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CHINA FACES THE FUTURE

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P R O C E E D I N G S

RICHARD BUSH: Ladies and gentlemen, why don't we go ahead and get started? My name is Richard Bush. I'm the Director of the Center for Northeast Asian Policy Studies here at the Brookings Institution, and it's our great pleasure to collaborate with the Institute for International Relations of Chengchi University in Taiwan on the 38th Taiwan-U.S. Conference on Contemporary China. This is one of the longest running annual conferences on China in the world, and I think I don't know if this is the first time that Brookings has done it, but we're very proud to on this occasion.

I'm sure that most of you are eager to hear Minister Lai give our keynote address, so I'm not going to consume a lot of time now, but I do want to welcome all of you and those in the next room for joining us. I think that today and tomorrow are going to be very productive days.

At this point, I would like to invite Professor Tuan Cheng of Chengchi University to come to the podium and make a few remarks and introduce Minister Lai.

(Applause)

TUAN Y. CHENG: Thank you, Dr. Bush.

Honorable Minister Lai, distinguished scholars, professors, ladies and gentlemen, good morning. It's really my great honor and pleasure to be invited and attend the 38th Taiwan-U.S. Conference on Contemporary China. On behalf of the Institute of International Relations of National Chengchi University and the Taiwan delegation, I would like to express my sincere thanks and appreciation to the Center for Northeast Asian Policy Studies of the Brookings Institution for your hospitality, strong support and excellent arrangement in organizing the conference. We are deeply grateful for what you have done for us, and also it's really our great honor to co-sponsor the conference with you.

As we know, this year marks the 38th anniversary of the conference. Even though we don't like to emphasize too much about the number of years that have past, it is an achievement itself for continuing to run the conference series for such a long period of time. The conference has served as the platform for both Taiwan and the U.S., to engage in dialogue on mutual concerns. It has been, I think, very successfully building up the network and exchange cooperation between American and Taiwan academic community. So I would like to take this opportunity to express my deep thanks and gratitude for the efforts made by all the people over the years, for such a conference series. Thank you very much indeed.

The theme of this year's conference is "China Faces the Future." I think this is surely an important and significant issue concerning the many countries of the world, but also China itself, as you see the rise of China, which was an academic issue for discussion not long ago, but it's now a part of the international reality. I think very few people today would question the validity of this phenomenon.

But with the rise of China, the following question is: As a big power, how is China supposed to act and will it be a responsible stakeholder as called by the former Bush Administration or will it be a positive, comprehensive and cooperative partner as called by the Obama Administration?

I think until now not too many of us, probably including China herself, are aware of what China will become and what China needs to face the future and face the world. A peaceful rise of China, as claimed by Beijing, I think is a concept with good will but unclear of its contents, what China likes to achieve and how could she achieve that and on what basis.

An international and world harmony, again claimed by Beijing, I think is a little bit too idealistic to be taken seriously by the international community. Moreover, how will a rising China deal with relations with the established powers such as the United States and Japan? How will it cope with the changing environment of the Asian political landscape including cross-strait relations? And, how will it meet the rising demands of its own people in China?

In other words, a rising China comes along with the rising power, but power can be, as we know, both positive and negative, and the power cannot run itself. It needs to go along with responsibility, management and wisdom. Is China ready for that? And, how will China face the world and face herself?

I think these are not easy questions that can be answered. So that is why we need a conference like this to explore the issues and to find out some answers, and I'm looking forward to hearing your view and observation.

Finally, I think I would like to say it's always my great pleasure to come back and visit Washington, D.C., the magnificent and beautiful city, as well as Brookings, the distinguished institution, and I'm happy to be here. I hope we have a very, very successful conference. Thank you very much.

(Applause)

RICHARD BUSH: Thank you very much, Professor Cheng.

It's now my great pleasure to introduce a dear friend and important official in today's Taiwan government, Minister Lai Shin-Yuan, the Chairperson of the Mainland Affairs Council. The Mainland Affairs Council is the leading policymaking body for cross-strait relations, and we are tremendously fortunate to have Minister Lai speak to us.

Minister Lai?

(Applause)

MINISTER LAI: Thank you, Richard. Director Bush, Dr. Cheng, Distinguished Participants, Ladies and Gentlemen:

I am greatly honored to be invited to attend today's 38th Taiwan-U.S. Conference on Contemporary China, jointly hosted by the Center for Northeast Asian Policy Studies of the Brookings Institution and the Institute of International Relations of National Chengchi University.

This past year has brought unprecedented change in cross-strait relations. This change has profound and far-reaching implications for Taiwan and mainland China, as well as for the Asia-Pacific region. It also imbues this conference with special significance. My talks today address the current state of cross-strait relations and the ROC government's cross-strait policy, a subject that is of high concern to many of you.

In his speech at AIT-hosted banquet to celebrate the 200th anniversary of Abraham Lincoln's birth in February this year, President Ma Ying-jeou remarked that America's arduous defense of freedom and democracy amidst division and strife in the history has enormously inspired a newly established democracy like the Republic of China on Taiwan. He emphasized that, as America's experience has shown, we must seek consensus and build institutions in a spirit of tolerance and conciliation, as the only true way to establish a national identity. While praising President Lincoln's contribution to America's tradition of freedom and democracy, President Ma also expressed the fullest of his pride and confidence in the successful establishment of Taiwan's democratic system.

The Republic of China is a very young democracy. Taiwanese people enjoy an atmosphere of freedom that is unfettered by politics. Political parties with different stances can compete under the same set of rules to decide who is to be in charge of the political power. In less than a decade, Taiwan has experienced two peaceful transitions of power. Our experience serves as a successful model of democratization in Asia, which is a testament to the values of freedom and democracy.

In the "*Freedom in the World*" report issued by New York-based Freedom House in 2009, Taiwan is given a top-notch rating for the state of its democratization. Former President Bush has also praised Taiwan as a beacon of democracy to Asia and the world. Taiwan's democratic achievements reflect the core values of international league of democracies. Moreover, in the process of improving cross-strait relations, it enables the mainland to gain a deeper understanding of Taiwan's democratic pluralism, thereby may help catalyze the mainland's potential democratic development. I personally believe that a mainland China gradually coming to recognize

the values of freedom and democracy will generate more active and positive driving force for elevating peace and well-being both regionally and globally.

It goes without saying that cross-strait relations are the lifeline of Taiwan's survival and development. They are also vitally connected to prosperity and stability in the Asia-Pacific region. During the DPP administration, the conflict and hostility in cross-strait relations not only imperiled Taiwan's economy with marginalization, but also posed a major threat to the collective security of the Asia-Pacific region.

The outcome of the presidential election in March last year, was a vote by Taiwanese people for a second transfer of political power, and also fundamentally changed the cross-strait situation. In his inaugural address, President Ma expressed the hope that the two sides of the Taiwan Strait would be able to grasp the present historic opportunity to open a new chapter of peace and co-prosperity in cross-strait relations. He emphasized that the principle of "facing reality, pioneering a new future, shelving controversies, and pursuing a win-win solution," would be the key to seek a balance point in the common interests of the two sides.

On this basis, over the past year, Taiwan has taken up a brand-new approach, vigorously pursuing improvement and breakthroughs in cross-strait relations under a globalization framework:

- In the international community, particularly in the protection of regional collective security, Taiwan has taken up a constructive role as "peacemaker" and "responsible stakeholder," and is no longer a "troublemaker."

- In cross-strait relations, Taiwan adheres to advocacy of "no unification, no independence, and no use of force," to maintaining the cross-strait status quo, and thereby to preserving peace in the Taiwan Strait and stabilizing cross-strait relations.

- In the foreign relations sphere, the new administration has unveiled a strategy of "flexible diplomacy" and adopted a "diplomatic truce," as means to substantially alleviate malignant competition and senseless internal friction between the two sides of the Strait in the diplomatic arena, and instead allow Taiwan to concentrate on strengthening ties with friendly countries and expanding participation in international organizations, so that it can play a greater role in the international community.

Pursuing cross-strait peace and development is Taiwan's forward-looking and pragmatic strategy for facing up to mainland China's rise and creating a win-win situation for both sides. A peaceful external environment will enable Taiwan to secure its free and democratic political system, and optimize its beacon effect to catalyze the mainland's potential democratic development. At the same time, Taiwan can also take advantage of the mainland's economic rise, to create an environment favorable to the

global deployment of business enterprise, to raise our international competitiveness and achieve our goal of national sustainable development.

We believe that the opening of cross-strait consultation and dialogue is the key to our objectives. The past impasse in cross-strait relations was mainly due to each side's preoccupation with the sovereignty dispute. Because of this, we maintain insistence on the ROC's status and Taiwan's dignity in domestic and international contexts, and seek to make this the basis for pursuing cross-strait reconciliation. In our handing of cross-strait relations, we are strongly advocating that both sides put aside political controversies, and pursue cross-strait negotiations on the basis of mutual non-denial. This will enable us to step up exchanges in the economic, cultural and social spheres, to pragmatically handle and solve the various problems emanating from cross-strait contacts, and to gradually build up mutual trust. In our estimation, this is the right and best approach for promoting benign cross-strait interaction and advancing the normalization of cross-strait relations.

From start to finish, the ROC government's engagement in cross-strait talks adheres to the highest principle of "putting Taiwan first for the benefit of the people." We have never made any concession in our insistence that all talks be conducted on a basis of equality and with due respect for our national dignity.

As to the sequencing of the cross-strait negotiation agenda, we are adopting the three-prioritizations strategy of addressing the easy ahead of the difficult, the urgent ahead of the non-urgent, and the economic ahead of the political, with the normalization of cross-strait economic and trade relations and the maintenance of law and order in cross-strait contacts as our primary considerations in the prioritization of issues.

After the new administration took office, the SEF-ARATS channel for institutionalized cross-strait talks was speedily restored and secured, and three rounds of "Chiang-Chen talks" successfully staged within a year. The three rounds of talks, involving all-out endeavor aimed mainly at advancing the normalization of cross-strait economic and trade relations, resulted in the signing of nine agreements with the mainland – on mainland tourists visiting Taiwan, weekend charter flights, cross-strait air and sea transport, postal services, food safety, scheduling of regular flights, financial services, and joint crime-fighting and judicial mutual assistance – as well as the achievement of an important consensus on mainland investment in Taiwan. These significant achievements have laid firm foundations for advancing the normalization of cross-strait economic and trade relations and establishing a sound state of law and order in cross-strait contacts.

Economic and trade relations are the most important facet of cross-strait relations. They also encompass the issues of cross-strait interaction that have the greatest bearing on our people's interests and the smallest element of controversy. Therefore, for the foreseeable future, cross-strait talks will continue to center on economic and trade issues, with sights set on bringing about the comprehensive normalization of cross-strait economic and trade relations.

At the third round of Chiang-Chen talks, the two sides reached preliminary consensus on the shaping of the agenda for the next round of talks. The issues at the top of the list include cooperation in fishery labor affairs, agricultural product inspection and quarantine, cooperation on industry standards testing and certification, avoidance of double taxation, and – with particular importance for our businesses operating in the mainland – an investment protection agreement, IPR protection, a mechanism for resolving economic and trade disputes, and facilitation of merchandise customs clearance.

Furthermore, in preparation for a step that has drawn a lot of attention in Taiwan and internationally – the negotiation and signing of an Economic Cooperation Framework Agreement, or ECFA – the two sides have also come to concurrence that each will first undertake pertinent studies and preparatory work, to facilitate communication on the technical side, so that once the two sides have established a certain consensus on the content of the agreement, it can be formally incorporated into the cross-strait negotiating agenda.

Taiwan's intent to negotiate and sign an ECFA with the mainland is due to the current trend of fast-moving East Asian economic integration, and is based on the need to ensure a fair footing to compete in export markets and avoid being economically marginalized. An ECFA is not at all like an ordinary FTA, and will not solve every problem at one stroke; but it will furnish the means for gradually building a set of rules for normalizing cross-strait economic and trade relations, and can be spoken of as a roadmap for the normalization of cross-strait economy and trade.

Here, also, I would like to especially emphasize that the ECFA is purely concerned with matters of cross-strait economic and trade activity. It does not touch on sovereignty or political issues. Nor will it make Taiwan's economy more dependent on markets in mainland China. On the contrary, Taiwan's signing of an ECFA with the mainland should prompt the governments of many of our trade partners to actively consider negotiating FTAs with Taiwan. It will enable Taiwan to participate in regional economic integration, and strengthen our alignment with global markets.

I believe that the ECFA is a key step for Taiwan's return to the world economic stage, and will be supported by the majority of Taiwan's people and the countries that are friendly to us.

Despite the recent big improvement in cross-strait relations, mainland China's military deployment targeting Taiwan is still the biggest obstacle to the development of cross-strait relations, and needs to be removed. Although studies on the issues of cross-strait military confidence building measures and cross-strait peace agreement are being conducted, the conditions are not yet ripe for addressing these highly political issues.

Here I must emphasize that maintaining sound defensive

capabilities is essential for enabling Taiwan to pursue the peaceful and stable cross-strait relations free from worry for its own security. As the two sides of the Strait proceed with reconciliation and closer interaction, Taiwan is willing to express bona fide intention not to provoke dispute and to act as a guardian of peace in the Taiwan Strait; but at the same time, Taiwan still needs to maintain its military modernization and armaments procurement, to demonstrate its commitment to defending itself, and to lay a more durable basis for cross-strait reconciliation and co-existence. We hope, too, that the United States will give its utmost support and assistance to Taiwan's efforts to bolster its own security and to maintain stability in the Taiwan Strait.

In an important speech on foreign policy, delivered to the Chicago Council on Foreign Relations during his campaign for the leadership of the U.S., President Obama called for the United States and its allies in the Asia-Pacific region to build a new cooperative relationship for protecting regional security, to respond to the opportunities and challenges of China's rise in the 21st century. We deeply concur with this idea, and also take the view that the state of reconciliation in cross-strait relations can become a positive force for promoting regional peace and stability. At the same time, from the viewpoints of democratic values and geopolitical strategy alike, we also hope that Taiwan can play a more positive and constructive role in a mechanism for the joint promotion of regional security.

We advocate that the two sides of the Taiwan Strait should, by taking a pragmatic approach and deepening our contacts, use our institutionalized talks to build the foundations of mutual trust, to pave the way for discussion of more complex and difficult issues. We take the view that highly political cross-strait issues, such as establishing a cross-strait military confidence building measures and hammering out a cross-strait peace agreement, need to wait until we have built up greater firmness of mutual confidence. As things stand at present, we do not have any timetable for the discussion of highly political issues. We are still at the stage of expanding cross-strait economic and cultural contacts, and deepening cross-strait cooperation, to strengthen the basis of our mutual trust.

Even though there is still no timetable for cross-strait political talks, the issue of Taiwan's space for participation in international affairs is one that we cannot allow to be sidestepped.

Since May last year, both sides of the Taiwan Strait have displayed goodwill and sincerity to surmount one hurdle after another. Former Vice President Lien's participation in the APEC Economic Leaders' Meeting in Peru opened new horizons unseen in many years. The World Health Organization approved for Taiwan to use the International Health Regulations and invited Taiwan to attend a World Health Assembly meeting this year for the first time since the republic of China left the United Nations 38 years ago.

But here I must reiterate that Taiwan's 23 million people have a

right to participate in international organizations. The international community should act more fairly in giving Taiwan space to participate in international affairs. We should be able to gain readmission to the international fold in more meaningful and substantive ways. I am personally gratified that, over the last year and more, Taiwan has established firm and unshakable bonds of mutual confidence with the United States, which will also be a key factor for Taiwan's return to the international fold.

In respect of cross-strait interaction, we also need to step up our endeavor. When I met with ARATS chairman Chen Yunlin in Taipei last November, and when SEF chairman P.K. Chiang met with Wang Yi, the director of the mainland's Taiwan Affairs Office, in Nanjing this May, we both explicitly expressed the hope that the mainland authorities respect the right and ardent desire of the Taiwanese people to participate substantively in international activities. This would enable the two sides of the Strait to support each other and cooperate in the international community, and is also an essential prerequisite for the continued positive development of cross-strait relations in the future.

All of the public opinion polls conducted or commissioned by the Mainland Affairs Council this year show that the majority of the public have faith in the government's ability to maintain cross-strait peace and stability. On average, more than 70 percent of the people support the institutionalized cross-strait negotiation mechanism; and 60-plus to 80-plus percent feel satisfied with the nine agreements signed at the Chiang-Chen talks. The overall results of the surveys show that the majority of the people in Taiwan are confident of the government maintaining cross-strait peace, and are optimistic about the future development of cross-strait relations. From this it can be seen that the current stage of cross-strait policy has indubitably received the support and approval of Taiwan's mainstream public opinion.

Taiwan is a pluralistic democratic society, in which cross-strait policy basically remains a highly sensitive issue. The people may hold differing views as to what the future holds for Taiwan, and the government must accord respect to all shades of belief and political opinion. How to continue to strengthen communication with holders of disparate viewpoints in Taiwan, including opposition parties, to reduce domestic differences of view on mainland policy, and gain approval for our policy from a greater proportion of the people, is one of the current main focuses of our new administration.

I also hope that, through the mechanisms of democracy, we can, with tolerance and reconciliation, seek out the greatest consensus on cross-strait policy, and establish identification with shared values, to serve as a solid buttress for attaining the strategic goal of peaceful development across the Taiwan Strait.

Maintaining the status quo in the Taiwan Strait and promoting peace in the Taiwan Strait are both in accord with the common interests of the two sides of the Strait, the United States, and the Asia-Pacific region. Although the intertwining problems between Taiwan and mainland China cannot possibly be resolved within the

short term, the government of the Republic of China will take a positive and steady attitude toward gradually creating conditions for cross-strait peace and prosperity. Our government's aims for the future are first to build a foundation of consensus within our domestic society, and with effective risk management and full commitment to safeguarding our country's interests and the welfare of all of our countrymen, to continue cautiously and actively developing cross-strait relations.

Over recent decades, the Republic of China has developed in tune with the core values of Western countries, gaining recognition from the international community for its protection of human rights and the high level of its democratization. Over the past year, the endeavors of the ROC government to improve cross-strait relations and promote peace and stability in the Taiwan Strait and the region, have also earned unanimous approval from the United States and other members of the international community. We will hold fast to this policy direction, continuing with our endeavors to create win-win conditions for the long-term peaceful development of cross-strait relations, and with our sights set on the ultimate goal of assuring permanent peace in the Taiwan Strait.

(Applause)

RICHARD BUSH: Can you take a couple questions?

MINISTER LAI: Sure. I think we still have some time, right? How many minutes?

RICHARD BUSH: Fifteen, twenty minutes.

MINISTER LAI: Fifteen to twenty minutes to take some of your comments and questions. Thank you.

RICHARD BUSH: Before we call on the first questioner, please keep your questions brief and ask it as a question. As you can tell, Minister Lai is very intelligent. You don't have to go on at great length.

Let's start with Eric McVadon in the back.

QUESTION: Thank you, Minister Lai. Eric McVadon, the Institute for Foreign Policy Analysis. I wonder if there has been any coordination or discussion concerning the global economic recovery package between Beijing and Taipei.

MINISTER LAI: Very simple, straight-forward question. My answer will be very simple too: not yet, no. But we believe that through this institutionalized channel of negotiation and the issues that we are discussing are focusing on economic and trade issues. This would enable us to also, to some extent, help deal with this global economic downturn. Thank you.

QUESTION: Thank you, Madam Minister. I have actually two questions, if I may. I'll try to make it short.

Your comments in New York about the ECFA signing this year or next year actually caused the Taiwan stock market to react rather dramatically for two days running. What does that tell you? Are you having a second thought about how to proceed with ECFA negotiations?

Second question: A lot of the positive developments across the Taiwan Strait since President Ma Ying-jeou came into office have been welcomed by all sides, all people. When do you think we can reach the point of no return? I mean, the positive developments will become at a time irreversible, whoever comes to power in Taipei or in Beijing. Thank you very much.

MINISTER LAI: Thank you very much for your two questions. Regarding your first question, you read Taiwanese newspaper daily, huh? Well, I would like to say that in fact this stock market has its own rhythm. It has nothing to do with what I said really because I have been saying the same thing for at least three or four months, and it's not only that. It's not only my remark. It's our government's policies and attitudes.

And, I answered questions during the legislative yuan, and I spoke at press conferences almost every day on ECFA issues, and that's actually the line. I don't know why this is being used as an excuse.

On the ECFA issue, we on both sides are actively engaged. Now we are doing this preparatory work and we believe that. Both sides have this consensus that once this is done, and I think it's about to be concluded soon, then we can sit down, and we believe that sometime this year we can start talking, start discussing, and start negotiating. We are continuously saying that. Any negotiation really takes two sides. So, at this stage, we don't know when this can be concluded, but definitely it will start this year. That's my response to your first question.

My response to your second comment and question - when do we reach this point of no return so that if a different political party takes power again: I personally believe that the current course of developing or improving cross-strait relations is the right one and is on the right track. I also think this is supported by the majority of Taiwanese people in Taiwan and is welcomed and endorsed by countries such as the United States and many other countries in the international community as well. So, no matter which party takes power in the future, a responsible government has to react according to the people's desire, and I think that this is the right track to go on.

Also, I mentioned in my talk just now to you that we receive substantial support from the people. A highly democratic society and country like Taiwan, any government would act upon according to their people's views. Thank you.

RICHARD BUSH: Over here, Mike Meridan.

QUESTION: *(Off mic)*

MINISTER LAI: I must say that of course we have responses. It's not our policy not to respond. We have the Mainland Affairs Council. Before I came on this trip to Washington, D.C., last week in Taipei, not only did the Mainland Affairs Council issue a formal press release but our Premier, on behalf of our government, also formally expressed of what has been happening in Xinjiang. We denounce violence. We don't think that violence is the right way to deal with problems, and we also advocate that the nature of such issues should be dealt with more tolerance, with reconciliation. That's very important to deal with these types of questions. We have already made that formal statement to the public. Thank you.

RICHARD BUSH: Nadia Tsao.

QUESTION: Thank you. Nadia Tsao with the *Liberty Times*. Madam Minister, your counterpart, Mr. Wang Yi, when he visited Washington, D.C., he urged the U.S. to follow the One China principle and stop selling arms to Taiwan. I wonder if that's also the policy or the understanding that Ma Ying-jeou's government would agree with.

Also, in Washington, D.C., he seemed to imply that China is ready for political negotiation or talks because there's no timetable, and he seemed to indicate that China is ready. Is that the same position as your government? Do you have a consensus in this regard? Thanks.

MINISTER LAI: Thank you, Ms. Tsao. Any agenda has to have the agreement from both sides, and your concern with political issues are likely to be on the agenda. I've already expressed very clearly in my address that the time for this kind of a talk has not arrived yet. It's not ripe yet. Also in my address, I mentioned the importance of Taiwan to maintain the defensive capabilities to defend our own security because it's a very important foundation for Taiwan in enabling Taiwan to continuously improve cross-strait relations. Yes, that's how we see it and how we view it. Thank you.

RICHARD BUSH: Michael Yahuda.

MINISTER LAI: Hi, Professor Yahuda. I must say that I was your student. Really, in England. You probably don't remember me.

MICHAEL YAHUDA: Yes, I do.

MINISTER LAI: You do? Really?

MICHAEL YAHUDA: Yes.

MINISTER LAI: At the London School of Economics.

