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"Some Reflections on My Time in Taiwan"

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PROCEEDINGS

AMBASSADOR JEFFREY BADER: [In progress]. I used to call Doug first thing every morning, about 8 o'clock in the morning, to find out what he wanted me to do, about whatever issue was crossing our transom, and Doug would say, "I'll get back to you," and Doug would get back in about 10 or 15 minutes; he would go talk to Scowcroft or Gates. He would call me back and say, "Here is what we are doing."

In the meantime, I would put a memo into the system at the State Department, seeking guidance, just to go through the motions. I am still waiting for the response to the memos I put into the State Department. In the meantime, I would have my guidance from Doug, and the rest is history.

I remember one exception. One morning I failed to call Doug on time, and Doug called me, and said hello, and no pleasantries. This is 1989, I think, and Doug said, "Have you ever heard of some congresswoman named Nancy Pelosi?" He said, "The reason I am asking you, I just came out of our staff meeting, and the chief of staff came to me and said, "The President wants to veto this Pelosi bill," and the chief of staff said, "What is the Pelosi bill and who is Pelosi?"

So, Doug said, "Did you send something over to the President last night on this?" I confessed that I had. Anyway, we helped make Nancy Pelosi a household name with that effort. The President did veto it, more vetoes than the current President has cast, and he upheld the veto.

I want to move along to the events of the evening, which is Doug's speech. I don't want to relive old times at great length here.

I just want to cite two polarities that I think are relevant to Doug and his career as we think about how to view that. Journalists love to characterize people as pro-Taiwan or pro-Beijing: everyone is pro-Taiwan or pro-Beijing.

I have a story for you tonight. Doug is not pro-Taiwan and he is not pro-Beijing, he is pro-American. Doug served in Taipei at a crucial time in the history of Taiwan and in the history of PRC-Taiwan relations and U.S.-Taiwan relations, and he did what he had to do for U.S. national interests, not for Taiwan's interests, not for the PRC's interests.

This didn't always make him popular, but this is what leadership is about, and Doug, in my mind, demonstrated the qualities of a real leader in that job, when someone else might have just gone along.

The other polarity I wanted to mention -- which is very popular in this town -- is Republican versus Democrat. It is a real polarity, but when I was in the White House and Doug was out, there were certain people that we in the Clinton administration would go to for help on issues involving China or Taiwan.

There were some people whom you could count on to cross party lines, if necessary, and

do the right thing by U.S. interests, people like Henry Kissinger, people like Brent Scowcroft, people like Al Haig, people like Steve Solarz, would have been the reverse in the previous administration, but people who, when it comes to U.S. national interests, are above partisanship.

Doug Paal was in that category and Doug was someone I went to regularly in those days, and while Doug was fighting the partisan fights outside, he was enormously supportive of what we needed to do from where he was.

I would like to turn over the floor to someone who is not pro-Taiwan, not pro-Beijing, but pro-American, who doesn't have a Democratic foreign policy or a Republican foreign policy, but an American foreign policy. Doug Paal.

[Applause.]

MR. PAAL: I really can't thank either Richard or Jeff enough for the extraordinarily warm introductions. Fortunately, I can't remember much of those episodes, so I am not in a position to dispute them.

Richard and Jeff have been great and reliable friends for so long, I can't praise them enough. I didn't have a good sense before tonight of the quality, the content, the make-up of tonight's audience. Knowing that I was going to put this on the record as a speech to put on the Brookings CNAPS web site, and not knowing precisely who the audience would be, I have prepared a speech that is really going to be a bedtime aid to sleep for a lot of you here.

I want to acknowledge in particular my first predecessor, the godfather of us all as AIT directors, David Dean. David is the ultimate man to sacrifice self-interests for the national good. He served for a number of months representing the United States people to the people of Taiwan without even pay, no organization, no legal basis for his relationship, but just using his common sense and deep knowledge of the place to help guide our interests.

Others here tonight reflect in their own measure the tremendous experience and contributions. Thank you, too, tonight for organizing this opportunity to get together with so many old friends and look back lightly on my three and a half years as the Taipei director of the American Institute in Taiwan.

Many of you are familiar with the oft-quoted Chinese curse, "May you live in interesting times." It is meant to convey something like the curse of Old Testament Job. In fact, I have never been able to track down in Chinese the locus classicus of the so-called Chinese curse, so it probably is apocryphal, but my time in Taiwan let me know precisely what it was meant to signify.

