Post.

Fourth factor. The U.S. urged both Beijing and Taipei to be flexible in the interest of maintaining peace and stability. U.S. officials hoped that neither Tsai Ing-wen nor Beijing would be too rigid, that both sides would do too rigid, that both sides would do their utmost to try and find some new formulation that would maintain that stability in the cross-Strait relationship.

On occasion we heard U.S. officials say some things publicly after the September 2015 summit between Xi Jinping and President Obama. A U.S. senior official told the media that the U.S. fundamental interest in cross-Strait stability and that the United States would continue to counsel restraint on the part of Beijing. So, privately and publicly.

Fifth theme. Throughout the campaign and since the election, the U.S. remained clear and consistent that its policy is based on the three U.S.-China

communiqué's, the Taiwan Relations Act, and on one occasion, an U.S. official even referred to the Six Assurances.

So, the United States did not get drawn into the dispute over the 1992 consensus and over one China principle, and simply maintained its own position and policies. I think these are all important going forward.

The sixth and final theme is that the United States during the whole period of the campaign and transition sustained cooperation in the U.S.-Taiwan relationship, and continued to promote it and tried to strengthen the bilateral relationship.

One example is the conference that took place at George Washington University halfway pretty much between the election and the inauguration, which was on the global cooperation and training framework between the U.S. and Taiwan, and we saw there Principal Deputy Assistant Secretary Kurt Tong deliver a speech on the record in which he emphasized the need to expand Taiwan's role in the international community, the commitment of the U.S. to exploring new ways for Taiwan to earn dignity and respect, and that it is consistent with its contributions to global efforts.

I give the Obama Administration high marks for clearly conveying its concerns, its priorities to both sides of the Strait, while respecting Taiwan's Democratic processes, reiterating its consistent support and commitments to Taiwan, and trying to create an environment in which Beijing and Taipei can manage their differences.

Very briefly looking forward at factors that will influence U.S. strategy and policy toward cross-Straits relations going forward, certainly I think the United States will continue to call for flexibility, for creativity, and restraint on both sides. There will be continued emphasis on trying to preserve, I think, Taiwan's autonomy and prosperity.

I am going to identify three factors going forward. One is as I said earlier the efficacy of cross-Straits communication channels. The U.S. believes that if there is an absence of dialogue, if communication channels are unreliable, then there is a

heightened risk of misunderstanding, potentially miscalculation. The U.S. could urge both sides more strongly to open up a dialogue channel that would be more official, if there were something that at least would be reliable, if it has these concerns, and could begin to play a more active mediating role if it loses confidence in the ability of the two sides of the Strait to be able to communicate effectively with each other.

The second factor, I think, going forward is Taiwan's policies, and the extent to which these policies are viewed as a potential cause of cross-Strait instability. This is not something that we have seen so far, but of course, it is something that we have to at least hold open the possibility that it might occur going forward.

These are issues like military strategy, will they be defensive or will they be seen as provocative, or for example, and this is just a hypothetical, an attempt to use the name "Taiwan" to join the U.N. Once again, we have heard Foreign Minister Lee rule that out, or maybe participate in the Olympics under the name "Taiwan," which there are some people in Taiwan who want to do both of these things, the U.N. and the Olympics, to have a different name.

Finally, the last factor is the degree and nature of PRC pressure on Taiwan, and here, I think this is the most important factor. Will we see economic pressure grow? We have seen Mainland tourists obviously been reduced to Taiwan, the revenues for the tourist industry in Taiwan are declining. Will we see greater economic pressure?

Are we going to see greater diplomatic pressure? We have the International Civil Aviation meeting coming up September 27, uncertain whether or not China is going to allow or will block Taiwan from sending a delegation which it sent three years ago.

The United States, if its concerns grow in this area, could possibly do the following: public statements of expressions of concern, private statements to the PRC,

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saying for example, that such actions are likely to be counterproductive, cause greater hostility in Taiwan toward the Mainland, cause greater friction even in U.S.-China relations.

There could be possible efforts by the United States to offset that pressure, so to help Taiwan's economy, maybe talk to Taiwan about an FTA, urge other countries to do the same, seek ways to increase Taiwan's participation in international activities, maybe bolster its global training and cooperation framework further, and work more actively with Taiwan to increase its voice in the international community in other ways.

