

THE BROOKINGS INSTITUTION

A MID-TERM ASSESSMENT OF THE POLICIES OF THE MA YING-JEOU ADMINISTRATION

A joint symposium organized by:
The Freeman Chair in China Studies
at the Center for Strategic and International Studies,
The Center for Northeast Asian Policy Studies at the Brookings Institution, and
The John L. Thornton China Center at the Brookings Institution

*The Brookings Institution
Washington, D.C.
May 18, 2010*

[PROCEEDINGS PREPARED FROM AN AUDIO RECORDING]

ANDERSON COURT REPORTING
706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190

PARTICIPANTS:

Opening:

Charles W. Freeman, III
Freeman Chair in China Studies
Center for Strategic and International Studies

Richard C. Bush, III
Senior Fellow Director
Center for Northeast Asian Policy Studies
The Brookings Institution

Keynote Speakers:

Joseph R. Donovan Jr.
Principal Deputy Assistant Secretary
Bureau of East Asian and Pacific Affairs
U.S. Department of State

Jason Yuan
Representative
Taipei Economic and Cultural Representative
Office in the United States

Managing Taiwan's Economy:

Charles W. Freeman, III
Freeman Chair in China Studies
Center for Strategic and International Studies

Daniel H. Rosen
Principal, Rhodium Group
Visiting Fellow
Peterson Institute of International Economics

Kuo-Yuan Liang
President
Polaris Research Institute

Rong-Yi Wu
Vice President, Taiwan Brain Trust
Senior Advisor, Taiwan Institute of Economic Research

Lunch Keynote: The Ma Administration's Economic Policies:

Paul C.H. Chiu

Chairman
Bank SinoPac

Cross-Strait Relations:

Bonnie Glaser, Moderator
Senior Fellow, Freeman Chair in China Studies,
and Senior Associate, Pacific Forum
Center for Strategic and International Studies

Alan D. Romberg
Distinguished Fellow
The Henry L. Stimson Center

S. Philip Hsu
Associate Professor of Political Science
National Taiwan University

Shih-Chung Liu
Senior Research Fellow
Taiwan Brain Trust

U.S.-Taiwan Relations:

Richard C. Bush, III, Moderator
Senior Fellow Director
Center for Northeast Asian Policy Studies
The Brookings Institution

Steven M. Goldstein
Sophia Smith Professor of Government
Smith College
Director, The Taiwan Studies Workshop
Harvard University

Alexander Huang
Professor of Strategy and War Gaming
Graduate Institute of International Affairs and Strategic Studies
Tamkang University
Nonresident Senior Associate
Center for Strategic and International Affairs

Joanne J.L. Chang
Research Fellow
Institute of European and American Studies
Academia Sinica

PROCEEDINGS

RICHARD BUSH: Thank you all for coming. Thanks especially to visitors from Taiwan who came a long way for a one-day meeting. My name is Richard Bush. I'm the director of the Center for Northeast Asian Policy Studies here at The Brookings Institution, and we're doing this event today in collaboration with our John L. Thornton China Center.

My colleague Ken Lieberthal is traveling, but he is here in spirit. Our other co-sponsor and important co-sponsor is the Freeman Chair of the Center for Strategic and International Studies, and I'd like to acknowledge the outstanding efforts of Bonnie Glazer and Savina Rupani under the able guidance of Charles Freeman. This has really been a team effort, and we appreciate everybody's contribution.

Two years ago on Thursday, President Ma Ying-jeou was inaugurated as the current president of the Republic of China. Twenty-two months from now the next presidential election will occur, so we're right in the middle of his term, and this is an outstanding time to assess what has happened so far and to think a little bit about what may happen in the future. And I think we've assembled an outstanding group of specialists to talk about the various aspects of this issue, and so I think that there will be a lot to be learned from today's session.

Without further ado, I'd like to yield the microphone to my good friend and colleague, Charles Freeman.

CHARLES FREEMAN: Hi. I am Charles Freeman. I am the Freeman Chair in China Studies, no relation. It's a great pleasure to be here and to see so many friends. Ambassador Yuan, thanks for coming.

This is a bit of a labor of love for Brookings and the Freeman Chair in China Studies. Keeping the lamp lit, as it were, for U.S. relations with Taiwan is something that I think a lot of us take a lot of pride in. And so I'm really delighted that we have not only the opportunity to focus on some very interesting substantive issues with some excellent panelists but also really, I think, focus on the fact that Taiwan is an important place for the United States to continue to be engaged with. And I think, therefore, that the opportunity, periodically, to take the time to do that is extremely useful.

I want to acknowledge Richard Bush for his great contribution to that work and to those of you who I know are as interested and focused on U.S.-Taiwan relations as others in the room are.

This has been a very interesting couple of years since President Ma was elected, interesting politically, domestically politically, in Taiwan; interesting in terms of what's happened economically, globally and on Taiwan, and interesting in terms of what's happened with respect to Taiwan's neighbor across the Strait. And so it's extremely useful, I think, for us now to spend some time looking both back at the last two years and then

forward at the next two years and seeing what's likely to happen between now and the next election in 2012.

So with that, what I'll do is thank again Richard for the opportunity to work closely. I want to acknowledge the genuinely tireless efforts of Bonnie Glazer and Savina Rupani on our team as well as Kevin and others from Richard's team. So with that I'll leave it to you.

DR. BUSH: Thank you very much. We're very honored to have this morning Joseph Donovan, Principal Deputy Assistant Secretary of State for East Asian and Pacific Affairs offer some introductory remarks. Joe is one of the most capable officers that we have in the Foreign Service. He's served a long time in Asia. He's served in Taiwan. He's nobody's fool, and we're very pleased to have him with us. And I think he's just on the other side of the door.

JOSEPH DONOVAN: Charles, Richard -- Thank you for inviting me to help kick off this impressive event. My remarks today will focus on the current state of U.S.-Taiwan relations and our views about recent cross-Strait developments.

For more than thirty years, the United States' "one China" policy based on the three U.S.-China Joint Communiqués and the Taiwan Relations Act has guided our relations with Taiwan and the People's Republic of China. You all know our policy. We do not support Taiwan independence. We are opposed to unilateral attempts by either side to change the status quo. We insist that cross-Strait differences be resolved peacefully and according to the wishes of the people on both sides of the Strait. We welcome active efforts on both sides to engage in a dialogue that reduces tensions and increases contacts of all kinds across the Strait and hope such dialogue continues to expand.

Our consistent policy over these many years has helped ensure Taiwan's prosperity and advance its democratic development while at the same time it has allowed us to nurture constructive relations with the PRC. We believe that our approach has helped create an environment conducive to promoting people-to-people exchanges, expanding cross-Strait trade and investment, and enhancing prospects for the peaceful resolution of cross-Strait differences.

We have witnessed remarkable progress in cross-Strait relations in the two years since Taiwan President Ma Ying-jeou took office. Direct travel, shipping and postal service are now routine, with more than 270 direct flights per week. More than one million mainland tourists are expected to visit Taiwan this year. Financial and investment ties continue to deepen and law enforcement cooperation is increasing. On the international front we've seen a limited, but important expansion in Taiwan's ability to participate in the international community through the decision by the World Health Organization to invite Taiwan to attend the World Health Assembly as an observer in 2009 and again this year. Finally, Taiwan and the PRC have established a "diplomatic truce," where for the time being each side has ceased competing for the diplomatic

recognition of countries that recognize the other. As positive as these developments are, concerns remain, especially about the continued PRC military build-up across the Strait.

The United States has long been guided by the view that although we are not a direct participant in cross-Strait issues, we have a strong and abiding interest in helping to foster a peaceful and non-coerced resolution of problems.

Ultimately, the future stability in the Strait will depend on open dialogue between Taiwan and the PRC, free of coercion and consistent with Taiwan's democracy. In order to engage productively with the mainland at a pace and scope that is politically supportable by its people, Taiwan needs to be confident in its role in the international community, and that its future will be determined in accordance with the wishes of its people. The United States has a constructive role to play in each of these areas.

The United States is a strong, consistent supporter of Taiwan's meaningful participation in international organizations. We frequently make our views on this topic clear to all members of the international community, including the PRC. Partly because of U.S. efforts, Taiwan is a member and full participant in key bodies such as the World Trade Organization, the Asian Development Bank and APEC. We believe that Taiwan should also be able to participate in organizations where it cannot be a member, such as the World Health Organization and other important international bodies whose activities have a direct impact on the people of Taiwan. We were gratified that after more than a decade of efforts, Taiwan was able to attend last year's World Health Assembly as an observer, and has been invited to attend again this year. We hope Taiwan will continue to be invited in the future.

Taiwan has demonstrated, again and again, that it is an important and valued member of the international community. After the devastating earthquake in Haiti, Taiwan stepped up, sending teams into Haiti to help with rescue efforts and dispatching considerable amounts of aid. We were pleased to help facilitate Taiwan's efforts, including by linking up Taiwan rescue teams in Haiti with American and other international teams.

Taiwan must be confident that its future will not be coerced in order to engage fully with the mainland. This underlies our commitment under the Taiwan Relations Act (TRA) to provide Taiwan with defense articles and defense services in such quantity as may be necessary to enable Taiwan to maintain a sufficient self-defense capability.

The excellent working relationships we have developed with Taiwan were further cemented in August 2009 when the U.S. was able to respond quickly to Taiwan's requests for assistance following Typhoon Morakot. Through USAID, we released emergency assistance funds to the Taiwan Red Cross to help deal with the crisis. We were the very first nation to provide such help. Less than 24 hours after we received Taiwan's request, we dispatched heavy lift helicopters to Taiwan to engage in relief work in remote parts of southern Taiwan and delivered several loads of needed relief materials.

These actions demonstrated our willingness to lend a hand when the people of Taiwan needed our help following this natural disaster.

Finally, closer economic relations are in the interest of both the United States and Taiwan. President Ma has made it clear that Taiwan desires to strengthen its economic ties with the United States and other trade partners at the same time as it pursues economic agreements with the mainland, such as the proposed cross-Strait Economic Cooperation Framework Agreement. The United States has the same goal. We would like to reinvigorate the U.S.-Taiwan economic agenda, reduce trade barriers and increase U.S.-Taiwan trade and investment ties.

Taiwan is one of our most important trade and investment partners. The United States is the largest foreign investor in Taiwan with cumulative direct investments of over \$21 billion. Taiwan is our 10th largest trading partner, larger than Italy, India or Brazil, with trade amounting to over \$46 billion last year. We hope bilateral trade can grow substantially in 2010 as both the United States and Taiwan recover from last year's economic downturn.

The United States and Taiwan signed a Trade and Investment Framework Agreement (TIFA) in 1994. Through the TIFA we have been able to resolve many difficult trade issues and deepen our economic cooperation. We have had many successes, including our work together in the area of enforcement of intellectual property rights, where Taiwan has made great strides.

In any robust trade relationship there will be some friction, and unfortunately, in recent months we have faced some significant challenges over Taiwan restrictions on the import of American beef products. The Administration remains committed to making progress on this and other important trade issues, revitalizing our TIFA process, and exploring new initiatives to expand our bilateral economic relationship.

How the evolving relationship between Taiwan and the PRC develops depends on the leadership and people on both sides of the Strait. Both sides deserve credit for the steps taken in the past two years to find common ground. The scope of future economic and political interaction will be determined in conjunction with Taiwan's well-established, thriving democratic processes. We are encouraged by progress to date, and confident that our long-standing approach to cross-Strait issues will enhance the prospects for further steps to peacefully manage the complicated and exceedingly important cross-Strait relationship.

Thank you very much. (Applause)

DR. BUSH: Thank you, Joe, for that important restatement of American policy. We really appreciate it. Can you take a couple of questions?

PDAS DONOVAN: Sure.

DR. BUSH: We have -- Joe has time for a couple of questions. Nadia?

QUESTION: Thank you, Mr. Secretary. Nadia Tsao with the Liberty Times, Taiwan.

PDAS DONOVAN: Hi, Nadia.

QUESTION: Hi. Not long ago State Department sent a report to the Congress, mentioned that U.S. has intended to write a letter to the general secretary of the WHO, hopefully that in the future Taiwan will be observer on a regular basis and doesn't have to be invited on an annual basis. I wonder, have U.S. heard any response? And is that a possible, you know, it will become just a regular participation instead of, you know, annually invitation?

Thanks.

PDAS DONOVAN: Thank you, Nadia. Obviously, I'm sure you know well that we've supported Taiwan's participation in the World Health Assembly as an observer for many years, and we were very gratified that in 2009 that Taiwan was able to attend and, I believe, has been invited to attend this year as well. And, as I said, we look, looking to the future, we do hope that Taiwan will be able to continue to participate in the WHA in the future.

To be honest, I'm not sure. I haven't -- I don't know the results of the letter or anything else.

QUESTION: (inaudible) it's been acknowledged and will be (inaudible).

PDAS DONOVAN: Okay. Okay, so we're still approaching this at this point on a year-by-year basis. Okay, I hope that answers it.

DR. BUSH: John Zen?

QUESTION: John Zen with CTI-TV of Taiwan.

PDAS DONOVAN: Hi.

QUESTION: Mr. Secretary, economic issues, how does the United States see ECFA? Does the United States support the Economic Cooperation Framework Agreement between the two sides of the Taiwan Straits?

You spoke of TIFA. Is it possible to resume TIFA this year, and you also spoke of the beef controversy.

PDAS DONOVAN: Mm-hmm.

QUESTION: Right now beef products now go into Taiwan without, you know, major problems. Do you expect TIFA to be revived this year? And also on F16 C/Ds.

PDAS DONOVAN: Free.

QUESTION: Well, it's not easy, Mr. Secretary to have this opportunity to have this opportunity to ask you questions. That is why I'm trying to ask as many as I can. We noticed in order to beef up Taiwan's confidence in dealing with the Mainland and also to proceed from a position of strength, will the Obama Administration consider the selling of the F16 C/Ds this year or next year?

Thank you.

PDAS DONOVAN: Thank you very much, John. Is there another question?

The advantage of getting multiple questions is I could pick which ones I'd like to answer. No, let me try and respond very briefly to all of them, and if I skip one let me come back to it.

With regard to the ECFA, obviously this is a document that is still being or in an agreement that's still under negotiations, so it's hard to say what's going to be in there and what the U.S. position should or should not be with regard to that. In general, though, we favor any positive steps by the two sides and welcome the renewed -- or welcome economic contacts and other contacts as well. So I think it should be seen in the overall context of that.

With regard to the TIFA, yes, we are hoping to revitalize the TIFA.

With regard to beef, obviously we were disappointed on some of the restrictions that are placed on American beef, and we look forward -- certainly I look forward, to a time when I can have complete access to a very delicious, inexpensive, and extremely safe American beef in Taiwan at some of my favorite restaurants in Taipei.

With regard to the F16 sale that you asked about, we are continually looking at Taiwan's defense needs as is required under the Taiwan Relations Act, and we'll continue to act in accordance with that. But I really can't go into any more details other than that. I think I got them all, did I? All right.

Just one more question, then.

DR. BUSH: Okay, one more? Anybody?

PDAS DONOVAN: With John, I think I exhausted everybody.

DR. BUSH: Okay, we have a question right over here.

PDAS DONOVAN: Okay.

DR. BUSH: Wait for the mic, please.

QUESTION: Mr. Secretary, Xiao Qing from CSIS. I would like to know, after ECFA, how do you see Taiwan's prospect for participating in the East Asian Economic Regional Cooperation? Thank you.

PDAS DONOVAN: Of course, Taiwan has been a member of APEC for a number of years, and I think it's been a very responsible and productive relationship for all concerned, and we would hope that that continues.

With regard to Taiwan's participation in international organizations, we've been a big booster of that, and in areas where Taiwan cannot be a full member we look for ways that it can participate in meaningful ways, and I think that IKO is an example, that the WHA is another example of that. So certainly we're going to continue to look for ways that Taiwan can participate in meaningful ways in all organizations of this nature, okay.

Thank you all very, very much, and I apologize for coming so late and having to leave so early, too. I wish I could be sitting out here and listening. You've got a great slate of speakers that are going to be here today, so thank you all very much.

DR. BUSH: Thanks a lot. (Applause)

DR. BUSH: Joe was the lead person dealing with simple things like the Futenma issue, the Cheonan tragedy, and so unfortunately we need to let him get back to his real job.

PDAS DONOVAN: I'd be much happier here today.

DR. BUSH: Now I'd like to invite my good friend and long-time colleague, Ambassador Jason Yuan, to offer some introductory remarks to our conference. Jason?

AMBASSADOR YUAN: My good friend, Richard, Charles, and Dr. Chiu all the way from Taipei, and all scholars from Taipei today, and the scholars here in Washington, D.C., and from Boston, Bob Rice there, distinguished guests, ladies and gentlemen, I'm very honored to be invited by both CSIS and The Brookings Institution for this chance to talk about the topic "The Mid-Term Assessment of the Policies of the Ma Ying-jeou Administration."

But before saying that, I want to extend my personal appreciation of Secretary Donovan's thoughtful remarks. Particularly, I knew him when he served in Taipei and the Kaohsiung several years ago. And I want to say it's dedicated service for many, many years to the cause of peace and the security in the Asian-Pacific Region.

And this topic is both very timely and important because the Republic of China, much like the U.S., is a place of a great hope and change, and, much like President Obama, President Ma is charting a bold course intended to position Taiwan as an important contributor to global progress in the 21st century. I know today's symposium will address in more detail the policies and actions that define the course Taiwan is taking under President Ma. So allow me to step back a little bit and begin with the principles that have

guided President Ma to this course.

The course President Ma has chosen is grounded in values familiar to everyone here. I say this with confidence because this universal value we share with the United States forged through common experiences and challenges over more than six decades. During its modern history, Taiwan and its people have pursued peace, prosperity, security, and freedom, those not easy to attend without toil, but they have been pursued with a focus and determination admired throughout Asia and the world.

In many ways, President Ma embodied this determination, not just as the head of our country but through his own personal vision. When setting the agenda for his administration, he knew that Taiwan's future success depends on pursuing multiple objectives which reflect the core value we share with the United States. Perhaps most important of all, President Ma understands the difference between unbridled pursuit of wealth and power and a grounding that pursued in the foundation of freedom and democracy.

I know this reflects President Ma's views because he said last month in a video conference with Harvard students and their faculty, organized by the university's Fairbank Center. As President Ma put it, this underlying principle serves as a guide for every policy decision he makes. With this values and principles, President Ma has engaged the people of Taiwan in their future, pursuing policies that both depend on and promote a free choice of our citizens. And in so doing, he is working to strengthen what he calls the three pillars that define Taiwan's success to date: a robust economy, a viable military, and an open and vibrant democracy.

Turning from values and principles to policies and resources, I think it is useful to recall the facts surrounding President Ma's entry into office. To put it in simple terms, Ma Ying-jeou assumed the presidency at a time when Taiwan was experiencing the world global economic downturn. Since the Great Depression, Taiwan was experiencing significant tensions in the Taiwan Strait, and Taiwan was experiencing a distinct lack of trust in its relations with the United States.

As President Ma has often said since then, he had to hit the ground running, moving quickly to confront these problems amid high expectations from our people and the international observers alike. Clearly, stabilizing Taiwan's economic situation was an immediate imperative. An early and important first step by the Ma Administration was to institute measures that guaranteed 100 percent of bank deposit of our people.

After showing people that their money would be safe, President Ma then worked to lower interest rates several times. His administration also pledged to invest \$13 billion U.S. in domestic infrastructure over 5 years, similar to the infrastructure programs instituted in the U.S. It also distributed \$2.7 billion U.S. dollars in vouchers to ensure that basic needs were not forgotten as microeconomic challenges were addressed.

To list in other timely but effective policies, the Ma administration has brought Taiwan's unemployment rate to below 5 percent and the GDP growth up to 4.27

percent in 2010. Of course, a government's success requires more than just positive economic indicators. Recognizing this, President Ma has made perhaps his most significant economic impact by investing in the future. Most notably, his administration has search-headed, spent -- spearheaded policies to promote innovation across all sectors of our economy, especially in the critical area of carbon reduction. This effort has been welcomed by the people of Taiwan, but the proof of their success will only be seen in the second half of President Ma's administration and beyond.

Because the Chinese Mainland has become Taiwan's largest economic partner, President Ma also saw the need and an opportunity upon taking office to move toward a new cross-Strait relationship. By acting quickly, he could both advance economic stability and start reducing tensions that had heightened during his predecessor's term in office.

With this began a ground-breaking dialogue across the Taiwan Strait. The effort has been guided by a policy announced at the start of President Ma's tenure of no unification, no independence, no use of force. Armed with this policy and the flexible diplomacy, President Ma has overcome past barriers to complete a dozen agreements between the two sides of the Taiwan Strait on issues ranging from direct flights and shipping channels to combating crime and ensuring food safety.

A centerpiece of Taiwan's engagement strategy with the Mainland is an Economic Cooperation Framework Agreement, which we have been and are still negotiating at this time. ECFA, as we call it, is a critical platform for future economic interaction between the two sides, and it will cover intellectual property rights protection, investment guarantees, and a package of goods and services that enjoy zero custom tariffs.

In pursuing ECFA, President Ma has made it very clear that economic integration and engagement does not equal a compromise in our sovereignty. As explained to his Harvard audience last month, ECFA will spearhead Taiwan's return to the accelerated track for economic integration in Asian-Pacific and beyond. This without a doubt will strengthen Taiwan's capabilities to enhance its competitiveness edge in the global market, and brighten its outlook for negotiating similar arrangement with other countries.

As Deputy Secretary of State James Feinberg put it during a talk here at Brookings eight days ago on May 10th, I quote: "The discussions on the economic cooperation framework are particularly important, and so that provides a foundation for the two sides really to deal with each other because this is a situation where conflict is in nobody's interest."

With all this cross-Strait initiatives, President Ma has said this: that his overarching goal is to transform the Taiwan Strait from major flashpoint into conduit for a regional peace and prosperity.

Having already made important progress, I expect that the coming years will prove just as promising with the benefits not only for cross-Strait relations but for the region as a whole. As we have worked to improve relations across the Taiwan Strait, President Ma has

also fully understood the importance of Taiwan's ties to the United States, and he recognized that Taiwan's effective engagement, either with the Mainland or, more broadly, will not be possible without enduring support of the United States.

For over 30 years the Taiwan Relations Act, or TRA, has provided Taiwan with a moral and material backing to pursue our domestic goals with confidence. At the same time, the TRA and other demonstrations of American support have enabled Taiwan to create the international space needed to operate in what has become an increasingly interconnected world. Consequently, President Ma knew upon entering office that mutual trust with the United States must be restored. And his efforts in this area have already borne fruits.

For one, our officials have embarked on new and constructive dialogues on a range of issues, some of which I have had the privilege to participate. More importantly, President Ma himself has engaged in consultations with American political leaders during his 10 transit stops in the United States since taking office.

Having appreciated this discussions and Americans' hospitality, we hope to reciprocate the favor sometime soon. In fact we would welcome the opportunity to host in Taipei high-ranking U.S. Government officials during the second half of President Ma's term in office.

Another key sign of our closer ties with the United States was the Obama Administration's approval in January of the transfer of defense equipment to Taiwan. This package which followed under the Bush Administration's approval of an earlier arms package soon after President Ma took office will certainly enhance our confidence and strength in future talks with Mainland China and in the future promotes peace and stability across the Taiwan Strait.

Our new policies also extend to the strengthening of economic ties where Taiwan is forging new trade accords both with the United States and with important allies in Asia, including Japan, South Korea, and ASEAN countries. As if all this were not enough, President Ma is looking beyond the improvement of cross-Strait and bilateral ties in an effort to increase Taiwan's international space. He is, in effect, forging a role for Taiwan in a broader global dialogue that is itself growing in importance to all nations.

One of the most concrete results of President Ma's cross-Strait strategy has been that our participation for the first time as an observer at the World Health Assembly last year, I'm glad to say we are there again this year. In addition, Taiwan has also joined agreement on government procurement under the World Trade Organization. Expanding Taiwan's international space includes our goal of making unique contributions to the international community. For President Ma this includes developing Taiwan's green technology and health care industries in conjunction with our foreign aid policies.

For example, we have launched a flagship program for our green energy industry. This will benefit our people and economy, but it's also allowing us to export resources and expertise to the international community. In one instance, Taiwan has

installed and provided solar energy technology to the Solomon Islands, improving environment and the livelihood of its citizens. President Ma has also launched a serious medical mission throughout the Asia -- Asia-Pacific Region.

In the Marshall Island, Taiwan runs a clinic that treats patients who suffer from cataracts, a program that we plan to replicate on other Pacific islands.

Finally, and perhaps most relevant in this part of the world, is our ongoing humanitarian relief with effort in Haiti. Taiwan's expert Search and Rescue teams were among the first on the scene after the tragic earthquake earlier this year. President Ma augmented this with both financial contributions and technical assistance, and has encouraged private groups like a World Vision Taiwan to get involved.

President Ma recognized that humanitarian relief is only a small part of the long and the challenging road to full recovery for countries like Haiti. That's why he has directed our government to continue to integrating advances we make in health care and green technology into our foreign aid frame of work. In this way, Taiwan can make a lasting difference in the countries we help.

With this in mind, you can easily understand why our government has decided to seek the meaningful participation in the IKO and UNFCCC last year. International aviation safety and the climate change are two critically important issues that concern people around the world nowadays. As a member of this global village, Taiwan just has to bear our responsibility.

As I think you can tell from my remarks, this halfway point in the Ma administration provides a good opportunity, not only to look back on the past two years, but to look forward as well. Many of the initiatives I have touched on are ongoing and some are only just beginning. I trust that many of you today will add to our understanding of how these efforts fit into and may shape the course Taiwan is taking under President Ma.

In year 2011, we will celebrate the centennial anniversary of the founding of the Republic of China. President Ma has observed that against the background of thousands of years of Chinese history. The last country, the last century might be seen as merely a comma, but from larger perspective and, with Taiwan's economic and democratic achievements, he believes it was nothing short of an exclamation mark.

With this agenda set in the past two years, it is evident that President Ma intends to take this achievement to new heights. I look forward to hearing from today's distinguished panelists on this subject as my government works to set the best course for the future.

Thank you very much. (Applause)

DR. BUSH: Thank you very much, Ambassador Yuan, for those comprehensive and important remarks. Will you take a few questions?

AMBASSDOR YUAN: Yes.

DR. BUSH: Okay, we will open the floor. If you get called on to take a question, please wait for the mic and identify yourself so the ambassador knows who he's talking to. Who would like to ask the first question? In the back there.

QUESTION: Hi. Ross Johnson. I'm a graduate student interested in these issues. Thank you, Mr. Ambassador.

You discuss some of the ways that the U.S. and Taiwan were strengthening ties. I was wondering if you could just elaborate a little bit further about some of the specific areas you see -- you've seen that made a difference and where you see that relationship going, some of the specific issues, as well as you also spoke upon some of the areas where Taiwan would like to engage with the world abroad.

I was wondering if you could -- you talk about some of the U.N. organizations. If you could also just elaborate a little bit further about some of those -- some of those areas where you see the engagement expanding.

Thanks.