MICHAEL YAHUDA: That's right.

MINISTER LAI: Oh, my goodness. That was more than 20 years ago.

MICHAEL YAHUDA: Yes. Madam Minister, I'd like to ask you to elaborate a little further on one of the main points you made about the need to build up discussions and consensus within Taiwan about the new approaches to cross-strait relations. As I understand it, the opposition party is complaining about the secrecy involved in the negotiation process and that the Legislative Yuan is not involved enough in these matters. So, is it that they have –

MINISTER LAI: Sorry, which is not enough to be involved in the process?

MICHAEL YAHUDA: In the process of reaching these agreements.

MINISTER LAI: Who?

RICHARD BUSH: Legislative Yuan.

MINISTER LAI: Oh, Legislative Yuan. Oh, right.

MICHAEL YAHUDA: And so, as I understand it, within the opposition side, there is a feeling of not being involved, as you suggest that should be happening. So I'd like your comment.

MINISTER LAI: Thank you, Professor Yahuda. I'm so pleased that after so many years I have this opportunity to meet with you.

Yes, this is a very important question. We definitely need to, because is the issue of cross-strait relations is very sentimental in Taiwan. Everybody here knows this, I think, so I don't need to go into the details of why this has been the case.

However, any responsible government really would place very high importance on continuous communication with the general public and also with transparency. In our cross-strait policies, it's very important because of the divide and because the opinion is quite divided in cross-strait relations, though I mentioned that we have a majority of the support regarding cross-strait policies.

A recent domestic opinion poll showed that 39.5 percent of the Taiwanese population feared and doubted ongoing cross-strait relations because they are afraid the government might sell out Taiwan, undermine Taiwan's sovereignty, and Taiwan might be too accommodating to China. The poll was conducted about two months ago. However, almost 55 percent of the population believed that we do not

undermine Taiwan's sovereignty. But still, 39.5 percent of the population had such a fear and that's because of the nature of cross-strait relations, the nature of Mainland policies in Taiwan.

What does a responsible government do about that? We, including myself, the Mainland Affairs Council, and some of our government agencies, we continuously work through different means, for example, the Legislative Yuan. Before we conducted this negotiation, I can't even count how many times I had to be challenged and questioned by the legislators, and I had to go to report on the basic content of the cross-strait negotiation. After the negotiation, we had to go to the Legislative Yuan to report on the result of the negotiation.

Apart from that, according to our law, the act governing the cross-strait relations, that is the most essential law in Taiwan. According to this law, our government, the Executive Yuan, needs to send our negotiation agreements to the Legislative Yuan for approval. If it doesn't require any change or any revision of the current laws or any change of the laws, then we send these agreements to the Legislative Yuan for them to discuss or for them to -- what do you call it?

There are two types of procedures. One doesn't require the law revisions. In Chinese it's called -- Professor Yahuda, you know Chinese. It's called *he bei*. To confirm, yes, to confirm. If it requires revision of the laws, then it would need the legislators to approve. So for each agreement, for the nine agreements, we have already signed, it went through such a process. So it's transparent in the Legislative Yuan.

Secondly, my council and I have been working intensively and visiting the many parts of Taiwan, particularly in the middle part or southern part of Taiwan, to meet with big crowds of about 200 to 300 each time, where we talk and confront them directly in an exchange of views. In most cases, 80 percent of the crowd are from the Green Camp, and I feel very strongly each time that I was able to convince them or persuade them to a very, very large extent. Once I had this opportunity to explain to them that this is the right way to go about cross-strait relations and that the government has not in any sense, sold out or denigrated Taiwan's sovereignty, they trust me.

So this is the way we constantly do things, and we also try to use, if we can, the media through radio, TV, and to address people as much as we can.

Thank you.

RICHARD BUSH: Over here.

QUESTION: Chia Chen, freelance correspondent. Minister Lai, thank you for comments. You have talked about sustainable development - what are the strategies and timelines of the Taiwan sustainable development and also, more important, what is this development going to accomplish? Thank you.

MINISTER LAI: Thank you for your question. Though it is short, this is a very broad topic. Sustainable national development does not only concern cross-strait relations. Any government's policies for sustainable development would require economics, and in Taiwan, it would not only require politics and cross-strait relations, but it would require economic or social safety nets or environmental issues. I think this is too big of an area for me to discuss today, but I guess what you mean is that I think you're more concerned about cross-strait relations. No?

CHIA CHEN: Overall.

MINISTER LAI: Overall. This really is too big of an area for us to cover and I'm afraid we don't have the time to address that. The Executive Yuan in Taiwan is making huge efforts to try to do that, yes. We have to overcome this economic downturn first and move in many areas, in many directions such as how to rebuild our economic strength, and also in terms of global warming programs, our government also has these policies on how to reduce CO2. So it's very comprehensive. We don't have time to go into that, sorry.

RICHARD BUSH: Also, we've run out of time. But I want to thank you, Minister Lai, for, first of all, your presentation which was both comprehensive and detailed and then for engaging in this exchange of views. You have really done an outstanding job in getting our conference off to a good start, and we appreciate it very much.

MINISTER LAI: Thank you, Richard.

(Applause)

MINISTER LAI: Thank you so much. I wish you all the success and having a wonderful conference today and tomorrow. Thank you. Bye.

RICHARD BUSH: We're going to take a 10-minute break and reconvene at 10:45.

[Recess]

RICHARD BUSH: Ladies and gentlemen if I could ask you to take your seats, so we're about to resume. Sorry to break up your conversations, but we're on a tight schedule here. Please take your seats.

Thank you very much. We're now going to move the first session of this conference on China's External Grand Strategy, and my good friend and colleague Ken Lieberthal will be the moderator.

Before I turned the chair over to Ken, I'd like to make a couple of housekeeping announcements. First of all, we hope that presenters will speak for about 10 minutes. After this session, we're going to have lunch, and we will -- you will have lunch where you're sitting. We'll do it buffet-style. There's no luncheon speaker. If you're going to leave, please take your things with you so it's clear that your seat is empty and that somebody else can sit there. Having said that, I now turn the chair over to Ken, and we will resume the conference.

KEN LIEBERTHAL: Well, thank you very much, Richard. It's really a pleasure to have an opportunity to participate in this conference, although my participation is going to be more as referee then as substantive participant.

This morning's panel will be on China's Grand Strategy. We've got three speakers. Let me introduce all three now in the order in which they'll speak, and then I'll let them simply go forward. Each will speak for only 10 minutes, that is, largely to create a basis for you to raise questions so that we have a good amount of time for Q&A before we break for lunch.

The first speaker is David Finkelstein. Dave is Vice President at CNA and Director of CNA's China's Studies. He received his Ph.D. in History from Princeton University. He also is a retired U.S. Army officer, being a graduate of West Point, of the U.S. Army Command and General Staff College, and the Army War College. He is probably the best-educated person who ever went through the U.S. military, with all of those credentials behind him.

He's held significant China-related positions at a variety of levels, including at the Pentagon as Advisor to the Secretary of Defense and Chairman of the Joint Chiefs of Staff, in addition to serving on the faculty of West Point, where he taught Chinese History. He runs a China analytical shop at CNA, which is well-known for its very high standards of both language and substance.

The second speaker will be Dr. Arthur Ding. Dr. Ding is a Research Fellow at the China Politics Division of the Institute of International Relations at National Chengchi University in Taipei. His research focuses on China's security and defense policy, on which he has written several books and many articles. He got his Ph.D. in political science from the University of Notre Dame.

Our third speaker is Dr. Vincent Wei-cheng Wang, who's Associate Professor and Chair in the Department of Political Science at the University of Richmond.

He is a former coordinator of the American Political Science Association Conference Group on Taiwan Studies; a board member of the American Association for Chinese Studies. He's published over 60 scholarly articles and book chapters that really just cover an extraordinary variety of topics. He's currently working on a project on the Asian perceptions of and responses to the rise of China. And he has his Ph.D. from the University of Chicago, and an M.A. from SAIS, right next door.

Without further adieu, let me ask them to come up in that order, and I will be a fairly rigorous timekeeper, so I'll pass you a note when you have two minutes left; and the podium will disappear and the trap door will open at the end of 10 minutes; okay? David?

DAVID FINKELSTEIN: Well, thank you to the organizers for the opportunity to be here today. There are two assumptions built into this panel. The first, of course, is that China actually does have a grand external strategy, and the second is that each of us can actually talk about it in 10 minutes or less.

The paper that I submitted begins with a brief explanation of the fundamentals of any strategy, grand or otherwise. And let me just go over those four fundamentals because they provide a framework for thinking about China's external grand strategy.

First, the purpose of any strategy is to achieve defined objectives in the context of specific circumstances; second, that strategies require the development of concepts and policies to achieve those objectives. Third, strategies demand the development of capacity to execute those concepts; and fourth, the very notion of a strategy demands or assumes the ability to coordinate the ways and means to achieve the objectives.

So bringing this back down to China's external grand strategy, what is it that Beijing's external grand strategy is supposed to achieve, and what is the current context in which it is operating?

In the realm of grand strategy, PRC documents and leadership statements are consistent in articulating China's overarching national objectives, which you can really synthesize down to be the building of a strong, modern, and prosperous China, or, as Party documents sometimes discuss it, building a well-off society in an all around way or, alternately, seeking a moderately developed country by the year 2050.

So it follows that Beijing's external strategy must create an international environment that will support these objectives and allow for the continued development and rise of China.

Now there is nothing particularly new about that. These have been objectives that China has had really since the Third Plenum of the 11th Central Committee in 1978. What has changed, I would argue in the past few years, is the larger context in which Beijing's external strategy is operating -- the results of major international political changes; operating an era of hyper-globalization, and the rise and internationalization especially of China's economy.

Because China now has global economic interests, it also has expanding global political interests, and, as we've witnessed recently, it has expanding global security interests.

Moreover, China's rise or emergence as an international actor of consequence, mostly due to its economic traction, now avails it of new options and provides for new capacity in pursuing its external agenda.

And overall, this is a very new situation and context for China's leaders. And they approach it, I think, with a sense of -- or an admixture of both trepidation and triumphalism. I think this is reflected in statements in both the Party Congress Report from 2007 and the most recent events white paper that states "China cannot develop in isolation from the rest of the world, nor can the world enjoy prosperity were stability without China."

So it's within that new context that I'll spend the rest of my time talking about how I think or at least characterize briefly how China is employing the various elements of national power -- diplomatic, informational, military, and economic-to go about and achieve its agendas. It's mostly descriptive, less analytic, but 10 minutes – hey, give me a break.

So first, diplomatic initiatives. Here's my bottom line: relatively proactive and increasingly flexible. They are proactive in the sense that China is no longer willing to merely react to changes in the external environment, but, when possible, attempt to shape the external environment, especially the regional environment in the Asia-Pacific region.

Examples would be Beijing's role in the Bo'ao Forum of 2001, the transformation of the Shanghai Five into the Shanghai Cooperation Organization in that same year, and you could also point to China's role in the inception of the Six Party Talks in 2003.

Chinese diplomacy is also exhibiting a certain degree of flexibility or pragmatism relative to the past foregoing some of its time-honored viewpoints are maxims when doing so seems to be in its own national interests.

So besides willing sometimes to now take the lead, another example of Chinese pragmatism might be its embrace of multilateral diplomacy and activities, which, as we know, is a 180-degree turnabout from just a few years ago.

Now one Chinese analyst asserts that "multilateral organizations" is now the fourth pillar of Chinese diplomacy, adding it to the traditional three pillar framework of great power relations, relations with neighboring countries, and, third, developing countries. So that's a characterization of the diplomatic element.

How about foreign economic policy -- what's new about that for China? And to that, my bumper sticker is: not just bring in, but go out. Of previous concepts of bringing in and acquiring things from abroad is still in effect. China must still attract foreign direct investment, technology, as well as scientific and managerial expertise. It is why all Chinese leaders since Deng Xiaoping have revalidated the policy of opening up.

Today, however, China is also going out. And, as we all know, this is a new development.

Since 2001, the Party State has called on Chinese enterprises to go overseas, invest, build international brands of recognition, make acquisitions, secure raw materials, and generally participate in what they label the "global economic competition for markets and resources."

And in his 2004 speech to the Central Committee in which he unveiled the concept of scientific development, Hu Jintao revalidated the go-out strategy, and said it was now even time to accelerate the go-out strategy.

So as a result of these policy decisions today, the number of Chinese nationals traveling overseas, living or working abroad, and the number Chinese firms operating overseas has really read some remarkable numbers, unprecedented in the history of the PRC. And the formal paper I submitted to the conference organizers has some factoids and facts and figures about that.

We also note that the decision to go out for economic reasons has also resulted in unexpected contradictions, if you will, for Chinese diplomatic and political objectives, and I'll touch briefly on those later on -- which now brings me to the third element of national power, the military dimension.

My preliminary assessment: an incipient expeditionary PLA. After 30 years of modernization, the PLA is finally beginning to come on line as an operational asset, not just a symbolic asset, but an operational asset, available to support Beijing's larger external objectives.

Today an incipient expeditionary PLA is taking shape that is going places and doing things. That's different. And it's involved in three different types of outgoing

activities; one, of course, the standard U.N. missions, peacekeeping operations and Observer operations; second -- this is new -- combined exercises with foreign militaries. The first time the Chinese ever conducted a combined operation -- exercise -- with a foreign military was with Kyrgyzstan in 2002, the first time it actually crossed its border into another country to do that. And since 2002, it has conducted 28 combined exercises of various scales, scopes, and types, some significant, some pro forma. But they're out there doing stuff.

And the third, of course, are military operations other than war, as evidenced by, again, the Horn of Africa deployments of the PLA navy.

So these activities get the PLA out and involved with foreign counterparts, not just in a military diplomatic sense, but in an operational sense. And, of course, we could also talk about 2004 when Hu Jintao issued the new historic missions of the military, at which point the PLA, for the first time in its history, was given missions that had an extra focus.

And, as one PLA strategist has explained it to me -- and let me just quote this -- "the PLA is shifting from its previous near sole focus on defensive Chinese territory to the protection of Chinese interests. And one is bound by geography; the latter is not." So this is pretty interesting to me -- the Horn of Africa, again, PLA navy exemplar.

Last element of national power, the informational element, and the bumper sticker for this is: Perception management in overdrive. The Party State has clearly enlisted the informational element of national power to create an external environment that it hopes will be accepting of the emergence of China.

So a principal mission of the informational element of national power for China now, especially as it is directed externally, is to allay foreign concerns that China's rise will pose a threat. And to this end, even the English term propaganda has been purged from the Chinese lexicon and has been replaced by the term publicity work as an official translation for the Chinese word *xuanchuan*.

Examples of the use of the informational element of national power abound. You could talk about 300 Confucius institutes around the world, 53 in the U.S. at the last count; the new and welcomed habit of issuing white papers on a myriad of topics coming out of Beijing to tell China's story; the proliferation of PRC government websites; the availability of English-language newspapers, such as the PLA's *Liberation Army Daily* and most recently *Huanqiu Shibao* - the *Global Times*; the increasing use of government spokespersons to include in May 2008 the MND also having a spokesman.

So these are some of the descriptors of the elements of national power as they're being employed in this strategy.

Next, if, in fact, China does have a grand external strategy, then capacity, coordination, and the introduction of new actors are at least three of the systemic challenges it faces in successfully carrying out the policy.

And I think Chinese officials are the first to admit that the expansion of Chinese external interests has, in many cases, outpaced the capacity of some of its institutions to keep up. The Ministry of Foreign Affairs is a case study in interests outpacing capacity. With the number of Chinese overseas now, you have an entire Chinese diplomatic corps that really never had to deal with consular issues that now has to service tens of thousands of Chinese citizens, legal disputes, corporations involved in legal problems. And between 2004 and 2007, over 1,000 Chinese citizens had to be evacuated from war zones or other dangerous neighborhoods where the go-out strategy has sent them. So we have a problem of capacity.

A second stressor is the apparent difficulty that the system has in coordinating its external work among the various institutional actors. This is system that is self-described, as being notorious for being stovepiped, turf conscious, and horizontally uncommunicative. The CNOOC's attempt to acquire UNOCOL in 2005 and the January 2007 ASAT test may be great examples of the fact that horizontal coordination in the system is not what it should be.

And then finally, a third stressor is the introduction of new peripheral actors who are out there applying external policies of provincial and local governments and especially the state-owned enterprises whose activities overseas, especially in Africa, are not necessarily always in consonance with the larger diplomatic objectives that the center in Beijing would like to accomplish, and, of course, the system recognizes these stresses, which is one of the many reasons that in August 2006 there was an unprecedented foreign affairs work conference called in Beijing to try and deal with all of these stresses in lack of capacity, coordination, and peripheral actors.

So in conclusion -- how are we doing?

KEN LIEBERTHAL: Okay.

DAVID FINKELSTEIN: In conclusion, he's under the table. The guy's got a spike on his heel; okay?

(Laughter)

Okay. So, as you take the grand sweep of Chinese history, and here I'm going to take literary license with an article that CICIR analyst Yuan Peng wrote in 2007, you see different phases of China's external strategy in various ways.

From the 1950s through the '70s, I think it was fair to say that China's external strategy was to confront the international system. In the 1980s, China began to

engage the international system. From the 1990s through the end of the 20th century, China started to begin to participate in the international system.

And now, since about 2000, 2001, I would like to add that I think China has an external strategy that is trying to shape the international system.

So I find myself in basic agreement with Arthur's conclusion for his paper. And then, second, if there are any adjustments that are going to have to occur in China's external strategy, the context for it is going to be the global financial crisis, because this has the potential of directly affecting China's grand national objectives, as outlined earlier in my talk -- a strong prosperous China.

And we're going to see Chinese foreign policy, foreign economic policy, very active and proactive in trying to shape what many think will be a new international financial order that some think will come out of this current crisis.

On the military and security front, we should not be surprised to see the PLA employed with more frequency in an expeditionary mode and the continued development of the requisite capabilities to do so.

And on the issues of capacity and coordination, it is uncertain -- at least I am uncertain -- if the system can adjust quickly enough or in the ways required to keep up with new demands and lack of capacity. For 10 years, we heard rumors about an NSC-like system being considered to replace the leading small group system. It didn't happen. I don't know why. Others can speculate as to the reasons.

And finally, assuming that China does have a centrally developed and executed external grand strategy, I'm also not convinced that analysts such as myself have the levels of confidence in understanding it that we need to. Thanks.

KEN LIEBERTHAL: Thank you very much.

(Applause)

KEN LIEBERTHAL: Dr. Ding?

ARTHUR DING: Thanks, Ken. Well, I tried to compare the difference between analysts or scholars' perception and how it's different from the official perception. Then, I tried to examine and review China's practice by examining two cases – China's participation in international financial institutions, and the most recent maritime friction in the South China Sea and China's response to it, and I tried to make a projection.

Well, I think based on my findings, that there's a similar perception between the Chinese government and analysts and scholars with regard to the changing of the external environment.

Then, the second finding is that since both groups, the Chinese government and analysts argue for cultural steps and to selectively engage or to playing the leading role in building institutions or dealing with urgent issues.

With regard to the perception toward the external environment, they are quite similar. Multipolar systems and the rising of non-traditional security issues become more and more important, depending on the scope and the definition of the non-traditional security issue. But it can cover wide-ranging issues, from public health to SARS to earthquakes and natural disasters, or even to international financial issues. Also, they found non-state actors, like multinational corporations or international civil groups.

These perceptions of the external environment are quite similar to those announced in some of China's official documents. *China's National Defense in 2008*, which was released at the end of January 2009. It said "with the advent of the new century, the world is undergoing tremendous changes and adjustments. Peace and development remain the principal themes of the times, and the pursuit of peace, development and cooperation has become an irresistible trend of the times. However, global challenges are on the increase, and new security threats keep emerging.

So, these are the issues frequently discussed in Beijing by the policy community, particularly in the post-Olympic era, and in my paper, I cite frequently the special issues of contemporary international relations, the x*iandai guoji guanxi*.

What is the implication for China's overall security? They found China is less threatened by traditional security issues. More time is needed for building new international order because the emerging powers or the established powers continue to contend and compete with one another. But there will be shifting coalitions among these powers. Then, this shifting coalition will make China become the target. They found international civil groups. The civil groups are skillful in using the international media and know how to use modern technology to shape the agenda.

China analysts and scholars admit that China is good at dealing with the executive branch of different governments, but they don't know how to deal with parliaments or NGOs.

Also, with rise of non-traditional security issues, there are also multiple issues that China has to handle, for instance, the international financial crisis and a variety of other issues.

So what are China's limitations?. Although in terms of GDP, China has become the number two actor in the international community, many scholars and analysts admit that China still lags behind in education, science and technology, and even in soft power areas. They recommend that China should continue pursuing economic development as well as soft power areas.

In other words, these analysts argue for a principle or strategy of unification of dialectic oppositions. That is to keep a balance between, on the one hand, China's integration with various international institutions so as to keep a stable and predictable environment, on the other hands, as well as China's rise so as to gradually "reform" current international institutions which have been dominated by the U.S. and other western powers.

Scholars and analysts argue that China should remain as the *lao er* or the number two power instead of playing a leading role in shaping international institutions or agendas, because if China wants to play the leading role, then inevitably to challenge the U.S. leadership in many other fields. Also, playing the leading role will exhaust the China's limited resources, because China has to provide public good or collective good. So with this kind of awareness that China remains a second-rate power, then China should do well in the role of the number two power instead of playing a leading role as the number one power.

In conclusion, I agree that China still has ambition. China wants to take the opportunity to continue to develop and there's no doubt that China still wants to be a leading power or the number one power. But, it needs the capability to match its ambitions.

Although China is cautious with regard to its foreign policy or grand strategies, I would say the concern posed by several countries will remain because, as David Finkelstein presented earlier, that with globalization and as China's national interests expand, its reach will also grow globally. China will then frequently going abroad and will pose a risk to several countries in the region, for instance, India. On one hand, China has to address its desire to expand globally, but, on the other hand, it has to reconcile or to ease the concerns of those countries so that it can develop and rise peacefully. Those are the main points I have in my paper. Thank you.

(Applause)

KEN LIEBERTHAL: Thank you. Professor Wang, you want to be up here?

VINCENT WANG: Good morning. It's a pleasure to be at this important conference. What I tried to do is to continue the good discussions of David Finkelstein and Arthur Ding to focus on one aspect of China's external grand strategy. Obviously, this is a topic we can talk about for three days, but I'm going to concentrate on one aspect, which is China's relations with India, especially how Chinese and Indian elites view each other's rise. I think this is an area relatively little discussion has been devoted to.

First of all, grand strategy, to follow David's discussion, I would simply define grand strategy as "the distinctive combination of political, economic, and military means to ensure a state national interest or to achieve the objectives of the regime."

Obviously, this is guided by a certain understanding of the international environment and the country's position in that.

Up until recently, China's grand strategy has been guided by Deng Xiaoping's 24-word dictum. You can see the English words there. The Chinese words are *lengjing guancha, zhanwen jiaogen, chenzhuo yingfu, taoguang yanghui, shanyu shouzhuo, juebu dangtou*. And, of course, Arthur asked at the end whether China now should ask *you suo zuo wei*. This policy has been guided Chinese external strategy for most of the post-Cold War era.