After a contentious period during which I was being considered for appointment to this position, during my time in office I had the chance to deal with rambunctious Taiwan media on a continuing basis, and repeated efforts by Taiwan politicians to leverage relations with the United States for various political purposes, especially on sensitive issues involving China.

I also got to deal with the consequences of the SARS epidemic; Taiwan's persistent reluctance to deal politically with its serious defense issues as the PRC's military buildup ground on relentlessly; seven or eight typhoons a year; an assassination attempt on the president and vice president and the consequent challenge in the streets of a presidential election by the losers; repeated seemingly endless elections for the legislature and local officials; personal attacks on me from Washington and Taipei commentators; preparations for a bird flu outbreak; strong reaction to China's anti-secession law; opening the Taiwan market for American beef; and fixing other unresolved issues in the trade relationship. Yes, those times were interesting.

Many in this audience have a clear understanding of our relationship with Taiwan, but some of you may not. I would like to point out a few features that I found visitors to AIT often did not know.

First, AIT is not an embassy or a foreign U.S. mission. It's a nonprofit corporation established by Congress in 1979 to handle the economic, cultural, and other relations of the people of the United States with the people of Taiwan.

In 1979, when the U.S. broke relations with Taipei in favor of a new relationship with Beijing, the U.S. sold for a nominal sum its diplomatic properties in Taipei. It placed the new AIT in the former Military Advisory Group office compound, then being vacated as the U.S. ended its security treaty with Taiwan.

AIT's personnel occupied a variety of rented residential properties the U.S. military had previously controlled. These properties were decrepit when I found them and seemingly were so for many years.

You see, by hiding our relationship with Taiwan from normal diplomatic channels, Congress and the administration created an odd beast. The main diplomatic game for the U.S. was with China, which complained loudly whenever it thought the U.S. was stretching agreements over how Taiwan was to be treated.

So, the tendency over the years was to tell AIT and Taiwan to lower their profile, get out of the way, and don't make waves. In Washington, this sort of message takes on institutional aspects, which means that if you are assigned to Taipei, “Bear up, better things may come your way, but not if we hear much from you.”

It also meant that you live and work in those decrepit buildings because other capitals are more important for investment. Moreover, the system will go out of its way to find people who will bear up to living and working in conditions like that, and the more they look and act like mushrooms, the better they will be regarded.

This attitude may seem harsh or callous to the outside observer, but there were very few of those around who lived in Taiwan in those years. Moreover, this approach fitted rather well the authoritarian system that governed Taiwan at the time the U.S. severed relations.

All the U.S. really needed was a personal representative of the President on the ground to deal with the few Taiwan personalities who mattered. AIT was a black box to the media for years, not responding to events or allegations.

The director seldom made appearances publicly or speeches. July 4 was not openly celebrated. So, in sum, AIT was compartmentalized, put on a shelf, and tied up with special rules. No one at the deputy assistant secretary of state level or above could visit, no official passports could be used, all funds went through a process that imposed both standing U.S. government rules and special separate AIT rules and financial accounting in an office in Rosslyn, Virginia that housed a separate staff with a separate chairman, and the managing director of AIT. I could go on and on.

Obviously, as Taiwan changed, becoming increasingly democratic and prosperous, AIT needed to change. Ironically, the rupture of relations in '79 created much of the eye-catching change in Taiwan itself, by exposing at that time the slender foundation of legitimacy that the Chiang family and the KMT regime enjoyed in ruling the island.

Ironically, too, the rupture of ties caused the government to cancel an election, which led to protests and the Kaohsiung Incident that marked the rise of the modern opposition movement, and made the reputation of many of Taiwan's leaders today.

To his credit, President Chiang Ching-kuo recognized the problem and started the process of Taiwanization, opening up the economy, to build a new legitimacy for his government. Profound change came incrementally as the regime slowly surrendered martial law authority and experimented with elections and major economic initiatives.

As a result of its special history, the old Chiang Kai-shek approach of treating Taiwan as but a temporary base for his return to the mainland left a legacy of under-investment in infrastructure, education, and inter-ethnic cooperation.

Even today, after almost 30 years of strong economic growth, Taiwan is still struggling with cleaning up its rivers and investing heavily in its infrastructure.