AMBASSADOR YUAN: Thank you very much. As you know, I mentioned in my remarks, I've been here as this position from August the 4th, year 2008, right after President Ma inauguration in May 20th. Between May 20th, year 2008, until today, year 2010, May 18th, within that short period of time because under the leadership of Ma it makes a lot easier for me to conduct the business with the United States, particularly restore the mutual trust between Taiwan and the United States.

I did mention that maybe in the past 30 years, or even past 60 years, we had no president in history transit through the United States in just about a year and 9 months for 10 times. Ten times in a year and nine months. That's really a big breakthrough and a record between Taiwan and U.S.

I want to say this: Within this year and nine months -- or let's say two years -- the United States either in a previous administration, Bush Administration, or Obama Administration, they notified the Congress for two important arms sales package, added together is \$13 billion U.S. sale. That really shows the sincerity of the partnership of the United States. Also, a very strong message to our people, U.S. would like to increase our strength to be able to negotiate with the Mainland cross-Strait.

And more than that, we mentioned about the TIFA things between us and the USTR. We talk about a lot of issues on international space. Without the support of the United States, I just don't think we work almost 30 years, finally last year we had the invitation from WHA to be the observer of WHA, and also this year, as a matter of fact today, our health minister is there talking to WHA members in Europe.

And also I talk about a high-level visit, and if we resume the TIFA soon, I'm pretty sure it should have a high-level delegation to go to Taiwan or we come over here to talk about meaningful issues between Taiwan and the U.S. And also, we work very hard on

FTA, we work very hard on visa waiver program, on extradition agreement. So there are so many things we are ongoing now, but I, as a representative of the TECRO here, I don't see any difficulties to conduct this kind of exchange between Taiwan and the U.S.

DR. BUSH: David Laux? Wait for the mic.

QUESTION: I'm David Laux, the former chairman of the American Institute in Taiwan, and head of the Taiwan-U.S. Business Council for some time, and an old friend.

And I'm just back recently, a month ago, from a trip to Taiwan, and I just read -- was it last week or the week before -- this incredible visit of the governor of Fujian Province with a delegation of 2,000 people, and who spent -- they signed agreements, I forget the value of the figure, of the monetary -- the monetary value of the agreements that they signed. But this kind of thing is just stunning, and it seems to me -- and I had a great meeting with P.K. Chung, who's been doing such a great job in expanding -- you know, I don't know how many trips he's made now, 35 or 40 -- to the Mainland.

The progress you're making in -- on easing these relationships and now addressing new things like whether you should have, allow Mainland students to attend Chinese -- Taiwan universities and so forth and so forth. Would you give us your own personal assessment of this and where it's headed?

AMBASSADOR YUAN: Thank you very much, David. I think it is important. I still vividly remember two years ago when I got into this office, even before because I was here even before I got assignment as the representative of TECRO in Washington, D.C. We got a very strong message from President Bush, then President Bush. He encouraged us, you know, country to country, you should have dialogue. And the Mainland and Taiwan, well, particularly in the past 10 years, we almost had no dialogue whatsoever.

So during the campaign for the presidency, President Ma made it very, very clear. He said, for the well-being of 23 million people, he was going to lead to try his best to open up dialogues, to do easy, June the 1st, particularly economic things. We, our business people, constantly now have almost one million people on a daily basis working in Mainland China. And the four important negotiations -- Beijing, Taipei, Nanjing, Taichung -- really help our people to be able to conclude 12 important agreements plus MOU.

So that always good for people in Taiwan and people in Mainland China. If we continue to do this, to build our confidence between Taiwan and the Mainland, I think that's a good thing for everybody that wants to see. Particularly, you're talking about a win-win-win situation, U.S., Taiwan. China. I think that's to the best interest of the United States, best interest of Taiwan, and also best interest to the People's Republic of China.

DR. BUSH: Back in the back.

QUESTION: Thank you. I'm Mike Mitchell, Orion Strategies.

Ambassador, with the economic agreement with China, with China's focus on green technologies especially in solar to become a world leader, with Taiwan's technical advantage in that respect, do you see Taiwan becoming almost an unofficial partner with China in this effort?

Thank you.

AMBASSDOR YUAN: On this green industry thing, I think we would like to be a partner to everybody in the world. This is why we try so hard to be the observer of UNFCCC down the road, which we may have to take extra effort on that because, you know, that's really related to U.N. organization. But President Ma already made very, very clear, as the member of the global village, we have to try every possible way for the clean air, too.

Thank you.

DR. BUSH: Over here?

QUESTION: Lately there are two things sticking –

DR. BUSH: Will you identify yourself?

QUESTION: Oh, Karma from Radio Free Asia. Of lately, the two Ts, Taiwan and Tibet, has frequently become two sticking points in relations between Taiwan-U.S. or China. Perhaps there is a reason. Recently, President Ma in an exclusive interview to CNN was asked, among other things, the main thing, the encouraging of arms from USA -- about which I'm not asking. U.S. also asked his views on solving the issue of Tibet by the Chinese, and, you know, issues. He said he supports the full autonomy for Tibet, and he also supports a meaningful dialogue to solve the problem, the argument is place.

AMBASSDOR YUAN: What is the question?

QUESTION: The arguments on what President Ma said concerning the issue between the Tibetan people and the Chinese. I'm sure you're aware of what he said on CNN.

AMBASSDOR YUAN: I think President Ma made it very, very clear the world becomes smaller and smaller. No matter you like it or not, the opening dialogue always good for two sides. So I would say, you know, Tibet, if they can continue to have a dialogue with Beijing, I think that will be good for both sides. And just like what we are doing now, to open up dialogue between Taipei and the Mainland China.

So we'll see. Once you have the dialogue, you have one round, two rounds, three rounds, four rounds, and the five rounds, and the progress will be always there. So I would like to say with dialogue always better than no dialogue.

DR. BUSH: A question back there?

QUESTION: Teresa Hsu with Brookings Institution. Thank you so much

for your remarks today, and you mentioned a couple of times about a transfer of military, some military package from U.S. to Taiwan, and how it would, “enhance” Taiwanese confidence and strength in talks with China.

I’m wondering, do you -- is this kind of the stance of the Ma administration that armed conflict between across the Strait is so low that the arms sales are really used as a bargaining chip instead of a real military means to defend Taiwan if, God forbid, a conflict is to happen.

Thank you.

AMBASSDOR YUAN: Thank you. I think any country, including the United States, you have to have your own strong defense. And like I said, Taiwan is so small, Mainland is so big, we are conducting negotiations now with Mainland, and the Mainland still have more than, some people say, 1,300 missiles targeting Taiwan. Some say 1,400, some say 1,500. No matter it’s 13-, 14-, 1500 missiles toward Taiwan, and Taiwan has to defend herself by herself under the leadership of President Ma, we cannot count on other people to fight for us.

So if we can purchase sufficient defensive weaponries from our friend, most reliable friend, of the United States, that will strengthening our power to negotiate with the other side. And also gave our people the confidence to back up the administration to continue this kind of a dialogue.

DR. BUSH: Scott Harold?

QUESTION: Thank you for your remarks today. Scott Harold of the RAND Corporation. You just mentioned missiles, it’s been mentioned many times, and many times we hear from Taiwan leaders that missiles are one of their main concerns with Mainland China. But from an overall, a comprehensive defense perspective, Taiwan faces threats from Mainland China’s military in total, not simply the Mainland’s missile arsenal.

I wonder if you face any risk by constantly emphasizing the missile aspect of the threat that Beijing might decide to give on the missiles and thereby paint Taiwan into a corner whereby it has a difficult time because Taiwan’s own leaders have so emphasized missile aspect and have not emphasized other aspects of the risk posed by the Mainland’s military modernization drive.

AMBASSDOR YUAN: Yeah, very, very simple. The reason we emphasize the missile target in Taiwan, because that’s the immediate threat. Certainly the whole military strength over there in Mainland China, even the United States watch very closely how their military buildup. And Taiwan is small and set that strong military strength of Mainland. Just talking about their 1,300 missiles, that gave us such kind of threat which, how can we assure our people on the island to have a safe life there?

So this is why we try to emphasize they made that for years, and they keep on adding numbers. That’s really the immediate threat to us. But I don’t mean the whole military buildup is not a threat to Taiwan all; that’s a threat to not only Taiwan but also Asia

and to the world.

DR. BUSH: Any more questions? Questions? In the back.

QUESTION: My name is Henry Chen. I'm a second-year Georgetown student, graduate student. First of all, thanks, Brookings, for this symposium.

My question is, we all know that the ambassador in the United States is the most difficult and challenging one, among others. So I want to thank you, Ambassador Yuan, a lot of effort for representing Taiwan.

So my question is I was wondering what are the most difficult -- I was wondering the difficult issues encountered so far in terms of strengthening the U.S. and Taiwan relationship.

And the second question is: what's your agenda in the coming years in terms of strengthening U.S. and Taiwan relationship?

Thank you.

AMBASSADOR YUAN: Thank you very much. You're absolutely right, a tiny little island dealing with a super power here, it's not easy. And I keep on telling my colleague -- I got some colleagues here -- it seems to me every day is trying to beg for something because, certainly, we need more support from the United States than the United States needs from us. And it is not easy, but, more important, I said that the trust, the mutual trust you had, if you don't trust each other, no matter what I say, you know, my counterpart will say, well, we'll think about it. Or, well, we'll do some study. We're going to assess.

But once you trust each other, I give you a very simple example. The first time President Ma transited through the United States, that was in Los Angeles. And everybody worried. Everybody worried, what was he going to do once he landed to Los Angeles? There are more than a half million, you know, Taiwanese-Americans, Chinese-Americans, they don't want to welcome here, how are we going to handle that?

Should he go out from the hotel, you know? Was that a visit or transit? But President Ma made it very, very clear transit was transit. So he even refused to go out of the hotel. He either refused to meet with our media people and which we got a lot of complaints between myself, you know, facing to our own media. But United States said, hey, what a big difference, you know, he came to Los Angeles even for a whole night, he didn't do-- have any action. He just sit in a hotel, prepare his visit for the Central American countries.

So one time, two times, three times, when I try to talk with my counterparties, they said, please, don't talk to detail. I know you guys, don't worry, just do whatever you should do on transit.

So it's become easier and easier and easier so the 10th, 9th transit, my counterpart didn't even want to talk to me. They said, we're busy, do what you should do. So that showed the trust. That makes it easier for my counterpart to be responsible to his

superiors, just like myself, I have to be responsible my superiors. If my counterpart, Barbara, tell me something today and I report it back tomorrow it's not like what she said, then I lose my credibility. I lost my reputation.

So the last year and nine months I have to tell you, we finally restore this kind of trust between my team and U.S. team. So that makes it so easy -- Donovan mentioned so many times -- they send helicopters to help our Morakot, they voluntarily to do so.

We asked to help Haiti, within hours they said, go ahead, send your C130, you know, through U.S. bases. We welcome the humanitarian reason to go to Haiti to help. So if you don't have this kind of trust, they may have a second thought: Why do you this? How much you can help? Why you insist this, the military aircraft? You know, they will have a lot of questions to ask.

Then they don't, because they know we're really doing that from the bottom of our heart to help. So this kind of trust takes time to build up. I am very confident my team is trying very, very hard 24 hours a day, seven days a week, and which I appreciate our counterpart, U.S. side, they fully understood what we are doing to promote U.S.-Taiwan relations.

Thank you.

DR. BUSH: Charles Freeman?

MR. FREEMAN: Thanks, Mr. Ambassador. Thanks Richard.

You talked, I think, about some of the things the United States can do to help improve the confidence of Taiwan as it negotiates with the Mainland and some of the specific steps and the importance of that relationship. What can the Mainland do to improve the confidence, specifically, of Taiwan as it negotiates with the Mainland on a variety of things?

AMBASSDOR YUAN: Like I said, we don't like to receive pressure for Mainland China, particularly, President Ma made it very, very clear under his leadership he wants to do easy things first. It doesn't mean easy things first, means the whole thing. Easy thing first is to agitate our people to have our people have more confidence of the president. He is trying to do things good for the people, good for the well-being of our people.

Once we, after so many so-called economic things or trade matters, easy things accomplished, that will build up more confidence of our people. Particularly, like I said, Taiwan's too small, Mainland is too big. And if our people, we don't have confidence to deal with Mainland China, then you just waste your time.

So this is why, even though we like to conduct this kind of business through our own means without U.S., the participation, but U.S. encouragement for the dialogue between Taiwan and the Mainland, I think that's a very good step for us.

DR. BUSH: Doug Spellman. I was going to close the session, but I saw

Doug's hand. Right here, the mic is coming.

QUESTION: Thanks, Richard. Doug Spellman, Woodrow Wilson Center. Thank you very much, Jason. That was a wonderful talk and very broad and comprehensive. We've all been encouraged, I think by the warming of relations over the last couple of years across the Strait, but the question that remains, of course, is when will you move into political discussions?

Now, you spoke today about President Ma's stand of no independence, no unification, no use of force. But there's a lot of speculation both in Taiwan and here about when you might move on to the next stage. And I wonder if you might discuss some of the prerequisites in your view or President Ma's view before you could move to that stage? Thanks.

AMBASSADOR YUAN: Just like I said, just like you and me, we deal with each other, if I don't have confidence on you, how can we move towards some tough issues like political issues? So this transitional period is very, very important, and how long will it take? It depends on both sides. If both sides are sincere, both sides really think about the big things, I think it may be faster. If both sides still play games, play tricks, and even we offered to say no unification, no independence, no use of force, and they don't think that way, then that's difficult for us to really sit on the part of political issues.

Thank you.

DR. BUSH: I think it's time to bring this session to a close. We're going to take a short break. There's food and drink outside that I've already paid for, so please consume it. And we'll reconvene at 10:30.

Just let me note that I observed some people in the audience that -- who hasn't been here for awhile. We're really glad to have you back.

Finally, please join me in expressing our appreciation to Ambassador Yuan, who, with Joe Donovan, has laid a really solid foundation for our discussion today. Thank you very much. (Applause)

QUESTION: This is the part that you've all been waiting for, no doubt, it's certainly the part that I'm interested in. I love talking about missiles as much as the next guy, but I really want to talk about the religious material, which is the economic situation and I think that's something that frankly is what is both going to define not just cross-Straits relations, but also Taiwan's role in the global economy in much more certain terms than perhaps other issues might be.

My panelists have deserted me, but let me introduce them one at a time. We've got a really phenomenal group of people to talk about the issue of managing Taiwan's economy. Those of us that are market fundamentalists raise your hand -- I think I'm the last one standing -- hate the term -- there he is -- hate the term "managing economies," but in this day and age when we're all Keynesians I suppose we're back to the issue of managing economies.

If I could ask Dr. Liang, Dan Rosen, and Dr. Wu to join me on the platform, that would be terrific. Do you want to sit down there and do it? Well, join me for now. We're going to start with Dr. Liang, have Dan be third and then Dr. Wu to be third, rather.

Dr. Liang Kuo-Yuan, who is our first speaker, is the founding and current president of the Polaris Research Institute. He's an adjunct professor of economics at National Taiwan University and he has been a fixture on the Taiwan economic scene for quite some time. He has been affiliated with National Tsing Hua University from '84 to 2001, where he was professor and chairman of the economics department. From 2001 to 2004 he was dean of the Management College at Shih Hsin University and he's also served as a Commissioner for Taiwan's Fair Trade Commission from 1998 to 2001. He is published widely and we can thank Duke University for giving him a PhD so he has training here as well.

Dan Rosen is our next speaker. He is an economic advisor specializing in China's development and he writes and speaks extensively on U.S.-China relations and is one of the smartest people I know on Taiwan's economy, at least from the U.S. perspective. He is an adjunct professor at Columbia University in New York. So thanks for making the trip down. And he's a fellow with the Peterson Institute which, as many of you know, is really one of the leading econ think tanks here thanks to Fred Bergsten's tireless work.

And then finally, and last but not least, is Wu Rong-yi who, you know when someone hands you a two sentence bio that it's -- if you have to ask, you can't afford it, and this is somebody who's the vice president of the Taiwan Brain Trust and a senior advisor at the Taiwan Institute of Economic Research. He was the president of TIER before he stepped down to become vice premier in 2006.

So, with that, let me turn to Dr. Liang, and please join me in welcoming Dr. Liang.

KUO-YUAN LIANG: Charles, distinguished guests, and ladies and gentlemen, I'm honored to participate in this timely and important symposium.

Okay, under the session title, "Managing Taiwan's Economy," my presentation today is entitled "Taiwan Economy and the President Ma Administration." My presentation will be divided into three parts. The first part I'm going to describe something about President Ma's campaign pledges, then in the second part I'm going to address the Taiwan economy since Ma took office. In this part I'm going to discuss the crisis he encountered during his early stage in office and what are the crisis management procedures applied to solve those crises, to cope with those crises. And in the third part I'm going to say something about the prospect of the Taiwan economy.

Now, the first part, President Ma's campaign pledges. President Ma's economical policy prospective during the campaign mainly surrounded around 6-3-3 that is a vision of what Taiwan would become under his governance. Specifically 6-3-3 means average annual economical growth rate, 6 percent or more; unemployment rate, lower to 3

percent or under before 2012; the third one, per capita income reaching \$30,000 U.S. before 2016 at the end of the second term.

Now, to achieve his goal, his economical blueprint had four dimensions, the first is the 12 basic infrastructure projects, then the world connections, and then the industrial restructuring, and tax reform.

Through during the campaign, his 6-3-3 target faced enormous suspicions. Such goals were not unreachable; in fact, the logic behind 6-3-3 is that Taiwan economy may return to the growth momentum it once had in the 1990s. During the 1990s, average annual GDP growth was 6.35 percent. If Taiwan's economy can grow at annual 6 percent based on Taiwan's current per capita income of \$1,7500 U.S., Taiwan's per capita GDP could top \$32,000 U.S. in 2016.

Then, in fact, if Taiwan can grow by more than 6 percent, the unemployment rate can drop to the 1990s level, which is 3 percent. Okay? So, that's basically what his 6-3-3 pledges are.

Now, through President Ma's promoting the 6-3-3 perspective in his campaign, the challenges he encountered after taking office rendered his goal becoming nearly unattainable. The first challenge that Ma's administrative team faced was lifting the oil prices freeze that was in place since November 6th of 2007 and allowing it to be exposed to the actual market mechanism. Noteworthy, due to the removal of the price freeze, Taiwan's GDP inflation was hiked to 5.81 percent in July 2008. In addition, owing to the raise in the international commodity prices, a key focus was containing that inflation in the initial period of the Ma Administration.

Then comes the second crisis which is much, much more bigger. The second crisis, of course, is the subprime turmoil and the following financial crisis in inflicted, seriously struck Taiwan, which has always heavily relied on external demand. Now, you can see from my calculation, the correlation coefficient of Taiwan's export, annual growth, and the world trade volume and growth rate during 2000 through 2010, has been at a high of .87, this naturally explains why Taiwan exports failed by 9.21 percent in 2008.

Then the sharp export declines significantly impact Taiwan's manufacturing industry which sank Taiwan into a recession for consecutive quarters. The trough seems to have occurred during the first quarter of 2009 when the GDP declined at 2.08 percent year-on-year. Amid the deepening recession, the unemployment rate worsened as well, rising from 3.84 percent in May 2008 to 6.13 percent in August 2009.

Then -- so the team must have some crisis management. Now, first I'm going to show you the satisfaction poll. Now, in addition to those crises I just mentioned, the Sanlu contaminated milk powder event of September 2009, the H1N1 flu epidemic of March 2009, the disaster inflicted by Typhoon Morakot in August 2009, and the internal controversy over the agreement to loosen the limit on U.S. beef imports have all contributed to the declines of Ma's approval rates resulting in Ma's administration to be unable to focus

on realizing his campaign prospects.

Now, these two are the most significant events that have very an active impact on Ma's satisfaction poll. Okay?

Now, in response to the global financial crisis, the administration introduced various stimulus and financial stabilization policies which includes a stimulus fiscal policy, favorable labor policy, and expansion on monetary and financial stabilization policy, and tax reform. I think most of you are familiar with those policy measures so I'm not going to go to detail on those measures.

Now, so I move to the -- some real data. And with the global recovery and stimulus policy efforts taking effect, the DGBAS, which is Taiwan's statistic agency, revised upward as Taiwan GDP growth forecast to 4.72 percent for 2010. The DGBAS is going to revise its 2010 -- Taiwan's forecast in the coming week and it is expected maybe that DGBAS will raise its forecast again this time.

The first blue line is the forecast met in August of 2009 and then the second one, November 2009, and the third one you can see each time they raise upward the forecast.

Not only the DGBAS, recently other institutes have also raised upward their Taiwan economical growth forecast, that includes Global Insight and PRI, which is my institute, the Polaris Research Institute, and the ADB, Asian Development Bank, and IMF, and look at the revision the IMF just made, it's of a big jump from 30.7 percent to 6.5 percent.

And effected by the recession, the number of job losses is raised to 238,000 from August 2008 to April 2009. But with a gradual recovery starting the second quarter of 2009, loss to jobs has fallen to 8,000, which is a big improvement. Although the unemployment rate is still high, however, in this regard it really can be seen as a big improvement.

Now the side effect. The side effect is despite Taiwan gradually recovering from the impact of the global financial crisis, Taiwan still faces the challenge of long term increasing public debt resulting from policies made in response to the crisis. Noteworthy the government deficit to GDP ratio is 3.8 percent in 2009, the highest since 1995. Affected by this, the government debt to GDP ratio has increased to 33.1 percent in 2009 from the 29.8 percent in 2008.

Now, I'm going to move to Ma's economic strategy. Now, with the gradual recovery of the economy, we can expect that the economical policy of Ma's government will return to a long term perspective. If we review President Ma's campaign promises and recent policy, we can find that the core of Ma's economical policy is on balancing internal and external development. On the external side of policies includes aggressively pursuing the ECFA with China and calling for FTAs with nearby nations to reach a goal of connecting both sides of the Strait, envisioning the world. On the internal side, industrial

upgrade is achieved by tax reform supporting selective emerging industry and deregulations.

Now, in further detail, I'm going to give you some idea about current trade trends in Asia, in particular, and global, in general. In further detail the Asian nations import higher value added ingredient materials, and machinery from Japan, and newly industrial economies like Taiwan, South Korea, Hong Kong, and Singapore, facilitate their comparative advantage to produce the intermediate components required to make the final goods and subsequently exporting them to China and ASEAN.

After the final goods are completed in the emerging economies, not only it is sold back to the neighboring Asian nations, but also to other markets of America and Europe. Such a production system is a reason why the Asia trade has flourished in recent years.

Now, the following tables are taken from the data of the (inaudible). I try to say in terms of the Asia as a whole, intra-Asia trade has accounted for over 50.5 percent of total value. Among Asia, the share of the newly industrial economies and Japan exports to Asia have reached 63.6 percent which is a 20.1 percentage point increase from 1990, thereby showing that these nations have actively joined intra-Asia division of the process.

Another data also from the (inaudible). Now, if we look at the structure change in intra-Asian trade, we can see that China is the key factor. Based on those two tables and the previous diagram, I'm going to conclude that in this section, as the development of the Asian supply chain system has become the main trend of export development for all Asian nations, Taiwan cannot exclude itself from such a system, and moreover, Taiwan should actively participate in such a process.

Now, let's turn to the internal side. The internal side, aggressive participation in the global division of process will inevitably cause some industries with comparative disadvantage to move out and since many of them are traditional manufacturing industries that employ a great number of workers, the government must take the issues seriously or it may cause the panic over unemployment concerns. To cope with the challenges, Ma's team has planned the three dimensions for industrial restructuring. That includes industrial renewal, emerging industry, and deregulations, among which there are two goals in the industrial renewal which is, the first upgrade of the service sector to absorb the excess labor during the process of industrial transition. Second, increase the added value of manufacturing industry and developing agriculture technology to cope with the competition from nearby countries once trade is freer.

In addition to the industry that Taiwan has strong competitiveness, the government has planned for the recreation and culture, industrial green energy and low-emission industry, smart living industry, and bio tech and health care industry in serving Taiwan's long term industrial development. To achieve that, in addition to the subsidies given to the specific industries by the executive and the more important task is to deregulate relevant restrictions.

There is also another dimension in the internal side of the development that

is through the tax reform to enhance Taiwan's competitiveness. Now, in deregulation recently the most discussed issue is the tax reform. The planned tax reform has four dimensions. In addition to the previously mentioned income tax and (inaudible) and gift taxes in a newly passed cooperative profit taxes reform, the industry's specific grants are replaced by the functionally-based subsidies that provide an incentive for investment while lowering the corporate profit tax rate to 70 percent from 25 percent to enhance international competitiveness. The government has also planned for the green taxation system for the future to promote Taiwan's development in the green technology and low emission industries.

Now, my final part of the presentation is the outlook of the Taiwan economy for 2010 and 2011. Now, this diagram, the red line depicts the so-called potential growth path, and the blue line is the actual GDP growth path. The potential growth path is computed by the (inaudible) field. Now, the impact of the financial crisis on Taiwan can have a lagging effect.

According to estimates by my research institute, the crisis had lowered Taiwan's potential GDP growth rate by 1.92 percentage points. In other words, the average potential economical growth rate in 2010 to 2012 would be a mere 3.9 percent. Okay, that is based on the lower curve.

Now, however, if the economical policy can take effect and provide new growth potential to Taiwan's economy, Taiwan's potential growth, economical growth rate, may return to pre-crisis trends, okay, that's the upper one, which would be an average of 5.9 percent for 2010 to 2012.

Now, the most optimistic prediction now available at present is the forecast released by the IMF. Now, according to the IMF, it has been holding an optimistic view regarding Taiwan's economical growth in the next few years. According to World Economical Outlook Report released on April 2010, Taiwan's average growth rate during 2010 to 2015 is projected to reach 5.20 percent, higher than the projection of Singapore, Hong Kong, and South Korea for the same period at 5 percent, 4.4 percent, and 4.3 percent respectively. And based on the IMF projection, Taiwan's per capita GDP could reach \$28,000 U.S. and unemployment rate could fall to 3.1 percent according to our estimates.

That concludes my presentation. Thank you very much for your attention.
(Applause)

MR. FREEMAN: Thank you, Dr. Liang.

Dan Rosen, do you have PowerPoint? You're just going to do it straight up?
Okay.

DANIEL ROSEN: Charles and Richard, thank you very much for inviting me to participate with you in this symposium. As was said earlier, it's extremely timely, it's extremely important.

I would say the state of economic policymaking in Taiwan is important in the first instance for Taiwan, of course, but it's also an important indicator of the state of behavior on Mainland China as well. There's a dynamic interaction between these two things and that, of course, is a concern to us beyond simply the Taiwan frame.

And moreover, especially for this gathering here in Washington, Taiwan policymaking points to a number of urgent policy considerations for the United States which, to cut to the chase, is to say that if even Taiwan is transcending its ambivalence and seeking to deepen its economic relationship with the People's Republic of China, then the U.S. certainly has some additional work to do to maintain its centrality in the Asia Pacific region.