Finally, I would say if there is military pressure, and I have talked so far about economic and diplomatic, I think that would likely provoke warnings and potentially a U.S. military response. Of course, we could not rule that out depending on the nature of military pressure.

I think I'll stop there. My time has run out. Thank you.

MR. BUSH: Thank you very much, Bonnie. Before I turn to Sam, if I could just supplement in two ways. I agree fully with every dot and comma of your presentation, but two points.

First, I think this transition was easier than in 2000 because everybody knew long before the election who was going to win. The first sign in 2000 that we took seriously that Chen Shui-bian was going to win came privately two to three weeks before the actual election.

Fortunately, we had made preparations for that eventuality, but I think when you know what the outcome of the election is going to be, the possibilities of panic on all sides is less.

Second, going forward, I think what the United States will do will be very much a function of the level of knowledge and understanding and judgment of the

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officials who will be in charge of U.S. policy. I'll make what may be perceived as a partisan statement here, I have much more confidence in one camp than I do in another.

Sam?

PROFESSOR ZHAO: Thank you, Richard and Scott, and Chengchi University for putting together this conference and inviting me back.

Last year at this conference in my presentation, I mentioned three points. To the U.S., I said stay on costs. For Taiwan, prize. For China, be patient. Looking back, I would say the U.S. has stayed on costs really well so far, as both Richard and Bonnie mentioned. The Obama Administration has responded on what the U.S. could do.

On the Taiwan side, I have not seen any surprise yet. Taiwan has promised to maintain status quo and constitution of the Republic of China. However, he would not say that Beijing's worse of the 1992 consensus, which I think is anticipated. The DPP could not be same, otherwise people would not elect DPP into the office.

On the Taiwan side, I will say there is no surprise yet. Now, on the China side, be patient, that is an issue, I think, we worry about a lot from my perspective. I'm a little bit pessimistic. So far, the many actions threatened.

Let me go back a little bit to the election. Everybody anticipated Tsa Ing-wen's election, but Beijing was very, very suspicious of her, never trusted, although these two people could be different.

When she promised to maintain status quo, for Beijing, what they saw is status quo meant no independence, no unification. That is status quo. For Beijing, that is more like no independence, but for them to see Taiwan's -- that is what Beijing has seen so far.

From Beijing's perspective, they saw her as a soft independent promoter. She will not be as tough as Shui-bian. In her heart, that is what people in Beijing said,

she would want to have independent, and she will do whatever she could, if give her the room, she will do whatever she could to push forward, but independence costs, such as in the Chinese publications they talk about it, they tried to promote more space for Taiwan.

In Ma Ying-jeou's time, the Taiwan's was the worse in China, Beijing now go to Washington instead of Beijing. They thought Taiwan would make a lot of these kinds of changes. Beijing's words of the 1992 consensus, which she could not say, but that was the political foundation, will have exchanges, will continue our peace and stability.

China has since the inauguration sent out a lot of warnings, don't say those words, economic, diplomatic, isolation, many things. Among them, for me, I paid attention to several words, that the relationship will come to a stalemate. Even they talk about sanctions.

That is what they wanted before the inauguration of 2000. (Inaudible) However, China took a lot of actions, tried to warn, tried to bring Taiwan back to the track they would want to see. I don't think they have accomplished that. We know they have not accomplished that either. In that context, after May 20, I think the patience in Beijing has been with the shorter supply of the commodity.

Among the Chinese scholars I talked to, and among the Chinese officials, read their publications, I think they are losing patience, becoming increasingly inpatient in the last several months. Why they become so inpatient? Because they deny that Tsa Ing-wen is not going to speak. That has become for them the last final words.

Another thing here from the Mainland China perspective, we were facing a paradox in those years because for many years, China thought China's integration with Taiwan give them confidence to bring Taiwan closer, but in fact, we have not come to that. Taiwan has been leading China further away while it becomes stronger.