The AIT I found in 2002 clearly needed some attention, although my predecessors had made their efforts. President Bush signaled early in his tenure that he wanted to have a strong positive unofficial relationship with the people of Taiwan. Secretary Powell stressed to me taking charge of AIT's mission and taking care of its people.

I took these charges seriously and lobbied Washington for the resources to build a new office building for AIT, refurbish or replace all the personnel housing, and upgrade our interaction with the media and legislature to better represent American interests on the island.

With the support of Congress, we were able to regularize the career paths of the officers from many agencies who served their time in Taiwan. We introduced a resident physician to care

for them and their families, and we openly celebrated the 4th of July.

Last year, I signed a lease for a site for the new office building. The funding authorization for the building itself still awaits better days. All of the housing, however, has been transformed thanks to the hard work of AIT's management teams, American and Taiwan employees.

Here, let me inject a special word of thanks and praise for the 320 or so AIT local employees whose professionalism and cheerfulness are under-rewarded.

The current office building, which from the street resembles some sort of Stalag for POWs, was completely refinished on the interior to make it brighter, cleaner, and safer. I am proud of these modest accomplishments, but more can be done.

Now, let me make a few observations on cross-strait relations, Taiwan's democracy, and the outlook for U.S. interests.

Fundamentally, the approach of five administrations to management of the Taiwan issue has been quite successful. The U.S. built a working relationship with the PRC over 27 years, while maintaining strong ties to Taiwan. In the meantime, Taiwan has enjoyed full autonomy, economic success, and enormous political development.

Peace has prevailed in the Taiwan Strait despite the PRC's military buildup and renewed focus on Taiwan. Nevertheless, in the 1990s, new trends emerged that foreshadowed rising tensions. Naturally, Taiwan's energetic democracy yearned for more international signs of respect. Taiwan's identity became a matter of domestic debate.

China, for its part, initially felt aggrieved for being shunned over the Tiananmen incident, and it demonstrated new concerns about possible American containment efforts.

Events involving the visit to Cornell University by former President Lee Teng-hui, and his subsequent declaration that cross-strait relations were between two states got China's leaders' backs up, and they began a serious search for increased military means to restrain Taiwan.

It was the start of double-digit PRC defense budget growth. The U.S. itself began to respond with new weapons offered to Taiwan and upgrading the U.S. regional posture in case of a crisis. The Taiwan Relations Act compels any U.S. president to be prepared.

China was all the more shocked when President Chen Shui-bian was elected in 2000. First, it was apparently unforeseen by Beijing, which never likes surprises. Second, as a leader of the opposition DPP, Chen was seen as Beijing's worst nightmare come true.

Subsequently, despite understandings reached between Washington and Taipei about the need for restraint in cross-strait affairs, the PRC buildup and estrangement of Taiwan continued, even as a million or so Taiwanese fully plunged into the mainland economy and society.

Over the past two years, however, there have been many signs that Beijing has been reevaluating its tactics toward Taiwan. It has adjusted policy, hopefully, in a less menacing direction. Leaders of the KMT and PFP parties were invited to meet China's leaders and received extraordinary hospitality.

China adjusted its policy preferences from insisting on reunification to insistence on no secession or independence by Taiwan for the time being, raising the threshold for tensions to reach crisis levels.

The anti-secession law sounded tough and provoked strong reactions, but it may have created maneuvering room for the new PRC leader, Hu Jintao, to relax tensions.

Today, the PRC and U.S. articulate their interests in peace and stability in the Taiwan Strait region. Although these policies are expressed differently by each side, the common meaning is clear.

On Taiwan itself, there are many different voices, as you would expect from a clamorous new democracy, but polls suggest that the previous trend toward increasing polarization between the people of Taiwan and China has begun to reverse, and the economic pull between the two remains powerful despite legacy structures intended to impede it, such as constraints on the percentage of corporate assets that may be invested on the Mainland.

Behind the scenes, PRC missile and other military deployments continue, and the U.S. is adjusting accordingly.

For Americans concerned with the stability of the region, and for the continued well-being of the people of Taiwan, there is more reason for optimism than gloom. The PRC seems to have taken stock of its priorities and decided that solving the Taiwan issue soon is not one of them. There are other reasons rooted in Taiwan's changing internal scene, and I would like to turn to those now.