In commenting on President Ma's handling of Taiwan's economy this morning, I'm going to focus on the external economic policy environment for the simple reason that dollar for dollar, or new Taiwan dollar for new Taiwan dollar, I should say, Taiwan is more externally oriented than just about any other major economy in the world today. And within external economic relations, I'm going to focus in particular on ECFA, on the Economic Cooperation Framework Agreement, because in my view it's by far the most important, most significant policy initiative Taiwan has taken today. And, okay, to be honest, also because we have a major study on the topic coming out very shortly across the street at the Peterson Institute and it's something I'm comfortable talking about here with you.

I'm going to make five points that I hope are useful for assessing the wisdom of President Ma in investing so much political capital in this ECFA undertaking. First point I want to make is that there is absolutely no economic status quo available in cross-Strait economic relations and just as important, there's no economic status quo in the Asia Pacific economy more broadly. With the consumption downturn in the OECD west that played such havoc with the trend growth of Taiwan that was just so ably described by the previous speaker, final demand in China itself has taken on an elevated significance for everyone in the region and certainly that applies doubly so for Taiwan, whose economic fortunes and GDP is so closely tied to economic performance in China.

And just as an aside, when I think of the IMF and the WEO expectations for China, Taiwan's fortunes are rising -- have risen with the World Economic Outlook upgrading China's outlook. Of course, you rise with China, you fall with China. At the moment there's a battle for sentiment around where China's headed through the rest of this year and next, whether China will be able to maintain the track that the IMF currently is projecting for it, will affect Taiwan significantly as well.

In the region, talking about whether there's any prospect of an economic status quo at all. In the region, the ASEAN plus China, Asian Free Trade Agreement, tariff changes have taken effect. While it was supposedly enforced in January, I wasn't quite sure whether I could be certain that these things were operative. MOFCOM is now maintaining a tariff calculator on its website that traders can use to fill in the tariff lines on their paperwork and indeed it's showing the zeroed out tariffs under the AFTA agreement as being in effect.

So, this is very much -- those tariff changes are very much already shaping the arch of regional trade recovery that is fueling growth through the Asia Pacific today.

The second point I want to make is that these changes in the status quo that are occurring constantly with an increased premium on the outlook for economic engagement with the People's Republic of China, are not particularly supportive of Taiwan's underlying economic interests. Not only are the complete benefits of two-way WTO level economic engagement not presently accruing to Taiwan, especially with regard to Taiwan's inward importation of investment flows from China, across the Strait, but many of Taiwan's neighbors are now enjoying WTO plus terms. So, in the case of Taiwan, we're still trying to get to WTO compliant level, where as pure competitors are moving ahead to WTO plus in the structure of their economic relationship with the world's principle growth node at present.

Thirdly, I would say that while the ad hoc process of twice yearly consultations across-Strait have yielded much progress in the cross-Strait economic relationship, I don't think that this process can maximize Taiwan's interests as it's inherently hostage to the political cycles that work through Taiwan, of course, also we have a leadership cycle in China that affects the effectiveness of this occasional ad hoc process, and even, of course, the political cycle in the United States has the potential to affect the usefulness, the utility, of an ad hoc consultative process across the Strait.

So, there's a limit to tackling Taiwan's -- maximizing Taiwan's interest with the process as we know it.

Fourthly, I would say that the debate in Taiwan about the ECFA prospect has of course been vociferous and heated and the Ma administration has been somewhat parsimonious in declaring the full intent of what will be incorporated in this undertaking in the final instance. It doesn't surprise me that that is the case. Trade negotiators never want to put all the cards on the table and then go try to negotiate in the midst of public debate and recrimination about all the details, they want to allow themselves some amount of flexibility on the terms of an undertaking, especially one as politically sensitive as this one is.

In this case in particular, most of the benefits from this cross-Strait normalization and liberalization, both of which are envisioned under the process, most of the benefits will accrue on the Taiwan side, but certainly most of the adjustment will necessarily occur on the Taiwan side as well. China is by in large in compliance with its WTO level obligations, cross-Strait, Taiwan is not. So that's how -- where the adjustment will take place and hence the desire for some flexibility and how to digest that, I think, is amplified in Taiwan as a result.

Fifth, then, the final point on ECFA I want to make, it must be said that ECFA, which I've described to you as the singularly most important policy initiative being undertaken in Taiwan and probably the most important initiative undertaken in a decade or more, I would go so far to say, is in fact of itself no guaranty whatsoever of Taiwan's medium- or long-term welfare and competitiveness. It's just a means to achieve a more

level playing field with peer competitors in Asia and the study we have coming out when we get to that point in the conclusion of the study, we say -- and the punch line is -- drum roll, please -- ECFA, just a flat field, not a cathedral. What Taiwan is able to build on that flat field that just keeps pace with everybody else in the region, essentially, is the giant question.

And I'm encouraged by Professor Liang's presentation and others I've heard from friends at ITRI and many organizations, that there is a coherent and cohesive Taiwan strategy for competitiveness, industrial policy, that goes beyond just highlighting the same sectors that everybody else in the world is saying their industrial policies will emphasize green energy, that will be truly complementary to the new conditions brought about by cross-Strait liberalization and normalization, that will make sense building -- going forward.

If it's not clear already, I expect the ECFA to approximate the ASEAN+1 agreement terms. Keeping up with the neighbors is not a strategy for success, per se, it's just a tactic for not falling behind further in terms of the terms of engagement in the Asia Pacific.

To conclude, then, the weight and emphasis given to deepening and clarifying the cross-Strait economic relationship is in my view laudable and to be supported by the United States and elsewhere. But though he has moved toward his goal about as quickly as imaginable given the delicacy of the domestic politics, the reality that this is just parody with peers in the region, that it is just a prelude to a more fulsome strategy for competitiveness, means that President Ma must move the debate forward as quickly as possible beyond the rather obvious question of ECFA to the much more challenging question of what Taiwan does with it once it's got that peer parody with what else is happening in the region.

To bring the discussion home, finally, I think the same advice applies to the United States. If we want to maintain our exports in the United States -- maintain our exports, let alone double them in five years as the central tenant of our growth strategy -- recovery strategy going forward, then I think we must very much look beyond the status quo of what our export position in the region is today, look beyond, in fact, the changes in Asian trade regimes already foreseen, and score our expectations for ourselves and our own performance against the kind of very forward-looking vision President Ma has brought to securing Taiwan's economic interests going forward. And that's a challenge which I think we have the opportunity to hit a home run on, but the U.S. is keeping its powder relatively dry.

I think even as we saw this morning in comments from the principle deputy assistant secretary, we haven't really fully engaged with the implications of what's happening with this important remaining legacy of Cold War international relations. It will be interesting to see whether we rise to that challenge or not in the months ahead as the first installment of cross-Strait deepening, hopefully, eventuates and then going forward beyond that as, in sequence, other much deeper components of the relationship are worked through.

I can talk a little bit more about some of the details of the extensive economic modeling that Jo Huang and I have done on the likely implications of ECFA for

the parties, also for elsewhere in the region, for the United States going forward in question and discussion. Thank you.

MR. FREEMAN: Thank you very much, Dan. That was excellent and a nice -- and a very complimentary presentation to that of Professor Liang.

Now, let's turn to our final -- our cleanup batter, Rong-yi.

RONG-YI WU: Sorry. Technical problem. Thank you very much. Thank you to have this opportunity to come here to present my observations on President Ma's government performance on economic policy.

I think the part of this data I have already -- you know, Dr. Liang mentioned about Ma's 6-3-3 pledge. I would like to use Ma's platform to review about the Ma performance because I think it's most important, the policy of President Ma because the KMT, during the campaign, criticized seriously about the poor performance of the predecessor government, DPP, and then he submit his 6-3-3 pledge and Mr. Ma, the promise after he win the election, the economic growth rate reached 6 percent. And unemployment rate will go down 3 percent and the per capita income, \$30,000 U.S.

The \$30,000 after, you know, the (inaudible) amount he received exclusive interview by foreign media and he admit that it impossible to achieve 30,000 per capita income -- that should wait until 2016, after the second term. But he still keep the 3 percent of unemployment rate and 6 percent up economic growth rate as his -- the policy.

So, the first I would like to review this 6-3-3 pledge to -- on economic growth rate and unemployment. So, maybe we should wait. Of course, during these last two years, because of financial crisis and Taiwan economy was seriously affected, but I think it is fair to say you cannot contribute or this poor performance to the financial crisis. Compare with, for example, Korea and Taiwan. The performance of Taiwan -- before the crisis Taiwan's economic performance is -- at least from 2004 to 2007, Taiwan's performance better than Korea, but after 2008, the Korea economic performance is much better than Taiwan.

So, this shows the GDP gross on decline. You can see here is -- this is a first, second quarter up to '08, and the third quarter has been Mr. Ma inaugurated as the President of Taiwan, and then we see the continuing five quarters, negative growth and not until the last quarter -- last quarter of 2009, the economy stopped -- turned to positive.

And this one is unemployment, the red, you see, the -- here unemployment before -- during the last four years of the DPP government you can see a decline in the unemployment rate. And then 2008, this is annual data, so you see this average, but then -- you start to see the unemployment rate increase to almost 6 percent and in August of 2009, the highest record, 6.13 and the real wage rate -- real wage declined very, very abruptly and I think this is very serious and I will return to this part later.

And, of course, the -- because of this, the tsunami, the financial crisis, and

the government should take the economic parties to counter and, as Dr. Yuan just mentioned, this is a standout policy to lose monetary policy. I think I don't need to go into detail. And then boosting domestic demand including the \$2.7 billion U.S. on (inaudible) and also some deduction or commodity tax on the purchase of vehicles and also preferential loans for first-time homebuyer and incentive for the use of energy saving equipment, et cetera.

And also infrastructure investment in the package which amount to the -- say 4-year, 400 billion NT, equivalent to \$15.6 billion U.S. But for 2009, it was about \$4.6 billion, 30 percent of that year's government fixed investment. And also to employment promotion programs that amount to \$1.5 billion U.S. If the goal achieved that will reduce 1.2 percent of the unemployed.

But I think later I will -- because time is too short and difficult to assess whether the result of this package, but maybe from the public expenditure point of view I will show you the data. But the most important policy of Ma administration is China, the election restriction on China. The first one is on the trade and investment and there are quite a number so I think you can refer, because all this paper will be distributed, I think, so you can read all the details. And the second one is the transportation. That is called direct links. As well as the tourist formally visit Taiwan from the July 18, 2008 and the charter flight becomes schedule flight, and et cetera.

And also promote ECFA with China and based on the government (inaudible) data and (inaudible) I submit here four important reasons. One, first one, is regional economic integration. It's a global trend. So, if Taiwan can't sign FTA with its major trading partners, Taiwan will face the danger of being marginalized and lose competitiveness in important markets and potentially China is Taiwan's most important export market so signing ECFA with China will help Taiwan to sign FTA with other countries so that marginalization can be averted.

Second is, success is signing FTA with China and other countries will ease Taiwan into the global trading system and also attract multinational companies plan to reach an agreement on FTA to use Taiwan as a trained investment platform for their entry into East Asia.

The third one is negative effect of FTA signed between ASEAN and China that went into force this year has begun to show in Taiwan's export competitiveness has already begun to erode.

The fourth one is since Taiwanese product, we (inaudible) China at zero (inaudible) rate, Taiwan will be able to crowd out its major competitor Japan and South Korea in the Chinese market (inaudible). But as in most of these statement of (inaudible) are paradoxical in (inaudible) the strong verification. Later I will explain to you.

And then now the evaluation of the government, Ma government policy. First one is, I think the Ma government over estimates its own capabilities while underestimating the track record of predecessor government. After two years of the KMT

rule, we find that the DPP government actually did pretty well in terms of GDP growth and unemployment. The short-term economic stimulus measures that Ma took failed to effectively bring down the unemployment rate. Furthermore with the 6-3-3 platform, Ma triggered very high expectations among the public so that his government now looks all the more incompetent. This explains why Ma's approval ratings have languished around less than 30 percent.

The second part is the Ma administration is overspending public expenditure, as Dr. Liang also mentioned, to stimulate economic financial deficit was deteriorating. It is estimated that the ratio of accumulated unpaid debit to GDP has increased from 38 percent to in 2007, 40 percent in 2008 and to a record high, 45 percent in 2009. Corresponding at a ratio of government deficit to GDP had also risen from minus 0.35 percent in 2007, to minus 0.80 percent and to a historical high of minus 3.8 percent in 2009. Compare with U.S. maybe or other European, but from Taiwanese point of view, this is very serious one.

Second is, Ma government misjudged the economic situation believing that Taiwan employment woes could be stopped by relying on the Chinese market. When Ma government inaugurated in May 2008, the restriction on economical trade across the Strait was actually very limited even, you look (inaudible) this or not important, you know, the restriction. So I give you some -- the historical important change of policy.

In 1990, Taiwan stopped indirect trade investment with China. Taiwan's investment in China has gradually increased. In 1996, President Lee Teng-hui started his "No Haste Be Patient" policy, so that a bit more limit to the China policy. Then 2001, the new paradigm of active opening effective management from President Chen Shui-bian, second year of first term, Taiwan investment in China start to grow very quickly and even reach to the highs in 2008. So, when the KMT criticized the DPP government closed-door policy is wrong, totally wrong. Actually, President Chen Shui-bian start to open more to China. And 2009, because of that, the export to China, Hong Kong, Macao, account for 40 percent of Taiwan total export while the investment in China is about 60 percent of Taiwan total foreign investment. This happened actually in 2009, already 40 percent of Taiwan's export (inaudible) on China, so then because we're open, how can you, just a country, they export to one country with say 40 percent? In terms of investment it's 60 percent, so that means we're already quite open. It's not closed.

But I think the problem is Taiwan's economic structure problem of excessive overseas. For example, based on -- according to World Investment Report 2009, Taiwanese FDI flow as a percentage of growth fixed capital formation outflow, you see, outflow is, in 2006, 9.5 percent; 2007 is 13.7; 2008 is 12.7 percent. But I think the most serious one is if the stock as a percentage of GDP in 1990 is -- it was 18.4 percent. In year 2000, 20.7; in 2009, 44.6 percent. Compare with South Korea. In 2009, South Korea only 10.3 percent, even Japan only 13.9 percent in 2009 as a percentage of GDP, you know, the total FDI abroad. And because of this huge amount of FDI -- so, you see that here it's -- here, this is the total outward investment and this one is China, so you see the Taiwan since 1991 open out flow investments, so you see the very clear, very rapid, increase in trend that is annual. And the scale is billing U.S. dollars, so that means in 2007 -- 2007 -- the highest in 2007 is about \$16 billion U.S. and in China about \$10 billion U.S. and because of these huge

amounts of foreign investments, so you see the unemployment rate from around 2 percent to 6 percent. So, you see the unemployment rate is, you know, actually worse based on the foreign investment.

And because of that you can also see -- because of Taiwanese huge amounts of out flow investments, so you see the growth rate of fixed capital formation also decline. From 1991 you see the growth rate slowly, but up to 2000 and 2001 because of dot-com bubble. And then after 2001, average of fixed capital formation growth rate is almost zero, no increase of the fixed capital formation in Taiwan.

And because of this, high unemployment, so you see the real wage rate -- you see, industry and service, before 2000/2001, you see it gradually increase and then after that you see gradual decreasing. In terms of the growth rate, like for example, red line is the industrial sector, you especially very clear, you see the decline in the growth rate. And because of this, it's very huge, the falling investments, and about one different (inaudible), 1.52 million Taiwanese businessmen stay in China, so these loads of people who have capable to spend, they stay in China or long time or, you know, very frequent travel between Taiwan and the China. They spend money there, so the private consumption growth rate you can see also decline up to '92, after '92 you see very clear -- you see very clear decline and in 2008, that is negative.

So, that means since we open Taiwan in direct trade with China, you see a huge amount of the capital outflow and in particular, you know, in China, about 60 percent, and because of these outflows they don't invest in Taiwan, unemployment in Taiwan is increasing. So, what I mean is, if you now start -- again, you want to sign FTA with China - - ECFA with Taiwan that means we are closer and the trend is very clear. The capital will continue to move to China and so this is the reason I think Taiwan should be very careful, think about whether you should continue to close economic relations with China. Also, other two reason is the closer -- if we depend too much on China, we have too risk of excessive dependents. First of all, of course, is China is still an authoritarian country. Beijing could use its economic power to achieve a political objective which is to claim Taiwan sovereignty and to use force to reach its goal if necessary.

So, again, is China even economic development is quite high, but there are also problems. For example, wide income gap and fairness on income distribution, the imbalance of rural/urban development, et cetera. So China is a very high risk, very uncertain country. If we depend too much on China, if Chinese economy collapse or anything happen then the Taiwan economy will be very serious.

So, finally I would like to mention, the first is the people are not satisfied with Ma's poor economic performance and that is the reason for Mr. Ma's low approval rate.

The second, although GDP growth has recovered from (inaudible) last year to a positive figure, unemployment rate remains very high. One of the great challenge for Ma Administration come from is how to decrease the unemployment rate.

The third is Taiwanese depressed economy is caused by excessive overseas investment in particular, over dependence in China. If the Ma Administration cannot realize the nature of Taiwanese economic situation, there could bring about the gloomy domestic investment, consumption and the labor market. Now, this is especially true of the Ma Administration still considers signing ECFA as the best solution to Taiwan.

The fourth is Ma Administration plans to reach an agreement on ECFA with China in June. You know, I never heard the country to announce in public that they should (inaudible) the agreement with another country at a certain date and especially China is a bit hostile to Taiwan. How can you sign these kind of the, you know, trade very important, the trade dear?

So, but even you want to do so, but through the poll we can see the high percentage of people against this scheme, of course different kinds of polls, but maybe around 50 percent of people are against this ECFA. And that's a democratically elected president. When you say -- when you look, 50 percent of people are against your scheme, why you should push this so fast?

Finally, Ma Administration (inaudible) is China (inaudible) policy instead of not solving Taiwan economic quagmire, this policy has worsened the situation and has general public distrust and a warning to Ma himself and his government. Taiwanese concern sign ECFA, is a delicate arrangement Ma and China used to unify Taiwan with this institutional economic tradition that I think is many, many people in Taiwan worry Chinese, you know, misuse Taiwan sovereignty.

So, we think these two should be very careful.

So, finally I would like to particularly point out that we are saying even we want to talk with China, but Chinese should not oppose Taiwan to deal at the same time with other trade partners, and you know, Taiwan only sign with China. That's just wrong. If we want to sign AFTA with China, we should at the same time negotiating with all the other important trade partners.

Thank you very much. (Applause)

MR. FREEMAN: Please join me once again in thanking Professor Liang, Dan Rosen, and Dr. Wu for their presentations. (Applause)

I'm going to open it up for questions, but that was a pretty striking different set of opinions about the direction of the Taiwan economy and I -- you know, we have these debates all the time here in Washington about the China as threat or opportunity, but it's -- it is, for Taiwan, it is obviously a much more spirited debate than here even.

But I guess what I'd like to do is focus and ask -- if I can start the first question -- if I could focus on what Dan suggested which is, you know, the Taiwan economy is really, with the exception probably of Singapore, probably the most dependent on external trade of any other economy in the world and I guess with that in mind, and

recognizing that whether or not China is a threat -- an economic threat to Taiwan, it certainly is a growth opportunity at the bare minimum.

And so I guess the question I have is, to what extent can -- if ECFA is not the solution or if it is the solution, what steps should Taiwan take to make itself more competitive in the global economy? We've looked at some of the internal things that Dr. Liang raised with respect to deregulation, looking at picking some winners in the -- in industries and tax reform, but what can Taiwan do given where the growth is coming from and particularly since one of the major growth nodes has to be inevitably a China-centered focus, where do we go from here? What's the right answer if it isn't ECFA? And more basically, how do we answer the question that Dan raised, you know, given that this is a very dynamic situation -- how does Taiwan maintain a level playing field with other markets given some of the political challenges it faces in negotiating free trade agreements with other -- not just Asian countries -- but others in the region?

Anyone who wants to begin.

DR. WU: Thank you. Of course it's not the easy solution for Taiwan to maintain the very dynamic growth, but I think the government should first realize, as I just mentioned, our economic structure, and that we should first -- we should try not go too much on Chinese market. We should start to think about, just like 15 years ago, we say, Taiwan depend 48 percent of our market on the United States. The government said, okay, we should diversify our market. So first, the government should realize if you continue to depend on China, you have no future, so you should try the government and the people understand, and help the businessmen to diversify, for example to Asian or U.S. or European market, you know, and that is really before 1990, before we opened to China, that is Taiwan -- you know, had a very good performance.

So, the first one is, our concept should be very clear and then start to cooperate with the businessmen and I think for no problem with Taiwan. People are really very dynamic. They work hard and they can do what, I think, is most important for the country because the problems, I think is, as I mentioned, since 1990, government actually just said free economies, so that our businessmen go as they like. You know, and China, because we speak the same language and for many of the businessmen, they lack competitiveness so they can easily move to China and then, you know, continue the flow and reach the current danger in a very dangerous situation.

So, I think, of course I cannot answer this question immediately, but I think actually we are quite, you know, many, many strategies that we can take and I believe that we can find it with solution.

Thank you.

MR. ROSEN: Let me follow on that. Maybe to make the question even more complicated though, unfortunately. Let's say Taiwan's strategy is to diversify beyond China and mind you, business as usual, if ECFA is not done, still entails Taiwan's export dependence on China going up dramatically in the years ahead. So, that's a given. The question is a matter of degree. How much more dependent on China? But let's say the focus instead is on dealing with the value chains that originate in Korea and Malaysia and

Japan, and what if, then, Japanese, Korean and Malaysian companies move their final assembly into China? At that point does Taiwan cut off its relationship with the dynamic global companies of Korea, Japan, and Malaysia and say, we're not following you there? Because that essentially is what is happening.

For Taiwanese firms to be full partners to the multinationals from other Asian economies and participants with them means following them where they want to go for business strategic reasons and if that happens to mean doing business in China, overweight China, due to labor costs or what have you, then will that be a given for Taiwanese businesses? Or will there then be a special layer of political considerations on top of the very complex business decisions that affect the strategic choices that Taiwan firms make?

Adding that political layer of complexity on top of the very complex global commercial challenges is a disadvantage for the commercial sector which I don't think Taiwan can bear going forward. I don't see a way to reconcile that and do that.

So, on the up side, I think that I'm not sure I see much of a diversification strategy for Taiwan given the centrality of Chinese growth in the region and assembly work in China. And then on the downside, choosing not to go there, choosing to try to hedge and diversify I'm not sure really works. I mean, that's what creates the outflow of capital that subtracts from Taiwan's growth capital formation without a corresponding inflow because of the uncertainty about putting a \$100 million, \$500 million, \$1 billion new manufacturing facility in Taiwan given the ambiguities and uncertainties that hang over the commercial sector.

DR. LIANG: I personally make a forecast for Taiwan, so let me give you my first observation about the issue. When we make a forecast about the future of Taiwan, in fact a forecast of 2010, I think most of the forecast instituted in Taiwan, including -- I said, most of the forecast instituted in Taiwan, including the DGBS, the government statistic agency, does not fully take the ECFA effect into account for the 2010 forecast. That means Taiwan economy has really improved in this year, no matter whether we have ECFA or not. ECFA of course will be a plus, but that's not the whole story. As Charles just mentioned, Taiwan heavily depends on the external demand. Once the external demand revival, Taiwan economy will recover. That's so simple. Okay?

And -- but my second point is, okay, I want to reiterate it. I mentioned in my presentation, I said with a gradual recovery of the economy we can expect an economical policy of Ma's government will return to a longer term perspective. I think in that sense it will help Taiwan.

MR. FREEMAN: Let's start with Garrett.

QUESTION: Hi, my name is Gerrit van der Wees . Thanks for the excellent presentations. I am from the Netherlands and my country is probably just as much export-dependent as Taiwan is, the big difference is, of course, that our big neighbors don't claim sovereignty over the Netherlands so that's a big cloud that's hanging over the economic

discussion.

I do have two questions, actually, one for Dan Rosen. You presented a rather rosy picture, I would say, about ECFA. What I did miss was a lack of hedging policy. Many economists who know about China basically indicate that there are quite a number of bubbles that are about to burst in China, in China (inaudible) and which both (inaudible) there's quite a number of discussions on that. So, if Taiwan is too close to China it would be affected considerably by bubbles bursting and the instability. Can you say something about hedging policy?

Then for Dr. Wu, it's basically the balance in international relations both economically and politically and you were saying that many in Taiwan feel that ECFA is basically making Taiwan becoming too dependent on China. So, earlier today we heard Mr. Donovan say that we want to reinvigorate U.S.-Taiwan trade agenda so as for the U.S. to remain present in East Asia. What specific steps would you suggest that the United States take in this regard to balance out their relations for Taiwan?

MR. ROSEN: So, I actually noted in my remarks in discussing the IMF's WEO forecast for China that a lot of the bounce-back we're seeing right now in Taiwan is an artifact of the resetting GDP outlook for China at a higher level which pulls through from the region and generates growth for everybody else in the region. So, the question of whether it's advisable to get closer to China given the risk factors in China, the first question is, what's the alternative? Let's say there's no other growth available out there for Taiwan to service. Then, yes, there's some risk that the hoped for growth in China that's in the GTAB models and the other models we use to try to estimate trade effects and economic effects, then that will disappoint us, but on the other hand, you know, it's losing some of what you couldn't otherwise get anywhere else so far as I can see. I mean, there is some sense of hedging toward India opportunities looking ahead. I think that's a terrific idea. I think it's going to take some time to generate the kind of immediate opportunity that China presents to Taiwan and that China has been willing to specifically earmark in for Taiwan even if they have to make something up in order to offer that growth opportunity.

So, I think to critique the risk of losing some of the hoped for upside from dealing more deeply with China, the first step you have to take is to point to what the second best option is that China could find that additional growth opportunity from.

But then more micro, more immediately, in terms of China bursting, the bubbles in China that you refer to, I think first of all we could talk about whether one expects a bubble to burst or not. I don't think it will be a fully bursting bubble. It will be more of a soft landing steered down scenario, but we can talk about that in some other context. However, even in the eventualities that you refer to, I think what's hit hardest is natural resource exporters to China and more basic materials exporters to China, the kinds of product that Taiwan mostly exports into China for either re-export out to the OECD west or final consumption in China is not so, I think, vulnerable to the kind of bubble bursting that people are concerned about in China today.

I think what's happening in Europe, bubbles bursting there, in some ways is

more threatening to the value change Taiwan is the headwaters of, than the property sector coming off in the PRC.

DR. WU: Okay. Thank you. Many people like me in Taiwan think once Taiwan signs ECFA with China, then now we will gradually become one China market or be absorbed by China, not this question of timing. So, I don't think United States wants to see the Taiwan become China or part of China. So, we accept that we are talking about the military -- weapon sale to Taiwan. I think if United States can start to negotiate FTA with Taiwan to balance, because as a member of the EO all the member have the right to negotiate with other. Why the United States afraid of China, don't want to negotiate FTA with Taiwan? You negotiate FTA with Korea, why not with Taiwan? Because of China. Japan also because of China. And when you ask Japanese, why you don't negotiate FTA with Taiwan, of course China, but if U.S. start to negotiate, then Japan will follow, (inaudible) will follow. We just negotiate, you can take a long time, and the people will feel confident. Why not, just start to negotiate? And Taiwan, as you this morning mentioned, that Taiwan is very important part of U.S. Ambassador Yuan mentioned several times, Taiwan is small country, China big. Taiwan is number 17, 18, the big trading partner of the world. It's not small. It's a big. And we, based on U.S. (inaudible) estimate about 50 percent of Chinese FDI came from Taiwanese production.