The current leadership, the so-called "fourth-generation leadership," centered on Hu Jintao I think that its external strategy can be defined -- it can be summarized as "peaceful rise" or development. There's a little story about why the slogan changed to peaceful development, but I don't have time to talk about it.

It has certain interlocking elements. First is you no longer hear China talk about itself as the victim of center of humiliation. In fact, China today is very confident and thinks of itself as a great power and increasingly behaves like one.

Secondly, China no longer rejects multilateralism, in fact, it embraces multilateralism if China believes that through multilateral organizations, China can enhance its position and probably soft balance American power.

Third, on many intractable and difficult issues China actually display greater pragmatism. This can be seen in China's behavior in the South China Sea. And fourth China is increasingly aware of the consequences of its behavior., especially in China's backyard, namely, the Asia Pacific region. So it's good neighbor policy is based on assurance.

And finally, unlike in the past, China today is characterized by proactive engagement in important international affairs. The most important example, of course, is the Six Party Talks over the denuclearization of North Korea.

The main instrument is economic, so we talk about the economic statecraft of peaceful rise. So to sum up, China's peaceful rise is a comprehensive, long-term strategy, leveraging globalization as the catalyst to accelerate China's economic development and to elevate China's power and stature. The language is peace and stability. The style is constructive diplomacy, and the substance is economics, at least for now.

Now how does China know that it is getting the result it wants? Chinese security analysts have developed a concept called *zonghe guoli* or a comprehensive national power.

I can assure you that Americans are not obsessed with rankings, such as the rankings of the best universities, the best colleges, and so on. Asians are very, very

obsessed with rankings. So Chinese security analysts are obsessed with the beauty pageant of geopolitics.

This notion about CNP -- for instance, in this formula, if you take the CNP as the total of one and you will see the different breakdown, such as natural resources, economic activity, foreign economic activity, et cetera. I won't read, but the important thing is that the economic activities constitute about 56 percent of the weight. So, yes, economic activity is important.

I won't expect you to read this table, but if you are interested, I can send you my paper. I just want to draw a few important points.

Here in this table, you can see that the United States is given a 100, because it's baseline for comparison. And the numbers in the ranks -- in the italic brackets are the ranks. So, as you can see, according to the different studies for given periods of time, the United States is always given 100, and then China is more concerned not only about the ranks of the different great powers, including China itself, but also the gaps between the number one and the number two, for example.

So a few things we can discern from this very simple table. First is that the international system, the Chinese analysts conclude, is still primarily characterized by one superpower and many great powers, the so-called *yi chao, duo qiang*, and second is that you can see from this table that over the last 30 years, China's comprehensive national power has increased in both relative and absolute terms.

So China now is either the second or the fifth greatest power, in fact, so much so that many analysts, particularly Western analysts, have jumped on the wagon to talk about a G2 rather than G20. They coined the phrase like "Chimerica." I think -- personally, I think these are all premature. But anyway, you get the point that China is now the number two. So China is thinking whether it should do something.

And you can also see that the Soviet Union used to be the number two, but the end of the Cold War has seen the Soviet Union fall on hard times.

You can also see that Germany and Japan have always maintained number three or number four spots, but, of course, their military power was limited as a result of the World War II. So they are one-dimensional powers.

And you can also see that certain developing countries, particularly China, India, and Brazil are becoming more important in world affairs from this table. So this confirms the Chinese view that the world is becoming *duojihua* or multi-polarization.

This table also shows that important economic changes would have far-reaching, long-term geopolitical impacts. For example, so you can see that China's economic development in the last three decades has been very successful. This explains very importantly China's rise in CNP.

And the conventional wisdom of the 1997 to '98 Asian financial crisis is that it resulted in Japan's decline and China's rise. And, of course, the most interesting question is currently we are in an economic crisis started in the United States. What does this mean after the financial crisis is over? Does that mean that China will further rise and the United States, given its economic mess and our military mess in Iraq and Afghanistan, -- what kind of a world we will see and what kind of a role China will play? Obviously, that will be a good topic for discussion. So for my purpose, I want to talk about China and India.

The important thing to note is that we are talking about not just China rising, but also India rising. So this is the point I want to make. These two countries have a very multi-faceted -- I'm sorry I have to quote Madeleine Albright -- relationship. And there are some elements about this complex relationship.

The first one is history. I won't say too much about history, except to say that a lot of people are surprised that even though China and India were ancient civilizations, historically, they actually had very little direct contact. Mostly, it was done by monks or traders.

And then during colonial times, because both were aggrieved by colonialism, there was actually some kind of a colonial solidarity. For instance, Chinese -- Nehru, the Indian Prime Minister, promoted a slogan, *"Hindi-Chini bhai-bhai"* meaning India and China are brothers. He also said that China was my most admired nation. So when the Chinese Communist Party founded its regime in 1949, there was actually a sense of Asian solidarity.

However, this solidarity would prove to be very short-lived. For one thing, colonialism also sowed the seeds of mistrust between the two. To begin with, the British government used to sign an agreement called the 1914 Similar Accord between Britain and Tibet and formed the so-called McMahon Line. I'll show you a graph in a moment.

And to Britain, this is to demarcate between the British, India, and Tibet. And the Indian government, after 1947, actually considered that international border. But the Chinese never recognized that treaty, because China argued that China was the suzerain power of Tibet. Tibet had no capacity to negotiate an international treaty.

And, so in 1950, the PLA entered Tibet and the two came into direct contact. And, of course, in 1959, the current 14th Dalai Lama escaped to India and India offered refuge, and this became another irritant. And then in 1962, the two came to war.

So history casts a long shadow between the two.

Geography. You would think that India and China would have their own respective sphere of influence -- South Asia and East Asia. What happened is that both

developed missile technologies. So they are actually on the shrinking strategic chessboard. And also they maneuver in each other's sphere of influence.

For instance, China in recent years promoted the Shanghai Cooperation Organization. So it's into the central and southwestern Asia, and India is developing toward the east, the so-called look east policy.

Territorial disputes. I want to show you the graph. I apologize. This Brookings computer is not mine.

(Laughter)

KEN LIEBERTHAL: Okay. Now you've got 30 seconds.

VINCENT WANG: -- all right. Thank you.

(Laughter)

VINCENT WANG: This is the McMahon Line. Of course, India considered it an international border. This is the Indian state of Arunachal Pradesh. The Chinese never recognized this as Indian territory, and, in fact, they fought a war. In 1962, the Chinese soldiers easily dislodged Indians and returned to the Line of Control. And they also claimed that Tawang, this little area was the birthplace of the Sixth Dalai Lama and they claimed because Tibet is a part of China and Tawang is a part of Tibet; therefore, the entire Arunachal Pradesh is Chinese territory.

In 2006, before Chinese President Hu Jintao visited India, the Chinese ambassador to India, Sun Yuxi, said your entire state of Arunachal Pradesh is Chinese territory, get over it. It's pretty blunt for a diplomat.

And also in 2007, the Chinese embassy refused to give a visa to an Indian official from this state claiming that he is a Chinese citizen; therefore, he didn't need a visa.

(Laughter)

VINCENT WANG: All right. This is the eastern border, and this is the western border. The Chinese control the Aksai Chin, but India claimed that. And then in recent years, because of China's increasing natural resource appetite which Ken has written about, China is interested in developing its maritime power and establishing port facilities in the String of Pearls Strategy, which also very much unnerved the Indians.

To conclude, and I have a table comparing the two, I would like to conclude with three paradigms to speculate their future.

The first paradigm is geopolitical. I think everybody is very familiar with this. The balance of power, great power ambitions, and the elites in two countries tend to view each other very rarely.

The second geo-paradigm is geo-economic, which talks about the complementarity between the two economies. China's prowess in hardware manufacturing and India's prowess in software design and backbone servicing, this notion about "Chindia."

And finally, a geo-civilizational paradigm, which is something that very few people talk about, which basically says that these two ancient great civilizations have a lot of mutual admiration for each other. If they can think of themselves as the relationship between United States and Great Britain, perhaps this can transcend their mutual suspicions and so on.

So what is the final result? Either rivalry or "Chindia" or a pragmatic, selective instrumental management of their relationship. I'll leave that as open question. Thank you very much.

(Applause)

KEN LIEBERTHAL: As our panel reassembles up here, let me, if I can, make a few comments, and then we have plenty of time to open this up for Q&A and look forward to the issues you want to raise from the floor.

I think all of our presenters have provided very good overviews, and I think actually their general observations are quite consistent with each other. I did not hear three different contradictory views of China, but rather three aspects or three takes, if you will, with a set of common assumptions at the core.

And those common points, it seems to me, are basically the following: one that China probably wants to continue its development, and it's shaping its foreign policy fundamentally in order to sustain this capacity to continue domestic development.

Its task is complicated in this by three things: first is increased international involvement, in no small part because of globalization and the growing size of its own economy; secondly, the emergency of increasingly important non-traditional security issues that complicate life a great deal; and, thirdly, an ongoing deficit that China has in soft power.

I think all three of our presenters have concluded in one way or another that China sees the world is becoming increasingly multi-polar, but multi-polar with the U.S. still very much as the single most important power. And so the issue is the balance between the U.S. and a variety of other rising or significant powers.

I will also conclude that China is taking a pragmatic approach to both working within the global system from which it clearly benefits and also seeking over time to make changes in that system, because, after all, that system was western developed and fundamentally remains western dominated.

If no one objects to those broad summary comments, I've got three questions I want to raise. I would ask anyone who wants to respond to any of those questions to feel free to do so, and then open it up to the floor for additional comments and issues that people want to raise from there.

Fundamentally, my sense was all of the papers were fine as far as they go. I want to push the discussion a little further. I want to do so as follows.

First, if China wants to make changes in the international system, what are the changes it wants to make? People commented, especially in more detail in their written papers than they had time to do poorly, but that fundamentally China wants to play a larger role or the developing countries ought to play a larger role. But what's the substance of the change? I mean, to do what? What needs to shift? Is there any texture to that?

Secondly, and relatedly, to how great an extent is China at this point really just feeling its way along? It aspires to be more of a shaper of the international system. It is clearly an active participant, but as it moves from kind of just acquiring an important global role to actually exercising its capabilities globally, is it testing the waters and trying to learn kind of what responses it gets? Is it muddling through at this point, albeit with aspirations for the future? Or is it being more strategic? And how should we understand that?

And then, third, China seeks to make contributions, positive contributions to the international system. It doesn't like to see itself as simply playing the game, but rather wants to be a country of merit that brings something very positive to the table.

The question is what is the discussion of the nature and extent of those Chinese contributions? I've seen a lot in the Chinese writings that say we need to, you know, good things; right? I've seen very little about what those good things actually are, and how much of an effort China should make and at what cost to China, if necessary, to China's more immediate interests.

To give an example, climate change is probably the biggest non-traditional security threat to China, and China's carbon emissions are probably the greatest source of harm to the global situation that China's development poses.

Can we, therefore, see reflections of an awareness of this in their discussion of clean energy and of their discussion of future economic growth given their obligations within a larger situation of a warming climate?

And if not, what are the areas where China is prepared to pay a price in order to enhance its contribution to collective goods? Okay.

So three broad issues. I don't know whether anyone wants to respond? Dave and then we can go down the line.

DAVID FINKELSTEIN: These are great questions. Let me start by saying that I'm not all that convinced that China actually has a grand external strategy -- in spite of the fact that this is the name of the panel to which we were assigned.

I think that Ken answered his own question when he said that China -- or when he asked the question is China feeling its way through all of these very complex and interrelated issues.

And I think that actually is the case. In fact, I would go so far as to say that China has since about 2002, three or four -- I don't want to put it down too precisely, but at least since the beginning of the new century, China has -- the Chinese Party State has entered an interregnum where it is starting to reconsider what are its national interests, what are the priorities of those national interests, what types of institutions do we need to have to go after those national interests, and what does the pursuit of those national interests, as yet to be defined and prioritized, mean for some of the ways we've done business in the past.

And I think that the very rich -- very rich amount of discussion within the Chinese government think tanks, academic circles, within the government itself through Hu Jintao's politburo study sessions is indicative of the fact that we're at this particular interregnum.

In my paper, I said that China finds -- and let me -- I was going quickly. I think China feels incredibly conflicted about its position in the world at the moment. It's -- I think no one is more surprised than the Chinese to find that they are a global economic force at this point in time and that their economic prowess has far outpaced how they had thought through strategically what that means for them in political and diplomatic issues, in economic foreign policy, and their place in the world.

So there's a lot of confliction that's going on.

And you still see that when you talk with Chinese friends. On one hand, they want the gravitas of a great power, but when things get too tough and they're asked to do the things that great powers do, they throw up their hands, less now than in the past, but still throw up their hands and say we're only a developed country.

And, in fact, the Chinese argue about what kind of country they are. There were some Chinese institutions who said there are three China's out there at the moment. There's a developed China, a developing China, and an underdeveloped China.

So I think they're trying to figure out which way they need to go. And they are as much constrained by their domestic conditions as they are propelled by any grandiose ambitions externally that they may have. That's number one.

Number two I think that the Chinese seem to me to be a lot better about telling us what they're against than what they're for. And so I think this whole idea that -- and I think Arthur touched on it and so did Vincent -- that they're dealing with a world order that was pretty much established and whose rules were put together by Western powers or developed powers.

And they know that they want a seat at the table. They want to change it. But they can't change everything.

So here are some examples: The new concept of security. In 1998, the Chinese come up with a new concept of security, which was supposed to be an alternative way that countries should deal with each other, which some people believe was a left-handed attack on a U.S. alliance-based security system. And we've seen the Shanghai Cooperation Organization sort of operate on the new concept of security.

But when you get past the idea of principles and you start asking about how you operationalize these concepts, you start coming up short. So which is why I thought China's leadership role in the Six Party Talks was very interesting, because now they were really willing to sit at the table and take a stand and put some political capital on the line.

KEN LIEBERTHAL: Any others?

ARTHUR DING: I think Ken raised a very important question. What we can we imply from these issues? If you read China's public sources -- for example, magazines that focus on foreign affairs, then you will see that most of the discussion is on a harmonious world. But we will ask what is the so-called harmonious world, *hexie shehui*? Then they talk about Confucius ideals -- those are principles, but how do you transform the principle into concrete policy? It can be operationalized.

They know that the more they are involved in the international community, then the more the pressure is imposed on them and China will be forced to make contributions, because if they don't make contributions, then they will not be recognized as a leading actor or rising power.

So there is some kind of a dilemma. On the one hand, they just want to have more of a voice, but what does that mean with regard to their new role? I don't think they have figured out. In general, I think that China is still in transition.

Even though in the conclusion of my paper it says that China takes cautious and gradual steps leading to more *yousuozuowei*, but in which field? I don't think they have a very concrete idea because for instance, in the international financial

institutions, they know that the dollar remains the primary reserve, but they signed many swap agreements with different countries so that the RMB can be internationalized. But they don't have the capability and although they know it will take time, I don't think they know how long it will take.

This transition period or interim period will be very long for me because the U.S. dollar will remain the primary currency and the RMB will take a long time to, if possible, to replace the dollar currency.

So, in general, my feeling is that China doesn't have a very concrete idea how long its so-called strategy, if there is one, will be in making China into a leading power.

KEN LIEBERTHAL: Thank you. Vincent, did you want to say anything or you?

VINCENT WANG: Just briefly. I'll use two metaphors to answer your profound questions.

The first is Robert Hirschman's book, Voice, Exit, and Loyalty. I think that China had abandoned the exit strategy, the staying out of globalization dominated by the West. And initially it was a very loyal participant, but now it's beginning to voice, you know, of course, the two previous speakers talk about what exactly and can you ask the question what exactly does China want?

The second metaphor is I think China now is -- you asked whether it is feeling its way around or something. I think China is now trying to be the number two runner in a marathon. You see that in a marathon race, it's not very important which place you are initially. It matters a lot where you end. But it's very important you keep pace with the number so you don't fall too far behind.

Arthur's example of China's concern about the safety of its dollar-denominated assets in this country is a very good one because I think it's very ambiguous.

On the one hand, you can see that China's voice is entirely for to safeguard its interests, not to devaluate too much. On the other hand, you can also see it's consistent with its, say, goal, if there is a long-term goal to gradually replace United States. So it's ambiguous.

KEN LIEBERTHAL: Thank you very much. We'll ask as we open the floor to please identify who you are, and, if you wish, direct your question to a single member of the panel or you can just address to the panel as a whole.

Why don't we start here and work our way around. There's a microphone, I think, circulating? Yep. In front, please.

QUESTION: Mike Green from Georgetown University and CSIS. I thought it was a very good discussion on Chinese use of multi-polarity. And I liked Vincent's hierarchy of comprehensive national power.

I wonder if you could say something more about how China sees alignments within the system. I've heard senior Chinese officials some years ago say that in general the alignments are more favorable to the United States. On the other hand, you have this great hope of Chirac and Schroeder a few years back helping China to counterbalance the U.S.

Then there's the BRIC Summit. So it seems that our Chinese friends are quite attentive to not only power but alignments within the system, and I wonder if you could say something more about how they see the trends.

KEN LIEBERTHAL: Does anyone want to?

VINCENT WANG: I think the post-9/11 strategic alignment actually unnerved the Chinese a lot. They see that the United States, primarily the Bush administration, using military diplomacy to strengthen relationships with Japan, Korea, and making inroads in Central Asia, and, of course, revitalizing the relationship with Pakistan and also the balance with India.

The Chinese actually feared that it's been encircled by the reenergized Bush policy. So the example you just gave, Shanghai Cooperation Organization or the China-Africa Summit or the BRIC Summit and so on to me they are attempts to kind of soft balance U.S. sort of a more robust foreign policy.

KEN LIEBERTHAL: Over here.

QUESTION: Pang Zhongying from Beijing -- maybe one of the few people here from mainland China. Just a quick response to your three presentations.

The first question may also be a comment. I quickly consulted with Richard Bush about the relationship between the forest and the trees and maybe both English and Chinese have a relationship to try to define the relationship between forest and the trees, (Chinese) in English called cannot see forest for the trees. So what does China mean?

And the second comment is related to this relationship. I think the multi-polarity argument is not only something that Chinese analysts advocate and agree on, but also many in Europe agree on this and promote it. Last month I attended a conference at Brookings, and the European participants said that this is a changing world, and there is a growth toward multi-polarity to replace the unipolarity. Others in the United States also mentioned this is new polarity by Richard Haass.

My last comment is about China's leading role and China wanting to challenge America's dominance. For example, the U.S. dollar's dominance. I don't think China wants to pursue such a leading role, but a more proper role. And China feels that it can contribute, and it can play a larger role in the system, but it feels it also needs more voting powers, for example, at the IMF. So this is not a leading role question, but about how to redistribute the power system, the international system. Thank you very much.

I would like to listen to your first question what does China mean in your presentations. Thank you very much.

KEN LIEBERTHAL: Thank you. That was more a set of comments than questions, but does anyone have a remark they want to make in response or no?

VINCENT WANG: Just briefly. I think China's for a greater equitable international order not so much dominated by the United States does have some sympathy in other capitals, and this, of course, also speaks to the so-called democratic deficits in many keystone international financial organizations, such as the two in this town that people have talked about including Joseph Stiglitz.

But it's to say that just because China and India and Europe both all want to see a more equitable international order, it doesn't mean that they will go as far as to challenge the United States. I think this -- every great power it still would like to work with the United States.

KEN LIEBERTHAL: Okay. There's the mic.

QUESTION: Thank you. I think there's one very big issue, an elephant in the room, if you like, that hasn't been mentioned and that is the question of the Communist Party, because clearly from Deng Xiaoping onwards it's not just a question of increasing China's prosperity and power, however you measure it, but it's also maintaining the Communist Party in power in China. And that is the core of a sense of thinking about stability and so on.

This means that in engaging with the outside world, there is a deep problem, because, in many respects, many aspects of globalization and the nature of intercourse in the outside world can be seen as challenging to various aspects by which the Communist Party maintains its power.

So I think this produces a certain diffidence in approach to the outside world. In one sense, there is a need to embrace it. But in the other sense, there's a feeling that maybe it's -- it contains various kinds of threats.

And I think this inhibits the Chinese side, Chinese leaders, from really articulating, if you like, what set of values they would like to bring to the international community that would gather support.

KEN LIEBERTHAL: Okay. Thank you. In the back. Yes, sir? And the last table there. .

QUESTION: Vojtech Mastny, International Security Archive.
I have a question to Professor Wang, and it concerns the respective views of the Chinese and Indian elites of each other. And I would like to invite you to relate to it somehow to those three paradigms that you mentioned -- the geopolitical, the geo-economic, the geo-civilizational.

It also sees some of the asymmetries. Now it is my impression that as far as the Indian policy elites are concerned, their view is balance of power pure and simple and not much beyond that, which is not the case -- and you may correct me here -- of the Chinese side that the view seems to be more sophisticated than that.

Now moving to the geo-economic paradigm, again, my impression is that maybe it is working out that way that the economies are complementary to trade is rising. But is there really a policy year based on a particular paradigm?

And as far as the third one is concerned, the geo-civilizational, isn't it just may be some wishful thinking among academics that one should admire the respective culture? Does it have much traction among policymakers, not to mention about the wider public?

VINCENT WANG: You're right. The Indian and the Chinese elites I interviewed you see more informed by the realist paradigm. But to say that everybody is a realist is obviously not true. And I also interviewed people outside academics or the so-called security community to interview businessman and ordinary folks.

So that's why I can give you the three different perspectives. In terms of the geo-economics, I think the Indian-Chinese economic relationship is on the rise. In 2003, the two countries upgraded their relationship to one of a comprehensive, cooperative, and strategic partnership. And they hope to significantly elevate their trade. I think now it's about $40 billion, and their aim is $60 billion.

So that's probably, upfront nothing, but it's still very small in terms of China's overall trade. So there's certainly room for further growth, and some segments of the Indian economy are concerned about shoddy products from China or some see it as sort of an economic -- so the debate is not too different from other countries who see China's economic rise as both as opportunity and threat.

Geo-civilizational, yes. The term is not coined by me. It's actually coined by Tan Chung who's Chinese and studied many years in India. And he pointed out the fact that, Mao Zedong in his lifetime only visited to foreign countries. One, of course, was he was summoned to Moscow by Stalin. The other foreign country he visited was actually the Indian Embassy in China.

So it's to show -- and when Nehru visited Beijing, he was welcomed by half a million Chinese. And then when every Chinese died, they said they will go to the West, *xi*. The *xi*, of course, means the land of Buddha. So there is a lot of mutual admiration, but whether this will transcend their very real political and economic interests remains to be seen.

KEN LIEBERTHAL: Thank you. Yes, way in back, and let me note two things. One, we have a lot of people who want to raise questions, so even though we have nearly 30 minutes, please keep them quite concise, if you can, and finally I want to tell the panelists, I'm going to give each of you two to three minutes at the end for any reflections you have on the discussion as a whole.

QUESTION: Samar Chatterjee from SAFE Foundation. I think Mr. Wang you have a lot of questions, and since you talked about India and China, and there was the Shanghai Cooperation, I'm wondering if those differences that exist between India, China, and Russia and maybe Brazil now that the BRIC has come about, can they really come together to form a geo-political group that would prevent the United States from going towards like Afghanistan, Iraq -- now it's wondering Iran, North Korea, and Pakistan, and so on and on, which is kind of ridiculous, and I think there is a need for a geo-political opposition to the United States in continuing to do these war-like crimes in my opinion.