Looking back to the bad old days of KMT control from the 1950s to the 1970s, it is easy to understand why native Taiwanese resented the imposition of rule by Mainlanders. Anomalies prevailed, such as studying Mainland railroad lines in school, but not Taiwan's; and speaking only Mandarin, and not the mother tongue Taiwanese; excluding majority Taiwanese from most official positions; expropriation of property; and jail time, exile, or executions for dissenters added bitterness to the mainlander Taiwanese cleavage.

Once Chiang Kai-shek's son, Chiang Ching-kuo recognized the need to move on and deal realistically with Taiwan's international status and domestic composition, things began to change gradually.

Taiwan's economic takeoff occurred under brilliant technocrats. Taiwanese entered official positions, and the Teng-hui opposition began to take form.

Today, Taiwan enjoys full-blown ballot box democracy. It has come to the point where there are rising voices to reduce and compress the number of elections to gain relief from endless campaigning.

Participation by the voters nonetheless remains high, demonstrating their continued faith in the democratic way.

Taiwan passed the major test of a new democracy when the ruling party surrendered power peacefully in 2000. The new party in power, itself seeming somewhat surprised and unprepared for winning, made a further important strides when it invited competent officials from the former ruling party to hold high office.

An often unnoted grace note to this transition was the absence of rancorous legal proceedings or truth commissions to rake over the past. The new leadership opted instead for finding ways to compensate those that were victimized earlier.

Does Taiwan still have work to do in building its democracy? The answer is yes, and it is something that AIT applied itself to in my time, and I believe still does. The term I use in urging Taiwan to move forward is "democratic institutionalization," adding to ballot box democracy, a sometimes invisible element that helps a democracy reduce its disadvantages and enhance its advantages.

Taiwan has a famously combative legislature, although the number of incidents on camera seems to be declining, and the number of legislators is about to be halved. Less noticed is the shortage of professional staff and related organizations to serve those legislators. The quality of the U.S. Congress's Armed Services Committees, Finance Committee staff, to take a couple of examples, is famous among insiders, highly professional. They often are what make the Congress work. The Library of Congress, GAO, and others all have a role to play. Taiwan has barely made inroads in these areas, although the legislative leadership, to its credit, acknowledges the shortcomings and has been willing to work with us to remedy that.

Similarly, Taiwan's media draw lots of criticism. Like media in other free societies, traditional print outlets are struggling to compete with new electronic outlets. Advertising money is spread thin, bringing on low salaries for journalists and questionable borrowing from state-controlled banks. Particularly noticeable in the hot competition to stay on top of the news cycle is the absence of investigative journalism as we know it. Perhaps this, too, is a legacy issue given that it was probably not a safe line of work for quite a long time. Today, complicated modern government needs journalists with the time and tools to investigate its actions. Taiwan's admirable introduction of e-government may make some of this even easier.

Finally, let me turn to the positive trends in generational change in Taiwan that make me more optimistic than gloomy about the future.

As I met with ordinary Taiwan citizens during my time in AIT, I noticed a pattern of

generational gradations of opinion about Taiwanese identity, attitudes toward the Mainland and the international scene in general, and towards the island's political parties.

Older Taiwanese, often those well-educated in the early days, but unable to find respectable outlets in politics or government, frequently went into the professions, business, or exile in the years before democracy emerged.

Today, these people are often the most adamant about Taiwan independence and least tolerant of talk about pragmatism. They reflexively support the TSU or DPP parties. They harbor understandable resentment of what they regarded as a KMT jackboot on the Taiwanese people. Generations raised later in the more tolerant atmosphere under President Chiang Ching-kuo appear to be considerably more pragmatic.

Recently, my admittedly anecdotal method of sensing this generational change was improved upon by research undertaken by Professor Chu Yun-han, of National Taiwan University. He notes that while more and younger people are holding fast to their Taiwan identity, the political implications of their views have changed. People conceiving themselves exclusively Taiwanese do not necessarily support the DPP, support Taiwan independence, hate China, or are opposed to three links.

This suggests to me that the predictions of a few years ago, the ethnic identity combined with an overwhelming majority of Taiwanese under a democratic system would necessarily lead to a crisis with China, were inaccurate. There is a growing likelihood this will not be so.

Taiwan's people will use their improved education, growing international experience, observation of competing parties under a democratic system, and life experiences less harsh than their elders to validate democracy's premise of trusting the people's judgment.