So, Taiwanese not small. In terms of geography, it's small, but it's not really small. So, U.S. you are -- your president say he want to double your export in 2015. Taiwan is very important market so you -- we can negotiate FTA with Taiwan. I think maybe that will facilitate the -- to achieve the goal.

So, I think if the U.S. and other important trading partner can start to negotiate with Taiwan on FTA, I think Taiwanese were much more confident to start to negotiate with China, but not as quick as Mr. Ma say, this June should be signed, that is very dangerous.

MR. FREEMAN: Thank you. We've got very little time and we've got a bunch of questions. Let's start with Bert and then we'll work our way around.

QUESTION: Hi. I'm Albert Keidel with the Atlantic Council of the United States. Excellent presentations and program, thank you.

I have one question for Wu Rong-yi and Liang Kuo-Yuan and another for Daniel. Drs. Wu and Liang, I'm intrigued by the concern that outflow of investment from Taiwan will damage the independent sect going forward economically for Taiwan. What is the projected scale of the inflow of investment from Mainland China to Taiwan and what kinds of changes might that bring around for the structure of the Taiwanese economy and its competitiveness.

And Daniel, I loved your analogy of a cathedral versus a plain, flat plain, and it reminded me of another flat surface where you have bishops that move around on a chess board. Anybody that knows about chess knows you need to take the center of the board and then you're in a very powerful position to compete with the other side. What would you say about the advantages of the location of Taiwan if they have a kind of a playing field that's

level in sort of legal terms?

DR. WU: I think it's very difficult to answer your question. You know, the problem is Taiwan is open. It seems maybe under U.S.-Taiwan trade negotiation, Taiwan start to, you know, open trade, and then capital market and after it joined the WTO in 2002, even open more except China. And with Taiwan-China relations, because, you know, the historical and the hostile between this other, but in terms of economic -- because Taiwan is open, you cannot prohibit Taiwanese investment to China through indirect or through the Caribbean island structure, you know, tax haven. So there are actually many Taiwanese investment through these tax haven country to China.

So, if Taiwan can become a (inaudible), but China claims Taiwan as its part, there's always -- for Taiwanese, we are afraid, except U.S. strong support. Otherwise we are still afraid of the China. One day they will take Taiwan. And the government should take care of the people and so I think -- except you can exclude Chinese factor, otherwise it's very difficult.

MR. ROSEN: Geographical advantage is an important variable, powerful variable, and economic modeling and growth, as we know. Taiwan has a number of times tried to parlay its location into a source of comparative advantage. Think back to the mid-'90s, Asia Pacific Regional Operation Center strategy which seemed so compelling.

I think location is compelling, but given the mix of economic activity in Taiwan where factors are so mobile, service oriented, R&D oriented, innovation oriented. I'm not sure that distance and geography matter for that mix as much as they do in the manufacturing clusters all mostly located in China nowadays where the distance between a midstream and a downstream petro-chem operation makes a really giant difference in operating efficiency.

In fact, I note that maybe from the Taiwan perspective, the center of the chess board might be Chengdu or Chongqing. I hear a lot of Taiwan business people talk about leapfrogging to the center of the new China where there's a whole other generation of steep phase of the take off curve growth available that they can participate in beyond the coastal value chains that they're already such an important part of and of course opened up for China, were the pioneers opening -- connecting China to the world in many ways.

So, I do find Taiwan's position just logically looking at it on the map, to be encouraging and yet when I actually try to put that to work, it's the skill sets, the highly mobile skill sets and cultural affinity and utility that matter even more than the geography.

I think actually in geo-strategic terms, in geo-security terms, Taiwan's location might be even more significant to different cones of thinking than the economic position per se, given the underwater topology and undersea canyons that various maritime vessels transit through.

MR. FREEMAN: Thanks, Richard. Do we have time for one more? Yes. Sure.

DR. LIANG: Regarding to the inflow of capital to Taiwan from China in particular, and from other parts of the world in general, I think that Taiwan always preferred the investment would take the form of foreign direct investment, not in the form of purely financial investment. That's a basic principle, no matter whether the money comes from China or other parts of the world.

MR. FREEMAN: I can't leave Alan hanging here so I'm going to let Alan ask the final question.

QUESTION: Thank you, sir, and thank you to the panel. It's very interesting. Alan Romberg, Stimson Center. I want to draw Dan Rosen out a little bit in light of Wu Rong-yi's attack on ECFA. You made pretty clear the case that creating peer parity was a playing field and that they've got to do more to take advantage of it. But can you say a word about what the disadvantage would be if Taiwan and the Mainland did not proceed to successfully negotiate ECFA?

MR. ROSEN: So, I could -- one can approach the question a couple different ways. Our modeling -- our econometric modeling, suggests that the 2020 difference, just from this policy initiative, between doing ECFA and whatever benefits accrue versus not doing ECFA, which doesn't mean standing still, but which means terms of trade that are deteriorating essentially vis-à-vis the Asian countries, that that spread is better than 5 percent of GDP in 2020, which is a pretty big deal. You can't find other policy variables that will get you to that kind of magnitude of policy effect.

I think on the more micro level, though, and impossible to adequately model quantitatively, and we acknowledge this in our work on this, you know, it's the uncertainty, it's the ambiguity about the outlook that scares away investment. The capital formation story that I think Dr. Wu so adequately described has to do not with the cost of production in Taiwan, per se, and the relative cost of production versus putting some other very high tech entity, like a semiconductor fab, in the Mainland. Semiconductors don't use labor. China has no cost advantage in semiconductors, really, not much to speak of. It's the uncertainty about the ability to fully participate, unfettered by political machinations in the value chains that have knit together the region and are knitting the region together even more deeply every day. It's that political risk calculus that one cannot be comfortable with that has the most pernicious effect on the long term economic interests on the micro level of Taiwan from not, at least, normalizing if not keeping pace with liberalization with other countries in the region.

And I'll finally note that after we modeled through the effects for Taiwan of doing ECFA, we then modeled on top of that how much additional benefit Taiwan would enjoy if it could then accede to ASEAN+1 and ASEAN+3. And we found that the additional benefit of ASEAN+3 for Taiwan was really quite minimal. The benefits are found where the normal course of business is distorted and that is across the Straits. The other 151 WTO members on the planet and Taiwan have normal trade relations with one another. There's only one WTO member that Taiwan does not and that's where you get the big bang in terms of positive welfare effects.

MR. FREEMAN: I know we've got a lot of smart people with really good questions left and I really hate –

DR. WU: Excuse me.

MR. FREEMAN: Oh, sorry. Please.

DR. WU: I think from business point of view, business profit seeking. They just don't care. They go everywhere they like, that is Taiwan's past 30 years. But from a government point of view, they should assure the people the security, because of China, the Chinese -- they claim Taiwan sovereignty so even the economic, for example, (inaudible) China obstruct Taiwan to negotiate FTA with other member. So, except you can ask China to stop obstruction otherwise, you know, that's always difficult for Taiwan, and of course we should try to find our way, that too, but continue to increase our relation with China and for many people, we cannot accept that in Taiwan because we think that's too dangerous.

MR. FREEMAN: Thank you. Please join me in thanking the panelists for some very good presentations. (Applause)

MR. FREEMAN: Maybe if we could get started with the lunch presentation. And continuing on with the theme of economics, which I think is useful given that I don't think -- although we had a –

[Break]

MR. FREEMAN: Thank you, Richard.

Although I think we had an excellent discussion, I don't think we really concluded all of the points that really should be raised about the economic policies of the Ma Administration, although there was a useful point-counterpoint going on.

It's a great pleasure to welcome Dr. Paul Chiu, who's the chairman of Bank SinoPac, and an adjunct professor in the Department of Economics at Tai Da , the National Taiwan University. He served as the vice premier of the Executive Yuan, 2008, 2009; was the minister of Finance from '96 to 2000. Long career in finance, both commercially and in the government. And at the Central Bank of China he served in numerous positions including DG of the Banking Department, DG of the Economic Research Department, and deputy governor. He's on the Board of Directors of the Taiwan Stock Exchange, was chairman of the Board of Grand Cathay, and chairman of the Board of EnTie Commercial Bank. Another U.S. alumnus for -- this time from the Ohio State University.

Please join me in welcoming Dr. Paul Chiu.

PAUL CHIU: Well, thank you, Mr. Freeman, for kind remarks. And Dr. Bush, distinguished guests, ladies and gentlemen.

It is indeed a great honor to be invited by Dr. Bush and Mr. Freeman to serve

-- to participate in this policy forum entitled, Assessing President Ma Ying-jeou Administration's Policies. And then to make a presentation at this buffet lunch.

In addition, it is also a great pleasure to have this opportunity to meet and exchange opinions with other scholars, experts, and the journalists who have also been invited to attend this forum.

The subject on which I would like to speak today is entitled, President Ma Ying-jeou Government's Economic Policies Promoting Taiwan's Rapid Economic Recovery and Developing Taiwan into an Economy in the Trade Hub.

My speech consists of three parts. The first part has to do with promoting Taiwan's rapid economic recovery. In the second part, I focus on developing Taiwan into an Asia-Pacific economy in the trade hop. And then the third part is the conclusion.

Now, as first part is concerned, let me use my PowerPoint. It won't work. Okay. That's good. That's okay. Thank you.

As far as promoting Taiwan's economic recovery is concerned, President Ma, in his inaugural address, pointed out that the uncertainty of the current global economy poses the main challenge to the revitalization of Taiwan's economy. Yet we firmly believe that with the right policies and the safest determination, our goal is within our grasp.

So I would like you to look at these figures. Now, this PowerPoint actually is a draw for the comparison between different periods, with the base period -- base period is 2005. The base period is 2005. Yeah, that's base period, 2005. Now, so this means, for example, this point, it means that there's an increase of about 55 percent as it compared with the base period 2005.

Now, from this one we can see that when Dr. Ma became President in May 2008, he was confronted with a serious economic problem. There are three big problems -- one is -- now, this is a period that -- President Ma inauguration. He made -- he was confronted with three challenges. One is the oil price and the gasoline in Taiwan before his administration. For example, from the September 2007 -- from October 2007 to October -- to -- from to May 2008, the gasoline price was fixed at 30 NT dollar per liter. That is about 1 U.S. dollar per liter. But again, this fixed price -- again this price, it really got to the West Texas intermediate crude oil. During this period, the West Texas intermediate crude oil increased by 80 percent. Well, actually this policy actually distort the market. There's no market functioning at that point in time. So, and it therefore poses some speculation and also a pressure on economic commodities.

So the first one, Ma's Administration actually take a liberal policy abolishing this kind of fixed oil price policy, then let the market function and allow the pricings about much more stable, compared with what we have seen before. Now, of course, this is due to the oil price change in the world.

And the second challenge is that the stock price at end of 2008, was about --

drop about 50 percent than before. So this is a drop in the stock price.

Now, the 30 is the GDP decrease because of the world recession. The exports and the imports in December 2008 and the 2009 both declined at about 41 percent and 44 percent. A big drop.

So those are the issues facing by President Ma. Dr. Ma was deeply aware of the difficulties that Taiwan faced, and they had to resolve to adopt effective policy to resolve the problem. In this regard, President Ma's government (inaudible) by proposing (inaudible) policy. The government support bank, bank support enterprise, and the government and enterprise support the worker. This is the policy. The whole system, just made it a risk control system.

As for the money market, this is really the balance sheet of the bank. Now, for the -- on the liability side, you can see this part. Now, the government actually provide blanket coverage over the deposit insurance. So all the deposits are insured. Tried to give confidence to the depositors. So the deposits actually being guaranteed, then all the banking system become stabilized.

Now, second thing, related to the borrowers, for the loan, we adopt a policy, also a blanket -- almost a blanket coverage for the loan. If they behave fairly normal, then can be extended for another six months when they're due. Now, it has been extended several times now. It can be extended until the end of this year. Also, for the deposits, they also can be -- guarantee also extended to the end of this year.

So this has stabilized the loan market. And therefore the new lending, not for the old lendings, for new lending, now we provide guarantees from the -- to the small enterprise, small, medium-sized enterprises. This also actually put in some kind of stabilizing forces to stabilize the loan market. Then we took the low interest rate mortgage, 40 -- 400 billion New Taiwan dollar, that much.

Then for the security market, capital market, the National Stabilization Fund the whole price was total 50 percent lower than normal. So the government used National Stabilization Fund to purchase funds. But some of the equities that were purchased were just released in the last few months and retain -- later retained was about 70 percent.

And the last one is employment. Now, as a result of this policy, we can see what happened now. First of all, let's look at the GDP, the yellow lines. The GDP actually drop after -- actually it's dropped after the U.S. peak, cycle peak. That U.S. cycle peak was in December 2007. So when U.S. cycle peak is over, the U.S. economy actually contract. If you have a contraction -- and there's no exception, Taiwan economy have contraction. So, but now it's about a little bit higher than the previous level by the time of first of quarter 2010. So it's very fast, because in just about one year time, about one year time, starting from 2009, the first quarter, the economy bounced back already. So this period is very short, because of stimulus policy and the financial policy I just mentioned.

Now, for another year, it goes back to the previous peak already. I just

learned last night, in the past, IMT of a Swiss think tank rate us 23rd, but last night it was announced that now it's up to rank number eight, to appreciate our increase in the GDP and the other indicators.

Now, if you look at the price of real estate, this is quite different from the United States. In the United States, starting from the second half of 2007, you suffered the subprime problem as the housing prices start to go down, and especially starting from the second half of 2007. I think in 2007. It started from 2006, the second half. And then for the second half of 2007 the housing prices in the United States drop by a bigger magnitude. But in Taiwan we maintained the real estate price about stable. Now, one of the reasons is because the government has made a lot of infrastructure construction for something like a metro system. So people buy a house near the metro system. Even during the economic recession, the price is still stable remain there.

And another point I want to mention is the loan to private enterprise and to consumers. Now, this is the pink color what -- of -- you can see that even at this moment of time all the Western world, the loan was to private enterprise and the consumer still in the trough; not pick up yet. But you look at our case, due to the efforts of Ma's Administration, the loan to private sector, after a slow, small drop, is increased again. So this is another very important factor which can make the economy recover very, very, very soon.

Now, we can see that -- from this figure we can see that the GDP represented the four factors, the real economic factors like consumption, investment, export-import, etcetera. The others is the asset, like stock price, index of real estate, loan to private enterprise. Those are the asset factors so far have been maintained quite stable by the Ma Administration.

Now, the important thing that I want to mention, that Dr. Wu just mentioned, that our unemployment rate is still high -- as of March this year are still at 5.67 percent. The unemployment rate's a kind of lagging factor -- lagging indicator. For any other country the same, up to the recession, unemployment is still picking up. It's very difficult to see that unemployment rate go down immediately. But our 5.67 percent, we consider this is a big equation. So Premier Wu has also announced that if by the end of 2010 the unemployment rate has not fallen to 5 percent or below, he will resign his position. This shows that the government's resolve to reduce the unemployment rate cannot be overlooked.

Now, the second part of my remark is developing Taiwan into the Asia-Pacific economy in the trade hop. I think this morning there's a lot of views being exchanged. I think Ambassador Yuan this morning has mentioned that Dr. Ma Ying-jeou, in his inaugural address, stressed the importance of an open door policy. Actually, these two paragraph actually quoted from his inauguration address. First of all he says that Taiwan must play a greater role in the regional cooperation by strengthening economic relations with its major trading partners. Taiwan can better integrate itself in East Asia and contribute more to the region's peace and the prosperity. The second is that we will strengthen bilateral relations with the United States, our foremost security ally and the trading partner.

And I would briefly introduce this policy in four different subsections. Now,

for the first one, they brought in Taiwan into the Asia-Pacific economy in the trade hub. President Ma has pointed out that for Taiwan ECFA is not without its negative side. However, there is far more good than harm. It would be similar to when Taiwan joined the World Trade Organization, all trade were increased, our employment were increased. If Taiwan's strategic position were to strengthen both globally and the regionally, this will definitely help Taiwan move forward.

I see from my study of 400 or 500 years of history in Taiwan that as long as the island is open, the economy will thrive. If it is closed, the economy will shrink. The history of the late Ming Dynasty and the after is very clear. So for Taiwan, only by being open can we really move forward. This is quite true because Taiwan needs more open economy, and our product, 80 percent, 90 percent for export. So if you prefer to see adopted a closed door policy, then the economy will shrink.

Now, this is the macro assessment for our -- the study from our Taiwan Research Institute. If the ECFA is signed them according to the Institution's study, then the GDP were increased by about 1.5 percent to 1.7 percent, total export were increased by between 2 -- 4.87 percent to 4.99, and the total imports were increased by between 6.95 percent and 7.7 percent, etcetera. And if one also take into consideration the liberalization of the trade in services, this will not only promote the growth of Taiwan's gross domestic product, but it will at the same time effectively and aid as an impetus to the inflow of foreign capital. A conservative estimate, at least U.S. is 8.9 billion.

Now, there are other benefits, for example, because of helping the industrial supply chain to maintain roots in Taiwan, speeding up the development of Taiwan into an industrial-logistic hub obtaining a leading, competitive advantage when entering into military market, and to help Taiwan businessmen in mainland China increase their purchases from Taiwan. And it enhances their competitiveness.

Now, I want to talk about promoting Taiwan as a preferred cooperative partner and a gateway for foreign businessmen to enter the mainland China market. Now, the tariff on products that are sold by Taiwan to the Chinese mainland are more available than those on similar goods directly export to Chinese mainland from Europe. The U.S., through -- Taiwan provides more comprehensive protection of intellectual property rights. That's the second important point.

The first one is important because under the ECFA system, the tariff will be zero. So it will be more coming in and beneficial to export from Taiwan. The second, of course, Taiwan is able to provide a more comprehensive protection intellectual property rights. In addition, the three things, that is a direct flight and direct communications and direct airmail, as far as the prevention measures. Now, those prevention measures provided by the Taiwan government to companies if they'll set up their R&D centers in Taiwan. We will have some kind of so-called tax incentive to that. And the others, of course.

So I might say that in this way Taiwan can become a first choice of multinational enterprises for a global center of innovation and Asia-Pacific economy in the trade hop.

Now, other measures -- these are the last, but not the least. The first one is completing the direct cross-strait flight and construction of an aerotropolis, where the Taiwanese air city.

Now, the soundness of Taiwan's capital market is helpful for financial stability and assist in enterprise enrichment fund in Taiwan. Now, I would talk about this one, just later, next page. Now, the third -- we're promoting the development of six key emerging industries, like tourism and energy conservation and medical and others.

Now, last one is providing tax incentive to promote a full range of industrial R and D in the market development. Now, this is a point I want to make about our financial situation. This is at a 30 equity ratio. Thirty is the borrowing equities, the banks' own capital. The debt-equity ratio in Taiwan, at least at the company, all the companies, say only .72 -- is 72 percent. Now it's at 62 percent. Whereas the country, in Korea, United States, and Japan it's about more than double. It's at 151 percent, 145, 136 percent. The higher the debt to equity ratio, that means that the company would be most easy to be subject to the market turmoil. For example, like this time, in the global economic crisis, if the debt-equity ratio too high, they're overleveraged, then you are really bound to have a lot of trouble. But in Taiwan, see, it's very low.

But the reason it is very low is that we don't have the really have a commercial or the bear market -- corporate bear market as you have in the United States, or as Japan had in Japan, in Tokyo. But so our companies' state depends on raising funds directly from capital market. And the people, Taiwanese people, are keen to buy the stocks because in general they made a profit from the stock purchase within the past 10 years, at least. So it is very easy to raise capital stock there.

So we now encourage foreign businessmen to enter into Taiwan through Taiwan depositor receipts to be leased in the Taiwan Stock Exchange to raise funds. Also, we encourage the overseas Taiwan businessmen to list their stocks in Taiwan Stock Exchange to raise funds there.

Now, concluding remarks is that from the time that President Ma assumed the office, every effort has been made to bring about speedy recovery of Taiwan recovery. Because all together I just mentioned only take about one year from the peak to trough, then we pick up. Then another year to the normal situation. And at present, President Ma is actively promote the development of Taiwan into Asia-Pacific economy in the trade hop. And a successful performance in this regard can be expected. This can, indeed, be seen from some of many evaluation made of different aspects of the Taiwan economy by the international community.

Now, first one, the Epoch Times in the States point out that on May 15 U.S. experts believe that the trade relations ease political relations, and that it is -- and all along we win. Therefore, according to testimony before the U.S.-China Commission, the U.S. industries and the government officials support a trade agreement between China and Taiwan.

And then this is the table I want to see. Taiwan and the -- was ranked 23rd last year, May 2009. By then, all others improved. All other improve except IMD. But as I just mentioned, last night, IMD changed. We were ranked number eight, which is another big jump.

Now, this chart shows that if the -- this kind of rating was announced more far away from the trough of Taiwan economy, the rank is better. That's the small things I study. Now, fairly, I would say most -- in summary, most all the international organizations are from the policies and the measures that President Ma's government has put in place.

Thank you very much for your attention.

MR. FREEMAN: Thank you. Thank you, Dr. Chui. That was a useful counterpoint to some earlier discussions.

I'm going to open it for questions, but let me ask an initial question. I think Dan Rosen raised earlier today the old APROC policy or the Asia-Pacific Regional Operations Center Policy that was introduced back in the mid-90s, the notion that Taiwan could be a locus for multinational investment and trading operations in the Asia-Pacific. That obviously had as an Achilles heal, the lack of any linkage between Taiwan and China, which at the time was already taking off as a major source of economic growth. Now that you have increasing linkages, one might argue that the old APROC strategy might be more appropriate or more effective, as is laid out, some of your positions.

But I want to probe a little bit based on both something that Dan had said earlier and -- what are the true advantages, would you say, for multinationals using Taiwan as a trade and investment hub, assuming that ECFA is done. What's the tangible benefits to multinationals from investment in Taiwan?

DR. CHIU: Well, as I just mentioned, the tariff is an advantage because even the ECFA sign them, they will be zero, no tariff for our trade -- for the export and import between two sides of the trade. For the foreign investment there, of course we would do the same.

Now, the second is that we are more comprehensive in terms of the protection of intellectual property. So make investment in Taiwan, and then either have an operation logistical center in Taiwan, and then make some export or research. That would benefit the local foreign investment there.

And I would say that the other point, that the Chinese is another matter. Because for Taiwan companies or businessmen, they can use Chinese to communicate with their counterparts in mainland China. They know better the Chinese culture. And the foreigner, if a joint, say, if a joint venture with a Taiwanese company, I think that it would be easier for them to expand their market in the United States.

Now, the tax incentive I just mentioned, there are two kinds of tax incentives. I just mentioned one. The another kind of tax incentive is that the gross income

tax in Taiwan used to be 25 percent. But now, under the contemplation of the congress, our Legislative Yuan, it will be reduced to 17 percent. So it's a big kind of reduction in the tax scheme. So any foreign company set up the institution or investment there, also subject to -- can enjoy the similar preferential treatment or similar tax advantages.

So there are a lot of factors in the decision to do that, of course. Scenery is beautiful. Well, we have a number one hospital. Education is wide English speak. Although not an English speaking country, but you can use English to communicate with almost everyone. So a lot of points that I can make.

Thank you.

MR. FREEMAN: The Taiwanese food is pretty good, too. Any additional questions here from the audience?

DR. CHIU: Yes.

MR. FREEMAN: Just here.

QUESTION: Hi. Julia Liu.

I have a question. A couple -- last few days, Washington Post have an article says, you know, Asia economic recovery will play a very important role in the world global economy recovery. So this morning Mr. Rosen said, you know, U.S. hasn't participated too much in this Taiwan-China relationship. So in your future outlook, what do you expect U.S. role in this economic recovery? You know, is Taiwan's role, play more important role in the economic scene?

DR. CHIU: Well, thank you. I think U.S. role, the importance of a U.S. role to Taiwan -- actually, it really provided security to Taiwan. Any economic growth, if without security, having national security, then it won't be possible. So I think that's a great important thing; great contribution that we appreciate very much.

And as far as the other things, for example, direct trade, etcetera, that would goes to the market mechanism. I think the U.S. is a more free enterprise system, and we admire that. Actually, Taiwan adopt that kind of system as well. So it's a market mechanism that function for the East Asia economic recovery.

Thank you.

MR. FREEMAN: I think also probably the region as a whole is going to continue to rely on external demand from the U.S.

DR. CHIU: Yes.

MR. FREEMAN: So notwithstanding the importance of Asia interregional trade and China, I think that there is a market of last destination that still counts.

DR. CHIU: Yes.

MR. FREEMAN: Gerrit, I'll go back to you.

QUESTION: Dr. Chiu, thank you very much for your excellent presentation. Name is Gerrit van der Wees. I'm editor of Taiwan Communiqué.

You said in your presentation that you had done 400 or 500 years of study on the 400 or 500 years of Taiwan's history, and if the door is open to the outside world, then it can move forward. But in my view anyway the debate in Taiwan is not so much on open door versus a closed door, but to whom do you open your door first: to China or to the rest of the world? The Kuomintang approach seems to be let's first open our door to China and then hope we can expand to the rest of the world. Well, on the other hand, the DPP is saying, let's first strengthen our ties with the rest of the world, and then from a position of strength approach China.

Can you comment on that?

DR. CHIU: Okay, yes. Actually, it's regionalization. Now it's happening every day, especially in Asia. Taiwan, geographically, is very close to mainland China. And now, given the keen competition among business circle, the only way to survive actually for a Taiwanese company is a custom. It's easier to have a custom in mainland China or in other part of Asia countries.

Now, in the past 10 years, of course, the Taiwanese company and your custom approach, because of the wages in international law. This is their first step because now their wage rate actually increased. So a lot of companies now move from China to the Southeast Asia countries. But in China there's a second round development. Because in the past 5 or 10 years their growth rate is about 10 percent per annum. And the people getting more rich than before. Therefore, it automatically becomes a market. So the second round importance is that you should -- you will not be absent if there's a market there. I say, if we don't go there, Korea go there, Japanese will go there, and American of course will go there. But that depends on the cost. Because Korea is a very active and dynamic, very active. They occupied a lot of market share already. So for Taiwan, we, I think, cannot be absent to expand business, to take advantage of their increased market share.

Thank you.

MR. FREEMAN: Alvin.

QUESTION: Alvin Yao, visiting fellow at the Brookings Institution. Dr. Chiu, thank you for your presentation. I have one question for you. That is about appreciation of renminbi. I just wonder, after the further integration of the cross state economic relations, I just wonder how do you perceive the deeper impact toward a Taiwan businessmen?

DR. CHIU: Okay. I think the currency is a very sensitive question. And there are two views. One view, actually, is just a narrow forecast. The focal point is much narrower. That is just look at the foreign exchange market. Now, in that regard, I would say that the renminbi should actually appreciate much more.