KEN LIEBERTHAL: So the question is whether the BRICs can actually work together in the international system to counterbalance the U.S. Does anyone? Vincent?

VINCENT WANG: We have two or three minutes at the end, so I'm going to defer that.

KEN LIEBERTHAL: Fine.

VINCENT WANG: More questions?

KEN LIEBERTHAL: David, do you have a comment?

DAVID FINKELSTEIN: Yeah. Thank you for the question and the commentary. I'm not convinced that they can. It's not necessarily clear to me that there's a lot more than immediate national self-interest that's bringing these people together. I don't see any real common ideological thread, any philosophy, any shared vision of the world really that is uniting these disparate groups that the Chinese, the Russians, and others may be putting together.

KEN LIEBERTHAL: Yes. Can we have the microphone up here? Thank you.

QUESTION: Thank you. I'm Mark Bruzonsky with Middle East.org. A follow up more specifically on the question that was just asked. In the next six months, we face maybe even the likelihood that Iran will have crippling sanctions applied against it. Israel and the U.S. pushing for it -- possibly even a military tack, which the Israelis and the national security advisors Uzi Arad are talking about very openly. Can we expect in view of the fact that Iran has become the largest oil supplier to China some kind of reaction from the Chinese at the U.N. or in some other way that would be very different from what we've seen before?

KEN LIEBERTHAL: Dave, you're probably the one most teed up on that.

DAVID FINKELSTEIN: Yeah, thanks for bringing that up. I'm not sure what we can count on from the Chinese. So I think it's an open question at this point. It's been difficult enough to get movement on sanctions on North Korea, and you correctly point out some of the economic equities that China has at stake. What you really do is you underscore with yellow marker the dilemma that the Chinese find themselves in as they continue to ascend to large power status. What are they -- what do they really stand for? How can they actually operationalize some of the principles that they're starting to espouse? And I think that the question that you raised is one among many that keep the Politburo up at night. So I don't know what we can expect, frankly.

KEN LIEBERTHAL: Go ahead and follow it. Over here, please.

QUESTION: My name is Jeff Genota. I've studied a lot of China-Taiwan relations in my undergraduate. My question is for Dr. Finkelstein. It's two questions, but just of the same coin.

This month's Foreign Affairs Journal published an article about the Pentagon's wasting assets, and I wanted to ask if the fact that when he discussed that China is increasing its capability to deny access to the U.S. military in East Asia in case of a certain crisis, would you agree that that is part of your assessment of China's grand strategy and is that because of concern to, you know, the Pentagon and national security?

DAVID FINKELSTEIN: Thanks for a great question. I don't know what the intent is, and, again, I'm not sure that there actually is a grand strategy, however you'd want to define it. But I think there's enough evidence out there on the table to be able to posit with some degree of confidence that the Chinese military is developing capabilities that seem to be focused on denying access to others into the region. In fact, there is some who will tell you that Chinese naval maritime strategy and U.S. naval maritime strategy, even if they don't intend to be directed at each other inevitably will cause some friction is, because the two strategies are antithetical.

Since the day that our republic was founded here in the United States, our national maritime naval strategy has been founded upon freedom of access, freedom of the seas, and especially in Asia maintaining access to the Asian littoral. And now we're at

a point where Chinese maritime naval capabilities seem to be geared towards denying that sort of access.

I think that we've seen in recent and unfortunate incidents between our own naval vessel and Chinese military and civilian vessels in the exclusive economic zone some of these recent incidents a harbinger of things to come. These two militaries are going to be meeting each other more often than not and in ways they didn't necessarily plan.

And so, I don't know that it's part of China's grand strategy to be developing capabilities to do that, but the capabilities they are developing de facto have that impact, which is why I'm hoping that our two militaries can continue to rebuild the positive dialogue that hopefully has been resuscitated during the most recent Defense Consultative Talks this past month between USDP, Michele Flournoy and Lieutenant General Ma Xiaotian.

KEN LIEBERTHAL: Thank you. We still have a lot of hands up, and we have a little more than 10 minutes for questions before I give the panel time to give their reflections. So I'm just going to collect questions and not have people respond one by one unless there's something you really want to jump in on. If you'll just know what you want to comment on at the end fine, and, again, I'll ask you to keep questions fairly concise. We'll just work our way around, starting here and then up in the back and around.

QUESTION: Thank you. My name is Andrew Anderson-Sprecher. I work at Stewart and Stewart. I have a quick question. There's been discussion of strategies at a general level. Do different agencies and or departments in the government in China have different interpretations of perspectives on what China's strategy is or should be?

KEN LIEBERTHAL: Thank you. Yes.

QUESTION: Bill Jones, Executive Intelligence Review. My question is to David Finkelstein. With regard to the situation in Xinjiang, what do you think is the overall reaction or any rethinking in terms of the Chinese leadership on the Xinjiang situation, given that they seem to have been doing the right things generally -- the economic development, trying to bring in the countries in the area using that leverage on that, including the visit by Abdullah Gul just about a week or so before the riots who was there who praised the economic development and talked about Xinjiang as being the gateway between the Turkey peoples and the Han people.

And that seemed -- the riots really threw a monkey wrench into that political development. And it seems like it's in an area which is generally a very bad area -- a lot of rough characters around her wanting to cause trouble.
What do you think the effects of that's going to be on Chinese thinking in regard to their domestic policy and otherwise in terms of their internal security strategy?

KEN LIEBERTHAL: Thank you. Straight back.

QUESTION: Thank you. Damien Tomkins at the Atlantic Council. My question concerns Chinese contributions towards Afghanistan, Pakistan. Does there anything you think they could or should be bringing to that? Thank you.

KEN LIEBERTHAL: Good question. Eric McVadon?

QUESTION: Eric McVadon, the Institute for Foreign Policy Analysis. Dave, you spoke of the incipient expeditionary PLA. I kind of thought you were talking about something like the Gulf of Aden and maybe that was a big move toward multilateralism and sea lane security and energy security and those sorts of positive things.

From your comments just a moment ago, I had some doubts, and I heard Wu Shengli the other day say that he thought maybe the PLA navy didn't have the foresight to be looking beyond the Taiwan missions and actually contemplating such a thing. What did you mean and what do you think of Wu's comments?

KEN LIEBERTHAL: Thank you, and then right behind you.

QUESTION: Scott Harold of the RAND Corporation.

Dave, could you just comment picking up on the Xinjiang point, not just domestically. This is a big problem for Chinese international strategy and its relations with the Muslim world, which really kind of got a pass during the Bush years when the U.S. was perceived as being hostile towards the Muslim world. The Chinese were perceived as coming with just an interest in purchasing assets. And really to twin with that, maybe, Ken, could you comment on the recent detention of the Rio Tinto advisors. This is a real problem potentially for China's external relations in terms of both seeking FDI and also the go-out strategy. Thank you.

KEN LIEBERTHAL: Over there.

QUESTION: Stanley Kober with the Cato Institute. For years, I've been observing the Russian arms deals with India, and I always look to see if there's a Chinese reaction and expression of concern, and I've never been able to find any. So am I just missing something or are the Chinese not concerned about the Russian arms deals with India? If they're not concerned, why not?

KEN LIEBERTHAL: Thank you. Here and then here.

QUESTION: Zhuang Jian Zhong from Shanghai University.
My question goes to Professor Ding. Actually, I first actually thank you for the invitation to this meeting. My question to you is because you question whether it's realistic to China to pursue a policy of seeking a harmonious world. I think you forget the attributes.

We are -- the slogan for our foreign policy actually is we are seeking to build a harmonious world of sustained and common plus parity.

So China is actually doing that. We are sending our peacekeeping force everywhere in the world. And we are helping to solve the North Korean issue, and others. We are helping the world to solve the financial crisis. What's wrong with this policy? Although there are still conflicts everywhere, I think as China as a responsible stakeholder, we should pursue this policy. I don't know why you question it's not realistic. Thank you.

KEN LIEBERTHAL: Thank you. Yes, sir.

QUESTION: Chia Chen, freelance correspondent. Dr. Finkelstein, the PLA haven't done any real fighting for a long time, not just U.S. Army fighting all the time since World War II. How do they make of this lacking? And we are modernize our army to fight a future war. The most important element is IT. Can you compare what these two countries doing in this regard?

And you mentioned about the financial order. My question would be for the three persons on the panel. In your mind, what China can play in the new world financial order? Thank you.

KEN LIEBERTHAL: Yes.

QUESTION: Szu-chien Hsu from the Institute of Political Science, Academia Sinica. There's a gentleman asking about different -- possible different views of different agencies within the Chinese government on the grand strategy. And the title of this panel is the grand strategy. I wonder if the strategy should be plural, the grand strategies?

To what extent do you think that the Party center is doing a good job in leading or coordinating different views, perspectives of grand strategies within the regime itself? We know in domestic politics sometimes the political agenda is driven by, so to speak, interest groups within the regime.

To what extent that is also true for forming the grand strategy of China in the international community, particularly I know Dr. Ding is an expert on PLA. To what extent you think different forces within PLA have different grand strategic views and how does the Party center is coordinating those different views? Thank you.

KEN LIEBERTHAL: Okay. Thank you for really a very good set of questions and a lot of them kind of cohere in many ways. Why don't we work in reverse order from the initial presentations and so I'll ask Vincent to begin and then Arthur Ding, and then David Finkelstein.

VINCENT WANG: There are many good questions. We are wrestling with what China wants and what kind of player China will be.

I want to further comment a point I made earlier, sort of this ambiguous nature of China's foreign policy. Take some innocuous words like from harmonious world or peaceful development, for example. It seems that China is trying to do both -- on the one hand is trying to reassure the world. After all, who can be opposed to peace? I was thinking about that movie Miss Congeniality, who doesn't want world peace?

So it's basically like a placeholder. It's reassuring in diplomatic parlance, to reassure countries that might be concerned with or nervous about a rising China. But on the other hand, it's also exercise of Marxian dialectic, because once you accept the premise of peace or the kind of harmonious world China defines, then, of course, China can buy the time or depending on the circumstances to work out the details.

The kind of things that China is doing at this moment, which I use the RMB issue as an ambiguous example. Yes, on the one hand you can look at it as a very concrete attempt to shore up the value of as China's dollar denominated assets, but it is also consistent -- although probably not openly spoken -- with China's long-term goal to play a larger, increasingly larger role in world affairs.

Of course, it just likes over time the mixture of the first, which is the follower strategy, and the second which is the leader strategy, will gradually to change. And then, therefore, over time, you will see the results of the Marxian dialectic is actually a movement towards the kind of world that China desires.

I know, that this sounds a little abstract, but I don't know China has a grand strategy. I went to China and that's the first question I asked every interlocutor.

And, in fact, some of them were very surprised that I even asked them that question, but, of course, we political scientists like to theorize it. We think that there is some kind of comprehensive strategy to coalesce all diplomatic, political, military means to defend China's national interest and to shape, the international environment in a way that benefits China.

ARTHUR DING: In response to Szu-chien's question.- we should probably talk about Chairman Mao. As David Finkelstein mentioned, strategy is also always contingent on circumstance. We know the decision-making process is very complicated, involving different sectors and different levels.

Frankly speaking, I don't know what the relationship between the CMC and those people in uniform is. But it seems the sometimes they have, in certain periods, they have so-called (in Chinese). Then they focus on this so-called (in Chinese).

For instance, in 1995-1996 Taiwan Strait Crisis, then they perceived that Taiwan wanted independence. They wanted to procure more weapons and to show that

they want to deter the U.S. from getting involved in the Taiwan Strait, also called the Anti-Access Strategy.

So maybe another better way is to focus on what is the main contradiction in a certain period.

With regard to Zhuang Jian Zhong's question, actually there's nothing wrong with the "harmonious world" approach. It sounds very idealistic, by citing Confucius. But on the other hand, we see that China has this kind of ambition, and wants to build itself up and harness this rare opportunity to build itself. So then we will see what is the so-called harmonious world. What is its function? Maybe, as Vincent says that on the one hand, it is to try to reassure other actors or other powers that China will not expand, and on the other hand, China is trying to buy time to develop itself.

Chinese leaders often say that they are not seeking hegemony in the past at present and the future, but that they are making decisions for the next generation. So sometimes, the idea of a harmonious world may or may not persuade outsiders. For me, though, it's questionable.

Back to Pang Zhongying's question. Other countries also promote the *duojihua,* or multi-polarization. Well, the question is will China really benefit from this kind of a multi-polarization process or not? When we were graduate students, this kind of shifting coalition or the other more emerging issues were not seen before. So maybe it's a kind of an ideal, that China can be an equal, but will China really benefit from *duojihua* or not? I don't know. At this stage the internal discussion in China seems not as assertive as the bipolar system. This is at least the preliminary conclusion I draw from internal discussions.

KEN LIEBERTHAL: Thank you, Dave?

DAVID FINKELSTEIN: Thanks for a really interesting set of questions.

On the first one, on strategy, differing strategies and perspectives within the Chinese system, how can I possibly answer when I'm sitting next to the author of "How China is Governed." I tell you with great embarrassment and not a modicum of frustration that I am less certain of what I think I really understand about how the Chinese government develops policy today than I was 30 years ago.

And I tell you that in all honesty that what I see going on is there are such a diverse set of issues that the Chinese establishment has to deal with. I wonder how do they rectify all of the competing bureaucratic interests from issues set to issues set and is there -- and they're so diverse. And what mechanisms are there that bring it all together and impose some large strategic principles or concepts upon them?

Do the leading small groups do this on their own? Do the ministries even matter? Does the Ministry of Foreign Affairs make policy or merely execute policy? I

mean these are questions that I still have, and I'm trying to answer. Who brings all the leading small groups together? How does the system unify their approach to these issues?

I frankly don't know. It's very clear that each ministry has its own or each *xitong* has for lack -- I don't think ministry is a good word, but *xitong* is a better word for because we have enough Chinese friends here to use it, has their own bureaucratic and parochial interests at stake in whatever set of issues are being dealt with.

How these get resolved is an open-ended question, and frankly the Chinese process is not transparent enough yet for me to be able to look at open source materials and state with any confidence that I understand how it really works out.

So I apologize for not being very satisfying on that one. Ken, if you want to add on that later on, we'd all be grateful.

On the issue of Xinjiang for Bill and Scott, you know, what I saw going on in Xinjiang on the part of the Chinese authorities was applying the very important lessons they think they learn from 1989 and every other Chinese disturbance since then.

This is serious. Take care of it. Don't let it get out of control. Hu Jintao is leaving Italy. He's going to be back there to take control. Make sure stability is reestablished. Whether or not one cares for how that is done is a different question.

But -- and that's a debate that honest men and women can have. But it seems to me that they were very quick to impose stability once again.

And, Scott, I think that -- I think Xinjiang may have the potential to be a sticking point in relations between China and the Muslim world. I was sort of surprised -- maybe I shouldn't have been -- but I was surprised at the reaction that we got from Ankara that this was -- there was this pretty tough talk from the Turks, with whom the Chinese generally have a pretty good relationship, and the Chinese actually look to Turkey as a model in some cases because how does a traditional civilization become secular, right, and work its way through some of the shoals and reefs of a complex world.

So this could have the potential to have repercussions, but we'll have to wait and see.

On Afghanistan, Pakistan, I mean clearly, clearly the government of the People's Republic of China has some serious equities at stake as they watch and figure out what the U.S. is going to do now that we have the hyphenated front known as Af-Pak. I mean China does not have military alliances, but, if they did, Pakistan would be right up there on the top of the list that they would sign up.

So the good news I hope will be or has been -- the good news I hope has been that this issue has been talked about in detail at the recent defense consultative talks that were held in Beijing, and I'm also hoping that I assume it will be a topic of

discussion between Washington and Beijing later on this month during the strategic and economic dialogue that will take place here in the capital.

We absolutely have to talk to the Chinese about this issue, and the Chinese should be thinking about how they can potentially be a force for stability and positive movement on those fronts.

On Russian arms sales to India, I don't know why there hasn't been a lot more in there, but maybe it's just not going out into the open press. But certainly, the Chinese cannot be happy about a lot of Russian arm sales to India, especially after the Russians just decided not to sell them, the Chinese, some fighter based on IPR violations. So that hurt even more.

Admiral McVadon, on incipient expeditionary PLA what does that mean? Okay. Let me tell you what it does not mean. I'm not here to suggest that the PLA is going to be turned anytime soon into a force that can conduct sustained combat operations anywhere in the world. That ain't going to happen. All right.

What I do see happening is that the PLA is developing the capacity, the thinking, the mentality, to take discrete force packages and send them along China's periphery and in some cases beyond, as evidenced by the Horn of Africa anti-piracy operations in order to secure China's interests when the center, however that policy is decided -- remember I don't know how; right -- however that policy is decided that discrete force packages can be sent out to show the flag and then actually engage in some operations.

You know, the whole concept of military operations other than war is not just humanitarian assistance and disaster relief. If you look at the old -- the joint publications that the Joint Staff puts out, which the Chinese self admit they've been studying, it's also about low-intensity conflict.

So, you know, we should be prepared psychologically to see a little bit more of that and how those decisions will be made I do not know.

On the last issue of the elephant in the room, yes, Michael, it is about the Party. And the unstated but needs to be restated assertion at the get go is that whatever the strategy is, it must be there to ensure the maintenance of the regime. It's not just about the Party, but it's always about the Party.

I think I'll just wrap it up there.

KEN LIEBERTHAL: Well, thank you very much. Before we express our appreciation to the panel as a whole, I just want to review a couple of logistical issues.

I gather we now break for lunch, which will be out here. You can bring lunch back to your table. If you are leaving and not coming back, please take items from the table with you so that people know the seat is available.

RICHARD BUSH: Just one emendation to that. The food is actually located in two places. It's in the hallway off the Falk Conference Room, where this group is. And then there's another set of food in the Somers Room, which is across the lobby in the back. And what I'd suggest that the Falk people sort of get the food right next door, and the people in Saul and Zilkha who are watching this on the closed-circuit TV go across the lobby to get it in the Somers Room. Sorry for the interruption.

KEN LIEBERTHAL: No, thank you. And I hope you'll all join me in expressing our appreciation for a really excellent panel and discussion.

[Recess]

ANDREW YANG: Well, good afternoon, everybody. We have started a bit late, five minutes late behind the schedule session time here, but I was advised by Richard to kick off the discussion right now.

My name is Andrew Yang from Taipei. I'm currently the Secretary General of the Chinese Council of the Advanced Policy Studies based in Taipei. And to begin, I want to thank both Richard and Dr. Tuan Y. Cheng, who invited me to this Taiwan-U.S. Conference here to make my first public appearance as a frequent, but Washington, visitor here. This is my first public appearance at The Brookings Institution.

And we have our Panel II discussion, focusing mainly on the Obama Administration's policy towards China and towards cross-Strait relations, and we have there distinguished speakers for this panel.

On the right side, I would to introduce Dr. Tuan Y. Cheng. He is the director for the Institute for International Relations at National Chengchi University, also the co-organizer of this conference; followed by Professor Michael Green, who is the Senior Adviser and Japan Chair at the Center for Strategic and the International Studies.

And the third speaker is on his way now. Mr. Kevin Nealer is a principal at the Scowcroft Group. So why don't we just begin with the Professor Tuan Y. Cheng to kick off the discussion. Professor?

TUAN Y. CHENG: Thank you, Chair Yang. It's really my great pleasure to present my paper here. Since we only have 10 minutes to present, I would like to properly give a short introduction and directly hit the main points of my presentation.

The purpose of this paper is to examine the changing U.S.-Taiwan-China triangular relations, with an attempt to provide an analytical framework to explore the future relations of the three sides.

The U.S.-China-Taiwan relationship has long been considered a micro strategic triangle in the Asia-Pacific Region. They are closely connected and inter-reactive among the three sides. From 1970, by the establishment of the triangle until 1980, it was always a type of asymmetrical triangle. In the triangle, as you can see the main characteristics, we can see the United States as the major actor, the most powerful and the predominant; and China the second powerful; Taiwan stood as the weakest, meanwhile, the U.S. continues to keep positive relations with both China and Taiwan. So, no question: the United States is pivot and the predominant power in the triangle.

Relations between China and Taiwan were antagonistic against each other almost all the time, and it was a constant phenomenon during the period. Because of that, China and Taiwan, both tries to win the support of the U.S., and that only reinforced the U.S.'s pivot position in the triangle. So that was the situation in the triangular relations before 2008.

However, beginning from 2008, we have seen three major changes of the triangular relations. The first was the easing of cross-strait relations. After Ma Ying-jeou was elected in 2008, cross-strait relations have gradually improved, as you know very well.

Second, the fast rising of Chinese power made China much more competitive and capable to pose a challenge to the United States, even though the Chinese military power is still far unmatchable to the American military.

And third, China is getting more international influence. For example, if I can give you one illustration, in the Bush years China depended on the American market for economic development and modernization, while the United States depended on China for regional and international security. However, now we see not only the United States depending on China on regional and international affairs but also on international financial relief and economic recovery.

Because of this change, we see some obvious impact on the triangular formation. First, we see the cross-strait relations go from constant conflict in the past to either cooperation or conflict in the future. And the second, U.S.-China relations from constant cooperation in the past – the Chinese always follow American leadership, and comply with U.S. requests in the past -- but in the future China becomes more independent and assertive. So it could be either cooperation or conflict with its relation with the United States.

The third factor, U.S.-Taiwan relations, however, remains unchanged. In the future, Taiwan will still need to rely on the United States for survival and development, both in terms of security and economically. So according to the change, we can see at least two measures of variables, and this can help us shed some light on the future change of the close relations in conflict and cooperation; and the U.S.-China relations, conflict or cooperation. Also, the position taken by Taiwan between U.S. and

China. So when cross-strait relations are in conflict, and U.S.-China relations are also in conflict, in that case Taiwan will take the position of conflict.

When cross-strait relations are in conflict, and U.S.-China relations are in cooperation, in that case Taiwan will be constrained by the United States or by U.S. and China, jointly. When cross-strait relations are in cooperation and U.S.-China relations, however, are in conflict, in that case the best that Taiwan can do is neutralize -- take neutral position, and not go against China and the United States.

Lastly, when cross-Strait relations are in cooperation and U.S.-China relations are also in cooperation -- this is the ideal situation -- of course, Taiwan will take the position of cooperation.

Accordingly, we can use the full triangles to reflect the four types of relations in the future -- type A, B, C, and D in corresponding -- with the four types of relations. But we know right now from 2008 the triangular relations -- I mean dating are transformed and the change from the three-fold asymmetrical triangle to dual asymmetrical triangle, since the Chinese power is becoming more competitive.

According to the new change, and the future types of the triangular relations, I think some main characteristics of the types can be identified. First among the four dual asymmetrical triangles, in terms of triangle instability, the ranking of the stability, the type D, is considered the ideal scenario, the three win-win-win situation, all three sides get a benefit from the triangular relations. So under the situation, the triangle is quite stable.

Type B is becoming unstable. Type B is just as similar as the triangular type before; however because of the change of power, and then we see that the United States is no longer predominant in the triangle and could be challenged by China. So under the situation, we see that type B is not as stable as before.

Type C is a hazard to Taiwan. In type C, even Taiwan keeps positive relations with both sides, with United States and China. But since Taiwan is the weakest in the triangle and cannot control and manage the triangle, so under the situation Taiwan is in a dilemma and the triangle is rather unstable.