Taiwan's identity has been rising. That is a very big concern. If we went longer, that trend will continue. Why? (Inaudible) Independence. That is a big concern to Chinese leaders, for Taiwan leaders to push forward and less identify with Mainland China.

In that context, what I read in the last several months has been that (Inaudible). We have abandoned the illusion of a peaceful unification. (Speaking Chinese) People talk about it. You would be surprised to read that.

We have to make sure we are ready to fight a war. (Speaking Chinese)
There are four stages. (Inaudible)

You look back to the Chinese leadership talking on these issues. Chen Shui-bian was there for eight years. What they did was to promote unification. I think they tried to set time table for the eventual unification, but never had the ability to do that. I think they are talking about that now very seriously. In 2013, he talked about the political disagreement had to be resolved, cannot be passed on.

(Speaking Chinese) He linked Taiwan issue to his China dream. China dream has two stages, we all know that. One stage is 2021, the 100-year anniversary of the forming of PRC. The second stage is 2049, 100 years of the forming of PRC. There are two stages. If we cannot resolve this in the first stage, we will have that in the second stage.

It is that time table which is implicit, but it is clear to many readers why they became so confident because you will see China activities (Inaudible). In the past, they were working with Taiwan to have peace. They were using military threats. They were afraid of damage to the economic modernization.

The big picture has been so clear that Chinese leaders become more confident to resolve the issue.

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To end these remarks, I would say the U.S. is doing well. Taiwan is doing well. The only variable is Beijing, which we still want Beijing to be patient. Otherwise, we will see a lot of consequences. Thank you. (Applause)

MR. BUSH: I hope Beijing is patient. I also hope they base their judgments on knowledge, wisdom, and good judgment, and remember that what we are talking about ultimately is 23 million people who have their own views.

We have 21 minutes. Thanks to the panel for staying on time. I'm sure there are some good questions waiting out there. I'm not going to say a single thing more. Who would like to ask the first question?

QUESTIONER: We have in Taiwan a president who is a female and we also have all those stereotypes of our leadership and Asian cultures and so on. How does the gender issue play in cross-Strait relations?

MR. BUSH: We have two gentlemen from Taiwan. Do you want to answer that question?

PANELIST: I think she is the first female president in Taiwan's history, but I don't think we should focus on the gender issue because this question goes to the question about Taiwan's Democratic system. No matter male or female. You have to follow the people's will according to the Democratic system in Taiwan. That is one thing I would like to emphasize.

The other thing I want to touch upon is compared to other Asian countries, she is probably the first one to win the presidency without any kind of political family ties. Thank you.

MR. BUSH: Anybody else? My answer would be that I think generation is more important than gender here, and Taiwan has an appeal to both young men and young women.

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QUESTIONER: What about the other side? On the other side of the street are seven men sitting on the standing committee now.

MR. BUSH: It's a problem. It's a big problem. (Laughter) I'm afraid I can't give you my evidence, but it's a problem. (Laughter)

QUESTIONER: Thank you. From this morning until now, we have heard this term that comes up again and again in Tsa Ing-wen's policy. I don't understand that at all. I don't see anything in her policy as having any effect. Actually, in Taiwan, Mainland China policy has been severely criticized. I'm really appalled by the divergent perception across the Strait on Tsa Ing-wen's China policy. I would like to be enlightened by any gentlemen or lady. Thank you.

MR. BUSH: Anybody want to speak to that?

PANELIST: (Inaudible) (Laughter) Ma Ying-Jeou, he tried to not work with his fundamental supporters --

QUESTIONER: First time.

PANELIST: First time, yes. It is an illusion to be able to be president of everyone in Taiwan, which is not possible. In that case, her Mainland China policy has not been very clear and helped her that much.

MR. BUSH: Bonnie?

MS. GLASER: Obviously, the Chinese have drawn conclusions about Tsa Ing-wen long before she even really announced her candidacy, and then experts in China then look for evidence to prove that. When Chen Shui-bian was president, this was a big concern, so I think this has almost been sort of like transferred onto her shoulders, and it is based on fear.

One of the first things, of course, they pointed to was the reversal of the decision about the change in the textbooks. That was really highlighted in China as an example of this deification. Textbooks in Taiwan. Ma Ying-jeou, as you know, tried to

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make them sort of more once again about Chinese history, not just Taiwan. My understanding is there has been a decision to reverse that.