But there's other -- second other point is take a longer point of view. For example, the scholars in the United States, like Princeton, Dr. McKenna, he has made a study, a very interesting study that in Japan in the past 30 years if the exchange rate's fixed, then the adjustment would go to the wage rate will increase. If the exchange rate appreciates too fast, too soon, then the wage rate won't be increased. It's impossible because the exports suffer, etcetera. So there's no profit for the company to increase their wage rate.

Now, I think for the mainland China, I think that we -- my personal view is that probably a compromise between these two different views, so.

Now for the impact in Taiwan. Now, Taiwan is, in general, is a market-oriented economy. Exchange rate is determined by the market mechanism—demand and supply. So actually our exchange rate appreciates from about 33 to now about 31; it's appreciation during the past two years. So it's a reflection the market forces.

Thank you. Yes?

MR. FREEMAN: Dave Brown in front.

QUESTION: Thank you very much for your comments.

DR. CHIU: Thank you.

QUESTION: Over the last decade roughly, Taiwan's share of mainland China's imports has been steadily declining. This is according to Chinese statistics. I wonder if you could comment on why that has been the case.

DR. CHIU: Taiwan's share of Chinese imports?

QUESTION: Of the Chinese total --

DR. CHIU: Yeah, because the Chinese market, it get bigger and bigger. That's one thing. The second thing is that direct investment in mainland China, that will reduce our export to the China mainland market.

But in general, if your -- this is something related to the production model. In the past, it's an integrated production. So the company here set up a factory there. But a lot of, for example, a lot of goods still need to export from Taiwan to there. But now more and more company made a direct investment there and then for direct export.

But the point I wanted to mention, that this is really a concern that Dr. Wu mentioned this morning, that the rate of our foreign investment into mainland China is very high. The share is about 50 percent total investment. Now, I think this is a -- at this moment in time it's not a big problem for two reasons. One is that if you look at the United Kingdom after World War I, their power actually -- political power, it shrink. But economy in the whole world, their share also decreased. But they make investment in other country.

But one important thing is that the profits that their companies made in other countries should be mailed back to their mother country. For example, the same, United States made a lot of foreign investment, according to the statistic released by the U.S. The American made more money for their investment abroad than a foreigner made money in the United States. But the amount of American investment in abroad, only half of the foreign investment in the United States. That means that the U.S. businessmen want to take a risk, and therefore, enjoy higher profit.

So this international transaction investment, it's really a kind of follow the market guidance. But the point, the foreign policy point of view was -- I remember in the morning one expert gentleman raised the question, well, how do you hedge your economy, your country. The hedge is that the money you make, according to the law, income law, whatever regulation, the money should be remit back. So then the company can accumulate the money, they can accumulate it in their parent company. Therefore, in the case of (inaudible) and the services, that money is very useful for the hedging purposes.

Thank you.

MR. FREEMAN: Becker. Sorry, did that answer your question, Dave? One of the things we should also remember is that a large percentage of China's increased imports are in energy and commodities, so that distorts, you know, relative values of other import sources.

QUESTION: Hi, my name's Henry. I'm a graduate student at Georgetown University.

Thanks for coming from long way, from Taiwan, and thanks for your tremendous job for Taiwan economy for past years.

We talk about a lot of Asia-Pacific economy and trade hop, a lot of measures. My question is about -- we talk about economy. We also need to focus on, like, human capital. As a student I notice a trend. Many of my friends and my classmates, they finish their education from top university in America, but they want to pursue jobs in China. So my question is about -- I'm worried about a lot of people from USA or middle class in Taiwan, you think that there's a trend, more and more people move to China. I was wondering, President Ma's government, do you have any government policy or steps to attract professionals in the world so that we can help the economy in Taiwan?

Thank you.

DR. CHIU: Okay. Well, one of the reasons that our students study in the United States, then they, when they return, they been employed in mainland China. Is it because some of them, because they can find their better pay job there. So I think the most important thing is to keep the vibrant economy growth, economic growth in Taiwan. That's a basic point.

Now, I think when ECFA, if possible, you've signed it, then the export-import business will increase between two sides. Then there will be, as I just mentioned, it will be possible to keep the company rooted in Taiwan rather than just be pushed to make

investment in mainland China. So if it's rooted in Taiwan, then you can find a job in Taiwan.

So I just mentioned another thing which is important, this is that we have actually do it -- deducted gross income tax of companies from 25 percent to 17 percent. One of the reasons behind that is because in the past, only the high tech industries can enjoy the preferential tax treatment, whereas the other small, medium-sized enterprises or the service industries, they are subject to relatively high income tax. So it's difficult for them to see increase their capital formation. They're no (inaudible) where I look at the statistics, the increase of capital formation for services and for small industry -- small, medium-sized enterprises is lower. So the lower gross corporate income tax from 25 percent to 17 percent is a way to encourage the small, medium-sized, and the service industries to increase their business and to make more profit and upgrade their profitability. And then also they can hire more people, maybe more from such students if we study abroad.

Thank you.

MR. FREEMAN: Have Dan Rosen ask the last question, and then we'll go to break.

MR. ROSEN: Thank you, Charles.

One of the few industries which is both yet to be open in China to Taiwanese export and Taiwan has tremendous comparative advantage relative to mainland China is financial services for small- and medium-sized businesses.

DR. CHIU: Yes.

MR. ROSEN: Taiwan is famously well provided and China is famously bad at providing this to its own companies.

DR. CHIU: Yes. Exactly. Exactly.

MR. ROSEN: Is this the most exciting possible development of the additional liberalization that's going forward? What's your perspective on that sector?

DR. CHIU: Yes. Small-, medium-sized enterprises actually has played a key role in the process of economic development. Now, in China, of course, is in the past is under companies ruling, so not of nationalized -- national companies. There's only a small portion of activity carried out by the private sectors. Now, I think after the ECFA, our small-, medium-sized enterprises will be able to expand their market share in mainland China. I think the service industries, the one which accounted for about almost 75 percent of the total economic activity in Taiwan, and also in mainland China. That's the area remain to be exploited, to be -- well, can be expanded in the future.

Actually, Hu Jintao, in his 11s Five Plan, mentioned that he wants to raise the living standard of all Chinese households to a richer future level. That means at least it's on the lower end of middle class. But if we want to do that, you need lots of small and

medium-sized enterprise. Otherwise it just won't be possible. And in this regard, Taiwan's small, medium enterprises can play a lot of role in this regard. And they can make, I think, some benefit out of it.

Thank you.

MR. FREEMAN: Please join me in thanking Dr. Chiu for a very exciting –

DR. CHIU: Thank you very much.

MR. FREEMAN: We're going to take a 15-minute break, or do you want to take a 10? Ten-minute break and be back here at 1:45 to get into the missiles and all that good stuff. So thanks very much.

DR. CHIU: Thank you very much.

[Recess]

BONNIE GLASER: If everybody would take their seats, please. We're going to start the next panel.

Okay, we're going to start our next panel, which will examine how the Ma Ying-jeou administration has been handling relations with mainland China. We will be assessing the cross-strait policy of the administration.

And, of course, in some regards, Ma Ying-jeou continued previous policies that were started by Chen Shui-bian's administration. The negotiations for opening up cross-strait flights, for example, started under Chen Shui-bian and then bore fruition under President Ma Ying-jeou. But of course, things have moved at a much faster pace than I think they would have under a DPP administration. We've seen 12 agreements signed and now we are looking at the potential for the signing of ECFA.

Of course, ECFA is part of the cross-strait relationship, but we thought it was really important this morning to deal with that separately as part of the economic issues. And I think that the panel this afternoon will focus primarily on other aspects of cross-strait relations.

And for this panel we have three excellent speakers. We are going to start with Philip Hsu, who is executive director at the Center for China Studies and associate professor of political science at National Taiwan University.

And he will be followed by Liu Shih-chung, who most importantly used to be a visiting fellow here at Brookings, but is now a senior research fellow for national security affairs at the Taiwan Brain Trust. And then he will be followed by Alan Romberg, who is a distinguished fellow and director of the East Asia Program at the Henry L. Stimson Center.

So we will start first with you, Philip.

PHILIP HSU: Thank you, Bonnie.

It is my honor as well as pleasure to speak in front of such distinguished panelists as well as audience here. I would like to thank the invitation from CSIS and the Brookings Institution that brings me here to exchange my personal views with all of you.

As a scholar, I try to present both the plus and minus of President Ma Ying-jeou's cross-Strait policy in the past two years. So, let me start with my presentation.

Here is an outline of my presentation. First I will start with some general considerations in assessing the performance. Then, I'll try to separate the policy into three dimensions; the political, the military, and the functional/economic operation.

Okay, let's start with the general considerations. In here, let me provide an update on the levels of telling people's satisfaction as well as the satisfaction with President Ma's cross-Strait policies -- or, general policies, okay? And this is based upon the public opinion poll conducted by China Times *Zhongguoshibao* May the 14th of this year. Okay?

So, as you can see that in general, President Ma's approval rate has been bouncing back, essentially, from its lowest point months ago. And in the two following points you can make a contrast between the cross-Strait policy and this economic policy. There's obviously a much higher percentage of public support on President Ma's cross-Strait policy as opposed to the economic performance, which I think has been intensely discussed this morning.

And here I'm proposing some of the general considerations in our evaluation. For instance, Ma's cross-Strait policy, which is -- no, essential piece on the midterm performance.

Well, I would only like to emphasize the last two considerations. And as you can see from here, all of them. Point number three refers to our consideration of the possibility about -- that there is -- there could be a priority or tradeoff among different policy goals in President Ma's cross-Strait policy. For example, as we can see -- or as I will talk about later -- when you try to put more emphasis on intensify economic exchanges with China there has to be some sort of restraining on the level of aggressiveness toward pushing for Taiwan's exclusive national identity, or national space, in the short run.

And also, for point number four, we should set up appropriate timeframe in evaluating President Ma's cross-Strait policies. This actually has two meanings. The first one is that some of the tasks have to be fulfilled within the short term, while some others have to be fulfilled in long run. It would be not fair to ask for President Ma and his administration to achieve all of the goals within the short term.

The other meaning is that, you know, in a short run, some of the achievements are worth our compliments. Whereas some of them may bear long run risks that I will speak about in my presentation later.

So, here is the first dimension, the political dimension. Here we've got two issues. The first issue, as you can see here, is a relative sovereign status between Taiwan and Beijing -- between Taipei and Beijing. Well, the simple reality is that Taipei has restored its commitment to the so-called 1992 consensus -- okay. And why do we say that is a progress? Essentially because this is the foundation for reducing cross-Strait tensions, for stabilizing cross-Strait political as well as military relations, and most importantly, this is an indispensable foundation for the furthering of economic or functional exchanges across both sides that has been happening in the past two years.

And another overlooked reality, as I mentioned here, is that as a matter of fact for the first time, Beijing publicly or internally recognized the existence of the so-called different interpretations of what One China is all about. That is, you know, *yiguoliangzhi*.

In the past, Beijing would just invariably emphasize the part of only One China without even mentioning the fact that there have been existed different interpretations about what One China is between Taipei and Beijing. But this was happening five days later -- five days after President Ma Ying-jeou's being elected, China's president Hu Jintao hotline phone conversation to President George W. Bush where he recognized that, you know, there had been different interpretations about what One China referred to across the Taiwan Strait.

And here are some of the fundamental factors that contributed to President to Ma Ying-jeou or Ma Ying-jeou's administration's restoration of '92 consensus. Here, the emphasis is that, you know, the recognition or the restoration of the '92 consensus was by no means an arbitrary discretion made by the administration. Rather, there are a host of structural factors, as I'm outlining here, that you can see.

Well, for example, you know, the ROC constitution is, by definition, a One China constitution. You know, that's some legal framework that you have to subscribe to. And also, you know, the consistent distribution of public opinion among Taiwan's people regarding the future of Taiwan and China or regarding relative sovereign status has been predominantly pro-status quo in the past two decades. So, you know, the restoration of '92 consensus seems to be inevitable as a result of, you know, democratic accountability to the general public as a whole.

But also, you know, we would like -- I would like to point out some of the potential challenges that have been inherent in this restoration of '92 consensus. And here are essentially the three potential challenges -- actually, you can see here.

Most importantly I think that, you know, if we can buy point number one, number two, really there is a reality that we have to face which is that, you know, both the name -- just the wording of China as well as the, you know -- the '92 consensus, which recognized One China is really not in the long term congruent with the evolutionary trend of -- with the identity pattern among Taiwan population. And not really congruent -- especially not congruent with the political culture of new generation.

But I would like to point out that this is not an irreversible trend. It could be changed, or even reversed by appropriate educational or culture policies. So, these are the constraints or potential challenges that we really have to face and to consider in the long run. Probably not for the, you know, in the short run. Not in the past two years. That's really something we have to consider in the long run.

The second issue on political dimension is Taiwan's international space. And here are some of the progresses. Essentially, you know, here I'm talking about Taiwan's ability to maintain the number of countries that has maintained diplomatic recognition with Taiwan, and to maintain the number of major international government organizations as well as international non-government organizations where Taiwan has membership. So, this has been achieved under so-called diplomatic truce, *waijiaoxioubing*, with China.

And I think the important thing is, as I pointed out here -- point number two here. The implication is that China is not doing this -- you know, i.e., stifling Taiwan's international space for no reason. Essentially, I think there is virtually a sort of quid pro quo kind of thing going on this aspect. That is, Taiwan is just holding its restoration of '92 consensus as a virtual bargaining chip in exchange for China's self restraint on stifling Taiwan's international space. So, I think that's an interpretation that I would like to propose.

And here also on the issue of Taiwan's international space we have some long term potential challenges to consider. Okay. I think the most importation point here is that the short lived or the temporal cessation of cutthroat diplomatic competition may not be really so sustainable in the long run for various reasons that I don't think I have time to elaborate. But I would like to point out in the last point on this slide is, you can see here that -- you know, just as a scholar representing my personal view, this is not an issue with no solution.

If we look back the history of the Cold War where the former Soviet Union maintained three seats -- actually three seats representing only one country, one sovereign country -- in the major international organization, I think, you know, at least this is one of the examples where we can ponder possible solutions or even negotiations, consultations, between two sides in the long run for possible solutions to Taiwan's pursuit of more international space.

I don't think this is something that has been sufficiently discussed in public, so I'm just, you know throwing out this issue. If you folks are interested, we can discuss later.

On a military dimension, I think, admittedly, there is very limited headway being made in the past two years. But I think, you know, as I pointed out if we consider the issue or the consideration of appropriate timeframe, this is not a failure due to President Ma Ying-jeou's cross-Strait policy. And here are some of the realities, as you can see here, which I don't think I have to repeat.

What is worth mentioning is point number three here, that there is an ongoing or intensified contemplation of cross-Strait formal peace court, *hepingxieding*, or confidence-building measures -- CBM -- going on across both sides. A lot of people in this room have been engaging in that pursuit. Although, there has been no concrete step being taken to sort of institutionalize or formalize this effort, it is a -- I think it's a future trend that is worth our attention.

So, finally let's move to the dimension where, I guess, most of you are probably more interested in. Here is a list of the 12 agreements -- function agreements -- reached between Beijing and Taiwan in the past 2 years. I think essentially we could divide these agreements into two categories. The first one is the interflows of capital and personnel and so on. The other one is regarding the so-called human security, such as the -- for example, the effort to combat crime collectively, the effort to limit regulations that govern fishing crew cooperation, so on so forth. So, these are the two categories for these agreements.

And a lot of criticism has been raised against these agreements suggesting that these are unlike -- just, you know, nominal agreements without really achieving anything. But if we look at some of the concrete statistics as I'm outlining here, a lot of examples prove that these agreements are working out gradually, incrementally, probably not to our full satisfaction in the short run. But the fact is unfolding over time.

As you can see, in addition to economic benefits brought about for Taiwan people there are also achievements regarding human security such as Taiwanese criminals being extradited from China. And I would like to also put a little bit of emphasis on the last point. This point is different from the other points is regarding the so-called risks involved in the intensified exchanges across the Taiwan Strait. This is just one example.

If you look at the Chinese tourist come to Taiwan, some of them are, you know, just may -- you know, get away. This is called a breakaway tourist that, you know, they're aware about is -- becomes a puzzle in Taiwan. No one can find them anymore.

But, you know, if you look at the number, the percentage of such tourists among all Chinese tourists coming to Taiwan, it's really insignificant. It's actually according to the Mainland Affairs Council statistics, the breakaway Chinese tourists in Taiwan is really the lowest in the world. And here I provide a comparison with the breakaway Chinese tourists in Japan. As you can see, there's a sharp contrast there, okay. So, the risks are pretty much there but it's pretty much controllable and not a significant problem as of now.

And here's the issue of ECFA, which I think has been discussed intensively today. Here are some of the -- first of all, here are some of the rationales for the inevitability for Taiwan and China to evolve into a defective FTA, free trade agreement, which is the name of ECFA as you can see here.

I would like to emphasize the last point, which I think has been relatively overlooked, that the crafting of ECFA with China is actually a political mandate in a sense

that this was something that President Ma Ying-jeou had promised as part of his campaign pledge before 2008.

So, you know -- in that sense, you know, as President Ma was elected due to the major elements in the campaign pledge, including the promise on ECFA -- so ECFA has actually been a collective choice made by the Taiwanese voters as a whole. Rather than, say, a unilateral arbitrary discretion made by either the administration or President Ma himself. Okay. So, that's it.

Well, the next issue I would like to talk about is regarding whether or not ECFA -- the ECFA itself or the ECFA process has compromised Taiwan's or our sovereignty to an extent. Well, essentially my answer is no, okay?

I think the most important part is also the last point, that if you really look at the content of ECFA Taiwan has been, as of now, sufficiently able to maintain status or its same point in relation to the most vital economic interest it wants to safeguard. That is, Taiwan is not willing to import Chinese labor as well as agricultural produce into Taiwan. And that has been, you know, essentially successful and being respected and maintained.

The next issue is also another heatedly debated issue. That, whether or not the ECFA is only going to benefit a certain or small portion of Taiwanese economy or society as opposed to the majority of citizens or economic sectors there. Also the answer is no with my, you know, citation of reasons provided by economists in Taiwan, as you can see here.

You know, also regarding the last point I would like to emphasize that, you know, I'm not suggesting that ECFA is not at all risky or not at all prone to generate any negative impact on this issue. Rather, the avoidance of the negative impact has to be dealt with, with appropriate or sound economic, fiscal, and labor and welfare policies conducted or taken by the Ma Ying-jeou administration, which have been taking place already as we can see in many instances. For example, the Ma Ying-jeou administration is announcing a huge sum of government public expenditure that will be spent on the retraining and the reorientation of the labor that could lose their jobs from the disadvantaged industries as a result of ECFA. Okay.

Whether or not that would work out, admittedly, has to be seen. But what I'm saying is that there is no -- you know, there seems to be no definite answer regarding whether ECFA will certainly not bring about some of the negative effects. I think that's something we have to pay attention to.

And also I think this one -- this issue, the final issue, is one that probably most of the -- especially our American friends here are more interested in. Whether or not or, simply, is ECFA doomed to aggravate Taiwan's asymmetrical economic dependence on China? And thus, enable China to coerce Taiwan politically in the long run? My answer is no, okay.

The first reason is because, you know, with or without ECFA, as you could

see -- in the past we were doing without ECFA. But you know, as Daniel pointed out in the morning, the Taiwan's economic dependence on China has been steadfast growing over time. And that's not -- that's going to happen with or without an ECFA. So, we will be -- if we are sanguine enough, we should not try to link these trends directly in a causal chain with the crafting of ECFA.

The second rationale is that there have been -- will continue to be -- net inflows of capital and personnel back to Taiwan in some industries, which have been happening. Partly as, you know, the prospect for the crafting of ECFA and partly as the crafting of the 12 function agreements that I mentioned earlier.

And this is most important issue, which I think I've limited time to discuss but I'm willing to discuss in more detail later in our Q&A hour. Whether or not, you know, China will use its economic leverage as a bargaining chip or as a tool to coerce Taiwan politically with success. Okay.

I guess most of the discussions or public deliberations in this regard have been in general based on impressionistic evaluation. Or, impressionistic observation. It lacks a discussion of the concrete scenario through which such a consequence could happen. So, these are sort of the steps of the logic of a possible scenario for this to happen.

And as you can see here, you know, China has to signal its intention to coerce Taiwan politically by suggesting the denial of Taiwan's economic benefits derived from intensified economic exchanges in the future, partly as a result of ECFA.

But as you can see in point number three, in doing that -- you know, as shown by many American as well as Chinese economists, that would result in massive adverse economic consequence for China as a whole under accelerating globalization, through the mechanism of the so-called, you know, vertical, horizontal linkage among industry firms that links together Chinese, Taiwanese international investors. So that such a pronouncement on the part of China to deny the -- you know, for example -- by, for example, exercising economic sanction on Taiwan or denying the property rights of Taiwanese investors in China -- would impinge upon investor interest or confidence in China from international society. And that would bring about a, perhaps, prohibitively high economic cost for China.

And finally, if you look at past experiences -- especially during the Chen's administration -- China did do that once, but on a very limited scale, primarily with the case of (inaudible) industry group. I don't have time to really discuss in detail, but we can discuss that in more detail later.

Thank you. (Applause)

SHIH-CHUNG LIU: It's good to be back. And I would like to thank CSIS and Brookings for inviting me to this timely, very important conference.

I'm going to talk a little bit about domestic debate, President Ma's cross-Strait policy in the last two years. I think it's very important to -- not only to the audience,

but also to what would happen in the next two years.

Let me start by this very complicated chart. This is very complicated but I only want to show you because it shows the cross-Strait policy adopted by former President Chen Shui-bian, and the President Ma Ying-jeou. And the implication that it had on the relationship between Taiwan and China.

So, while President Ma's cross-Strait policy follows what seems to be a lenient approach as a contrast to former President Shui-bian more zigzag course. But there has been increasing worries -- even fears -- among at least half of Taiwanese people represented largely by the Democratic Progressive party. What direction that President Ma's cross-Strait policy end up with, and in what way, and how fast?

So, I'll just show you this general picture. Because we have to look back, not just the last two years but also the last decade.

On April 24th there was this unprecedented and historic co-debate between President Ma and the DPP's Chairwoman Tsai. One of the key arguments and difference is that President Ma accused the DPP's eight years governance as eight missing years because the DPP government adopted a so-called closed door policy to China.

Dr. Wu has analyzed this earlier this morning that it's simply not the case, because Taiwan's reliance on trade with China reached over 40 percent in the 8 years governance. Most of negotiations on those function issues had been conducted by the DPP government.

The average economic growth rates reached 4.44 percent. And average unemployment rate was 4.28 percent along -- throughout the whole 8 years. Whereas, President Ma's track record in the last 2 years -- 12 agreements and 3 MOUs were signed. That's good things, opening direct links. That's good things. Tension has been reduced, that's good. And -- but I have this feeling that President Ma plays cross-Strait policy on top of Taiwan's overall foreign and international trade policy. And I don't know whether that's good or not.

But in terms of -- given that there was this -- also this global economic crisis but while we have seen in the last two years -- as the DPP has characterized as another two lost years under President Ma's administration is that we've seen the average economic growth rate was -0.91 percent. And the average unemployment rate went up to 5.35 percent in the last 2 years. So, just give you the numbers for your comparison. But it's the domestic debate. So if you don't care about this, just forget it.

Because since I'm a huge fan of Tom Clancy, so I used the *Patriot Games* and also the *Sum of All Fears*, just to tell you, -- to illustrate a debate between President Ma's administration and the opposition. Yes, ever since he took office President Ma advocates Three-No polices. No independence, no unification, no use of force. He reimbursed the so-called '92 consensus, and with -- China with individual interpretations. He seeks diplomatic truth and mutual non-denial, so that according to its logic Taiwan was

allowed to participate in the WHA twice. And -- but of course it's on Beijing's annual review and approval.

He adopted a principal of economic and easiest things first, and then politics and hard stuff later when dealing with PRC. He pushed forward more opening to China in signing up a so-called ECFA to avoid being marginalized by regional trade block. So that, according to his recent statement that it will increase other countries' incentive to sign FTA with Taiwan. And PRC will be a lot more willing to withdraw its missile targeted on Taiwan.

Also, of course, this is the credit that we have to give to President Ma is to meet -- successfully met international expectations for cross-Strait dialogue and reduction of tension. So that -- again, according to what he said in the CNN interview: he will never ask Americans to fight for Taiwan.

The oppositions -- opposition comes from not just the DPP, but also some social groups and also some labor unions. I have to emphasize that. The position is the sum of all fears. Number one, President Ma's governance -- especially in his first year, where his approval rate was still relatively high and stable -- his governance was characterized by a huge lack of transparency, legislative oversight, opposition checks and balance, especially when he pushed forward those 12 agreements and 3 MOUs.

He downplayed Taiwan's sovereignty. It's a term that he used to repeat like a mantra when he was -- when he engaged in the presidential election in 2008. He elects a hedging policy towards Beijing. He established a centralized and black bust-style decision making process, and he paid in that sense on that, too.

He falls into the One China unification traps framed by PRC President Hu Jintao in December of 2008. And China continues to downgrade Taiwan's representation in WHA, that's a fact. If you take a look at the website of WHA, you see repeated cases where Taiwan -- the name of Taiwan's representation has been downgraded or, you know, a lot about even its academic or NGO activities. Taiwan's representation has been characterized as Taipei, Taiwan, and China. And we haven't seen major reactions or response from the Ma administration on those matters, despite Taiwan was allowed to attend these five days of WHA meetings in the consecutive year. And not to mention in -- starting earlier this year, China blocked or tried very hard to block the U.S. sales to Taiwan.

Continue.

In several cases, President Ma remains mum on China's military expansion. Of course, he talks about the possibility of having Beijing reduce or withdraw the missiles. But he rarely criticizes the violation of human rights in Tibet. He rarely criticizes the suppression of press freedom and the Beijing international campaign on Taiwan being a product of PRC.

He overlooked the increasing international pressure that both sides move towards unification, as the first chart that I showed you. He further opened the Chinese students to Taiwan, but after fist-fighting in Taiwan's legislative yuan, the KMT finally

accept some necessary restrictions along with these opening measures.

There's also a discussion on the incorporation of some designated Chinese hospitals into Taiwan's healthcare system. So again, it shows that some of the policy initiative -- even if they are not a policy yet -- but both sides can decide and KMT and DPP have already started discussion without taking into account of a potential backfire from the Taiwan society.

So, that shows why President Ma's approval rating has been struggling ever since August last year, 2009. Following -- of course, following the tragic Taiwan Morakot disasters.

So, I like what Philip just mentioned earlier. I'll let his China Times poll show that President Ma's approval rate has risen to 43, 44. I tend to stick to a Global Views magazine. Because for those who are familiar with the so-called media politics in Taiwan -- I don't know, I personally wouldn't use the polls conducted by the China Times or the Liberty Times or the United Daily. I would rather use the Global Views magazine, because it has conducted long term surveys on President Ma's approval rate -- and his public rate -- ever since he took office.