Of course, we know that type A is the most dangerous and explosive situation, and it is the direct confrontation between the United States and China, and then Taiwan sides with the United States. So it's a kind of overall confrontation.

In terms of American influence on across-Strait relations, we can see how in type A the United States can exercise the most in type A, and then follow in type B, C, and D. I think here it is very interesting to find out when cross-strait relations are in conflict, the American influence can be stronger. That is, the United States can exercise more influence; however, when cross-strait relations are in cooperation, in that case the United States law gets weaker and thinner.

Now, we turn to the issue about the prospect of the future of triangular relations. Most of the people agree the U.S.-China-Taiwan relations are in good condition now. That is the ideal, the ideal type D, and this has never happened before -- all three sides maintain positive relations with each other and also among themselves. And it's the first time for the past 50 years, and has never happened before. We hope that the situation can continue and all three sides agree. In the first two years of the Obama Administration, type D will continue to remain.

However, after the first or second year of the Obama Administration, there are quite different views on the future relations of the three sides. First, from the Chinese perspective, most Chinese are quite optimistic about U.S.-China and cross-strait relations; as for the Chinese perspective on U.S.-China relations, they think China is becoming more important to the United States, and U.S.-China relations are getting more interdependent.

So it is hard for any party to change the direction regarding cross-trait relations. The Chinese consider Taiwan to be getting closer economic link to China in which there are coming more economic activities and social changes. The across-Strait relations are getting closer, and it will be difficult to go back to conflicted situations. So at least they think that type D will proceed, so they're quite optimistic.

If the type D will continue to go real from Chinese, they think the triangular relations will be transformed. That is all three sides when they are all positive relations, and then it will be transformed into three bilateral relations, no more triangular relationship. Overall in the process, they see a down-trend of American law in cross-strait relations.

A view from the American perspective about the future of U.S.-China relations -- some American observers are positive about future U.S.-China relations; some cautious and pessimistic. About cross-Strait relations overall, they welcome the progress; however, considering the future, many are quite uncertain.

In other words, a view from the Americans that since U.S.-China relations could be either cooperative or conflictive in the future depending on American policies, Chinese strategic planning regarding cross-Strait relations could be either cooperative or conflictive due to factors such as Taiwan's domestic politics, uncertain relations between the two sides across the Taiwan Strait, and also different political agendas between Taiwan and China.

Finally, from the Taiwan perspective, we consider the U.S. and China to be very different in many aspects, so it's very hard to keep an eagle and dragon dancing for too long, since they are two different species and dance in different steps. So the future will be mixed with cooperation and conflict. About cross-strait relations politically, Taiwan and China can't be too close, but economically Taiwan cannot go too far from China.

So the future of cross-strait relations is a kind of not-so-close and not-so-loose relationship -- it's in the middle. Highly skillful management is required, not only to deal with cross-strait relations, but also U.S.-China relations, that is the triangular relations under the situation view from Taiwan. It could be type D, B or C, but overall conflict between the two sides, U.S.-China or Taiwan, I think will be less likely.

So my conclusion is that U.S.-China-Taiwan relations are changing, and because of this change, the old type of triangle is outdated. A new analytical framework is required. Type D reflects the present triangle, but in the future and all four types of triangle, according to the majority view, could be possible.

Thank you very much.

(Applause)

ANDREW YANG: Thank you, Professor Cheng. I would follow Ken Lieberthal's rule and give a two-minute notice to the speakers and try their best to present their papers within the 10-minute time frame. Next is Mike Green. Mike?

MIKE GREEN: Thank you. I'm very glad Kelvin Nealer showed up to talk about the economic relationship because I was told with this assignment there would be no math. And also I want to say hello to all the good people in the next room. I don't know if you know this, there are about 30 or 40 people sitting in the next room watching us on a large television monitor. And when I went in there and was surprised to see them, it reminded me of the last U.S.-China Summit I went to when I was on the NSC staff -- it was in 2005. My bosses wanted me to change the format a bit because usually we would meet in the Great Hall of the People, and there would be six or eight Americans and then about 30 or 40 Chinese officials on the other side. So I haggled, and I argued, and I debated. And finally, my minister of foreign affairs said, "Okay, six on a side." And I went back and reported it to the president, and I did it, so six on a side. So we sat down and we had our meeting. It was a very good meeting with six on each side.

And then one of our delegation went to find the men's room and opened a door, and inside the door was a room like that one with all the Chinese officials that had been kicked out taking notes and watching us on a big screen.

So, so much for my expertise on U.S.-China relations.

(Laughter)

MIKE GREEN: I've been asked to talk about U.S.-China relations under the Obama Administration. I'm, in addition to being at CSIS, I'm on the faculty at Georgetown, and it's a bit early in the semester to be giving a grade to the Obama Administration. Some key officials like Kurt Campbell have only been on the job two weeks, and the Treasury Department, most of the key officials aren't even there yet. Our

ambassador isn't in place, so it's a bit early. But I will make an effort to do this -- mostly by asking question, which is what good professors do early in the semester rather than giving grades.

I will say that I worked for President Bush and I worked on the McCain campaign; but I think they're off to a quite good start overall. In some ways the Obama Administration was handed a pretty good political hand on China-U.S. relations. The typical pattern over the last 30 years when the party in power changes in the U.S. is that we have a rough time in U.S.-China relations for the first six months or two years because of the politics.

Reagan came in having criticized Carter for abandoning Taiwan. It took him awhile to sort of get back to a steady China policy. Bill Clinton came in accusing George Herbert Walker Bush of coddling the dictators of Beijing. It probably took a couple of years before they established a consensus, internally, on the Clinton Administration on China policy. The Bush Administration came in with Condoleezza Rice's famous article in Foreign Affairs saying China is not a strategic partner, the kind of language that the Clinton Administration was accused of using, but rather China is a strategic competitor. And it took, basically, EP-3 and some crises in the first six months to get the Bush Administration's China policy sorted out.

A lot of people thought that the last election cycle would see a lot of China issues. And at one point Hillary Clinton as a candidate gave a speech in April 2008 in Indiana trying to link economic tensions with China to national security. And as we say in basketball, it was an air ball. It didn't even hit the rim, it didn't have take. And when Obama and McCain joined in the general election, China very rarely became, in fact almost never became, a major issue. I was in a lot of debates with Richard and others, and I think the press was disappointed at how little we fought except on free trade and North Korea policy.

So the Obama Administration came in with not a lot of locked in campaign pledges on China, and I think the overall trend, therefore, has been continuity from the Bush Administration, and in many ways continuity of the China policy we've had for the last 30 years. And I think that's been welcomed in China and generally welcomed in the region.

So what am I supposed to say? Well, it is early, and I suppose that since administrations that come in with a lot of controversy about China take about six months or a year to realize the right way to do China, it's possible that the lack of debate about China this time has created a false sense of security about the politics of U.S.-China relations. I, personally, don't think that U.S.-China policy has really been tested, politically, for this Administration. I also, personally, think that there is not a clear overarching Obama foreign policy doctrine.

Having worked on the campaign, what I mostly saw, and I'm glad for it, was a kind of pragmatic adjustment on issues from Iraq to Afghanistan to North Korea by

the Obama Administration. Now, pragmatism is a good thing, but it does leave open questions for a lot of people about what are the guiding principles of Barack Obama's foreign policy strategy, particularly since a large part of his political capital is going into quite ambitious domestic endeavors like health care reform, climate change, and, of course, the all-important economic recovery.

So there are some things that I, at least, will be looking at or some questions I have that I will be watching over the coming months. I'm generally optimistic. I think the Administration has a very strong Asia team. Many of them are friends with me and Kevin, but you should not hold that against them, at least not in my case.

First question I will be watching is, what is the overall strategic framework for U.S.-China policy? In general, I would argue that since the mid-1990s the U.S. approach to China has been for Clinton and Bush some combination of engagement and balancing. And I think these are generally complimentary. Another way to put it, sometimes people have said it's a combination of direct engagement and then a rim approach, or an outside in-approach and an inside out-approach.

If you want to see the two versions of this, Richard Bush, Jeff Bader and I wrote two different pieces for the Brookings *Decision '08* book on how to handle foreign policy. We wrote the Asia-China chapter, and I think our chapters were highly complimentary, but one emphasized the bilateral piece, the other the external piece.

Another place where these two views are captured is Bob Zoellick's stakeholder speech on China, "The Responsible Stakeholder," emphasizing building cooperation, and then "The Armitage-Nye Reports" of 2000 and 2007, the subtext of which was to get China right you have to get Asia right. You have to get your alliances right. And therein lies a very complimentary holistic American strategy, but also some tensions as well.

One question I have is that sweet spot for the Obama Administration. So far I would say they have successfully used both gears pretty well. They signaled a quite strong intention to build a personal relationship between the President and Hu Jintao to cooperate with China, including on new areas like climate change, but at the same time Secretary Clinton and the President have been very careful to stop in Japan first and invite the Japanese Prime Minister first, talk about our allies as the cornerstone.

Some people have noticed the migration recently in rhetoric and declaratory policy from saying the U.S.-Japan alliance is the cornerstone, and to it is a cornerstone. I haven't seen that, but for the most part I think they've pushed both levers pretty well. But we're very early on, and in some ways a visit is the easy part. I think there are some hard choices coming up that will start to bear out where the emphasis lies. There are calls, as an earlier speaker said, for a G-2. I don't think that has much traction in the Administration, but it does in some quarters, particularly with respect to climate change and energy issues.

So I'll be watching that, and for me I think the President's trip to APEC, to Asia in November, will be the time when this is really articulated. There is also talk of an East Asia and strategic report out of State, or DoD, or the White House which will lay out the Asia strategy. So that's what I'll be looking for to see if this early movement is going to continue.

Second question which is related to this is, how will the Administration respond to the PLA military buildup? The Administration has restarted nil to no talks, that's good. They've emphasized transparency and dialogue, that's good, we need that; but it's a necessary but not sufficient piece of the policy given that the PLA military buildup and the U.S. trying security interactions are not static.

China is increasing, as you all know, its defense budget at double-digit rates when in the rest of the region they are essentially flat or growing at one or two percent with new capabilities in access denial, threats to carry out battle groups, threats to U.S. base assets, cyberspace, a fourth generation PLA, fighter aircraft. There's a lot happening, and I think the Administration is going to have to make some calls on this one.

One of the big ones will be F-16 sales to Taiwan, which I personally think will happen, but that will be one thing I'll be watching. I think it would be a mistake not to provide Taiwan with a defensive capability that needs, in light of this increased threat, but it hasn't happened yet, and it's not convenient, and it's never convenient.

So those are the kinds of things worth watching. Another one would be how we build our alliance relationships with Japan-Australia in the future and issues of missile defense, and how we talk about China in the nuclear posture view. A lot of these things will give signals to our allies in particular, and, of course, to Beijing about how we see the role of military balance of power and how we avoid a security dilemma on the one hand, and on the other hand avoid a weakening of deterrents, dissuasion and stability.

The third area, which is more Kevin's area, is economic policy. I recently a U.S. -- senior U.S. official say that so far the strategic and economic dialogue talks had been nasty, ugly, there's been backbiting, there's been name-calling, there's been ad hominem attacks, and that's just between the State Department and the Treasury Department. You were there for that, I think.

(Laughter)

MIKE GREEN: So far, the SEND is extremely ambitious, but it seems to me -- and Kevin may know better -- it's still form over substance. I think there's a general agreement the strategic part of the dialogue will focus on climate change, but the economic part of the dialogue broadly will address global imbalances, financial liberalization, but I'm not sure that we and our Chinese colleagues are in the same page

about what the priorities should be, or what the output should be, or how it should be measured.

The general sense is we have a year, maybe, something like that before the Congress and the press starts asking hard questions. But meanwhile we have things like protectionist amendments to the cap and trade bill and other movements on the Hill that are putting pressure on this relationship, economically, and that could increase.

Finally, the fourth question is -- and last question -- is about the role of human rights and democracy in the Administration's China policy. And here I really am somewhat perplexed and less positive than I am on some of the other areas of the Administration's China policy. I see very conflicting signals, unless it's a very sophisticated strategy that I've missed.

I think Secretary Clinton -- and I don't think she did this deliberately but -- suggested there's a link between a softer tone on human rights and the fact that we need China to buy treasury bills. The same news cycle those two signals were put out. I don't think it was deliberate. But then, more recently, the response to the crackdown on Xinjiang, has, I think, been met with a fairly muted call on restraint -- for restraint on both sides -- when, in fact, the coercive power of the State lies with Beijing, and therefore a greater responsibility.

On the other hand there was a quite surprising and public call for the PRC to reflect on Tiananmen on the anniversary on June 4th. So it's a big contradictory -- my sense is the Administration has not found its sea legs, has not found its bearings on human rights and democracy policy, generally. And I say that looking at Iran and the response there, the President's speech in Cairo, which I thought had an awful lot of relativism, but then his more recent speech in Accra in Africa was fantastic talking about the importance of governance.

So it may be that they're sorting this out and shedding some of the baggage of Iraq and some other political issues of the past. But here there's great confusion, and I think if the Administration doesn't find a way to find a steady and consistent, public and private -- and I think it has to be both -- public and private presentation of the importance of governance, human rights, and democracies to the U.S.-China relationship, they're going to regret it.

I speak from experience here because if may be a fairly low level of pressure now, but if this is the mode we're in, in October and November when the President is getting ready to go to China, and all of the White House reporters and foreign policy generalists, not the Asia experts like us, start looking for their book on the trip, this is going to figure very prominently.

The President is going to have to make hard decisions: Does he see dissonance in China? Does he go to worship in a church? And that's where the crunch is going to come. And if you haven't sorted that out, sorted out your strategy and started

laying the groundwork privately with Chinese counterparts, an publicly with the Congress and the press, you get in big trouble. So that one, I think, of the four, is most unsettled to me.

But overall it's early, it's a strong team, and I think the early movements are quite promising, and I think there is a bipartisanship now to U.S.-China that certainly is encouraging. We'll just have to watch these areas.

Thanks.

ANDREW YANG: Thank you, Mike. We have Kevin coming just in time to present his paper. Now I turn to Kevin to discuss these economic issues.

KEVIN NEALER: My apologies for being late. When you walk into a session and the ideas are as well formed as in Dr. Cheng's paper and as complete as Michael Green, the temptation and emotional maturity indeed would require you just shut up and say, "Yeah, I'm with the two of them." Nonetheless I'll try to extend this to 15 minutes. Thank you for including me.

To follow up on what Dr. Green just said, I think there are two versions of policy guiding every major relationship that the U.S. has, the stated policy goals and the policy that arise from current events. The first of these are carefully crafted statements of the President, the Secretary of State, and others in our government, and the position papers that are now available, magically, in the State Department website, and the all-too-numerous reports to Congress. American goals and policy assumptions about interests are recorded in these careful formulas that display a lot of confidence and purpose.

The first week at the State Department I was in my A-100 training class seated with colleagues that had PhDs in Central America relations. The director of the class said, "I'd like to prompt a discussion about Nicaragua," -- which was a burning issue at the time and will be again -- "what do you think about U.S. policy?" And there ensued a nearly hour-long discussion which the Asia hands sat out and watched with humility as people steeped in the region described what they thought was going on in the region and what the U.S. was doing good and bad. It was a very erudite thoughtful conversation at the end of which the instructor said, "Fascinating. I've learned a lot."

Do any of you know what the United States policy towards Nicaragua is? It was not enough in that occasion just to recite what was in The New York Times and elsewhere. You actually do have these things enshrined in statements. They're less subjective than we might want them to be.

I think, as Michael said, if you look what the President has said about the relationship with China, he's chosen words like "positive and constructive." He's expressed an interest in strengthening cooperation across a broad range of issues, along with discussing with Chinese leaders such issues as the financial crisis, North Korea, Iran, Afghanistan, Pakistan, Sudan, the full suite of international relations. Obama has

called for increased military-to-military dialogue to avoid the kind of incidents we've seen in the South China sea.

He's made clear in meeting with Chinese officials on a personal level that -- and I'm quoting from his own statements -- "Promotion of human rights is an essential aspect of U.S. global foreign policy." Allowing Mike's fourth question as a neuralgic issue, I think were we in the meetings with the President and senior Chinese leaders, we and they would be unconfused about the place of human rights. I think the vocabulary, the political vocabulary inspired by deep and what Richard and others of us saw in the campaign as personal and thoughtful views about the place of human rights, that conversation is pretty well developed. I don't say it won't change and it won't be adaptive, but it's mature and it's driven from the top. Personally, I've got a lot of confidence in it.

Among the more contentious statements the Administration -- the President has been unambiguous in calling for China to play a greater role as a global leader. Now, as Michael said, Bob Zoellick used that phrase, but in another context. Here it's occasioned a lot of concern when it comes out of the Obama Administration officials and the President himself. They're wary about promoting China to that status. I got to say, honestly, I find such concern remarkable.

It would be surprising if this, or any other administration at this moment, didn't choose to, or chose rather to disregard or devalue China's role, given the past few decades of economic develop and the very changed circumstances in which we and China find ourselves. Every administration, I think you'd allow, in the past 30 years has adjusted its expectations of China and every other country based on the historic changes that are going on in Asia now.

Ambassador Jeff Bader, who is Senior Director for Asian National Security Council, has described the President as not conflicted about requiring China to play a role in world affairs commensurate with its weight in the international community.

Again, frankly, I don't know what alternative Jeff and the President would have. The notion had its clear antecedent in the responsible international stakeholder language that Bob Zoellick used and I think, if you extend this metaphor of corporate governance, I suppose the pushback from critics of the insistence on such a Chinese role is that a stakeholder has an interest in how things turn out that only managers of the global system can exercise leadership responsibilities.

I got to say at a personal level, I confess to preferring that we require Beijing to have obligations in the international system and to develop habits of cooperation as opposed to the possibility of that China behave solely as a passive investor collecting dividends while quietly resting on paid-in capital.

Another rhetorical change that's been pointed out, and Michael's hinted at this as David Shambaugh and others have prophesied, that there will be a decrease in the

use of the term "hedging" in describing American policy towards China. That well may be, but again at the hints we get from the interior dialogue with Chinese leaders, the President and others, I think, have been very clear in saying that U.S. policy is going to remain flexible; indeed that Chinese policies and their direction are still unknown and that the U.S. intends to continue to be adaptive and aware of the changing circumstances.

Again, Ambassador Bader and others have noted that President Obama is not satisfied with the current state of the trade relationship, and Michael's hinted as has Dr. Cheng, at the complexity of that. I want to come back to that in a moment.

One of the things that I think we'll probably hear more about tomorrow from colleagues who are authentic experts on the economy is this notion of rebalancing -- a phrase the Administration uses often -- not only to talk about goods and services trade but sustainable development, user resources, and other policies relating to China.

I said at the outset that there are two sources of policy. The second source is every bit as real as the first, and it's obviously the product of events. The real world intrudes in this messy, indifferent way onto those carefully negotiated languages of speeches and position papers -- Belgrade Embassy bombing, EP-3 -- we know all these inflection points far too well. They're wonderfully unpredictable, these events, and democratic, if you will, in their consequences for the nation, for nations and policymakers. They just splash themselves onto the pages, and they force instant reactions and adaptivity, and course adjustments.

I want to talk about how the financial crisis has, with due respect to both Dr. Keidel and Gene Ma, who we're going to talk about this in a comprehensive way tomorrow, I just want to talk about what it may have -- what we ought to think it may have done to the Obama Administration. It's probably not possible to exaggerate how it's sucked the oxygen out of everything else in Washington. You have a deep sense of this already. I know you appreciate it. It has pushed the reset button on global policy choices, to borrow a phrase from a Russian vocabulary.

Most of us in the foreign policy community and security community are going to persist in talking about these economic events as belonging to the world of soft issues. But I got to tell you, the impact on policy planning, on leaders' time is anything but soft here in town. We've got the IMF telling us that global economic activity is set to contract by 1.4 percent. That simply hasn't happened, you know, since World War II.

The World Bank talking about GDP growth projections in the developing world, the people least able to adapt, declining by, like, 2.1 percent as against 2008 levels. And world Bank analysts -- and this is the one that really scares the devil out of me -- I got involved in international trade law in theory because I saw this graph as an undergraduate that showed world trade, and it was this wonderful, sublime pattern of growth since the 1930s. And I thought even a very mediocre intellect like me can probably make money working on trade policy against that kind of curve. I'll take that bet.

This year for the first time ever, it turns out to be a bad bet. You've got Pascal Lamy of WTO out there talking about -- well, the World Bank says world trade will contract by six percent by end year, and Lamy, in an apparent bidding war with the World Bank, said, "No, no, no, it'll be 10. It'll be off 10 percent." That's just breathtaking, and it's hard to exaggerate what that does to policymakers. Okay, what possible relationship does this have to Sino-American issues? Well, I think first it changes the assumptions about uninterrupted prosperity and mutually beneficial development in an increasingly stable world. These are shared American and Chinese assumptions.

What does that do to the train of decision-making? We don't know and they don't know yet, I would say. And second, there's this role of government issue as, here in the United States, more than $1.5 trillion of what was the private sector balance sheet, has just been assumed by the U.S. government. We've had a corresponding jump in, I would say a resumption of government role in China, though in my last trip I was a little startled to hear of a senior official say, "We worry about this trend where statism is on the rise in the United States.

Those of you who talk with Chinese economic officials a lot and look at the blogosphere on this and are overly-accustomed already to this idea, this snarky line about, well, communism -- capitalism saved communism, now communism is saving capitalism. It's not that good, is it? It's a lot messier. And what that means in terms of the policy interaction is, I think, is still an open bet. I don't think we know.

But segregating from the larger economic concerns that are taking senior leaders' time, Michael's issue of trade policy and its direction there, I think you know, we've shared some fundamental assumptions about the economic crisis. I'm not sure that neatly transfers to our assumptions about what declining global trade may mean for us both.

I took it as a very encouraging sign several months back -- that the Obama Administration -- and I should say they have gotten no credit for this in the editorial press, this is one of the things that editorial board writers -- well, they believe that Democrats in control of the House and the Senate and the White House, it's a stop-them-before-they-kill-again approach to trade policy, Democrats always do the wrong thing on trade. I would point out that there's little real evidence of that, not just in the Clinton Administration but prior to that as well.

But the real danger the Administration faced when it walked in the door, the event, the messy event that required a presidential judgment early on, was the currency manipulation report. They avoided what I think would have been a needless crisis over that, and I hope Burt's going to talk tomorrow about this to some extent. We've seen, I think, generally, a turning down of volume on the currency issue, all of which I count to the good.

The next thing to watch on the currency and trade front is the strategic and economic dialogue, but I want to leave you with a couple of danger signs on the near-term horizon, and again they're likely to be inescapable. One is the WTO case that we saw, what, a week? Two weeks ago be, over China's export tariffs. This is a way of chastening, I believe, of chastening China on resource pricing and how deep and authentic its commitment to WTO principles is, watch that space to see what happens. WTO always involves negotiated solutions, so let's hope for the best outcome, but that's largely in the hands of Chinese officials.

The second case within the past couple of weeks has been the ITC's preliminary ruling on Chinese tires. I know, I know, it's a trade case, who cares? These things have an automaticity; they all work out. It's just trade policy, it's all fine, except that it's under Section 21. Five times the Bush Administration refused to accept one of these surge cases that was tailor made to address rises in Chinese imports. It goes on to the President's desk, necessarily, in mid-September. Open your calendars and discover with me that that's about the time of the G-20 Summit. Gee, if you were going to load on, you know, the political weight of issues, you couldn't really do the timing at a much less propitious moment.

