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CHINA FACES THE FUTURE

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PROCEEDINGS

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 name 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-Straight 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 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.

QUESTION: 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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