So from August 2009 to April -- too bad I haven't got the latest information on President Ma's approval rate in May. They maybe come out in the next couple of days. But again, President Ma has been struggling in terms of his approval rate from 23 to 26. And his disapproval rate is also struggling between 61 to 66. And his public trust rate is also under 40 percent in the last 8 months. It just goes to show you that his approval rate and public trust in the last -- almost -- last eight months.

So, I happen to characterize President Ma's dilemma. It's more about leadership crisis. I mean, reducing tension is good, and it meets with international expectations. We should give credit. But it also unveils President Ma's leadership crisis, and it contains the following elements.

Number one, weak leadership, insufficient public trust, and fragile popularity, as manifest in various polls. His failure to keep his campaign promise of 6-3-3; I don't have to explain that. But it does erode President Ma's public trust. Incompetent governance and poor crisis management in events such as Typhoon Morakot disaster and the reopening of the USB.

He launched this full-scale investigation on the senior military officers who had been promoted by former President Chen Shui-bian for the allegations of bribing their stars to the higher position. But it turns out, no case was founded. But it did create some panic from Taiwan's military, and also demoralized the military.

He sabotaged Taiwan's national security by allowing or not restricting over three dozen retired military high ranking officials to visit China recently. Continue.

He tolerated police brutalities against the protestors during the ARATS Head

Chen Yunlin's visit in December of 2008. He tightened control of the media, and the Taiwan Foundation for Democracy, the latest Freedom House report has showed that.

So, the dilemma for President Ma -- I would say that also the major challenge for him in the next two years is, can a president with an approval rate of less than 30 percent -- or maybe it has improved a little bit. Maybe to 30-some percent -- and low levels of public trust afford to overlook public will like he does in his first years? And while persistently promoting a bold agenda like ECFA that largely lacks popular support and is politically highly sensitive.

Debates on ECFA. I think that's what separates the opposition camp with the KMTs, the Ma administration. Number one is the pace and the scope. I think the opposition argued that it was too quick and too full scale. Number two is the lack of a complimentary measures, or escape clause. I mean, Taiwan is small, China is big, and we need more -- it's not just about how many money the government has provided to compensate those possible industries that might be sabotaged by signing ECFA. But then there's a need to be more specific on those. And political fallout. Of course, I don't have to mention that One-China trap.

Review of the existing agreements. Philip mentioned that for those existing 12 agreements that have been signed between 2 sides, we haven't defined some of the downsides. And I think the opposition argued that before both sides can work together and to review those downsides of those -- associated with those 12 agreements, otherwise maybe we should -- maybe Taiwan and China should, you know, stop for a while.

For example, on the agreements about air links -- opening air link transactions. Both sides still having difficulty in reaching agreement on a so-called fifth freedom of the airs. So, in other words, the Taiwan -- the PRC airport -- excuse me -- the current agreement was turned PRC airport into a hub. And then, relegates Taiwan's airport, like Taipei Songshan airport and Kaohsiung Siaogang airport into spokes. And the reason why they couldn't sign the agreement is because this kind of agreement must be signed on a country-to-country basis.

On the agreement of the -- full (inaudible) agreement. All we have seen in the agreement was more of an exchange of information or information notification without any specific measures to compensate for people who might have got sabotaged by opening those. For example, the Taiwanese people have been sabotaged by the opening of a Chinese tainted milk a couple months ago. And without any -- simply, they couldn't get any compensation from that.

Also, there's also a concern -- the fear that ECFA might benefit more big corporations while sabotaging small and traditional sectors. There's also the need to take into account more regional strategic balance, as Chairwoman Tsai mentioned in her debate with President Ma.

So there's this difference between DPP and KMT. DPP elevate, you know, from the world to China approach vis-à-vis KMT through China to the world approach.

DPP's an alternative, that's the most frequently asked question. So far, the opposition came up with several alternatives. Number one, rather than reaching an overarching umbrella pact with China, Taiwan could pursue individual negotiations with PRC on a case-by-case basis. And also under the WTO framework. Again, more supplementary measures are needed. And of course, insistence on -- starting FTA negotiations with other major trading partners should be guaranteed in the ECFA.

A lot of people are curious about the Ma-Tsai debate. And most post-debate polls tend to predict that -- not predict, interpreted -- that President Ma outperformed Chairwoman Tsai after the debate. But I happen to see that from a different perspective.

I think for President Ma and Chairwoman Tsai, they target almost the same audience. That is, the more like blue people and the independent. So, Chairwoman Tsai -- throughout all the debate, Chairwoman Tsai never spoke Taiwanese. And she acted like an intellectual and like a professor, that's for sure. And she failed to simplify those complicated theories and let the audience have a clear understanding about what ECFA -- about what downsides might be associated with ECFA. But indeed in terms of a performance, yes. According to the immediate post-debate poll conducted by the TVBS, yes. President Ma's approval rate rose a little bit by 5 percent to 30 percent and whether that changes people's perception about ECFA. Approved ECFA before debate was 38, and after debate, it rose to 41. There's a 3 percent increase. But, again, also compared with other public polls, yes, there's, indeed, an increase of support for the ECFA with China, and the number ranging from 45 to 48, 47. And the number who disapproved of ECFA reduced probably to 30 to 35 percent. So, that's the fact. So, in this regard, President Ma did score some political points from the debate and have helped improve his fragile approval rates.

So, the other major question is, after debate, are you more clear about the contents of ECFA? Again, according to DPP is only 38 percent of the public understands the content of ECFA. There are still over 60 percent of people who have no idea what the content of ECFA is.

So, I just give you these numbers to show that the debate between President Ma and Chairwoman Tsai was just the beginning of this ECFA campaign. I would strongly suggest President Ma to utilize the remainder of his first term to bent his knees to lower his voice to engage in a candid and overall discussion and dialogue with the public in order to win more support in his cross-Strait policy. Otherwise, he probably will repeat a mistake that he made in his last two years.

So, I'll just stop here and welcome your comments. Thank you. (Applause)
ALAN ROMBERG: First, I want to thank the sponsors, CSIS and Brookings, for including me in this very interesting day and this very interesting panel. I'm very honored to be here.

I'm going to take a somewhat different tact. I'm glad to see my friend, Liu Shin-Chung has returned to the DPP fold.

Let me say a word first about context and looking at Ma's performance on

cross-Strait relations. As a candidate, he made a lot of statements, and since he's become president, he's made a lot of statements, and I'll look at some of those in the next few minutes, but what I want to do is really try to go back to do what some others did earlier today and relate what he said in his inaugural address to what has happened and what's likely to happen. After all, that was his first considered statement, comprehensive statement on cross-Strait relations out of the hustle and bustle of the campaign.

Moreover, one of the points I want to make is that his approach has been remarkably consistent since the inaugural and with the vision laid out in the inaugural, and I'll come back to that.

I think we also need to place Ma's policies over the last two years and the context of what came before. As has been said here, he came into office and the acknowledged in his inaugural address that he didn't start from a zero base in approaching cross-Strait relations. There was substantial trade, investment, and at least one way a tourism flow already in train. But nothing was institutionalized, and by the end of the Chen Administration in the spring of 2008, the atmosphere across the Strait was more than just cool. By then, with President Chen's emphasis on Taiwan's separate identity and his determination that Taiwan be accepted in the international community as a sovereign entity, including through the vehicle of referendum on joining the U.N. in the name of Taiwan. Relations across the Strait were characterized by tension, edging, I would argue, toward dangerous confrontation.

Ironically, as a result, Ma Ying-jeou inherited two advantages from Chen Shui-bian. First, he wasn't Chen Shui-bian, and except for war, which nobody wanted, there was virtually no place to go but up, and he was pretty well-positioned to go there.

Second, somewhat paradoxically, in light of President Chen's approach to Taiwan's status, the mainland had moved to sharply limit the definition of Taiwan independence, they would occasion the use of force. In this regard, recall the three ifs of the February 2000 White Paper, which was issued just before Chen took office, and the infamous third if. That third if was that if the Taiwan authorities refused *sine die*, that is indefinitely, the peaceful settlement of cross-Strait reunification through negotiations. No, not just refuse to negotiate, but refuse to achieve peaceful reunification through negotiations. Then the Chinese Government will only be forced to adopt all drastic measures, possibly including the use of force to safeguard China's sovereignty and territorial integrity and fulfill the great cause of reunification.

Well, by the time Ma assumed office, Beijing had moved away from what I think in essence a trap of their own making that could require them to enter into confrontation, perhaps, war, simply because things were dragging on. This is something they didn't need, something they didn't want. What really mattered, the PRC decided, was either *de jure*, or a formal independence, which as further refined, came largely to mean a change to the constitution. There were more conditions that were refined in Article VII of the anti-secession law of March 2005, the fact of Taiwan's secession, a major incident entailing Taiwan's secession or possibly closing the door, essentially, to peaceful reunification. All that could lead to non-peaceful means.

Frankly, none of these conditions was very clear, and they left a lot of room for interpretation. But I think what was clear, as revealed in Hu Jintao's Six Points of December 31, 2008, is that the PRC now accepted that it would take a long time to move toward reunification. And the rules and relationships established now needed to shape an atmosphere of peace and stability during that long period of time in which questions regarding the use of force would hopefully not arise.

Consistent with this position on the mainland, Ma came to office a firmly committed foe of Taiwan independence, and while he no longer advocated what had been the traditional KMT position in favor of unification into a "democratic, free, and equitably prosperous China," nonetheless, through his embrace of the framework of the ROC Constitution, he embraced, as Philip Hsu pointed out, a version of a constitutional One China that has permitted the transformation of cross-Strait relations that we've seen over the past two years.

Against the background of Ma's inaugural address, I want to expand on these points a little bit, focusing not so much on some of the specifics, which anyway have been laid out for you very well, but more on a couple of underlying concepts and trends.

First, in his inaugural address, Ma performed what I consider an act of political legerdemain. Articulating a version of the One China Policy for his domestic audience, it was unacceptable to the PRC, while using a different set of words to bridge that gap with the PRC. That is, in calling for the maintenance of the status quo in the Taiwan Strait, which he said as Taiwan's mainstream public opinion holds it, he asserted that in 1992, the two sides reached a consensus on One China respective interpretations.

It became complicated because this involved Taiwan identifying the national unification guidelines of 1991 as embodying their definition of One China, and Beijing refusing to accept that, among other things, because it said what the mainland should be doing in changing its political, economic, and social system. But, in any case, acknowledging that there were huge differences in the definitions of the 1992 consensus, the bottom line was that the positions of the two sides converged on two common points. One was there was only one China. And the second was the goal was unification. Taipei later came to call this confluence the 1992 consensus; a term by which, as you all know, for some time, Beijing refused to accept, but it eventually came around to embrace, and Ma took advantage of that in his inaugural, and separating it from his domestically-oriented statement about One China respective interpretations, he then turned to the mainland audience and he said, I want to reiterate that based on the 1992 consensus, negotiations should resume at the earliest time possible.

Of course, there's been one big change since 1992. While ultimate reunification remains at the core of the PRC position on cross-Strait relations, that is not the position now that Ma takes. Indeed, in other settings, he's made clear that the ultimate definition of the relationship between Taiwan and the mainland is something that the people of Taiwan must determine, not any party, not any government.

So, the essence of the 1992 consensus, as Ma was using it in his inaugural address in May 2008, was acceptance of the general proposition that there is one China without either accepting Beijing's definition of the One China Principle or insisting on imposing on the mainland his point about One China respective interpretations.

Now, this is all pretty vague, but as vague as that consensus was, as the quip in Washington goes, it was good enough for government work. And in accordance with Ma's call for negotiations as soon as possible, it became the basis on which negotiations, in fact, did resume between the anointed White Glove Organizations, SEF, and ARATS, in mid-2008, after a 10-year hiatus.

In my view, the subsequent agreements and memoranda of understanding reach between the two sides represent a credible achievement in a relatively short period of time. We know negotiations have fallen short in some areas, and we know that implementation of those agreements that have been reached has had problems, but no one should be surprised. I mean, keep in mind that, although the agreement was that economic issues should be addressed first and easy issues first, in fact, economic issues are not necessarily all that easy. There are vested interests on both sides that are not simply susceptible to government fiat. Even, and one might say, especially with regard to the significant agreement now under negotiation, which has been discussed here so much today, ECFA, we've seen from the beginning that, despite the PRC's strong motivation to help the Taiwan economy and win hearts and minds on the island, despite Taipei's desire to strike an early agreement in order to avoid falling behind competitors, and, indeed, to open the door, hopefully, to greater regional cooperation, real domestic economic interests are at stake on both sides, and the going has been tough. Putting the agreement on the agenda of the SEF-ARATS discussions has been highly controversial. Getting experts together was difficult. Keeping them together proved hard, and now bringing them back together again is problematic. Still, I think both sides see overwhelming advantage in bringing ECFA to realization by midyear, and I fully expect that they will succeed.

As we heard earlier today, this agreement has major political implications within Taiwan, but I think that, at least for the moment, momentum seems to be gathering behind Ma's determination to consolidate this aspect of cross-Strait relations.

Another aspect of his inaugural address focused on international space and a possible cross-Strait peace accord, both of which fall under the category not of economics, but of politics. Let me look at those one at a time.

An international space, what Ma said was this: Taiwan doesn't just want security and prosperity; it wants dignity. Only when Taiwan is no longer isolated in the international arena can cross-Strait relations move forward with confidence. So, he linked the quality of cross-Strait relations to the quality of international space.

As part of this approach, Ma called for both sides to pursue reconciliation and truce in both cross-Strait relations and in the international arena. I would suggest not much reconciliation has taken place in the international arena, but, perhaps, it's fair to say that at least in terms of competition, as has been pointed out, competition for bilateral

partners, a truce is in effect.

The opposition in Taiwan complains that whatever has been achieved has been done only at the grace and favor of Beijing, and what Beijing gives, Beijing can take away. And I have to say that in certain important respects, this is the case. But I would also argue that the implication that somehow such things could be achieved without Beijing's at least tacit concurrence is a fantasy, as was demonstrated during the eight years of the previous administration.

On the other side of the coin is the fact that absent a compelling reason to pull the plug on any aspect of Taiwan's international participation, in reality, each instance of greater participation is a genuine step forward that cannot be easily reversed, at least not without substantial costs to Beijing's policy toward the island.

In the meantime, I have to say I think Beijing does itself no favors when it emphasizes its role in approving or disapproving Taiwan's international participation. Moreover, those examples of progress which do exist, at least in the intergovernmental agencies sphere primarily right now within the WHA-WHO family, are so few in number, they only underscore the PRC's cramped approach to this issue now that it's announced generosity of spirit and concern for the interests of the people of Taiwan.

Ma's willingness to set aside issues of sovereignty in this kind of arena in the hopes of realizing Taiwan's aspiration for greater international participation has been essential to what's been achieved so far, and I think to what may be achieved in the future, but, so far at least, I would say Beijing has really failed to credit that approach sufficiently to go along with Taiwan's more ambitious hopes for a seat at the table as a non-sovereign entity where other issues of fundamental importance to the people of Taiwan are being managed. We know EKO and UNFCCC are current issues on the table for Taipei. And the mainland looks all the more mean-spirited for its approach here.

Even though one understands some of the reasons for this PRC approach, it's shortsightedness, I would argue, is stunning, and one hopes it will change. On the other hand, I must confess to being somewhat disturbed by recent indications out of Taipei either that it's going to press to have its observer status at the WHA labeled as coming from the Republic of China or even that it is seeking full membership of WHO.

Now, maybe this latter is loose talk, and what's really being sought is only more regularized participation as a non-state participant. But if it really means more than this, not only is it not in the cards, in my view, I think it will be counterproductive.

Second, the question of a peace accord. It seems to me that Ma has long envisaged this peace accord as a key element in establishing a long-term framework of peaceful relations across the Strait. It's also a goal that, in name at least, Hu Jintao shares. Although he seemed interested in pursuing a peace accord in his first term initially, as of about, I guess, a year ago, Ma apparently bowed to the political reality that, in fact, many of his senior advisors had come to accept sometime before that that such an accord is not a first-term issue. The political situation in Taiwan is simply too difficult to permit even

meaningful political dialogue or negotiation of significant confidence-building measures, much less negotiation of a peace accord.

Still, in the wake of Hu's December 31, 2008, six-point proposal, Beijing seemed determined to set the stage for near-term political talks leading in just that direction. I think, however, by late last year, last summer anyway, Taiwan's political reality had sunk in for Beijing, and while unofficial dialogues on these subjects take place all the time, for now, it seems the leaderships on both sides share the view that official or officially-sponsored dialogues on a political front are not going to take place.

Nonetheless, I believe not only does political dialogue, but even a peace accord remain on Ma's agenda as they do on Hu's. What's not clear is whether they share the same vision about what that's about, and especially about the issue of One China in that context. What might the mainland require of Taiwan regarding One China? It might be quite different from what Ma has in mind. It's hard in my mind anyway to see how Ma can move beyond the One China position in the 1992 consensus and to accept a definition that more unequivocally implies a commitment to ultimate unification, but from conversations in Beijing, it would seem precisely that that's what some people there have in mind. So, a lot of work remains to be done if they really want to move ahead.

Finally, just a couple of words about the future. A critical aspect of the future is Ma's level of commitment to the basic tenants of his cross-Strait policy, and, therefore, what our expectations should be about it in the coming years. We recall that Chen Shui-bian essentially negated the 1991 national unification guidelines, and Ma Ying-jeou chose when he took office not to revive them. But I have to say there's a striking degree of consistency between Ma's cross-Strait program and what's in those guidelines other than -- and this is a rather large "other than" the guidelines fundamental commitment to unification, which, as I say, he is not endorsing. Whether the issue is something as basic as accepting the existence of One China or dealing on an equal basis across the Strait or something more pragmatic and concrete, such as promoting mutual prosperity through trade, investment, tourism, and so forth, it's all there in the guidelines, and it's all there in Ma's program.

The guidelines call for establishment of a democratic free and equitably prosperous China. That's echoed in Ma's inaugural call for the mainland to continue to move toward freedom, democracy, and prosperity for all the people. Ma's mantra about neutral non-denial is an echo of the guidelines' call for not denying the others' existence as a political entity while in the midst of effecting reciprocity.

Don't mistake my meaning. I'm not in any way suggesting that Ma's promoting unification by subterfuge. As I say, it's explicit in his inaugural address and in many other ways that unification is not on the table, just as independence is not on the table. Nor am I voicing a criticism. I mean, this consistency is rather natural. Ma was the vice-chairman of the Mainland Affairs Council in the early 1990s, and was centrally involved in the development of policies at that time. And, to my personal knowledge, for at least the past decade, he has advocated adopting the 1992 consensus as the only feasible basis for returning to cross-Strait dialogue.

So, what I am trying to say is that this consistency is natural and that Ma's policies are not something he cooked up during the 2008 campaign or haphazardly wrote into his inaugural address. They reflect two decades or more of his thinking about this issue, as well as actual involvement in policy formulation.

So, whatever one thinks about those policies and how they're being implemented, and while I think he's done a pretty good job, the judgments in this room and even on this panel obviously differ sharply, what should not be open to challenge is President Ma's commitment to them is deeply rooted. And, so, while he may, at times, attack here or there in response to evolving circumstances, I don't think we should expect to see a fundamental change in these positions over the coming years from those that were laid out two years ago.

Thank you very much. (Applause)

MS. GLASER: Well, thanks to all of our presenters. Three really excellent presentations. We have a little bit more than 25 minutes left. And before we open up the floor to questions from the audience, I think I'd like to pose a few myself.

For Liu Shih-chung, I'd like to ask whether you think that between now and the time as we get closer to the presidential elections and the DPP more clearly formulates a policy toward the mainland whether we would see a lot more evolution of the position from what Tsai Ing-wen has told us recently, that there will be no preconditions for talks for the mainland, which, in my view, is really not terribly different than the position that Chen Shui-bian took when he was running for president and became president of Taiwan. Indeed, that was seen as not acceptable to the mainland, and, therefore, of course, there were no talks during his eight years as president. So, I'm curious if you could elaborate on that.

For Alan, and maybe I'll also ask Philip to comment on this, as well, if you could maybe examine the issue of a peace accord a little bit and what you think about President Ma's thinking of a peace accord, what are the real preconditions that Ma has in mind? He talks about the fact that the mainland has to remove all of its missiles in order to begin such negotiations. In my view, that is designed to ensure that that would just not be a near-term issue, but it's not necessarily a serious precondition. So, if we really got to the point that this was a serious option, both sides felt that it was in their interests politically to begin those discussions, what are the real preconditions that you think Ma has in mind?

MR. LIU: Well, thank you. Those are excellent questions.

My read is this: The so-called ongoing 10-year policy platform that the opposition, DPP is currently discussing, the approach that the opposition party adopted is somewhat different from the KMTs. It's more through rank and file discussions with not only DPP supporters, but, also, more the independence, even light blue supporters, I think it's an attempt to sort of -- I mean, for the DPP, the old practice showed that it needs stronger leaders to initiate this type of rethinking of this China policy.

They did this about a decade ago through debate by different factions. But I've seen a different evolution now, as you pointed out. This time, I've seen not just

Chairwoman Tsai, but also other potential, I would say, candidates for 2012 elections have come to a consensus that the party needs to move a little bit more to the center, and the party needs to recognize the rise of China. The party needs to embrace the importance of engaging China.

That explains why Chairwoman Tsai said -- well, actually, it's a consistent policy by the DPP that the party hasn't ruled out any possibility of having dialogue with Chinese counterparts. I think you can start with more non-official think-tank type or (inaudible) type of dialogue. And I believe that current leader of the DPP has been seriously thinking about this.

And, but again, we don't know who will be the presidential candidate yet. He or she might have a slightly different approach as Chen Shui-bian back in 1999, despite the fact that, at that time, the DPP still upheld the so-called independence platform. But in order to move to the center and to counter more support, Chen Shui-bian, as a candidate, came up with this notion of a 1999 resolution regarding future to move a little bit to the center.

So, all I can foresee is for the next DPP presidential candidate to come up with a similar formula, but I don't know what that would be, but it must go through a serious and long-term discussion, starting from the current debate on the so-called 10-year policy platform.

MS. GLASER: Good. Thank you very much. Alan, you go first.

MR. ROMBERG: Yes. I guess I would disagree that removal of the missiles is not a serious position. I think it is a political position he is absolutely stuck with. And I think he's very clear, this is not a serious military gesture; this would be a symbolic gesture, and the negotiations could be fairly difficult, but I think among other things, the DPP has been very outspoken in saying it's going to hold Ma to that, and if he pulls back from that, they're going to skewer him. And I think that's probably pretty serious.

I think on more basic terms of what would be the substance of a peace accord, I think, as I said, there are a lot of unofficial dialogues going on about issues across the Strait, including, I think, some of those that are related to this, and including issues about One China, and I think that those need to go pretty far in trying to scope out what would be acceptable to both sides. If there is a scope that is acceptable to both sides. And there may not be. As I say, I think that Ma's flexibility on this is actually pretty limited, and I think that the PRC's ambition on moving Taiwan, it leaves some direction not to accept the PRC's One China principle, as it stated, but some further direction toward One China as a unification kind of entity or unified entity. It seems to be where they would like to go. And, as I say, Ma's basically ruled this out as a first-term issue. So, there's some time still to go before one has to worry about those kinds of things.

DR. HSU: The question was about what was the real intention of Ma. Apparently, I couldn't speak for President Ma, so, I'm going to just presume that if I were in Ma's position, I think there could be like different versions or the possibilities, scenarios for

the content of such a so-called peace accord. A minimal version would be I guess pretty much as Alan just stated, to really seriously handle the issue of China's military threat against Taiwan. I think Ma has repeatedly stated the importance of that issue, and there is no doubt on my part that it's a personal important issue for Ma. So, in that regard, I think pretty much I agree with what Alan just said, that it is pretty much symbolic and actually domestically, a politically-driven issue in a sense that it would make him look really good especially as he approaches the next presidential election in front of Taiwan's domestic voters. So, that's sort of a minimal version.

A little bit expanded version would be, again, as in the agreement with Alan to really finesse the definition of content of the so-called One China principle. And, in that regard, I think one thing I could add, which may not be likely, but once reached in such a peace accord that deals with the content of the One China issue, that could generally effect of really exercising some sort of a binding effect on future administration or ruler in Taiwan. So, that would be the sort of expanded version. But I suspect whether that's a credible scenario, given the sort of leadership style as we understand about President Ma. So, that's my answer.

MS. GLASER: Okay. Thank you. We will now open the floor to questions. Again, please identify yourself before asking your question and wait for the microphone to come to you.

Up front. Scott?

QUESTION: Scott Harold of the RAND Corporation. Thanks, Bonnie, for a great panel. And I guess I'm stuck on missiles today.

Alan, you mentioned the missile issue. I want to come back to it. But, also, in the context of arm sales, the mainland has continued, as we've seen in the numbers put up in the slides, to deploy missiles opposite Taiwan, and the mainland has ignored the fact that Taiwan is purchasing defensive arms primarily in response to modernization of the mainland's arsenal.

In fact, a charitable reading of this might suggest that there are forces inside the PRC's political system that have an interest in military modernization and maybe have a stronger, more nationalist bent to them. An unfavorable reading would suggest that every time Beijing harps on the U.S. selling arms to Taiwan and stay silent on Taiwan's purchasing of arms from the United States, that what the mainland is doing is actually tipping its hand and saying, in essence, what we really want more than anything else is to cut Taiwan off so that we can then twist Taiwan's arm sometime down the road.

I wonder if you can help us evaluate these two potential alternative interpretations of what the mainland really wants with respect to Taiwan and Taiwan's defensive needs. Does it want to eventually reach a point where it can say to hardliners within its own political system we understand your concerns, but we've decided to make some concession on military modernization, remove some missiles, reach some kind of a cross-Strait political accord, or is it the case that you see a more unified mainland that is masking its intents towards Taiwan behind some friendlier language that's convenient now in the hopes that it can eventually pull the Taiwanese into orbit or push the Americans away

from selling arms to Taiwan so that it could then present Taiwan with a *fait accompli* of military domination?

MR. ROMBERG: I guess I think it's a little of each. I think that the PLA's modernization is for the sake of China's broader national security interests, and a lot of it, we know, looks very Taiwan-specific, but also most of it has application in a broader context. So, I think that that modernization and being stronger and we're not going to get pushed around anymore, we did that for 100 years, thank you, no more, is part of it.

I actually look at the arm sales issue, and I totally agree with you that the focus is on arms sales, not on arms purchases, has some other roots. I mean, of course, they would like to be in a position to use a bit more leverage, but if the issue is leveraging Taiwan into a deal, I think they're going to buy themselves a porcupine, and they know that. So, I don't see them wanting to do that particularly. Some do. I mean, they. A lot of theys, right; 1.4 billion, I think, at this point.

But I think that the arms sales issue has been a consistent issue for the entire period of U.S.-PRC diplomatic relations. It's seen as interference in PRC's affairs. It's seen as, I think, plot by the U.S. or part of a U.S. plot to keep PRC power and influence limited and constrained, even if it's not containment in the old Soviet style. So, I think those are the larger issues, actually, and that there's a lot more patience on Taiwan. And not everybody agrees with that. Some think that well, yes, they're patient now, and as you're suggesting, but when the appropriate conditions exist, they'll sort of push a more coerced solution. I can't say that isn't the case, but I'm not sure I can see -- as long as Taiwan is not moving to independence, as long as, to use the Article VIII of the anti-secession law terms, the door to reunification is not closed, I think that it is very much in the PRC's interest to keep weaving the threads of this relationship, not to be thinking about turning to some more forceful or coercive approach to this. But I won't say to you there aren't people who think the way you raised it in the second part of your question.