And then, to close, there is this ambient set of trade policy issues that nobody has a script for. We recently saw a case involving chicken imports and exports. We know all too well these high profile cases, and here involving toys, toothpaste, pet foods. And I would say as a major artifact the China Milk Scandal, a fundamental doubt in this country, the political level of retail politics about the safety of Chinese products. That isn't going to go away, and I think it's going to intensify in the time ahead.

We have both engaged in, by domestic law changes, that notwithstanding the fact that both countries have committed the offense, somebody's going to pull the trigger, and there's going to be a case, and we're going to have to answer for that in policy terms. So, and I think that's going to be kind of -- that's going to kind of roll along with us over the next year.

I would note that the reason the China relationship didn't become retail political fodder outside of the fact, as Mike said, it was experimented with by Senator Clinton and it didn't work. Additionally, it was because Barack Obama at a personal level had a sophisticated and well-honed view of what he wanted out of U.S.-China relations. I'm resisting the temptation to ascribe superhuman abilities to the President across the range of issues, but those who worked on the campaign saw this idea tested time and time again. The President had an instinct, and he continues to follow that.

The financial crisis in some ways reinforced that instinct towards cooperation and moderation, but I would also say the trade dimensions of the relationship are likely to test that instinct in important ways, and I don't think -- I'll join Mike in this: I don't think we know yet, nor does the White House necessarily know, how all of those are going to turn out.

That's a rambling discourses edited back, and I know I've gone over time, but I thank you, Mr. Chairman.

ANDREW YANG: Thank you, Kevin. Wonderful analysis. In addition to presiding over the session, I was also given the responsibility to lead the discussion. I'll be very brief and invite more input from the floor.

My impression is that I find the three presentations are very complimentary to each other, with Dr. Cheng providing a very useful analytical framework to identify the four sets of triangular relations influenced by cross-strait actions.

And also with Mike Green's four big questions relating to the Obama Administration's policy towards China in the future -- he also gave a good sum of the key areas for us to pay attention to.

With Kevin, I think that he provided a very interesting and vivid description of the dynamics within the Interstate Commerce relationship by at least eight major economic issues, and he also identified that U.S.-China relations will be shaped by the policy goals and events.

My question to Dr. Cheng is that, how are you going to define the predominant power and also the strong power, and also the weak power in the course of conducting interactions among those three actors, given the fact that they are being shaped by cross-strait interactions? You identified that cross-strait interaction is a major factor in influencing the exercise of their influence, but how are you going to measure the power given by the United States and China and, certainly, Taiwan, if Taiwan was the weakest part of the triangular relations, given the fact that the Taiwan also providing its initiatives to change the cross-strait picture in the last couple of months? Would you be able to elaborate on how are you going to define the measurement of the weak power, or strong power, or predominant power of these three major actors?

To Mike Green, you identified four big questions shaping the Obama Administration's China policy. My question would be, what is the role of the Taiwan Relations Act in the big picture? To my understanding, in the past China also considered Taiwan to be the most important and crucial factor in shaping U.S.-China relations, but you didn't identify what the Taiwan Relations Act can be, in terms of shaping U.S.-China relations? It seems to me that it is not in your identification of the questions set by the Obama Administration, so can you elaborate on what would be the role and function of the TRA in the course of U.S.-China policy in the future?

For Kevin, my question is do you think U.S.-China policy will be shaped by U.S. policy-goers or by events, because you set up two sets of paradigms shaping China policy here. One is policy goal is policy arising from events, and if there is a conflict between goals and events, what would be the choice for U.S. government in deciding its policy towards China?

And, secondly, you emphasize the trade issue and economic issues in the course of shaping future U.S. China policy. What would be the role of the U.S. Congress in this process, because you're only providing us with the Administration's policymaking concerns. But in the course of deciding economic and trade issues, Congress certainly plays a major role here. What would be the Congressional role in the course of shaping those events in deciding policy towards China?

Those will be my three questions to the three presenters, and the floor is now open. I welcome the audience to raise their questions to the presenters.

We'll start from here, and the second row, and the third row here. We'll take about 10 questions each time and ask the presenters to give their response, and we'll come by with the second set of questions.

QUESTION: Francis Kan from the Institute of International Relations. I would like to pose a very easy question to our director, Dr. Cheng. You mentioned in your interesting analysis, four types of interrelationships, and you have two groups of factors: one is U.S.-China relations; the other is Taiwan-China relations. It seems to me that your precondition is that Taiwan-U.S. relations will remain stable. But my question is whether -- I mean even with the U.S.-China relations maintaining stability and cooperation, as you mentioned in your diagram, and Taiwan-China relations remaining stable, would it be possible for U.S-Taiwan relations to face some difficulties?

I think that when both sides of the Taiwan Strait talk about confidence-building measures, that will actually have great implications for U.S.-Taiwan military cooperation such as arms sale, and that actually touches upon a very core interest of the United States. Would that be one of the occasions that will actually put Taiwan-U.S. relations in a very difficult position?

ANDREW YANG: So the next one, Admiral McVadon?

QUESTION: Eric McVadon, Institute for Foreign Policy Analysis. Mike and Kevin, why do you think the South China Sea confrontation ended so surprisingly and so quickly? Did it reflect what some of us thought was a decision that the U.S. and China had more important things to do together, and is that a reflection of something quite good that that decision could be arrived at, at least once? If you remember, they even reversed the decision to send reinforcements and escalate and so forth, so I'd be interested in what you know.

QUESTION: Chia Chen, free lance correspondent. First to Dr. Cheng. Thank you for organizing this conference. If possible, could you put your triangle back on the screen?

ANDREW YANG: If you will be more precise, we're running out time here.

QUESTION: Suppose this in the future, all the dotted line disappear, then what's going to happen? And to Dr. Green, you mentioned climate change. Climate change basically is due to the various country, years, lifestyle, and the industrial manufacture. So what's the mentality Obama should have when he go to the different countries, and this time is China? And also that more important, now so-called this cap and trade deal, this really has nothing to do with climate change. This bill basically is done by the economics and lawyers, no really input from the scientifics.I think that he was going to have big problem in going to China and also going to Copenhagen. Thank you.

ANDREW YANG: All right, anybody from the second row here?

QUESTION: Thank you very much, and just one quick comment on Dr. Cheng's presentation, and one quick question to Mr. Nealer. You mentioned Obama must take views in China dominant, and I think Premier Wen Jiabao's remarks on the group of a two-concept is a good indication to show China still realizes this relationship with the United States is still complex, but continues to be strengthened. So when Wen Jiabao's comment while in the Czech Republic was a very good comment. This media turning point before the comment, and then maybe, as you mentioned, the many Chinese analysts were optimistic. But after that, as the Obama Administration continued to form a China policy, and more and more Chinese analysts realized this relationship still complex.

Second, my question to Kevin Nealer -- you used the term "stated policy," Obama stated policies. And I think there maybe is a prepared, long-planned China policy for the Obama Administration. What do you think is the difference between stated China policies and planned, or prepared, or organized or adjusted China policy? Thank you.

QUESTION: I'm Albert Keidel, formerly of the Treasury Department's Asia Office. Michael Green and Kevin Nealer, two questions quickly. One, what do you think is going to happen at the Strategic Economic Dialogue, in terms of discussion about what caused the global financial crisis and China's role in it as sort of a scene-setter for what the U.S. might request the Chinese to do as part of their response to the crisis?

And second, what in terms of events which is something that Kevin mentioned, specifically, what do you think the effect would be on this relationship if China's global trade surplus really shrank dramatically and quickly? I mean the June numbers show that it's dropping, and it drops even faster if you allow for the falling prices of oil. How would that change, in other words, not the bilateral but the global trade position?

ANDREW YANG: Richard?

QUESTION: This is for Mike. I really agree with you that for China policy we need a good mix of inside-out and outside-in, and that getting Asia right, et

cetera. But the assumption of all of that is that Japan plays its proper role in that game and sort of works with the United States to manage the rise of China. But Japan is changing, and what do you foresee in the political changes that are taking place in Japan about Japan's will and capacity to play that kind of positive and robust role? Thanks.

ANDREW YANG: Okay, two more from this row. Ms. Tsao?

QUESTION: I'm Nadia Tsao. I just have a quick question for Mike. You mentioned basically the continuity of the Obama Administration on China policy, but during the Bush Administration we heard about hedging frequently. But do you think that this is the, you know, the strategy will be continued? Because so far we haven't heard much discussion about that. Thanks.

ANDREW YANG: And the gentleman in the back?

QUESTION: Good afternoon. My name is Sun-won Park, a CNAPS Visiting Fellow at the Brookings Institution. My first question goes to Dr. Michael Green. Do you really think China is rising? What's your view on China's rise and its impact on U.S. foreign policy? And also, what do you think is the most desirable combination of China and Japan relationship in making a more stable U.S.-China relationship in a good sense?

My second question goes to Dr. Kevin Nealer. Do you think that there is any possibility the Beijing government will decide some significant amount of U.S. treasury bonds as a means of diplomacy, even in the case of hypothesis?

ANDREW YANG: One more question from the middle here, and we'll come back to the panel.

QUESTION: Mary O'Loughlin, DOJ. This is for Professor Green's comments and, in addition, Mr. Bush's comments. In relation to how Japan is affecting U.S.-China relations, what about the Korea issue?

ANDREW YANG: Right. It's time for the panel to give your response to the questions to the floor, and start with Dr. Cheng.

TUAN Y. CHENG: U.S.-China relations are complex. The overall pattern on U.S. perspective or Chinese perspective, according to my interviews, doesn't reflect the overall opinion of the government. I think, so far, many Chinese are quite optimistic about the future of U.S-China relations.

And another gentleman raised a question back there -- if all the dotted lines disappeared, that will cause type D, and that's the current situation. Three sides of relations are all positive, so this is the ideal situation. If U.S.-Taiwan relations are stable all the time, as Professor Kan raised, and I think in terms of my understanding, Taiwan will need the United States for support and help, unless the United States wants

to abandon Taiwan. Otherwise, I think Taiwan always like to keep the tie. Maybe in the case, as Professor Kan mentioned, the CBM -- if the negotiation or discussions take place across the Taiwan Strait, Washington would not be very happy about the situation. So, I think if we want to conduct a discussion on CBM or negotiation with the other side, then prior consultation with Washington is required.

Another issue raised by Andrew is how I define power, and this is very difficult. Being a professor in political science, I know the basic concept of power, and defining power is always controversial. However, I think among the U.S., China, and Taiwan, it's not so difficult because of the difference between the three countries, and, no doubt, the United States is the most powerful followed by China and then Taiwan. Defining power in relation to the United States and China might change in the future, however. We know that China is trying to accumulate more national power, but overall I think so far the United States is leading.

Thank you.

ANDREW YANG: Mike?

MIKE GREEN: The TRA question from Andrew I would answer by saying that the combination of John Huntsman, Kurt Campbell, Jeff Bader, Jim Steinberg is one of the best combinations of the Taiwan Relations Act that we've had in some time, at least for a few years anyway. And I think everyone should have a very high confidence in their experience and judgment and history on this issue.

I also think that the more positive trajectory and across-Strait issues means that in some ways the TRA is not as controversial, but there are two things that do worry me a little bit: One is that in some ways the TRA as a product of Congress has always relied on a powerful right flank, and I don't think -- I think this Administration is as unafraid of the Congress on this issue than any administration has been since the act was passed. They're just, I think not that afraid. Richard or others may disagree, but I don't think the lobby behind the TRA is as powerful or frightening to the Administration as it has been in the past.

And also, while the managers of this and the foreign policy team are quite strong, I don't think the understanding of the TRA or of Taiwan's strategic position in Asia is that strong among senior, the senior-most people in the Administration. I'm not in the Administration. David Broder says that Rahm Emanuel and others are making the big foreign policy decisions, and I worry a little bit about the financial crisis, climate change, transnational threats and so forth competing with the TRA, and so that it's inconvenient to send arms sales notifications to the Congress. It's a little bit vulnerable, potentially. I can see these issues as problems for it, and I think those who know and understand the issues have their work cut out. And I've got to socialize the whole Administration to the importance of this.

And Eric's question -- I think, generally, it's a glass half full, glass half empty story on the South China Sea. The glass half full story is the de-escalation, mutual, successful de-escalation, glass half full. The glass half empty is, I mean the reason we resolved it is because we essentially agreed to disagree on the fundamental cause of the confrontation, and we still haven't resolved that principle that the U.S. Navy and our position, of course, is that we need maritime safety procedures, NMCA. We have the right to navigate in these waters, and China's position is we don't, and we're not going to talk to you about the specific things that make it easier for you to do it. We have not resolved that.

Meanwhile, the operating tempo of the PLA Navy and other naval forces in China continues to be quite active. So I think it's going to happen again, and we're going to have to, hopefully, work through these.

Kevin is probably better-positioned to answer Albert's question about the SES and ED. I, personally, if I were on the inside, I would not advise having a great big post-mortem on the causes of the financial crisis. That way lies madness. I mean, and would create, I think, bad will that would make forward-looking work difficult. Unless there's a need to understand these imbalances in order to address them, I think there are more creative ways to get at the future.

I can see a scenario where the U.S. savings rate stays somewhere four and six percent, and Chinese exports start to decline, and where you start having displacement and arguments against economic convergence, then greater arguments in the National People's Congress and elsewhere for more protectionism, for more restrictions on foreign direct investment for more by China legislation. So that's one reason why I think the FC and D finds itself not just managing these two largest developing economies but a very dynamic situation that could really test us. Interesting, Kevin's view.

Nadia asked about hedging, Kevin mentioned hedging. A lot of academics and journalists talked about hedging during the Bush Administration, but the Bush Administration never talked about hedging. Similarly, the Clinton Administration never talked about hedging, and even the word "hedging" is not an accurate description, I think. The military term that Pacific Command uses is, "reassure, dissuade, deter," and then, when they're in private company, “defeat.”

But really, I thought Tom Christensen, when he was Deputy Assistant Secretary for China, put it very well. He said, "This is about shaping strategies." We're trying to shape and China's trying to shape our behavior. And the military and strategic component is an indispensable part of that. Hedging suggests a kind of passive storing of ammunition in the cupboard in case the Chinese go off the reservation. And I don't think that's a useful strategy or an accurate description.

And China's as a rising power, I like very much Vincent's earlier presentation of the comprehensive national power assessments. I think there is a very important part that is not captured by Chinese scholars on this, and that is soft power.

And, actually, there have been efforts to measure soft power and diplomatic influence. Chicago Council on Global Affairs did polls; we did surveys at CSIS, and there are Bates Gill and others who have done studies. What you find is the actual soft power China has in Asia and Sub-Saharan Africa, in Europe is declining, not increasing.

Although, interestingly, in the Chicago polls, most Chinese think that it's increasing. And the other ironic thing about the Chicago poll is most Americans think that our power and influence in Asia -- or influence and our soft power in Asia -- is declining rapidly. But in the survey -- and the Chinese public agrees, so we think we're terrible, the Chinese public agrees with us, but in Indonesia, Korea, Japan, and the rest of the region, they think that over the last 10 years our influence has increased. So, maybe we and China, being the big powers, understand Asia the least, I don't know.

But if you think of comprehensive power, that matters, and I think that when you talk about China as a rising power that has to be brought into it. That's why I asked earlier about the alignments of course.

Then on the extremely unfair question about Japan, there's an election now set for August 30th, the democratic party will probably win. This will be like -- is there any Japanese media here? -- this will be like turning the keys of your BMW over to your -- I won't say it, but it's going to be a wild ride. But because of the DPJ has a very populous agenda and very deep divisions internally, and I think we'll have quite a bit of fluidity and uncertainty over the next year or two, three, as Japanese politics sorts itself out, but the center of gravity in Japanese politics is still, I think, center-center-right, squarely with alliance with the U.S., and some combination of engaging and balancing China. I don't see that changing in any fundamental way.

It may get a little big muddy and muddled over the coming years, but it does matter -- and the first thing I asked about, which is what was the strategic concept the Administration has, because this will test the patience of the Administration at more senior levels for managing the sort of two-tracked outside-in/inside-out shaping of Asia. Our Japanese friends may end up really testing how seriously committed we are to this over the coming years.

And there was a question about Korea, but if I said, Sun-won, that if we had a really stable U.S.-China-Japan relationship and a concert of power, you would hate it. But I do think we do -- I think we have a relatively stable triangle, a trilateral relationship for the most part. I think it was important to demonstrate a few years ago that the U.S. does not have an interest in deteriorating Sino-Japanese relations, and I think we, the Bush Administration, demonstrated that to all parties pretty clearly.

How we manage that triangle is tricky. The Obama Administration is quite keen on the idea of a trilateral, which Beijing liked at first up to the level of diving globe and now for some reason has reservations about, which Seoul disliked but now seems more comfortable with. I suspect that it's a bit artificial to think you can manage the strategic relationship with a trilateral meeting even though the trilateral relationship

among the U.S., Japan, and China is so important. But I see it as basically stable for the foreseeable future, but not so stable that our friends in Seoul have to be nervous.

ANDREW YANG: Thank you, Mike. Kevin?

KEVIN NEALER: Andrew, first to your question as to the role of Congress having been dismissive about how much damage it could do on trade policy. The role of Congress, I think, is pretty clear. It will be unrelenting and unsatisfied on U.S.-China relations at the level of economic balance. And I would remind you that next year is an even-numbered year here, unfortunately.

And so the pressure won't quit to put a tougher face on policy. It may show up, in fact -- I talked about some of the most neuralgic trade issues -- I'd add to it the comment before about environment. I think environmental protectionism will be one of the new flavors that Congress will experiment with in the year ahead, and as a failed trade lawyer, I'll tell you a lot of it's -- would be perfectly WTO legal, so watch that space. So it's a source of concern ongoing.

Admiral McVadon, the South China Sea, I think my short answer is yes. I think you're exactly right. It put us in mind of the danger of having ultimate U.S. security and Chinese security interests determined by 23-year-old men in fast boats with big guns.

I think it forced and deepened an instinct that Secretary Gates has, and it's a very personal instinct to get more out of the mil-mil relationship. I think we've already seen one serious attempt by the Obama Administration. I'm not sure how satisfied they were. If the Chinese want to miss a huge bet, fail to deepen military to military ties, and I would say that would be a huge mistake for them, and I would -- my sense is the Administration is unconflicted about seeking deeper military-to-military ties and understanding with China simultaneously with Taiwan.

As an aside to Chinese friends many times said, you would hate us not to have better relations with Taiwan, and with all respect to Mike, who otherwise -- I didn't say this, I'll have to -- I feel constrained to say it, who did leave the Obama Administration with a very strong hand to play, historically so. On the issue of arms sales, I know this is anathema, but at some level -- sorry, it's just so 19th century -- how about adequately dealing with the security needs of Taiwan without the constant metric: Why do we have to come out and test ourselves on this? Answer the first order of questions first, which is what a military-to-military relationships look like. We're at this virtuous moment, please let's use it. Let's put the pressure on Beijing to increase transparency, increase understandings of what to do in the event as incidents at sea and that kind of thing that you've worked so hard on for so long.

Stated policy differences versus the press of events, events always win, right, over rhetoric, but I would say the rhetoric is sincere, begins at the top, and has been internalized by the President and the people around him, the team that Dr. Green's described. So don't devalue it. It does matter. It's the touchstone, it's the starting point.

S&ED, you know every time you raise your hopes about this conversation, you get them dashed. I said to a friend yesterday who's working on the process, how are you setting the table? He said, "Well, there's a significant disagreement. Is it S-ampersand-ED or S-plus-ED. We think it might be better to kind of, as branding, to put a plus sign in there." And I'm thinking, boy, I almost don't want our Chinese friends to know that's what we're talking about.

I think as an organizing principle in the same way that SII was so useful, it will have durable value, and I do have hope for it in coping with some of these macroeconomic policy challenges, though, you know, to Burt's other question, what if we faced declining Chinese confidence about their role as an export economy? It's a lot -- this is a game any number can play. I don't have a monopoly on this, but I think an economically unconfident China, our Chinese friends wake up every day and say, "We are the most unstable country in the world. We are always on the cusp of becoming impoverished," and what if some of that starts to play out in global markets?

As I said at the outset, I think it starts to change assumptions in ways that neither we nor they can fully predict right now. As to facing waking up one morning and deciding to off-load treasuries, we have seen this film before. We saw it in the 1970s, what's allowed -- they're holding over $700 billion – Burt will give you the right number -- in U.S. dollars, some 10 times what Taiwan currently holds. But why do they hold that? Because they want leverage over the United States? No, because trade is nominated in dollars. Some things you can't be bought in other than dollars like petroleum and airplanes. They don't have a choice.

And, incidentally, it's been a really fine choice in the crisis to be holding U.S. debt, in fact, in the form of treasuries in particular. It's been a great bet, right? Don't you all wish you had made that bet over the past 18 months, two years? They do it for the same reason that Saudi Arabia does, it's self-interested.

I do think, if I can be prescriptive about one thing about the way the Administration in the S&ED and otherwise talks to Chinese friends about dollar holdings, I'd stop thanking them in public. They don't do it because they like us. They do it because again, it's self-interested, and I expect them to continue to do so. And if they wake up one morning and decide it's a bad debt, I don't think there's any amount of bipartisan glue that's going to have them stick to those investment choices if they're bad choices. So I'd turn down the volume on that, substantially, and rest assured that doing what's interested is, in fact, pretty predictable for the global system and not a bad bet.

ANDREW YANG: Well, I think we do have time for a second round of questions here, but I would like to invite all the participants to thank the presenters here for the magnificent presentation and responding to the questions. And thank you for your contribution. Thank you.

(Applause)

ANDREW YANG: Yeah, the next session will be resumed in 15 minutes starting at the 3:30.

[Recess]

SHIRLEY KAN: This is Panel 3. We're going to be talking about the cross-strait relationship under President Ma Ying-jeou. I am Shirley Kan. I am here in my personal capacity and I am not representing any views of the Congressional Research Service.

I'm very happy to be moderating. We have three papers and presenters. We have Dr. Hsu from the Institute of Political Science at Academia Sinica. We also have Dr. Kan from the Institute of International Relations at National Chengchi University. And finally, we have Richard Bush from right here at the Brookings Institution. You have their bios, so I'm not going to go into any of that detail. We're going to start with a presentation by Dr. Hsu.

SZU-CHIEN HSU: I would like to thank the Brookings Institution and the IIR of National Chengchi University for inviting me to this great opportunity to exchange opinions with you.

Today, I'm assigned the job of discussing President Ma's cross-strait policy in the first year of his term. So I would like to use the case of CECA/ECFA as an example to discuss the advantages and the challenges or limitations of President Ma's cross-strait negotiation.

Due to the limit of time, I think I will skip some part of my presentation. And let me start with, first of all, the framework for my paper.

I think some of you may know that Putnam has this very famous model to describe this situation any international negotiator faces. That is the two-level game model. Basically he suggested that any international negotiator is facing two games: one game is in the international level between the negotiator and the foreign opponent, foreign negotiator; and there's another level of game that is the domestic game, a domestic level, that the negotiator once reaches a primary -- preliminary consensus with his opponent negotiator has to go back to the domestic political process to get the agreement from the opposition or the society through the democratic political process. So Putnam suggests that the eventual -- the final result will be decided by the win-set's intersection from these two levels. So that's the basic idea of Putnam's two-level game.