This is not a decision made by the president, but yet, of course, they assign that blame to her. I do think it is in large part based on fear.

MR. BUSH: I agree with that, and I think I would add there are three realities going on here that I think Beijing really doesn't understand or wishes to admit. Number one, let's ask ourselves, which side of the Strait has done a better job in preserving traditional Chinese culture? Number two, do you establish your identity from textbooks or from life experience? Number three, is it not possible that Taiwan people have multiple identities. Chinese, Taiwanese, and cosmopolitan, all at the same time. So, it's not one or the other. That is my editorial. (Laughter)

Let's go to the back. The lady right there in the white skirt.

QUESTIONER: Thank you, Central News Agency, Taiwan. I'm focusing on the U.S. transition, because the time is coming, but do you see any possibility that China might have some action to stimulate or escalate tension? How would you suggest the U.S. Administration avoid that situation?

MS. GLASER: I think in the final months of the Obama Administration and the early months of the new Administration, there is a possibility where China would seek to advance its own interests on a number of issues, and there is a history of China testing new presidents, so that's something we should certainly be mindful of.

My own feeling, however, is it's not likely to be aimed at Taiwan. There is already a tendency to sort of turn the screws, increase pressure. We obviously see more on the economic side. We are going to see more on the diplomatic side. I doubt we will see anything on the military side unless there is anything they deem really, really provocative.

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I just don't think that it is likely that they are going to do anything in this period that would give the United States a reason to rethink its policy towards Taiwan. Ultimately, China wants to have a smooth transition. They wanted this when Obama was elected. Regardless of who is president in the United States, they want to keep this relationship on a fairly even keel, on a sound footing. That is the message that we are hearing, of course, from many people in China as we go into this transition. They are concerned about possible shifts, especially unpredictability about the candidates, and perhaps either of them or both of them, whichever is elected, having a somewhat tougher policy toward China.

If they were to undertake some truly confrontational measure toward Taiwan, that would probably result in some rethink in a new Administration and cause a new president to be tougher.

My sense is we are likely to see testing on other issues.

MR. BUSH: I would only add, and I agree with all of that, is when you have a presidential campaign that is well organized and professional, and one of the campaigns this time is well organized and professional, you think well in advance of the challenges you will face from the day of the election on, from everywhere, domestic, international.

So, I would be surprised if there aren't some people who haven't already thought of your question, and thought of what the responses would be. I certainly hope so.

Question way in the back.

QUESTIONER: I didn't realize I was way in the back.

MR. BUSH: From my perspective, you're miles away.

(Laughter)

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QUESTIONER: Harry Harding. We have had a very, very good discussion of what might be called the most likely scenarios, and they all have positives and negatives in them. At the risk of ending things on a down note, I want to ask about two perhaps worse case scenarios.

One has already been identified by Sam Zhao, and that is China will lose patience and increase the pressure on both the United States and Taiwan. I guess, Sam, what can we tell Beijing persuasively that will encourage them to remain patient? What are the trends that are moving towards peaceful unification as opposed to all the trends that are leading away from it?

We can say be patient, but unless we can give them some plausible scenario for this to work out in the way they want, I'm not sure that advice is going to be well received.

The other worst case scenario which no one has talked about is that the United States decides to, to put it bluntly, abandon Taiwan. There are two schools of thought that lead to that conclusion in the U.S. One is we do it deliberately as part of some kind of bargain with China, either a grand bargain or a series of smaller bargains, where we get something in return, and feel this is a reasonable price to pay.

The other would be the one put forward by John Mearsheimer in his article provocatively entitled "Say Goodbye to Taiwan," that the United States may not want to abandon Taiwan, is not going to get anything positive out of it, but will simply feel from a realist perspective there is no choice. It is too high a price.

I wonder if you could comment on both of those worse case scenarios, Beijing loses patience and the United States abandons Taiwan.