QUESTION: Dave Brown from SAIS. A question for Shih-chung. I've been reading, I hope carefully, the things that Chairperson Tsai Ing-wen has been saying about the 10-year platform in a variety of places. And I will interpret what she has been saying as an effort to appeal on the one hand to moderates in Taiwan by striking a more pragmatic posture, and, on the other hand, trying to shore up support from the fundamentalists in the party by saying things which are quite un-pragmatic, that we are not going to fall into the trap of accepting One China; we will continue to abide by the party's guideline for promoting Taiwan independence. Now, this may or may not make good sense in terms of domestic politics, but it is not very reassuring in terms of making good policy towards the PRC. And, so, I would like to sort of reiterate the question of what is the possibility that in formulating this 10-year platform the DPP can stop short of making categorical statements that are reassuring to its fundamentalist base, and, at the same time, try and adopt a policy which offers some prospect of being able to have a continued sort of government-to-government authorized dialogue with the PRC.

MR. LIU: Thank you, David. I had just had a discussion with one of my relatives, my uncle, last week. He was a hardcore DPP supporter. He doesn't speak

Mandarin, and I asked him about his impression of Chairwoman Tsai, and he said he likes her very much despite that most times he doesn't understand what Chairwoman Tsai said. (Laughter)

What I'm trying to use this case to show you that I think winning back the power is the important thing for the DPP. I'm not a DPP member, but that's what I'm reading, especially from those fundamentalists' wings. Assuming Chairwoman Tsai can be successful to reconsolidate her leadership, or other DPP heavyweight can win, for example, the upcoming municipal elections. They will increase his or her power within the party. And, as I said earlier, some of the potential competitors for the 2012 (inaudible) have, at least through my conversation with them, revealed their intention that, yes, they have learned lessons from the Chen Shui-bian era, and then they now understand the importance of moving to the center.

But, again, this is the whole process. DPP is famous for its diverse and pluralistic views. But sometimes for outsiders, they tend to believe that the party leader might be -- to some extent be hijacked by a certain portion, for example, fundamentalist factions. But that's not what I see in this case, in the drafting of this so-called 10-year policy platform.

Maybe in the end, the platform may not serve as electoral platform for the next DPP leaders. As I say, he or she may come up with his own slightly different version, but I must say what counts is the process of convincing different factions from within the party of the importance of regaining power, and, by doing so, you need to move to the center, you need to recognize the rise in China, you need to come up with a better cross-strait policy than the current Ma Ying-jeou administration.

So, I would say I don't know what would be the result yet, but I can imagine there would be a balance of cross-strait policy between former President Chen Shui-bian's more extreme approach *vis a vis* what they consider President Ma Ying-jeou's Two China centered cross-strait policy.

Thank you.

QUESTION: Jay Taylor, retired foreign service officer. I think it's rather evident that there are some differences in Taiwan about cross-strait relations and how to interpret fundamental interests of Taiwan. But one also suspects that there are important differences on the mainland. One looks, for example, at you mentioned Hu Jintao's December 2008 statement and compared to the 1999 ultimatum.

I wonder if Alan or anyone else on the panel has any evidence or suggestions, hints about differences and what they are in the mainland.

MR. ROMBERG: I'll start. I'm sure you're right, I'm sure there are differences, but I have to tell you, I'm impressed that the issue on which Hu Jintao, I think, has most strikingly forged the consensus at the leadership level has been on Taiwan policy. And I think he has done this by fireproofing himself in two respects. One is everything is in the context of One China and ultimate unification, and the other is that Taiwan

independence will not be tolerated in any way, shape, or form, and if it comes about, we'll whack it. And within that framework, I think, as opposed to Jiang Zemin's desire to sort of push the process of unification along in a foreseeable timeframe, I think that he's adopted what I consider to be a much more practical approach and has been pretty successful.

That doesn't mean that you're wrong about the differences. I think that probably there are some, but look at that speech. The whole first half of that speech was 'my policy is totally in accord with everybody since Marx,' right? Or Mao, anyway, on One China unification, but the rest of it was a very pragmatic, long-term, pre-unification program to consolidate peace and stability and begin to weave that relationship in a way which would presumably, from their point of view, bring things along toward ultimate reunification.

So, I don't see that. Now, we do see from time to time writings from individuals, particularly some in the PLA, that seem a little more restless than some of the others, but I don't see the PLA wanting to fight that war. So, in that sense, I don't see a fundamental difference. I think there's probably much more debate about how much tolerance one should have for the U.S. and its approach to Taiwan issues, to go back to the question before that Scott had. So, anyway, that would be my response to you.

DR. HSU: Two simple responses to the question. The first is that, in addition to the sort of internal differences regarding Taiwan policy in China, I think there is also a dimension of learning experience or the learning process over time. In a sense that the Beijing leadership, regardless of who the top leader may be in different times, is gradually learning about what could be a realistically achievable goal in a short run versus Taiwan.

And this brings me to my second point, which is that I guess probably the sort of relative greater emphasis upon the prevention of Taiwan independence as opposed to pushing for unification is more likely a technical move rather than a fundamentally strategic adaptation.

So, that's my responses.

MS. GLASER: Other questions? Okay. Gerritt?

QUESTION: Thank you. Gerritt van der Wees of Taiwan Communique. A question for Philip Hsu. You did indicate in your presentation that you felt ECFA was part of the political mandate that President Ma received that was a collective choice, in your words, I think. I think I'd want to disagree with that. The whole ECFA debate didn't really start until the beginning of 2009. You talked about CECA at that point in time. So, the whole idea of an economic agreement with China was not part of the election campaign. The main theme was improving the economy 633, which has not really materialized. President Ma also went down south. He emphasized his Taiwanese identity, and then turned around and galloped off in China's direction, so to say.

So, can you say what was really the part of the campaign, and, Shih-chung, maybe you can also comment on that point.

DR. HSU: Thank you for the question and the opportunity for me to make clarification.

You are right that the debate didn't really start until the middle or late 2008 - right? - after Ma Ying-jeou took over. But the debate was pretty much, first of all, about the name, the denomination, of the sort of de facto FTA, which bore a lot of symbolic, political implication and ramification. Whether or not, for example, CECA is pretty much like the CEPA in terms of formality that China forged with Hong Kong, and, also, the debate was pretty much about the substance and content, about, for example, what would be the scope and pace of the de facto FTA with China.

These are the sort of substance that triggered debate. But, in reality, Ma Ying-jeou, during his campaign pledge, has promised further economic integration with China, partly by, among other things, institutionalizing these integration relationships through something like a de facto FTA. That was, indeed, mentioned in his campaign. But it was relatively obscured by the sort of public yearnings for concrete behavior or concrete policies conducted by the future administration, not confined to ECFA or any de facto FTA, to enhance Taiwan's competitiveness by further integration.

So, it was pretty much there, but there wasn't debate because simply the issue of nomination, formality, and substance did not emerge until he really started trying to realize that. Yes.

MS. GLASER: Questions?

QUESTION: Alexander Yui. I'm a Taiwan diplomacy fellow here at Brookings.

Mr. Romberg, you mentioned that in Taiwan's international space that there couldn't be any advancement without PRC's tacit agreement to that effect. In that sense, if Taiwan reaches the ECFA agreement with mainland China say within this year or so on, one of the reason that President Ma has been trying to lobby towards the ECFA to its people has been that once we sign ECFA, it will open up possibilities to sign other FTAs with other countries or equivalent to FTAs with other countries.

Do you see the PRC tacitly approving this next step for Taiwan?

And, also, in international organizations, Taiwan is pushing for ICAO and UNFCC. Do you see that as a possibility or once Taiwan accedes to ICAO and UNFCC participation, and, obviously, will try to move on to other international organizations. What is the PRC's -- will they allow it for Taiwan to continue getting access to international organizations?

Thank you.

MR. ROMBERG: These are two really quite different questions, in my view. On ECFA and the relationship to further FTAs or FTA-like agreements, it's pretty clear the PRC has not given a carte blanche to Taiwan. Once we do this, you can go ahead and do that. Right? But I think that not only has Taiwan obviously said to the mainland

once we do this, we will do that, but I think that assuming we are talking about agreements that do not give rise to the question of sovereignty, and that's why I think your second point about sort of FTA-like agreements is important here, I think the PRC would really be hard pressed to pose a real objection.

So, I can't predict 100 percent for you. And the commerce minister said a few months ago, everything is going to come through us, but there's a lot of bluster about this sort of thing. But I do think that it's going to be very important that as these negotiations do go forward, that they are framed in ways which do not give rise to the question of sovereignty, or else the PRC is going to sit on the partner and say, do not make such an agreement.

So, I expect it to happen. But Ma has been actually more cautious about predicting the link than some of his officials have been. He has said, as you put it, it may open the opportunity to do this. Some others have said it will lead to this. I don't think it's going to lead to this necessarily, but I hope it will.

On international organizations, as I said in my remarks, I think that the PRC is just being extremely cautious. We know some of the reasons. They worry if the DPP comes back to power, they'll use this higher platform to push a separatist agenda. Or that even the Ma Administration, if it gets too much without giving some sort of reciprocal benefit back, that they'll just ask for more, et cetera.

And I can't predict where that's going to go. As I say, I think it's a very shortsighted approach. One of my arguments back to PRC friends is, you should be promoting this because the more that Taiwan is represented in the international community not as members in statehood organizations, but participating as a non-state entity, non-sovereign entity, that's to your benefit, guys, right? Well, talk about debates.

I think that's probably an area where there are a lot of debates within the PRC about how to handle that, and we know that these questions are being examined by a whole bunch of people, including some academics looking at the charters of various U.N.-affiliated organizations and whether there can be WHA-like observer-ship or something else like this. So, it isn't as though the issue isn't being addressed. But I hope there will be more, but I can't really predict that at this point.

MS. GLASER: All right. Well, I think that was really an excellent panel. I'd like to thank all of our three presenters, and please join me in doing so. (Applause)

MS. GLASER: We're going to take a 15-minute break.

[Recess]

DR. BUSH: Why don't we go ahead and get started? The faster we get started, the faster we finish. If the people who are outside in the corridors could come on in, we'll go ahead and get started.

This session is on U.S.-Taiwan relations. We've already had, in effect, two presentations this morning on that subject, first from Joe Donovan and second from Ambassador Yuan, and I think we have a very good panel for this afternoon's discussion.

This is a subject in which I take some parochial interest because on May 21st, 2 years ago, I handed the newly inaugurated President Ma a letter from Senator Barack Obama, saying that I endorse the approach that you propose for dealing with the Mainland and if I'm elected U.S.-Taiwan relations will improve. So you can infer a kind of linkage there.

So the question is how are we doing? We have a great panel here to look at that. Our first presenter is Brookings alumni Dr. Alexander Huang who is now the professor of strategy and war gaming at the Graduate Institute of International Affairs and Strategic Studies at Tamkang University. He's also a nonresident senior associate with CSIS.

Alexander?

DR. HUANG: My last appearance in this room was March 27, 2008, 4 days after President Ma Ying-jeou was elected. I was invited by Richard to give my assessment about the election and looking forward of the Ma Administration. That was also the very date that President George W. Bush had a hard-line conversation with President Hu Jintao. And before my presentation two years ago, we learned on that day that for the first time that President Hu Jintao hinted or relayed his acknowledgement of a One China that probably is subject to different interpretations, at least alluded to. And I'm so happy that I'm invited back two years later and to give my personal so-called mid-term assessment about the U.S.-Taiwan relationship.

It is fascinating for me to be sitting down there for the whole day and look at current diplomats and former officers in Taiwan's Ministry of Foreign Affairs presenting competing views. It is a democracy that we have witnessed in Taiwan for the past decades.

When Ma Ying-jeou assumed office, the U.S.-Taiwan relations would have a lot of issues there to be managed. Of course, we know that many people said the first task for President Ma to manage the U.S.-Taiwan relationship was to repair damage. So we probably witnessed the past two years what I call the damage repair mode, but I'm very glad that toward the end of my presentation I would propose that we should be able to change to advance mode with regard to U.S.-Taiwan relations.

At the time when Ma assumed office, there was also a very clear sign of the rise of Chinese influence in almost every front, and we also experienced the global economic crisis, financial crisis. And more importantly is that if we want to talk about the U.S.-Taiwan relationship in this town, we also were reminded that the United States has many other important focuses -- the focus of domestic economy, the focus on war in Iraq and Afghanistan. Many people accuse that the Washington establishment did not have enough energy and time to spend in focusing on Asian issues, and that's the outset of when we look at the U.S.-Taiwan relationship since two years ago.

Assistant Secretary Joe Donovan and Ambassador Jason Yuan helped me a

lot because they have addressed the achievements or business that has been done of U.S.-Taiwan relationship in the past two years. So that saved me a lot of time to recap or address what I consider that has been achieved.

Let me focus on, or to share with you, what I consider has been done in the past two years. The first is, or the most important is, to rebuild trust. Taiwan has clearly, after two years, proved to our friends in Washington, D.C., that we are a predictable partner, that we no longer give you surprises. We do not make trouble. We also proved that Taiwan plays by the rule and the rule that we mutually agreed.

Also, I have to specifically emphasize that we have better communication. I recall that when I had lunch with Ambassador Ray Burghardt in Taipei he had just come out from his briefing to President Ma Ying-jeou on President Barack Obama's trip to Beijing. The timely debriefing of major events is also very important. I expected to see Ambassador Ray Burghardt again in early June, after the S&ED dialogue between the United States and China, and I think this kind of practice really rebuilt our mutual trust between us.

The second is security assistance continues. We worked together in October 2008 and January this year. We have two major pronouncements of arms sales items to Taiwan that have been long awaited, and we are very happy to see that it continues. Also, I think Taiwan continues to express our commitment to upgrade our military capability, to modernize our forces, and to continue our defense procurement program with the United States.

Other talks continue, including the Monterey Talks at the national security level and the defense review talks at the defense ministry level, and a whole host of exchanges continue. So I think it's also an interesting development that we see that we will continue those dialogues in the years ahead.

And number three is our trade relationship. I think Taiwan has made it very clear, and we clearly understand that even with a global financial downturn, that economic factors would have a big impact on elections, especially in a democracy. So economic performance will be judged not only now, but also in the future elections of President Ma's administration.

We recognize that we have some frictions over American beef products exported to Taiwan, but I think it is not an issue between the U.S.-Taiwan relationship. I would focus more, if I want to review that, on the institutional problems and management and judgment within Taiwan, but I will not put as a negative indication of the U.S.-Taiwan relationship.

And more importantly, in the past two years we had two occasions that we cooperated in a more, I can say, unprecedented way. One is the typhoon disaster relief, that the United States responded to Taiwan's request in less than 24 hours of Typhoon Morakot. Also, we appreciate very much -- I think it's also built on our mutual trust -- with the assistance of the United States that we can extend our humanitarian assistance to our diplomatic ally, Haiti.

With all that, I think we went through a period of repair damage and reconstruct, or rebuilt, our trustful relationship, but there are many challenges ahead. I appreciate this opportunity to speak at this panel, but I want to focus more on what's next. I think we have turned, as I said, from the repair mode to the advance mode.

There are really challenges in my mind. The first one is Beijing's exercise of their diplomacy. It appears in a good term they are more confident than before, but a lot of people felt that they are more belligerent than before.

Secondly is that I felt that, other than people in this room, we have a potential challenge in the future that not only the policy community, foreign policy community as a whole, but also our congressional members on Capitol Hill, that their understanding of the history of the U.S.-Taiwan relationship since way back, since World War II -- how to inform them about the long history between the United States and us is also very important, and that's a challenge to me.

And number three is that not only government-issued reports, but also think tank papers and academic studies and refereed journal articles are talking more and more about China's increasing military capability in area denial and anti-access capabilities. When those reports and articles in terms of numbers are growing, and I think eventually they will shape a kind of image or understanding of the Chinese ability to resist other forces' involvement in the Western Pacific.

And number four is that with the rise of Chinese influence and the need for cooperation in many, many global issues between the United States and China, I think the arms sales decisions for Taiwan will become more challenging and make Washington more cautious when they make those decisions.

Lastly, but not the least, of course I think a lot of people would dispute that, but there was an article in the *Financial Times* by Admiral Bill Owens talking about the Taiwan Relations Act or U.S.-Taiwan relations as an obstacle for the advancement of the U.S.-China relationship.

For a person coming from a Taiwan or who works in Taiwan on a daily basis, I would look at these at least five areas as the future challenges that we need to address. Taiwan needs to do our part, and I think we have enough friends in Washington, D.C., that can work with us to advance our mutual interests and address those challenges.

What I would expect in the next two years is that I think there are rooms to improve our bilateral relationship. The first one is that I think given the current mechanism and very hard labor between TECRO and AIT, I think still I want to see more genuine quiet, meaningful, high level dialogues or vision sharing conversations. I call that to enhance our strategic trust, to do more briefing, to share with our friends in Washington, D.C., of our strategies and measures, especially in our future engagement with Beijing.

Secondly is that I believe it's important for both of us to share some kind of

scenario planning. It can be done by academics, it can be done by think tanks and by policy circles because I believe that there will be a lot of, if not surprises, new developments as China rises, as Taiwan moves forward with our relationship with China. And I think we need to spend more time with our friends in Washington and in the United States as a whole, to look at many, many what-ifs.

I teach war gaming in my university. One of the most recent scenarios in gaming in my classroom was whether Beijing would remove some portions of their short-range ballistic missiles in Fujian Province and how Taiwan should respond. Through our practice, I reminded myself, in the game, that we should do a lot of pre-planning or conversation with our friends in Washington, D.C., on many, many what-ifs, so we can react to future events in a more concerted way.

And number three is that I believe that we should have more exchanges, and we should put our efforts to have more people-to-people exchanges and to see - we would like to see more congressional leaders and members coming to visit Taiwan, and we should also encourage our representatives of people, our lawmakers, to engage in activities with the United States.

Lastly, I would love to see that in the future -- because think tanks, universities, policy circles, we do a lot of collaborative works, and we do studies, I think it's very challenging not only for Taiwan, but for both of us because 2012 is very important from the March 2012 Presidential Election to the probably September or anytime in the fall of 2012, of the changing leadership in Beijing and followed by the November 2012 American Presidential Election. So we can plan in advance or we can formulate joint studies between Taiwan and the United States in the policy community, among think tanks, to look at different scenarios, different possibilities, and see how we can both benefit and advance our bilateral relationship, working through those future scenarios, and better prepare ourselves.

Last November, I was invited to a conference at the National Defense University at Ft. McNair. I was given the task to report the future cross-Strait relationship, 10, 15 years down the road, and giving my points in 7 minutes. It was so hard, and that was a sudden attack by the chair of the panel. So I was rushed to come up with four points that I considered very important, that would affect the future cross-Strait relationship.

The number one, I said, was the quality of leadership across the Taiwan Strait. It's very important. I don't have time to articulate my points, but I'll share with you the four points that I came up with.

The second would be the economic security of Taiwan. I'm not talking about short-term solutions. I'm talking about sustainable economic security of the Taiwan people.

Number three is the successfulness of Taiwan's defense transformation. A lot of people here in this room understand that we are undergoing a major defense transformation and even changing our military service system from compulsory to a

volunteer force, and that's a very daunting challenge. If we cannot make it successful, there will be a devastating outcome for the future cross-Strait relationship.

And number four, interestingly, I put the determinant that would affect the future cross-Strait relationship rests on U.S. strategy in Asia and your management of the relationship with China. Since this morning, we have heard that China is big, Taiwan is small. China is big. Taiwan is small. Because Taiwan is small, so I hate to divide Taiwan's experts into two different camps because we add together as still small, and we are facing a rising China. But the realistic challenge, I have to say that our future relationship with China would be pretty much affected by your relationship with China because our security and our democratic institutions will rest on the encouragement and assistance of the United States. We need to cooperate more.

Lastly, I want to say again, reiterate what I've said. I would characterize the first two years of the Ma Ying-jeou Administration with regard to the U.S.-Taiwan relationship was in repair mode, and now we are moving forward, and I think in the next two years we should do more. At the time when we try to improve our relationship with Beijing, we should spend more energy and time to improve and advance our relationship with Washington.

Thank you very much. (Applause)

DR. BUSH: Thank you very much, Alexander. I don't think anybody in Taiwan needs to worry about the revision or the repeal of the Taiwan Relations Act.

Our next speaker is a good friend to many of us in the room. Alexander is a good friend to many of us in the room too. Our next speaker is Dr. Joanne Chang. She's a Research Fellow at the Institute of European and American studies at Academia Sinica in Taipei.

Joanne?

JOANNE CHANG: Well, thank you very much.

This year marked the 60-year anniversary of the outbreak of the Korean War. Without the Korean War, probably we wouldn't be gathering here to talk about U.S.-Taiwan relations. One wonders why one war in Korea in a way prevented war in Taiwan Strait. Well, the answer was quite obvious. President Truman, two days later, decided to dispatch the Seventh Fleet to neutralize the Taiwan Strait. That's the American role, the most important role the U.S. played in terms of U.S.-Taiwan relations in the 1950s.

As a scholar now, last year, I came across a speech made by Wallace Gregson in the U.S.-Taiwan Defense Industry Conference, and he said a strong Taiwan will be less susceptible to coercion and intimidation, and better able to engage the PRC with confidence. And he said a strong Taiwan will be free to expand cross-Strait economic, cultural and political ties without fear. Therefore, everyone in the region should view a strong Taiwan not as a threat, but as a stabilizing factor for regional security.

Well, what remarks he made.

Then later on, I looked back. In the year 2007, 2008 and earlier this year, all similar remarks were made: Hope to see a strong Taiwan, economically, militarily and politically.

But my question now: Is Taiwan strong as the U.S. expected? Do people in Taiwan feel they are strong?

I think the feeling is mixed. For the time being, with the rise of China, I think many people in Taiwan feel insecure, feel vulnerable, and have anxiety -- how to cope with the rise of China, politically, military and economically. And I think for the time being, in terms of U.S.-Taiwan relations, there are three different areas I would like to emphasize where we can make together -- make Taiwan stronger than we are now.

First of all, economically, this morning we have talked about economic issues. Domestically, in Taiwan we were debating about ECFA, but actually Taiwan in a way is gradually marginalized. In terms of U.S.-Taiwan relations, last year, U.S. exports to Taiwan declined 26 percent, and Taiwan's exports to the U.S. reduced 21 percent. You can say it's because of the financial crisis, but you can contribute to other factors as well.

Also, we have seen the U.S. economic position in Asia is changing dramatically during the past several years. In the year 2004, Korea used to have number one trading partner as the U.S. In 2004, China replaced the U.S. as number one trading partner of South Korea. In 2005, in Australia and Taiwan, China replaced the U.S. as number one trading partner. Then in 2007, that's Japan and also Thailand. Now of five U.S. allies in Asia, only the Philippines now, the U.S. continues to occupy the most important, as number one trading partner of the Philippines.

So the U.S.'s changing role in Asia, we have heard Secretary Clinton mention that. She said the U.S. is back in Asia and back to stay. We really welcome that statement, but we have to think about economically it's no longer a trade issue. Now I consider it's a strategic issue. We have to really think about how are we going to cope with this trend together.

Last November, during an APEC meeting, President Obama announced his intention to develop some kind of trans-Pacific partnership in the region, and I think the idea is sort of coming from the Bush Administration. But to what extent it will be materialized, implemented, depends on the consultation between the Obama Administration and the Congress. Taiwan would like to join. We are a member of APEC, and so think about us as one of the partners of a trans-Pacific partnership agreement.

So we can cope together to work something out, and the U.S. apparently is not ASEAN+3. So the U.S. is now I think -- is also thinking about how to cope with the free trade agreement between ASEAN+3, those countries. On that particular front, economic issues, we can work out something together.

Then militarily, we have seen report after report by the Defense Department that the Taiwan Strait's military balance is now increasingly tilting toward PRC's favor. In

the past, Taiwan has enjoyed for a long time the airspace dominance, but that no longer holds true.

In addition, from the SIPRI, the Stockholm International Peace Research Institute, between the years 2003 to 2008, cumulatively, China is the number one recipient of conventional arms, and Taiwan now is facing the dilemma. Of course, we would like to improve relations with China, but without military deterrence the negotiation can be difficult, very difficult to come through.

So, militarily, Taiwan needs U.S. help. We don't just need hardware, like the F-16 CD. We also need some kind of further cooperation, to work out some kind of asymmetric capability to deter China and also improve Taiwan's military deterrence.

Also, on the third front are the foreign policy issues. Secretary Clinton once made a remark that she thinks half of the diplomacy is showing up. The U.S. would like to show up in Asia. The U.S. would like to show up in a way we can see, at the East Asia Summit. The first East Asia Summit was in 2005. There are four now, and the U.S. has not been able to be partners.

I think in that particular incident, the U.S. probably will have some kind of sympathy toward Taiwan. We really are not being able to show up in too many places. With the U.S. support, we were able to attend the APEC, ADB and also the WTO, but not enough.

And with their respect today, in Geneva, our health minister is able to attend the WHA, the annual meeting. We appreciate. For so many, so many difficult years, the U.S. offered help to facilitate our final participation in WHA. Without international support, especially led by the United States, I don't think PRC would be motivated to give a green light to attend the WHA as an observer.

But the mission is not accomplished yet. There are six mechanisms of WHO. We attended the IHR, International Health Regulation, but there are five other mechanisms dealing with tobacco, dealing with stop TB, and many other issues. We would like to participate.

So, for the time being, we were able to manage to participate five days in a year. Every year, there are hundreds and hundreds of different WHO-sponsored seminars, meetings, training. Last year, if I'm not incorrect, I heard we participated in only seven. So the mission is not complete on the WHO or WHA issues.

So we hope the U.S. will continue to lend your generous support to offer Taiwan more opportunities to participate in international organizations, especially functional, for the time being. UNFCC and also ICAO were mentioned this morning. So I think all these things need to be addressed.

We are happy the current U.S.-Taiwan relations are so good, though if we can be content, then I think that misses the point. In order to make people in Taiwan more

secure, less vulnerable and with less anxiety, I think the U.S. can continue to play that constructive role as a facilitator, as a guarantee of Asian security.

I think the important thing for us is to remember, and I remember President Obama made a remark after the passage of the Health Bill, and he said just saying no is no leadership. He also mentioned something. He said he will not just do what was popular. He will do what was necessary. I think it's necessary for the U.S. to address the U.S.-Taiwan relations on economic issues, on military issues and on participation of international organizations.

So I think looking back 60 years ago, after the outbreak of the Korean War, in a way the Korean War has not ended. It continues every day with some kind of surprise from North Korea. So that's why we particularly appreciate, for the time being, cross-Strait relations tension is reduced, but still there have been no signs that PRC has made dramatic changes or significant changes in terms of military disposition on the other side of Taiwan. So we need to address that issue, not from a military perspective but also from the history of Asia, especially U.S.-Taiwan relations after the outbreak of the Korean War.