I'm going to use this model to examine President Ma's advantage in his negotiation with Mainland China on the ECFA issue. And within this model Putnam suggests that -- and also that Schelling has this conjecture -- that any negotiator who is facing a smaller domestic win-set, that is to say if a negotiator is facing greater domestic constraint, ironically, he may have some advantage in facing the international negotiator.

Because the international negotiator, his opponent negotiator, knows that there is a strong oppositional constraint within the domestic politics, so his opponent negotiator may be more willing to make concessions to him.

So that is what we call an involuntary defection effect. That is to say his opponent negotiator knows that if he pushes too far that negotiator may not be able to reach consensus within his domestic politics. So my question is that. Does President Ma enjoy that kind of advantage?

Before we go into or answer that question, let's look at the cross-Strait issue. There are basically two dimensions of the issue: one dimension is the political dimension, another is the economic one.

On the political dimension, everyone knows that the majority of Taiwanese prefer status quo instead of unification or independence. And as for the position of the KMT regime, the KMT and the DPP on this spectrum are also very clear: KMT is pro-unification, DPP's pro-independence.

The most important thing is that during the past eight years of the DPP administration, basically there is no intersection between Beijing and the DPP's preference. However, when Ma Ying-jeou came to power there was this intersection or commonality between Beijing and the KMT that is based on the, so to speak, '92 consensus. They found this commonality to move on. So that's a major difference.

This is the data that you can get from MAC -- the Mainland Affairs Council -- website, the distribution of Taiwanese public's opinion on unification versus independence. As you can see, the majority of the people prefer the status quo.

This is another question reflecting public opinions on the political dimensions of cross-strait relations that has to do with national identity. As this chart shows, there is a growing number of people who identify themselves singly as Taiwanese. And there is a stability of those who identify themselves as both Taiwanese and Chinese. But those people who identify themselves only as Chinese decreased.

And so, generally speaking, the Taiwanese public -- however, on the other dimension, that is the economic dimension, generally speaking, the Taiwanese public welcomes closer economic ties with Mainland China. If we see this survey conducted by the Global View magazine, when they ask to improve Taiwan's economic development, the economic connection with Mainland China should be closer, there's a majority of people who agree with that.

Another example is that during the DPP administration there were more people who thought the cross-Strait relations -- the pace of cross-strait relations were too slow. But when Ma Ying-jeou came to power there were growing people who thought the pace was a little bit too fast. So that's a contrast of the two parties' position on this issue.

Ma Ying-jeou in his electoral campaign proposed that Taiwan should talk about the normalization of economic relations with Mainland China. As Minister Lai this morning mentioned, this turned out to be the talk on originally CECA and then changed the named into ECFA. So, what is Beijing's attitude about this issue?

The watershed point is on the annual celebration of Ma Ying-jeou's inauguration this May. I found that before May, Beijing's reaction is basically holding a positive attitude to this issue, but have some reservation, particularly about how soon this kind of negotiation should be conducted. That's on the first point.

The second point is that Beijing always used the name CECA, Comprehensive Economic Cooperation Cross-Strait, but Ma Ying-jeou also originally mentioned this under the title of CECA, but was severely criticized within Taiwan. So Ma Ying-jeou proposed the name ECFA, Economic Framework for Cross-Strait Agreement. But after May, or approaching the annual celebration of Ma Ying-jeou's inauguration, Beijing changed its attitude on two things.

First of all, Beijing accepted Taipei's proposal of ECFA as the title; and second, it started to express a more positive willingness to conduct the ECFA negotiations. And not only that, Hu Jintao, when he received the chairman of KMT, Wu Bo-Hsiung, he himself proposed that a negotiation should be conducted earlier than the KMT expected. So my question is that: Why was that? In such an early stage of negotiation, why did Beijing make some concession toward the position of KMT?

According to the two-level game, if KMT is facing a very serious domestic constraint, that can explain Beijing's concession. However, KMT enjoys an overwhelming majority in the legislative game. And KMT controls both the Executive and the Legislative Branch, so KMT is not facing serious domestic constraint. Why did Beijing make this concession in such an earlier stage? So that was my question.

The answer is I think there are two effects and we have to combine them to understand why. The first effect I call the suspicion effect. The suspicion comes from Taiwan's opposition, although very weak, and also the public on the true intention of KMT to push forward the agenda of ECFA in such a hasty manner. Because, first of all, KMT has this KMT-CCP forum, Kuomintang, which plays the role of good communication between Taipei and Beijing. This itself may not be a bad thing. However, in the perception of the opposition and Taiwanese public, they don't know what is really going on in the forum because it's not that transparent. So when KMT and CCP conducted this forum for several times and, all of a sudden, President Ma proposed that ECFA is -- or CECA is something that has to be done in a very fast manner, people were suspicious about why President Ma had this urgent agenda. And so the DPP proposed this ECFA referendum. That's the political mobilization.

As we can see in the Global View survey, there was about 40 percent of people who said they have a reservation or a suspicion on whether the KMT government has protected Taiwan's interests well. I think Minister Lai mentioned this earlier today, too.

So this suspicion, ironically, becomes KMT's advantage. Because Beijing -- although KMT does not face credible domestic political challenge in the parliament, however, Beijing is also very aware that there is strong domestic opposition in public opinion. So in order not to let KMT lose its political advantage, Beijing is willing to make some concessions.

And this has to combine with the second effect, that is Beijing actually is not afraid of the veto that opposition can play within the parliament, within the Legislative Yuan. But Beijing is afraid that in next election, DPP may gain some advantage vis-à-vis KMT. That is to say the scenario that DPP may come back again is the worst scenario for Beijing. So in order to prevent that worst scenario from happening, Beijing is trying to help KMT to boost up Ma Ying-jeou's popularity as soon as possible.

So if we take a look at the -- what do we have there, okay -- Ma Ying-jeou's approval rate, we can see that before his first anniversary of his inauguration his approval rate was very low. It became lower and lower. However, during the anniversary it became a little bit higher. So that, I think, also explains why Beijing changed its attitude in May. Okay. However, I'm going to -- because of time, I'm going to mention three possible challenges that President Ma may face.

The first challenge is that if DPP changes its position on the economic dimension of cross-Strait relations to be more pragmatic, but more conservative on the political dimension, what would that -- how would that influence KMT's negotiation position? If DPP changes in that way, it may move itself to the center of the public opinion and may gain more public support. So that will make it -- to make it short, that will make DPP itself to be more politically correct, so that will threaten the advantageous position KMT enjoys right now. So in that case, KMT will face less domestic constraint, and so that's the first challenge that KMT may face.

The second challenge is if, on the opposite, if the opposition is too weak and Taiwan's democracy is suppressed, as many of the Taiwanese public perceives right now, that Taiwan's democracy's rolling back, then actually KMT will have -- enjoy much less domestic constraint, especially when KMT wins another victory, landslide victory in the next major election. Then Beijing will think that -- will no longer worry that KMT will lose to DPP. And in that scenario Beijing, I think, would charge KMT with a higher political price, pushing forward the political talk with a stronger intensity than right now.

The third challenge is if Taiwan's economy becomes more dependent upon Mainland China's economic benefit, then it's not only KMT, but some sectors within Taiwan's society will become more willing to accept a higher political price in exchange for economic benefit from Beijing. In that case, it's not KMT, but the whole Taiwanese society is moving its preference. So in that case, the KMT will have to compromise more.

This is a survey conducted by Wealth magazine, saying that there are more and more people worrying about economic dependence on Mainland China. This was conducted in April, at the end of April this year.

To sum up, I think President Ma's bargaining advantage in the early stage of the negotiation was due to domestic suspicion, and so Beijing was trying to help him; and also, Beijing is afraid of the coming scenario that DPP may come back to power. However, Ma has also faced some potential challenges. The first challenge is if the DPP has changed its position to be more pragmatic on the economic dimension. The second challenge may come from its own victory, its own success in the next election. If it has a landslide victory, then Beijing does no longer have to worry about the coming back of DPP. And the third challenge comes from the growing independence of Taiwan's economy on Mainland China.

So the general trend is that the weaker the opposition in Taiwan's democracy, the less advantage KMT has. This is the second trend -- first trend. Second is that the more pragmatic DPP becomes on the economic issues, but more conservative on the political issues, the less advantage KMT has. The third is that because ECFA itself tends to be a long negotiation, so the longer the talk, the less advantage KMT has in the later negotiation stage. And the last one is the more Taiwan's economy becomes dependent upon China's economic benefit, the less advantage KMT has.

That concludes my presentation. Thank you.

(Applause)

SHIRLEY KAN: Thank you, Dr. Hsu. And Dr. Kan?

FRANCIS Y. KAN: Thank you very much, Dr. Kan. Another Dr. Kan. We share the same last name; it's my great pleasure.

It's my honor to be invited to attend this wonderful occasion. Before I knew that I had 10 minutes to talk I had already prepared 30 pages of slides. So what I'm going to do is to actually focus on some topics while I briefly mention the others. So maybe I would particularly emphasize my points in a section of long-term goals and also some factors.

Well, what I tried to do in the introduction is to -- I know you all know this very well. I think you would all agree that the Ma administration is seriously concerned about the development in terms of his cross-strait policy. But what is less conspicuous, less obvious, is also the government's efforts in improving our relations with the United States, simply because, many people in Taiwan and also the outside world have the impression that under the previous government the confrontation policy adopted by the DPP had actually caused deadlocks in the cross-strait legislation, but also frustrating our staunchest supporter, the United States. So the mandate for the Ma administration is, number one, seeking rapprochement with China; and, number two, resuming U.S. friendship and U.S. confidence in Taiwan. And so the overall expectations are high and Ma's tasks are very challenging.

The outlook is cautiously optimistic. I think I'm going to present you some short-term outcomes as well as some long-term goals.

The number one short-term achievement, as you know this very well, the immediate relief of tensions. I think I will particularly on focus on the 1992 Consensus because the "One China" principle is actually a major controversy between two sides, and also within the two political camps in Taiwan. What actually the KMT and also the Mainland tried to do is the actually to use 1992 Consensus, which is, from my point of view, an abstract concept, but also a useful prerequisite of resumption of talks. And it has become useful, only become possible after Ma's inauguration. I think the value of the consensus is that both sides could actually put aside the disputes first and paving the way for further development and reconciliation. So what we have seen is the extended tensions not only existed in the past eight years, also in the past six decades have largely been reduced.

Number two, economic relations have been normalized. Many of my colleagues have already mentioned this. What I tried to add a bit is I have seen some spillover effect, actually some working relationship involving officials, but also academics, businesspeople from a wide range of departments, business and academics. We also witnessed some of China's unilateral moves, if you will. For instance, purchasing missions to Taiwan, seeking cooperation with Taiwanese businesspeople. And the 600 billion dollar economic stimulus package of 10 measures to aid Taiwanese businesses and so on and so forth.

ECFA. I think this is a very controversial issue, particularly in the past couple of days, as Minister Lai mentioned this morning. But I think the mindset among the KMT key decision makers, I would guess, particularly talking about ECFA, is that we are very concerned about the possible impact that the regional economic cooperation would have had on Taiwan's competitiveness particularly in the global market. The absence of Taiwan in such a regional cooperation would be kind of a missing piece of jigsaw puzzle in regional cooperation, stretching from, you know, New Zealand, Australia, through ASEAN to perhaps India.

So the next step of talks would actually focus on this Economic Cooperation Framework Agreement, which is a kind of a special version of a free trade agreement. Both sides, including Chinese President Hu Jintao, has actually implied that such a bilateral economic platform will have a strong implication for Taiwan's participation in multilateral economic platform, such as ASEAN and plus FTA, and also our bilateral economic relations, the FTA with our major trading panels, including the United States, Japan, Singapore, and the European Union. So the economic cooperation has provided a platform for prosperity and also it's why it's more important an opportunity to reduce tensions.

Modus vivendi, Taiwan's international space. We all know that it is actually meaningless to continue this kind of competition for diplomatic recognition, which is actually a better field for both. We also know some pitfalls of checkbook diplomacy. We have seen some accusations such as corruption and graft cases against some foreign leaders who actually have diplomatic relations with one or the other. And the results we have seen:

number one, Taiwan's image actually has been tarnished; number two, Taiwan's aspiration for widening international relations -- sorry, international space has not been fulfilled; and number three, our national interests as a whole actually have been compromised.

The pragmatic diplomacy. The tacit consent between the two is that a diplomatic truce has to be observed. I think some of you have been aware that there are actually as many as four diplomatic allies in -- particularly in Latin America, trying to actually switch their diplomatic recognition to the other side. And what we have witnessed today is that China says "no" for the time being. We don't know how long the diplomatic truce will last, but I think this is some kind of a consensus that both sides share, that we have to avoid any move taken by one side or the other to shatter a very vulnerable foundation of mutual trust.

The initial treatment we have seen is some kind of high-level meetings at international occasions, some regulations that have been attached to Taiwan such as the international health regulation and also government procurement agreement. The WHA was a very serious test for not only for China's intentions, but also for people's trust in President Ma's China policy.

Now, the long-term goal. One of the goals would be the confidence-building measures. Because for us, particularly for people in Taiwan, a sustainable peace, not a temporary stability, but a sustainable and perpetual peace is the most important goal for cross-Taiwan Strait regulations. I think the first and foremost step towards peace is that we actually both sides now try to move a bit forward to the talks that will actually be to the eventual confidence-building measures.

But we also have things the opposite kind of direction, that Beijing's threat to Taiwan has not been diminished yet. We are still seeing domestic short- and medium-range ballistic missiles continue to pose threats to Taiwan. I think what China should do is to start with some kind of political gesture. I have to talk to some of our colleagues in Beijing. They have expressed the difficulties in actually removing those ballistic missiles away from those coastal areas. But some of them are actually talking about some kind of a political gesture, such as, you know, the missiles are not, you know, necessarily aiming at Taiwan, some source of land. Maybe we don't necessarily believe that, but some kind of political gesture would be a start that China has to take.

Peace accord. From my view, a peace accord should be actually a framework where a wide range of issues have to be addressed and problems have to be discussed, including economic and trade cooperation and the status of both sides in the international community. I'm not only talking about Taiwan's international space. I'm talking about how the two sides should stand side by side in the international community, and also some issues related to the military.

The peace accord still should not be an ultimate solution to Taiwan's status like unification or independence. We should not touch upon anything related to sovereignty

within this peace accord framework, simply because the Taiwan people will not actually be happy with such a proposal.

I think China should not ignore the legitimacy of Taiwan's democracy and should honor Taiwan people's decision for their governance. For its part, Taiwan should take care of China's concerns about Taiwan's move, any move, that would be interpreted as a move towards *de jure* independence.

The prospects. I know some of you will be very interested in what will be the implication when President Ma is going to take over the KMT's chairmanship. I think my view is that President Ma's strengths in leadership in the KMT will enhance the party's legitimacy in communicating. I'm not using the word "negotiating," but communicating with the CCP, and also increase effectiveness of the government's handling of its China policy.

Well, what actually has been less mentioned is, you know, Taiwan's democracy can have some implication for the cross-strait relations. I think Taiwan's democratic system is the most powerful weapon to deter China's intention to stop its ultimate status in a unilateral way. And what Taiwan's democracy has been doing is to build up internal consensus to deal with Beijing as well as to strengthen our defense position vis-à-vis China.

My suggestion would be while China is enjoying economic and political power globally, it needs political reform. And if we look around the world, who can actually play a leading role, a constructive role in helping China to transform itself from an authoritarian regime to become a more open, you know, lower base, integrated community? I think Taiwan should be one of the leading candidates. So Taiwan's long-term strategy should focus on its responsibility to, as I said, to help China to transform itself if we are looking forward to a responsible democratic China, which would be in the interest of all.

Some factors that will actually pose challenges as well as opportunities for the cross-strait relations. Number one, China's uncertainties in Taiwan policy. I think what China is very concerned about is if it's going to make more concessions to Taiwan and Taiwan may request more concessions from China.

And number two, a future DPP government would take advantage of Taiwan's enhanced international status in order to promote an independent agenda. But my sense is that any China setback would actually enlarge the gap between the two and invite Taiwan people's resentment.

China's military modernization. Well, we have already seen some progress that China's modernized military project that was achieved. For instance, this is not my conclusion, but some conclusion made by some U.S. think tank. The shift in balance is in its favor and the U.S. assistance in the event of a crisis across the Strait might be defeated. In this slide what I tried to talk is whether China is able to throw a line between, number one, to continue modernization, to fit its rising global role, and, on the other hand, to reduce

military strength to Taiwan. Otherwise, all the way down to become a modern and also very powerful military power. The people in Taiwan will continue to perceive that China poses such a threat.

The U.S. factor. I'm going to skip this while I would argue my conclusion. The two sides are off to a good start according to what I have argued, but we were seeing more actually challenges and problems ahead. What I tried to argue in my conclusion is the most favorable factor that I have skipped, but that is the most important one.

Number one, the U.S.-China cooperation, according to Director Cheng, the U.S.-China cooperation is a partnership. It's a guarantee for regional peace and prosperity, but there are two preconditions: number one, the Ma administration has to fulfill its historic application Taiwan is entitled to bear, that is to improve its relation as well as to improve its relation with the United States; and, number two, the U.S. should continue its indispensable mandate for regional and global leadership, and this is something we are looking forward to. And continuing U.S. leadership and also the military, economic, and also political dominance in our part of the world is the most and also the best guarantee for the regional peace and also for the stable cross-Taiwan Strait relations.

And for this, thank you very much.

(Applause)

SHIRLEY KAN: Thank you very much. That's a lot of good material. And we have Richard Bush as a third presenter.

RICHARD BUSH: Thank you very much, Shirley. I really enjoyed the first two presentations. My presentation is in the same spirit as Szu-chien Hsu's and Robert Putnam's idea of the two-level game, but I do it in a different way, not so sophisticated as Szu-chien.

As a metaphor for understanding the "leader's predicament" that Ma Ying-jeou has faced, imagine having to play a game like chess, but on three boards at the same time and with the added challenge that a move on one board changes the position of the pieces on the other boards. So if you're playing Western chess and you move a pawn on one board, it moves a bishop on the other board and the queen on another board. This is the challenge that Ma has faced. He must play at a cross-Strait board, a U.S.-Taiwan relations board, and a domestic politics board. Obviously, this is a simplification, but for purposes of discussion.

The best outcome, of course, is that these three sets of interactions all move in a positive and mutually reinforcing way. Middling success is if he can win on one or two boards and lose on two or one. When the player loses in all three arenas, the outcome is utter failure. Now, one could argue that Chen Shui-bian was in a situation where, in 2004, he won on the domestic politics board while losing on the other two. In 2008, he lost on all three.

By way of background, I would just note the situation that existed in those years and that is that both Taiwan and the PRC chose to fear each other's intentions and then adopted policies based on fear, so you had a negative downward spiral. The United States was in the role of trying to deter whoever was the troublemaker and to reduce the chances of some kind of inadvertent conflict.

Now, what have been the developments since Ma's inauguration? I think Professor Kan has surmised it very well: resumption of dialogue, a number of agreements in the economic and financial and crime control area. We know that President Ma has made modest but significant progress in the area of international space. It's significant because Taiwan in May achieved something in the WHA for the first time. Also, the diplomatic truce seems to be holding. The progress is still modest because it's probably less than Taiwan desires when it comes to the participation in the range of international organizations. There are others where it could play a positive role and it remains to be seen whether Beijing will accommodate to that.

On the issue of President Ma's domestic standing, I do think that the managers of the Mainland's policy towards Taiwan understood, to some degree, that he was playing on at least two interactive boards and that he depended on their cooperation to ensure continued progress. A recent polling suggests that President Ma's effort to maintain domestic political support has had mixed results. The most unfavorable measure is his popularity where he's less than a plurality. More favorable is the response to questions about whether he can be trusted. Those who trust him are 45 percent of those polled, while those who don't are 38 percent. And of specific reference to my analysis is the public's assessments of President Ma's cross-strait policies. There 53 percent of respondents say that his cross-strait policies have been successful and 55 percent say it's been more beneficial to Taiwan than those of Chen Shui-bian. And a majority or a plurality endorses principles of no unification, no independence, no use of force and a plurality approves of his foreign policy.

Trends in the public's political affinity are equally revealing and, in general, these are in Ma's favor. Identification with the pan-blue camp is at 40 percent, which is more or less the norm of the last 4 years. Association with the pan-green camp is at 20 percent, which is a little bit low. But independents, according to the one poll I'm using, constitute 35 percent, so they constitute a wild card for the future. They may approve Ma in some areas now, but they could shift later in a negative way.

Now, with respect to the United States, Barack Obama signaled early on, at the time of Ma Ying-jeou's inauguration, that he and his foreign policy team look favorably on Ma's approach. That attitude has not changed since the U.S. inauguration. And there is continuing approval of the policy, the reduction in tensions it's brought, and the reduction in the danger of miscalculation and confrontation. And this last point is a reference back to what bothered the United States during the latter years of the Chen administration. The improvement in cross-strait relations is a security boon to the United States.

Now, if there's any issue which could frustrate the positive play on the cross-Strait, American, and domestic politics boards and reverse the virtuous circle that's now in play it's in the military and security field. There's been talk, but no action, regarding military CBMs. More significantly, to my mind, the PLA's military buildup has continued and those systems that are most relevant to Taiwan's security -- short- and medium-range missiles -- appear to be continuing to expand.

Now, it's a big question, you know, what's the explanation for this? There are different possibilities. But China's failure to adjust to Ma's assumption of leadership, which was a strategic boon to the PRC, could have important implications for the future of cross-strait stability because it affects the sustainability of Ma Ying-jeou's policies. It could also affect his position on the domestic politics board and his ability to secure reelection in 2012 for himself and his party. So ironically, if China's too grudging in what it offers Taiwan in the security realm, it will undercut Ma's core argument about how to deal with the PRC and possibly return to power the very forces that China opposes.

Now, there are implications here for the United States, the main one being that, as far as I'm concerned, if Beijing is increasing Taiwan's sense of insecurity, then there's a role for the United States to play in reducing -- or increasing Taiwan's sense of security through arms sales. Now, the security issue's the main concern at this time, but it's not the only one. One is the polarization of Taiwan's polity. The ruling party and the opposition party are unable to engage in a meaningful way on the key issues of cross-strait relations. This is, I think, understandable to all of us given Taiwan's recent political history, but it's not desirable over the long term.

One issue on which better KMT and DPP engagement would be valuable is on the sovereignty issue, which has basically been set aside for right now, but it has a way of creeping back in. Ambiguity has worked so far, but is clarity going to be required later on?

A final area of concern is conflicting expectations. It appears that people on the Mainland have more ambitious hopes for the current interaction than do people on Taiwan. There was a very interesting recent Global View's dual poll where Mainland people liked Ma Ying-jeou much better than Taiwan people liked Hu Jintao. Taiwan people regarded Mainland people mainly as business partners while those in the PRC saw Taiwan folks as family and relatives. Sixty percent of Taiwan people thought Taiwan's ultimate destiny was to preserve the status quo while 64 percent of Mainland people thought it was unification. Talk about same bed, different dreams.