PANELIST: I don't see any way except one way, to tell Beijing to be patient, that is the Chinese economy may derail and China rise would derail, too. Chinese leaders have more to worry about than the Taiwan issue. Even on that front, I

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am a little bit suspicious because if that happens, Chinese leaders might use Taiwan issue to divert domestic crisis.

In that context, Chinese leaders now become so confident that they can deal with almost all the international issues in their own way and own time table and own terms. In fact, Taiwan issue is resolved by three factors. (Inaudible) Third is people's mind.

Among the three factors, the threat is the most prominent factor. (Inaudible) Will determine the direction, and also the third factor, people's mind.

In that mindset, they would not want to listen to anyone's advice to be patient. They will be patient only when they decide from their perspective we cannot do it. If they can do it, they will do it.

MR. BUSH: Bonnie and then Wen-cheng.

MS. GLASER: Important questions, Harry, and I'll start with the abandonment of Taiwan, which my very close friend, Nancy Tucker, and I wrote about years ago. I think the prospects, the possibility of the U.S. abandoning Taiwan are less today than they were when we wrote that article, against the background of the rebalance to Asia, the challenges that are faced with the management of China's rise and trying to shape China's choices, I think, would be fundamentally against U.S. interest to abandon Taiwan. I just don't see any scenario in which the U.S. engages in a negotiation with Beijing about somehow abandoning its commitments to Taiwan.

I think your question on China losing patience, my answer would be despite all of the trends in Taiwan in terms of the attitudes of the people who overwhelmingly do not favor unification, nevertheless, I don't see a formal independence being an option for Taiwan.

Even if China has diminished hope in reunification in the near future, it seems to me the preservation of the status quo is still the most likely scenario, that

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Taiwan is not likely to be able to use any leverage, for example, to re-enter the United Nations as a separate country. China's own capabilities, even with the slowdown of its economy, I think, is still likely to be fairly great in the international community.

I would tell the Chinese that there is still a basis for retaining patience. When they get their own active order, when China has a better economy and an open political system, maybe someday people of Taiwan would like to have a different relationship with China, so there is no need for them to be so urgent in the near term.

PROFESSOR LIN: To comment on the remarks that Beijing is going to lose patience, and Beijing is setting a time table. (Inaudible) China can wait 100 years or 300 years. To me, Taiwan is (Inaudible). Preoccupied with so many domestic challenges. If Beijing loses patience on the Taiwan issue (Inaudible), he can carry out domestic reforms (Inaudible).

I believe Taiwan is not one of the top priority issues. (Inaudible) That is my comments.

On Harry's questions, I mentioned in my presentation that (Inaudible). If one day the United States decides to (Inaudible), the question is what can the United States get from China. (Inaudible) Taiwan was described by China as a troublemaker (Inaudible). In the eight years under President Obama's leadership, we not make any trouble, you know. (Inaudible) China's perception (Inaudible). It is the story you hear again and again in China. Thank you.

MR. BUSH: Okay. Ming-Yen, you have the last word.

PROFESSOR TSAI: Thank you. I think when we talk about now China is now losing its patience on Taiwan issues (Inaudible), China is now losing patience toward everything. (Laughter)

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It is losing patience towards U.S. policy (Inaudible), losing patience on Japan to become a normal state, and losing patience to South Korea's decision to deploy U.S. system.

So, I think the problem is when China was weak, China was always patient, but when China became stronger, China want to show its determination to protect its country's co-interests. I think that is the major logic behind China is losing its patience.

I think the problem is not on the Taiwan side, it is from the Chinese side. China need to position itself in this region, otherwise, we will see an impatient China everywhere.

MR. BUSH: Even if China is losing patience, you all didn't lose patience, and you stayed for the whole program, and we thank you very much for that.

I started by expressing gratitude, I am going to end by expressing gratitude first of all to our panelists. (Applause) Second, to all the people including Chris Johnson who flew all the way across the Pacific to get here for this conference, to Chris and all our other friends at CSIS for the terrific collaboration we have had over a number of years concerning Taiwan, to Scott for doing the luncheon keynote, and particularly to IIR for its outstanding work in making this conference possible, and Arthur, personal thanks to you as well.

So, we have learned a lot today. We may not have all the answers but at least we know most of the questions. Thank you very much. (Applause)

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