I appreciate this opportunity for me to show up at the Brookings. It's been many, many years I was a guest scholar, last century here. I wouldn't say which year.

So it's time for the U.S. to say yes to Taiwan, and we have many issues-- extradition agreement, visa waiver, and TIFA. I think TIFA, the resumption is not for Taiwan; it's for U.S. as well. Taiwan also contributes significantly to help the U.S. concerning the anti-terrorist activities. So we, in the past, cooperate together, and in the future I think more can be done.

And thank you very much. (Applause)

DR. BUSH: Thank you very much, Joanne.

Steve Goldstein is a professor of government at Smith College, and he's the director of the Taiwan Studies Workshop at Harvard. We've given him a huge challenge being the last speaker on the last panel after a long day. But I'm sure he's up to the job.

STEVENGOLDSTEIN: Well, I noticed that Richard said that he had given me a huge challenge and then omitted the fact that of the three people on the panel I was the only one who wasn't his friend. (Laughter) Anyway, my topic is to say something about American policy during the first two years of the Chen Shui-bian Administration.

DR. BUSH: Ma.

DR. GOLDSTEIN: Ma Administration. Ma Ying-jeou Administration. And what I'd like to do is I'd like to follow a suggestion of Alex's and talk about what if. Because I think it's pretty clear that, one, there was an audible sigh of relief in many quarters in Washington when Chen Shui-bian left office. It wasn't a unanimous consensus, but there was an audible sigh of relief. What was a unanimous consensus, I think, was the fact that an era had ended and that a new period was beginning.

And what I'd like to do today in this final talk is to try to assess a little bit of what the era that ended in fact was, and what it was not, and how that era has created a legacy for the Ma Ying-jeou Administration, and then try to talk about how that legacy has interacted with the policies of Ma Ying-jeou to create what I believe is going to be the possibility -- this is not a Marxist prediction -- the possibility of a very difficult period ahead for American policy in the cross-Straits area.

Those of you who know me know I'm a pessimist. And that pessimism comes -- those of you who know me might also know that that pessimism comes from 10 years of every January for three weeks going across the Taiwan Straits and talking to people in Beijing and then talking to people in Taipei, along with my friend Alan Romberg, I should add. And he is my friend. (Laughter)

So, let's get to the Chen Shui-bian Administration. What changed and what didn't during the Chen Shui-bian -- in the transition from the Chen Shui-bian Administration? I think certainly what changed was the provocative -- and it was provocative policy of the government in Taipei towards the mainland, which not only provoked the mainland, but also made life and policy much more difficult for the United States. That certainly changed and I think that cannot be denied.

Two things didn't change. What didn't change was the fundamental difference of policy views of the United States and China on the Taiwan issue. In other words, what I'm saying is that Chen Shui-bian, among his many accomplishments, was able actually by his policies to create a parallel track or parallel tracks of policy of both the United States and China, but that those parallel tracks of policy were not based on common interests, were not based on a common policy, but rather were based on each country's reaction to the provocations of Chen Shui-bian. In other words, the Chen Administration shielded the fact for maybe five years that there are and still remain fundamental differences between the United States and China over Taiwan that are not easily remedied or easily negotiated. It seemed like things were going well, but in fact the point is they remained under the surface.

The second thing that didn't change with the passing of Chen Shui-bian out of office was trade -- was the economic relationship. The active economic relationship between the mainland and Taiwan continued. As a matter of fact, as we learned this morning, it even deepened and it deepened dramatically during the Administration of Chen Shui-bian.

Where Chen Shui-bian differed perhaps with his successor Ma Ying-jeou was Chen Shui-bian's policies were expressly geared towards limiting the political spillover that might have come from those economic policies. And in fact, that was also the policy of Lee Teng-hui. Limit political spillover, grow economic policies.

In terms of internal politics, what changed or what ended with the Chen Shui-bian Administration was any reasonable consensus on Taiwan that de jure independence would be possible. I think that was a lesson that I think most Taiwan voters

took out of the period from 2000 to 2008. What didn't change and what remained was the legacy of Chen Shui-bian in terms of fostering a Taiwan identity. What didn't change was the continued commitment of the people of Taiwan to de facto political separation from the mainland as the dominant trend in public opinion. And what didn't change most of all, as we've seen today, was the bitter polarization over the broader issue of not only identity, but of the relationship with the mainland.

Now, all of these factors were brought together. That is, the things that didn't change, that didn't end, to be the legacy of Chen Shui-bian, which the Ma Administration inherited. And I think Ma's central mantra during the early days of his presidency, that he would be a peacemaker and not a troublemaker, was clearly and obviously an attempt to address that perception or that reality, depending on your preferences, that existed among people in Washington who had to make policy towards Taiwan. But also, of course, towards the mainland that Ma pledged that he would set off to stabilize relations with the mainland. And by stabilizing relations with the mainland, make himself a reliable predictable, friend of the United States.

The question then becomes where does that lead to? That's clearly, as we've seen, the orientation that Ma has taken. What's it going to lead to? What if? What comes next? And I think that if you look at what's been written over the last couple of years in the United States that has been talking about policy towards the cross-Straits area, what you see is that you've got four general -- really three -- three general approaches or themes that are being developed for the future.

The first was David Rothkopf's -- next door. And I think fundamentally what he argued was that now that we have an administration in Taiwan that is willing to talk to the mainland, good. Let the Chinese settle it themselves. Taiwan is a burden that the United States carries. It's obstructing good relations with China. And Rothkopf talked about "cleaning the attic" -- it's one of my favorite phrases -- of American foreign policy of the junk that's in it. We just have a lot of commitments from the past and it's time for spring cleaning, and it's time to remove some of those. So for some, Ma Ying-jeou is a prelude to the solution of the Taiwan Straits issue and is an opportunity for the United States to abandon what is a serious burden.

The second approach that is beginning to emerge is just the opposite. One of the consequences of Ma Ying-jeou's policies and his really often cynical use of democracy and democratic change in Taiwan to pursue policies that were potentially damaging to the Straits area is that it made it very difficult for Taiwan's friends in the United States to come to his assistance, to rally to his assistance. So, for example, when George Bush made his famous comment, there was not an outcry from the Right about what George Bush had said because there was concern that Chen Shui-bian was, in fact, upsetting status quo in the Straits.

Ma Ying-jeou, an attractive, handsome, democratic politician who seems to be moderate, who seems to be pursuing policies that are consistent with the values of the United States, is a much more attractive person for Taiwan's friends to rally around. And I think what we're seeing, or at least what I'm beginning to sense in the last year and a half, is

that they are beginning to rally around. Take a look at Robert Kaplan's article in *Foreign Affairs*. Take a look at Blumenthal's response to it in *Foreign Policy*. And there's a legitimacy -- a greater legitimacy now to calls to support Taiwan.

There's one other reaction. And it's really in two parts. Bob Sutter, who is a friend of some of us -- (Laughter) -- Bob Sutter recently published an article where, what I read as sort of anguish and despair, said the balance is shifting across the Straits. Taiwan is drifting economically towards the mainland. There's no way we can keep the balance. Oh, dear. What are we going to do? And he just seemed to be ringing an alarm bell. He seemed to be saying let's face up to this. This is going to have real consequences for the United States. He didn't propose a policy really.

Bruce Gilley, in *Foreign Affairs*, in his article on the Finlandization of Taiwan, took the same information and basically argued that Taiwan is drifting towards the mainland; is becoming a neutral country vis-à-vis the mainland; will be, if not swallowed up by the mainland, will be in some way incorporated by the mainland; and will be responsive to mainland needs and demands. And so we needn't worry because the good news is we're going to lose China for the second time, but the good news also is that we are going to lose it in a way that will solve an American foreign policy issue or question.

Those are some of the scenarios. I'd like to propose a final scenario which is, as I said, not quite as optimistic. As a matter of fact, quite pessimistic. And I'd like to do it by highlighting four factors that I think are going to be important to take into consideration in the years ahead. The first factor, and I think the most important factor is, as we've seen today, domestic politics in Taiwan. Taiwan's external policy is all about domestic politics. And I think what we've learned today is that domestic politics in Taiwan are still highly polarized over the issue of policy towards the mainland. And I think in the next year or so that polarization is going to center around, as we've seen, the ECFA issue. And there is going to be plenty of opportunity for political forces in Taiwan, either via a referendum or a debate in the Lifa Yuan, or in the elections that'll be coming up -- the four municipal elections in the fall. There'll be plenty of opportunities for those fractures to come out in public in Taiwan. And I think we can expect a bitter debate. I think we can expect a halting movement towards ECFA, and to possibly real problems in reaching ECFA.

So, domestic politics is one thing. And I think Gilley and I think Bob Sutter both underestimate that. Certainly Gilley does when he talks about the consensus in Taiwan being for integration with the mainland. He could have done well to have been here today.

Second factor -- and this came up in one of the talks also today -- I think we tend to over-exaggerate the amount of leverage that the mainland has via the economic ties with Taiwan. This is part of a longer argument that I have with colleagues all the time, but let me just throw that out. That the mainland is both in terms of the difficulty of exercising it and in terms of the fact that it looks to me very much like mutually assured destruction if they do use that tool, that the economic ties and their sort of gravitational pull can be overestimated.

The third thing to keep in mind is in spite of Rothkopf and in spite of

Taiwan's friends at the two extremes, I don't really see American policy or American policymakers or people in this country who think a lot about Taiwan, really changing their position or their view of the issue off this sort of uncomfortable strategic ambiguity center, One China policy that we're at now. So the first two alternatives that somehow we'll abandon Taiwan or somehow policy towards Taiwan can be moved don't seem to me to be terribly viable.

The fourth factor is the mainland and mainland policy. And there, again, I would stress, again, the fact that mainland policy has not changed. That mainland policy remains what it has been. It would like to see peaceful reunification in some point in the future. It would like not to use force. But it certainly is prepared to use force, has the capability to use force, and that capability is increasingly growing. And as Alex pointed out in his talk, not only is Hu Jintao's patience not inexhaustible, though we don't know how great it is, but Hu Jintao himself will expire in 2012. He has a limited mandate, very likely. And the mainland has a leadership transition in which this policy could figure very importantly.

So what's the pessimistic? How do these four factors -- and let me finish now -- how do these four factors come together to create this sort of pessimistic scenario that I'm talking about? Let's assume that in the next year Taiwan goes through a bitter, sharply divided, vocal, controversial process of addressing the issue of ECFA. Let's say that a lot of positions are taken and a lot of things are said that are going to be outrageous to the mainland. Let's say that somehow the process begins to look like maybe it's not going to be reversed, but it's grinding very slowly, it's being amended. Any number of things we can imagine happening.

Now, how would -- how would the United States look at it? My guess is that the American policy would be this is democracy. This is the kind of process that we anticipated, we hoped would emerge in Taiwan, and let them work it out. Let them figure out where they're going to go. The mainland reaction, of course, is going to be very different. The mainland reaction to backpedaling, to outrageous statements, to groups forming, to policy positions being taken, is going to be outrage. But more than outrage, it's going to, I think, perhaps begin to generate a sense that Taiwan is playing for time, Taiwan is stalling, that the process is not going forward. Taiwan is pocketing the benefits that it's gotten and that what we're beginning to see emerge is a scenario of peaceful separation, *heping fenlie*, which we heard a number of times talked about on the mainland, but talked about in terms of an improbable or further future. But still talked about.

So here we've got the United States saying, well, the Taiwan people are working it out. This is consistent with the goals of the United States. The mainland is looking at it saying this is going backwards. We're not making process. The Taiwan people are trying to achieve some kind of indefinite separation. China will likely turn to the United States and say do something. And the difference, as I said in the beginning, is that it's going to be very difficult for the United States to do anything because it's not the Chen Shui-bian era. It's not outward provocation. Rather, it's a process. And I would imagine it would be very difficult, and Richard, I guess, would have some experience with this, too, to intervene in a process that is outrageous, is loud, but at least seems to be constructive.

And so we'll have a suspicious, angered mainland, frustrated coming to the United States I would expect. I would hope. And we have the United States that's not ready to intervene. And we've got a real management problem as far as American policy is concerned vis-à-vis the cross-Strait issue. How are we going to solve that problem? That's not my problem. I'm an academic. I pose problems. I don't solve them. But there it is.

Thank you. (Applause)

DR. BUSH: Thank you very much, Steve. You lived up to expectations and you are my friend. (Laughter)

We have 25 minutes or less if there's no interest, but I think there will be interest.

First question, Shih-chung.

QUESTION: Thank you, Steve. I have two questions for you. Number one, Lee Teng-hui won the first election for President in 1996 by garnering 54 percent of popular votes, and in the late 90s, because of his more pro-Taiwan kind of things and he successfully incorporated the DPP supporters into his camp, but if it wasn't because of split from the KMT, perhaps Chen Shui-bian wouldn't have won the election and wouldn't become trouble to our American friends.

So, but indeed Chen Shui-bian won his reelection by 50.1 percent, but the question is Ma Ying-jeou won 58 percent back in 2008. Why couldn't he take advantage of that new mandate and by assimilating the green -- to appear to generate more domestic consensus by appealing to maybe what I call light green supporters. Why couldn't he do that? Then look where he is now. Okay?

The second question is -- that you mentioned in the final parts of your presentation, what would happen -- again, it is a what-if questions -- assuming DPP wins the 2012 election? The new DPP president, he or she, is going to face a similar dilemma that Chen faced back in 2000. That is despite some goodwill -- assuming there is some goodwill, like even the new DPP president accepts some sort of an One China concept, like Chen did in his 2000 inaugural speech, future One China. Will the Chinese leadership accept that kind of olive branch given the fact that there will be a succession going on. Thank you.

DR. GOLDSTEIN: As far as the first question is concerned, I guess the answer is very subjective because I don't think that Ma in the first year or two of his administration really, as we say, gave away the store. I think he pursued a relatively conservative policy towards the mainland. I think that the street demonstrations, some of the things that were said about his policies from the get-go, were just unfair because none of which, as Alan, you know, talked about the inaugural address, he didn't articulate, you know, caving in to the mainland. He thought he -- perhaps thought that he had a consensus policy. But certainly it was moderate. I don't see it as something that would necessarily have alienated the light green.

The second question I think is really important because one of the concerns that I came away from three or four days in Beijing in January and then two or three days in April with was the sense that Beijing is not ready for a DPP victory. And if the DPP begins to get successful, they're going to react in the same way that they did in 2000. They've got their mind made up. And the DPP and the mainland really have work to do to prepare each other, but -- now I'm talking about the mainland -- for the fact that there could be a reversal. They're not ready for that. They're still spooked by the DPP. Maybe people have gotten other impressions in visits, but that's my impression.

DR. BUSH: Next question. Gerrit.

QUESTION: Gerrit van der Wees from Taiwan Communiqué.

I have a point that basically went through the presentations of all three people so if any one of you want to comment. What permeated the discussion today is there is a reduction of tension and that was contrasted by the "provocation" from the China Administration and Mr. Goldstein referred to the sigh of relief by some people. I work very closely with the Taiwanese-American community and there was a sigh of expiration and anguish, I guess, when Ma was elected. But aside from that, on the reduction of tension -- I think there is a vote in the United States. Yes? There was this reduction of tension, paradox I think I'd like to call it. And Ambassador Nat Bellocchi, former AIT chair, actually wrote an article about that just a few days in the Taipei Times. He argues that the present reduction of tension is in a sense rather artificial because in the perception of China, Taiwan is moving in China's direction and China can eventually, in due time, coerce it to what it wants to do.

So if -- and then my question goes more in the direction of what Liu Shih-chung just said. If after 2012 the DPP is reelected and Taiwan wants to in a sense reassert its identity and its democracy, this would then be labeled by China as an increase of tension. Isn't that a very peculiar paradox? If you certainly come from a background of trying to enhance democracy and human rights in the world, isn't there something wrong with that picture? Can you comment on that point? The paradox.

MR. HUANG: I think your question itself is very paradoxical. That involves a lot of what-ifs. I think from my point of view it is very important for the DPP to face a reality that the cross-Strait relations is moving on since 2008. The DPP needs to prove to, in general, the voters in Taiwan, but more particularly the middle voters or light blue, light green people, that the DPP can manage the cross-Strait relationship.

We all know that democracy involves elections and elections require money. You need to do fund-raising. If -- I understand why DPP now tried to voice the concerns of the inferior, I mean, the less competitive sectors in Taiwan with regard to the ECFA process. But on the other hand, if we consider ourselves an investor in China or doing business, I think the DPP -- I think Chairman Tsai has raised an interesting first step to -- and tried to lay out a possible communication or dialogue with Beijing. But you have to prove it is viable and Beijing will respond. If DPP cannot prove itself that they can manage a cross-Strait relationship, it would be extremely difficult to attract middle voters in my view.

And we also understand that now the cross-Strait relationship works on the so-called 1992 consensus. And so far, DPP is on the record opposing a 1992 consensus. And when you oppose the very fundamental base of cross-Strait dialogue, it would be very hard to convince the voters in Taiwan that you can manage or taking over from 2012. Right? Because I do not believe that the 1999 resolution can serve as the base. If you win the 2012 election for cross-Strait dialogue of a DPP administration and China, you will pick it up by 2012 situation the status quo as defined by or acknowledged by 2012. Nobody will support a reversal of the regular flights to charters, and nobody will support or de-recognize the agreement that has been signed. So, it's a very challenging task for DPP to really touch. On one hand maintain your core values as defined by the party charter, but on the other hand to mute -- to attract middle voters that should and building up a broader base to win the next presidential election.

DR. BUSH: Joanne, do you have any comments?

DR. CHANG: First, earlier question, right, by Mr. Liu about the high popularity. How come it was dropped so fast? I think there's a comment --

DR. BUSH: Can you get closer to the mic, please?

DR. CHANG: Okay. *Minyi* (inaudible), popular public opinion is like water. Sometimes it's up, it's down, and we can see worldwide, you know, the amount of support you gained from election does not guarantee, you know, continuing support later on. And Japan is one good example. In Korea, it is another example. So it would depend on the policy and the effectiveness of your governance. And so I think maybe 58 percent of support of President Ma Ying-jeou to give him some kind of a perception that people will be always behind him. And I think he learned from hard lessons, you know. It's not just happening in Taiwan. Worldwide. President Obama's popularity, I think it's reduced as well because eventually all politicians have to face tough issues. You have to take a stand. And once you take a stand you will agonize one part of the people and probably eventually if you win, then that will serve something. So I think it's a lesson learned from President Ma Ying-jeou. Then later on, in the future, more prior consultation with the Legislative Yuan. We hope more consultation with the opposition party and also it's time for reconciliation domestically. As you point out, I think the division between blue and green is getting deeper and deeper. With elections coming, of course, there will be political reasons, but little Taiwan needs to be united, especially vis-à-vis PRC, during negotiations.

So 2012, in order to win, I think a lot of groundwork needs to be done by the DPP. And if 2012 DPP wins the election, probably I think it will be a lot of work. Not only just work. I think some new thinking needs to be worked out between Taiwan and the mainland China. And China needs to be changed as well. You know. You cannot continue the harsh way and without expecting there is some backlash from Taiwan. For example, on the issue of name, this morning it was raised. And no country will face the kind of tough experience we went through. We have an official name, Republic of China. And we were told don't change official name. Make no constitutional change. But sorry, we don't recognize you either. You cannot use Republic of China. And everybody called us Taiwan.

Well, when you call your Taiwan you are going independent. So we don't have a name we can use to be called upon cumulatively. That kind of anxiety, that kind of a grievance cumulatively will further.

So I think it's time for China to look at the roots of our cross-Strait problems. It's not just green or blue. It's the deep issues, you know, that constantly trouble us and frustrate us. So I think 2012, if there's another political transition, I think both sides need to do something. And for the time being, DPP, even though I have no party affiliation, is undergoing serious thinking about the future. Before we see some changes in the future, for the time being I know they are experiencing the experience in the past. What went wrong? What could we do better? And that's a good starting point. So I think the important thing for President Ma is domestic reconciliation. After we have a consensus, it's time for cross-Strait reconciliation. So I think it will take a lot of time to do that, but it's time to think about a new approach toward each other.

Thank you.

DR. BUSH: Steve?

DR. GOLDSTEIN: I'd just say very quickly that promotion of democracy is one -- one -- central value of American foreign policy. It's not the only thing. It always has to be balanced against other things, particularly American lives.

DR. BUSH: The gentleman back there.

QUESTION: Paris Hong from Voice of America.

In the previous discussion we've been talking about how President Ma is actually a more moderate president and also Chairman Tsai is also going to a more moderate path. So since we are talking about actually U.S. and Taiwan relationship in this panel, I would like to explore the possibility that if DPP is starting to win from this year and since the moderate path has been taken, will the United States feel comfortable or actually unhappy for that kind of change?

DR. HUANG: I can't speak for American position.

DR. BUSH: Can you, Steve? (Laughter)

DR GOLDSTEIN:: I'm just an American. (Laughter)

DR. BUSH: Well, I'll take a stab. You know, we fight wars with what we have. We manage foreign policy problems with the resources we have. I mean, we can't -- we have the freedom to be happy or unhappy about political trends in another country. We just have to work with the situation as it is and that's what we did in 2000. That's what we tried very hard to do in 2004. That's what we did in 2008. And that's what we'll do in 2012.

DR. BUSH: Question right here.

QUESTION: My name is (inaudible) from Fudan University and now a visiting scholar at SAIS. I have a question to Professor Huang. Thank you for your creative presentation. I agree with your opinions that cross-Strait relation is mainly influenced by Sino-U.S. relations. I agree with it. But to my understanding, on the one hand, better Sino-U.S. relations is good for cross-Strait relations. On the other hand, worse Sino-U.S. relations means the rise of Taiwan's theoretical importance. So my question is which kind of Sino-United States' relation is better for Taiwan to develop relations with the mainland? Thank you.

DR. HUANG: I don't want to repeat the examples that we used to use like two elephants and one little rabbit. You know. But personally -- personally, I think we are - - from Taiwan's point of view -- I think we enjoy relatively, comparatively relatively, a bigger room of flexibility when there is a good Sino-U.S. relationship. You know. If Beijing-Washington relationship goes bad, I think there will be less support or willingness on the part of Washington to do more with Taiwan. And that's based on my personal experience in foreign service and my personal observation as a scholar. So I personally support a better U.S.-China relationship, and I believe that will enable a better -- a larger room for both U.S.-Taiwan relationship to improve and room for a better China-Taiwan relationship.

DR. BUSH: One last question. Scott? Up here. Sorry. Oh, okay. Please. I didn't see it.

QUESTION: Scott Harold from the RAND Corporation.

For the entire panel, the F-16 C/D issue comes up in Taiwan-U.S. relationship with stunning frequency. Probably not surprising given the magnitude of the threat. But then again from another perspective it is surprising because for most serious military analysts' perspective, these are weapon systems that are highly vulnerable to the PLA's missile strike capability. Taiwan only has a limited number of airfields. Many of these airframes would conceivably be on the ground or else if they were airborne would have no place to land.

Taiwan's military, of course, like all militaries, has divisions between the Navy, the Air Force, the ground forces, each of which has its own favored legacy platforms and desired future platforms. But my perception is the Taiwan government has chosen to make this a symbolic issue of whether or not the United States will continue to stand by Taiwan.

I wonder if you could offer us your thoughts on whether or not that's a smart choice for Taipei, whether or not Taipei may have a better option for different choices of investment in its defenses, or if you favor F-16s either for symbolic reasons or for some actual strategic value that maybe the rest of us have missed.

DR. BUSH: Alexander, you come from a Navy family.

MR. HUANG: I was in the Navy Reserve, but I'm from an Army family. Now you ask me about Air Force. (Laughter)

It's a very complicated issue. We should spend more than two hours to complete all the possibilities. In short, I would say personally I'm open to different options, but one thing is for sure. That we have a certain portion of airframes that is almost obsolete and we need to continue our modernization.

I participated in a conference in Hong Kong just two weeks ago. It's a cross-Strait panel of me talking to my classmate, Chu Shulong from Beijing. And we debated about the F-16s. I think his remarks were that he understood why Taiwan continued to have this request for advanced systems. But I reminded him that this should be seen as a normal modernization program. We buy systems not to create problems in the Taiwan Strait. We buy systems to sustain our modernization program. It's a normal routine replacement of obsolete systems.

I think this is the line that I gave him and I share with you, I'm not -- I think for politicians or when you were given only 20 seconds by a reporter, probably F-16 is a short solution because it's easier, it makes headlines, and we did file our request before. If you talk about other systems, then that will take you more time. Personally, and finally, I would say that Taiwan should keep our options open. The real goal is to find a replacement for the obsolete systems, but we should -- we should give our friends in Washington more sophisticated reasoning and rational to move forward.

Thank you.

DR. CHANG: Thank you for your question. Important question. But I don't think it's for -- only for political reasons. It's not just for symbolic reasons. If you have a chance to look into the defense intelligence agency's recent report earlier this year, you will find it's absolutely necessary to bridge the gap of imbalance between Taiwan and mainland China. In terms of air capability, 50 of our F-5s are moving toward the end of service. And the Mirage and because the very expensive logistic support (inaudible) is not a high mode. And the important thing is the F-16s we purchased in 1992. So I think the balance is shifting increasingly toward the PRC, especially in terms of air capability.

It's not a question of you have to have an airfield before you purchase something. And the question is whether we can improve our capability in terms of (inaudible). In the meantime, to build up our minimal defense capabilities, especially in terms of air capability. In 2009, the Defense Department report is that Taiwan no longer holds true to have a dominance of air capability in the Taiwan Strait. And that's a dangerous sign for PRC. If they find you're vulnerable, you're weak, then people in Taiwan feel anxieties and then I think they will create more problems.

So it will be a boost of morale. That means the U.S. continues to stand behind us to balance the Taiwan Strait and military capability.

Thank you.

DR. GOLDSTEIN: I don't know the answer to that. I've been in the middle of a lot of debates about different systems and Murray's argument about, you know, airfields.

My sense is, and I have no real position on the F-16 C/Ds, my position that I have when people ask me, very strongly, is that American sales to Taiwan, arm sales to Taiwan, is the business of the United States and Taiwan, and that if necessary, we should be very frank with the mainland about what our commitments are. And if they don't like it, that's just too bad. So it might not be F-16 C/Ds, but it's going to be something else. And one of the policies that I didn't talk about for the future is serious discussions with the mainland about what American policy towards the Straits is and what we intend to do and to continue to do.

So I would say we do what we have to do, what Taiwan needs in terms of Taiwan's need.

DR. BUSH: Thank you very much. We've come to the end of our day. I'd like to thank a lot of people. First of all, Charles and Bonnie, my co-conspirators here. And then the hard work of the staff -- Savina and her CSIS colleagues. Kevin, Aileen, and Jennifer on my staff. I'd like to thank the audience for your outstanding questions. Most of all I'd like to thank all of the panelists, you know, starting this morning and concluding with this panel. I'm reminded, as I often am, that there are lots of smart people in Taiwan; there are lots of smart people in the United States, and we were very fortunate to have a few of them here today.

Thank you very much.

(Applause)

* * * * *