So in sum, cross-Strait relations have evolved in a way that is satisfactory for the three principal relationships we've discussed: Taipei-Beijing, Taipei-Washington, and between the Ma administration and the Taiwan public. Keeping it that way will require continued skill since the issues are going to get harder. Ensuring that obstacles don't emerge to stall or reverse the process will be a challenge. Yet the reasons for facing that challenge and continuing this virtuous circle are obvious.

Thank you.

SHIRLEY KAN: Thank you. We have had three presentations, lots of good material to think about. To kick off our Q&A for the rest of this afternoon until 5 o'clock, I just thought I'll give you some thoughts as we have read over and listened to the three presentations and papers.

It seems to me that in assessing Ma Ying-jeou's policy towards the Mainland or the CPC or PRC, however you want to call it, there are a number of tensions. In Ma Ying-jeou's policy there is the official level, which is between the SEF and ARATS; there's that level of contact and negotiations between the parties, that's the CPC-KMT platform; but there's also a lot going on on the ground that's at the economic level. We've heard today about the negotiations that are just starting over ECFA, but there are a lot of things going on, lots and lots going on between the businesses of both sides.

There's a lot that we've heard about the KMT's engagement with the CPC or Ma Ying-jeou versus Hu Jintao, if you will. But what about the KMT's engagement with the DPP? It seems there's more going on across the Strait than there is going on at home.

What about consensus-building, checks and balances at the Legislative Yuan, and transparency of decision-making in Taiwan versus any continued polarization?

There's also another tension in assessing the policies and different approaches. Even if Ma Ying-jeou and the KMT profess not to be ceding the ROC or Taiwan's sovereignty, there is an undercurrent in all of the assessments that are going on about whether Ma Ying-jeou or the KMT is ceding leverage if not sovereignty.

Another tension: There's a lot of confidence in Taiwan's democracy, as we just heard today. There's a lot of faith all of a sudden in Taiwan's democracy after Ma Ying-jeou came to power. But we must not forget that in history there are lots and lots of records and examples where there have been sudden changes away from the status quo, whatever that might be.

Also, there's another tension that we're hearing about today. Is Taiwan's negotiating position actually stronger if there is a consensus at home or if there are constraints on the KMT by the DPP?

I would also observe that there was no mention at all in all three presentations of Japan. Gone is the view of Taiwan's strategic orientation as one among U.S. allies and one among a community of democracies. Ma Ying-jeou, shortly after coming to power, we heard today in just the short term what he has accomplished. But he has already presided over not one but two crises with Japan. So as we listen to the closer engagement with the PRC and the reduction of tensions across the Strait, there are a lot of other things that have been going on at the same time.

While there has been a stronger relationship between Taiwan and the PRC, are we seeing a stronger relationship between Taiwan and the United States? What is

Taiwan's vision for its relationship with the United States? That does not seem to be as clear.

And finally, I think the bottom line in all of these various assessments, with a lot of good material and thought, is the question of whether President Ma or the KMT, whether they have a strategy for dealing with the Mainland or CPC, and a strategy, if there is one, that is sustainable and strong and smart at the same time.

Let me just stop here and open up the discussion for all of your questions. Thank you.

QUESTION: Vincent Wang. Just to follow Shirley's question about this bargaining position. Szu-chien, I like your presentation a lot, not only because of the counterintuitive conclusion, which is that in order to strengthen Taiwan's bargaining position you need to have a very stubborn opposition, but I wonder if we should make it a little bit more complicated. I actually had two dimensions: one is the distribution of win-set; the other is the probability of success, successfully concluding an agreement.

Yes, you're right, if the opposition is very obstinate, perhaps the win-set will be more favorable to Taiwan, but the probability of success will be lower. This is actually Shirley's point. And then, on the other hand, if there's a domestic consensus perhaps the distribution of win-set will be less favorable to Taiwan, but the probability of success will be higher.

And you also mentioned if the DPP could be more rational economically this will be bad for Taiwan. But isn't it that the CCP are already doing that, for instance, by importing the fruits, vegetables from Southern Taiwan? Because Southern Taiwan is the green stronghold, right? And the CCP has already concluded that neither military intimidation or the resort to blood ties or history will work. Therefore, their only way of appealing to Taiwanese is actually to incentivize this process. So, in other words, making -- to include more and more, like green people, to be stakeholders in this relationship.

SHIRLEY KAN: Why don't you answer this first question from Vincent Wang? Yes, go ahead.

SZU-CHIEN HSU: Actually I need some time to think about it.

(Laughter)

SHIRLEY KAN: Okay, okay. Please. In the middle.

QUESTION: For Szu-chien. Szu-chien, can you say something about the concrete details of ECFA? We hear a lot about this, often just kind of very broad terms this will help improve the economic ties across the Strait, but if you could go into any details whatsoever about what exactly what you understand the negotiations to be talking about.

For Richard, if you could comment on whether or not you think President Ma's assuming the role of chairman of the KMT is actually going to lead to a basis for a cross-strait dialogue face-to-face between him and Chairman Wu, that would be appreciated. I think there's been some discussion that maybe this would allow the two gentlemen to speak face-to-face as leaders of parties instead of leaders of state organs. We've also heard some people say that would still be too difficult. At least within the next two years that wouldn't happen; maybe it couldn't happen at all, it would still just be too difficult. Your thoughts.

SHIRLEY KAN: Richard?

RICHARD BUSH: The reporting that comes out of Taiwan, including reflecting President Ma's views, suggests that this is not something he wants to do any time soon. And so his becoming party chairman sort of creates an intellectual or conceptual basis for doing it, but it doesn't create a compelling political reason for doing it. You know, one can argue that this meeting should occur at a point when a lot more has been achieved and when PRC intentions on the whole range of issues are clearer.

SHIRLEY KAN: Dr. Hsu?

SZU-CHIEN HSU: Let me answer Vincent's question first. Yes, if there is a domestic consensus, stronger domestic consensus, then the domestic win-set will enlarge. However, that will make any international negotiation more difficult, right? Basically that's -- that is to say the probability of a win-set –

QUESTION: *(off mic)*

SZU-CHIEN HSU: Right, right. But you said the distribution of win-set is not the same thing as probability of the recent agreement with Beijing, I think. That's exactly what I suggest the KMT to do. I think if the KMT can build a credible domestic institution, that's what they're lacking right now. There is no credible domestic institution to show to Beijing that my hand is really tied, you know. So Beijing right now is doing the favor without pressure from domestic politics, actually, you know. So it's not the real -- what Putnam is suggesting.

So in that case, then the ball returns to Beijing's court for Beijing to react to that. Then Beijing has two alternatives.

One is not to make a concession. But actually, I think Beijing doesn't have a choice because if you do not concede to Ma Ying-jeou whom else are you going to make a concession to? So then Beijing will be forced to make more concessions. That is exactly my point. So this is one suggestion that Ma Ying-jeou has not maximized its advantage right now by having a weak domestic democracy. This is exactly my point.

And coming back to the concrete, ECFA, there are so many things I don't what we are talking about, but basically I think after Hu Jintao said something, showed his proactive attitude, there was some progress reached. At least let me tell you one thing. That

is on July 1st, on the United Daily, the director general of Taiwan's Foreign Trade Bureau said that there has been a consensus reached with the Mainland on the content of ECFA. That is to say he said it's less than a 10-page document. It's only about the framework, a general framework. And as for the concrete content, it takes a very long time. Ma Ying-jeou himself says maybe five years to talk about the concrete items one by one. And they're going to have, also, an early harvest mechanism to talk about some of the industry sectors first.
Basically I think it's iron and chemical industry.

QUESTION: *(off mic)*

SZU-CHIEN HSU: Mission and textile, these industrial sectors. Because next year, the ASEAN+1 is going to valid and this industry from Taiwan will suffer from that, so they're going to solve this problem as soon as possible. So I think so far that's the most concrete content, so far as I know, about ECFA.

So does that answer your question? Thank you.

SHIRLEY KAN: Okay. We have Eric.

QUESTION: Eric McVadon again, and I won't say it's with IFPA because I don't represent them in what I'm about to say.

Some of you might remember 20 years ago, on the 20th anniversary of the Taiwan Relations Act, Jesse Helms made a very dramatic speech at the Washington Hilton Hotel. My speech that I had worked on for weeks followed his. All the reporters got up and left, and what I had to say didn't get reported. I don't know whether it would have otherwise or not.

I had noted that I thought the military balance, primarily based on ballistic missiles, was shifting dramatically at the time. And, of course, I think it has since, so I would reaffirm that point. However, I thought then and I think now that a Chinese decision to attack Taiwan would be a stupid one.

And so I guess the point I'm making here is I have seen since that time many initiatives by both sides. And I think, in most cases, those trial balloons have been shot down because people have looked at the unfavorable or negative aspects and haven't looked hard enough at what could be pursued positively. And so your words today have given me the courage to suggest that those initiatives are still being made.

And I wonder, so I'm asking of you, are the Ma and Wu regimes, governments, looking as hard as possible at -- for the positive aspects? And I can remember one when Jiang Zemin said something about withdrawing missiles that were facing Taiwan. We immediately said, ah, yes, but he wants arms sales to stop. And so we dismissed it out of hand instead of taking at least a risk in pursuing that sort of thing. I wonder if now we are

seeing, since 2008, a difference in attitude and pursuing the positive aspects where we can. I hope that kind of makes the point.

SHIRLEY KAN: Anyone want to take that?

RICHARD BUSH: Eric, I think the really positive thing that occurred from China's security point of view was the election and inauguration of Ma Ying-jeou. And one would have expected an adjustment to take advantage of that. I mean, I was suggesting to Chinese friends you should announce on May 20th a suspension of acquisition and deployment of short- and medium-range ballistic missiles. Nobody listened to me, of course.

ERIC McVADON: I know how that feels.

RICHARD BUSH: And I do think that CBMs, whatever you call them, have their value and they've always had a value. I think President Ma is expressing a certain reserve on that because he says they should come sort of in the wake of a peace accord, not before.

I do think that although the chances of sort of an attack on Taiwan are low, the mere existence of those capabilities constitute a cloud for Taiwan and sort of raise understandable questions about what intentions in Beijing are short and long term. You know, perhaps this is something that will change in the -- at some point in the near term as Beijing gains more confidence about where Taiwan is going. But, you know, I do think that this represents an unfortunate and sort of potentially complicating obstacle.

ERIC McVADON: But Richard, I don't mean to blame just one side. For example, it seems to me, and I don't pretend to be an expert on this, that the New Year's Eve speech by Hu Jintao, that we did not look at some of the positive aspects of that and pursue them aggressively enough. You think that might have had value?

RICHARD BUSH: Well, "who's the 'we,' Kimosabe," in this? Well, I think –

ERIC McVADON: Yes, all (inaudible) now, but -

RICHARD BUSH: -- the positive elements of that speech, in a concrete sense, were what appeared to be his authorization for forward movement on international space, and that bore a result. And also, authorization to move forward on CBMs, and I hope that that is occurring. That tends to be the PRC answer when questions are raised about the military buildup.

And this is not for me to decide whether -- what emphasis to place on it. It's really for Taiwan to decide. And perhaps the sorts of CBMs that the Mainland has in mind will be enough to assuage Taiwan concerns. But I think that there was more that Beijing could have done to sort of increase Taiwan's sense of confidence.

SHIRLEY KAN: Okay. We have four or five hands. We have one here first in the front. I see about five hands have gone up.

QUETION: My question has to do with the DPP's political mobilization capability. Richard pointed out that there is a floating vote in the middle of the political spectrum that can be swayed one way or the other. And many of the statistics polling that you cited, Professor Hsu, indicate that at this time the public seems to be quite a majority support for the agreements that have been reached so far. What about an ECFA? What are the prospects that the DPP will be able to mobilize support in Taiwan to block the negotiation or -- of an ECFA agreement? Many members of the DPP feel that this is a step that is inevitably going to take Taiwan towards eventual reunification and, therefore, there is amongst some deep-green supporters very strong opposition. But can a divided DPP effectively mobilize opposition? Any of the panelists' comments on that.

SHIRLEY KAN: Anyone want to take that?

FRANCIS KAN: I'd like to just talk a little bit about ECFA. I'm not a specialist on economic affairs. I know that tomorrow's panel would have actually focused on the economic cooperation between the two. But what I can share with you is my observation of the -- what actually is in KMT leadership's mindset about ECFA.

I mean, ECFA for the KMT is kind of a platform for Taiwan to reach out, particularly in terms of our participation in regional cooperation. As Szu-chien has mentioned, from next year the ASEAN+1 will be created and in actually six years' time there will be ASEAN+3 and +2 and Plus how many we don't know. And as I said in my presentation, you know, there's a whole -- we've seen the whole picture. This is Taiwan. Taiwan is the missing piece.

So what actually KMT leadership are thinking, I guess, is that how you can actually convince particularly the Chinese that if once we have some kind of economic cooperation between the two, then, you know, it's rational. It's ideal that Taiwan can also build up some kind of a platform with, you know, our neighboring countries, particularly joining the economic -- the multilateral economic cooperation in our region.

I would get, as Minister Lai mentioned this morning, the government had tried very hard to convince the people, particularly in certain parts of Taiwan, that ECFA is good for Taiwan, ECFA is actually the future, particularly for Taiwan's economic cooperation with the outside world. And also, according to the latest public opinion poll, the support percentage for the government's proposal for ECFA is increasing. So I would guess that the DPP's -- their capability in mobilizing the public opinion poll to oppose ECFA will be actually declining. But it's really up to the situation whether actually the KMT government is able to reach some kind of a consensus with the Chinese according to a timetable and also according to what actually they're trying to achieve.

We now have some message from the other side that they are not entirely happy with what actually we proposed. I mean, it's not a real FTA. It's not a -- from their point of view, it's not a fair agreement between the two because they said they would actually make more concessions to Taiwan on certain items, particularly items like agriculture and also some, like, machine and toys, all that. So I think this is a very difficult task and it's going to be lasting for some months, if not years.

SHIRLEY KAN: Okay. Dr. Hsu, do you want to add something quickly on the DPP?

SZU-CHIEN HSU: Yes. The extent to which DPP is able to mobilize political opposition depends on several other factors rather than whether DPP itself is divided.

First of all, I think the most important thing does not lie in DPP itself, but lies in the extent to which the government, the KMT government, is able to communicate with the public on the content or the progress of the ECFA itself. If you look at the poll, the majority of the public are not even aware of the content of the ECFA, not to mention the agenda, and there is a reason. Because if there is going to be an ECFA negotiation, there will be a lot of minority or traditional economic sectors that will have tremendous impact. You know, there will be an employment tie, so -- a wave. So I think the government should have very concrete measures to deal with these impacts.

We heard from the minister of the economy that they are preparing such measures, but we haven't seen the concrete policy coming out. So I think that's most important, more important than the DPP itself.

Other than that, still -- so, first of all, the ECFA as a policy, I'm not saying ECFA is not necessary, but ECFA as a policy itself is creating some self-mobilization already. So the DPP just picked them up. We're seeing a lot of association of small economic sectors. They are seeking help from the DPP. So the DPP is -- just open the door and they're coming. That's first of all.

Second, of course, the deep-green people, they're very anxious about not only ECFA itself, but the general intention of Ma.

However, I do -- and the third thing is that to what extent the referendum, this mobilization measure can be successful. I think even the DPP leadership themselves, they are aware that it is very unlikely for the referendum to become valid because the threshold's so high. But they are using this as -- I think there is a strong consensus within the party for using a referendum as an effective political mobilization tool. On that there is no disagreement within the party so far. But to -- and we have to ask, they mobilize the opposition for what? When I say "for what," I mean for which election? This is the concrete question.

For the election coming up this year, it has very little to do with the national level issue. So are they preparing the momentum for next general election? That's very far away. So that's also a problem issue for the DPP.

SHIRLEY KAN: Okay, thanks. We have a few more questions. Next?

QUESTION: Thank you, Shirley. Bonnie Glaser from CSIS.
One question to the whole panel. There are various ways that one could analyze Hu Jintao's own objectives in dealing with Taiwan. I think some people suggests that Hu Jintao wants to have a peace accord before he steps down from office; that this is what he really wants, it's his legacy. And this is -- explains in part why the Mainland has become more urgent about pushing forward with Taiwan, talking about CBMs, peace accord, getting these issues on the agenda.

I think another view posits that Hu Jintao has already achieved a great deal with Taiwan, having shifted this relationship on to the path of peace and development, and that from that perspective, as long as Ma Ying-jeou remains in power, this is already sort of a legacy issue for him. So for anybody who wants to comment on that, I'd be curious how you see Hu Jintao's perspective on the relationship and whether this is something. Does he need more progress for a political legacy?

My second question is for Kan Yi-hua. And there was a bullet in your presentation about a political gesture in the area of military issues or easing the military threat to Taiwan. I'm very much in sync with Richard on this issue that I think, you know, I heard, he heard, many of us heard discussion in Beijing about the possibility. They heard this raised by Americans, but it was also raised by some people in Beijing about the possibility of taking some steps to ease the military threat. And there was talk about possibly freezing missiles, pulling missiles back. Even if missiles were pulled back out of range of Taiwan, many people suggested, I think in Taiwan, that that would really be a political gesture anyway because they could, in fact, rolled back. Now, maybe they -- this would increase perhaps warning time a little bit, but, generally speaking, I think it's seen by many people as really a political gesture.

Now, you're raising a political gesture that I haven't even heard about, that the Mainland now thinks that there is some value to be gained by just saying, well, we'll continue deploying these missiles, but we'll just say they're not aimed at Taiwan. I find that troublesome. And so perhaps you could enlighten me on how you think this would be received in Taiwan by the public as well as by the KMT administration. Thank you.

SHIRLEY KAN: Okay. Who wants to take the first question? And then Dr. Kan can answer the second one.

SZU-CHIEN HSU: I tend to think Hu Jintao is taking -- using the more conservative position. I do think he has achieved a lot on the managing cross-Strait relations. Plus, if you think about peace accord, actually there are hidden risks in doing that. On what political terms are you going to sign this peace accord with Taiwan? Are you

going to further advance on the One China principle or not? If not, then people are going to question why? If you're not pushing ahead on the One China principle in signing this peace accord and you're going to step down, why do you do this?

So I think if I were him, I would rather not do that if I don't get some political gain. Otherwise, I'm in a good position already, so that's my guess.

FRANCIS KAN: Well, talking about political gestures, I think for many of you who are familiar with our counterparts in China, they have raised many suggestions regarding political gestures. One of the suggestions I have heard, which is interesting, is that, as I mentioned in my presentation, where they are able to actually distinguish the difference between building up their military mobilization project, that would, from their point of view, fit their rising global role. And on the other hand, there's the threat to Taiwan. So they kind of tried to identify which areas of -- for instance, weaponry systems, that directly pose a threat to Taiwan. So the short and medium range of ballistic missiles would be the candidate area of study.

Another occasion that Wang Yi has mentioned in relation to political gesture is whether the direct (inaudible) can cross the central line, which caused great debate within Taiwan. And some people were arguing that this was a kind of earlier gesture that they are going to talk about the CBM, particularly relating to the central line. My sense is, no, these are only very early stages of suggestion. They tried to test water temperature, whether Taiwan would agree with some and be against the others.

But I think what actually Taiwan is doing and should do is to take steps gradually, what we call the incremental engagement. So we still start from convenient steps, like the economic and trade policies, so that when the mutual trust can be actually built up to the degree that we can start negotiations over the confidence-building measures. Before that, I don't think it's an ideal time to directly step into negotiating that would lead to the confidence-building measures.

SHIRLEY KAN: Okay. Thank you. We only have five minutes left, so I'm going to ask that you ask your question to the point, please. Right here? Thanks.

QUESTION: We've talked about the PLA and we've talked about the political implications, but the leadership of the Taiwan military and the social makeup of the Taiwan military, what effect does that have on the cross-strait relationship? Is the Taiwan military going to go lock, stock, and barrel behind the decisions that are made or are there some doubts that they might do something unmentionable,?

SHIRLEY KAN: Good. Who wants to take this one on military?

RICHARD BUSH: My sense is that Taiwan military is, first of all, loyal to civilian leadership, but it professionally also takes very seriously its job to protect Taiwan's security and is quite realistic about the forces arrayed against them.

SHIRLEY KAN: Thank you. Next?

QUESTION: Thank you. Joseph Battat from the World Bank. Richard Bush mentioned that the U.S. government is very happy to see the improvement in the cross-strait relationship as well as other people also mentioned that or implied that. My question is if I am a little bit optimistic and maybe optimistic to the point of being naïve, and those cross-strait relationships improves substantially, at what level of those relationships that the U.S. administration will see that maybe is not in the interests of the United States, but those relationships improve beyond a certain point?

SHIRLEY KAN: Okay. Any red lines for the U.S.?

RICHARD BUSH: I don't think so. And I also think that there are obstacles to the improvement of cross-strait relations or potential obstacles that put off for a long time any resolution of this dispute. The main issue for the United States is, what's the risk of some kind of conflict? And as long as that's low, these other things will take care of themselves.

SHIRLEY KAN: Okay. And in the back, you've been very patient.

QUESTION: I think I'll address the question to Shirley. You said it's not very clear what the policy of Taiwan should be vis-à-vis Mainland China. It seems to me that that's the best approach. Any government in China, whether it's headed by Mr. Ma or the opposition, is to piggyback on the relationship between the United States and China, and that is the only effective way to prolong Taiwan's independence from China. The reason being, you know, we all remember there was a time the United States was able to seat Taiwan as the permanent member in Security Council as the main China. And since then, we have come a long way when the world realized that main China was somewhere else, not in Taiwan.

So given that situation, I think whoever comes to power in Taiwan should really effectively capitalize on the relationship between the United States and China. Because if China could take Taiwan away from England without a war, I don't think they're going to go to war to get Taiwan. That's, in my opinion, absolutely ridiculous. And those who use that as a threat are just interested in keeping the militaries built up. They're not going to take Taiwan by military means. They're going to -- the time is on China's side to wait till Taiwan comes within their sphere of influence, a little bit away from U.S., maybe under joint control.

SHIRLEY KAN: Okay. Thank you for your comments. And we have one more question, the last one, in the back. Thank you.

QUESTION: Naziha Hassan from Medley Global Advisors.
And my question is regarding ECFA. What obstacles do you see in the future or this year?

SHIRLEY KAN: Okay. Obstacles for ECFA.

SZU-CHIEN HSU: Currently, I think both sides are, as Minister Lai mentioned this morning, are conducting research or studies on their own and then they have to exchange the results of their studies and see whether it's, according to what they say, a right time to conduct formal negotiations. So far, that's what we heard from the press.

At this moment, it's difficult. But I also mentioned that the director general of Foreign Trade Bureau of Taiwan has said that Taiwan has reached an agreement with Mainland China on the major content of this 10-page framework, so we have these mixed signals. And I think as late as next year there should be some -- early next year or maybe later this year, there should be some formal negotiation starting on the issue. I think currently it's on the stage of exchanging the opinions of evaluating the impact of such talk.

SHIRLEY KAN: Okay, that's great. Please join me in thanking the panel for giving us lots and lots to think about.

(Applause)

RICHARD BUSH: Thank you, Shirley, for chairing. The final session or the final day will start tomorrow at 9 o'clock in this room. We have an excellent panel on economics and then a wrap-up roundtable. I hope you all will come.

Thank you. Have a good evening.

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