When I survey the next generation of potential Taiwan's leaders, I see little cause for concern. It is my belief that U.S. interests can be satisfactorily tended working with any of the prominent candidates of the competing parties for the 2008 elections. We, too, should have faith in Taiwan leaders.

This is the reason I think we should be optimistic tonight.

Thank you for your attention, and I am most happy to welcome questions.

[Applause.]

DR. RICHARD BUSH: Thank you very much, Doug, for that clear and optimistic presentation.

We will now open the floor to questions. Please wait for the microphone and then identify yourself. Doug, I will let you field the questions.

DR. LARDY: Nick Lardy, Institute for International Economics. Doug, I would like to ask you a speculative question. You quite appropriately mentioned Chiang Ching-kuo twice and the critical role he played in the transition to a much more democratic system.

Would you speculate on how you think politics might have evolved in Taiwan if there had not been a Chiang Ching-kuo, a man of great foresight, who led Taiwan down this path?

MR. PAAL: Counterfactual history. It's a very good question and I am completely unprepared for it. Like a lot of countries that make it, Taiwan was lucky to have a generation of people that came together at one time. We had it in our revolutionary generation, Taiwan had it with others who put together the economic packages and Chiang who supported their 10 major economic projects, which really helped launch Taiwan's takeoff.

If he had not seen this, it is hard to believe Taiwan would have stayed the kind of banana-growing, rice-growing economy that it was when I first visited it in 1972. There was so much energy, there had to be a release on the island for what is now 23 million people on a space the size of Connecticut, with much less arable land than in Connecticut. It would have to have found some way to break out of the pattern of the past.

So, I guess maybe the forces of history would have been stronger than the personality, but Taiwan was lucky enough to have a transitional figure of some wisdom and personal experience on the island in its various previous capacities. By the time he took power, he was able to see what needed to be done and began to do it.

MR. HAROLD: Scott Harold, Brookings Institution.

Ambassador Paal, I would like to ask you if you could speculate on the future of Taiwan's relationship with the United States in the areas of trade and security, and specifically, if you would give us your thoughts on the current arms package that the Bush administration has offered Taiwan, and the possibility of a future U.S.-Taiwan FTA.

MR. PAAL: On the arms package -- that was originally proposed in the spring of 2001, and a lot has happened since then. In 1999, China embarked on its massive improvements in its military posture opposite Taiwan, and the decisions that were made about what to offer Taiwan at that time didn't have the benefit of the experience we have had in the subsequent years to see what might have been a better package of things to offer and suggestions to make for Taiwan's military.

A lot of people fixate on the items on that list, but within the administration during my time serving in Taiwan as not an ambassador, the thinking within the military, the U.S. side, and for the large part, on the Taiwan side, had migrated past those submarines, P-3's, certain kinds of ships, and it got into discussing more hardening, ammunition, things that would make Taiwan a hard place to invade.

Taiwan has many natural advantages as an island. In 1945, when General MacArthur was

confronting the prospect of which island to go to next where the Japanese were, and he had the benefit of 3,000 ships at one point, 1. 5 million men, he decided Taiwan was too hard.

Today, it is still a very hard target and Taiwan can do a lot without having to buy fancy equipment to defend itself, but it has to do some necessary things.

Unfortunately, partly it's our fault for what we proposed, but a lot of it is also Taiwan's fault, because people on both sides of the political line in Taiwan have used this issue more for domestic political purposes than to advance Taiwan's national defense.

There are only a few civilian defense thinkers in Taiwan, a small number, not terribly influential. Most of the stuff gets politicized quickly, has been very much politicized during my tenure in Taiwan. I tried in my time there not to dwell on the famous systems.

Now, to turn to the FTA, the prospects for an FTA with any entity depend on a number of factors. One of them is the President's authority to negotiate what used to be called fast-track agreements. You know about that. That is about to expire with this administration.

Early in my tenure in Taiwan, I had very frank conversations with the political and economic leaderships. There are certain things that were not accomplished according to our WTO bilateral agreement that need to be fulfilled, and if we can do that, we can move on to the consideration of an FTA, but it won't be easy.

Three years past, I had another conversation with the same officials, and they said, what do we need to do to get an FTA? I said, "We just wasted three years heading toward the deadline on the authority, the fast track negotiation by the President, and it has gotten to be too late."

The likelihood of an FTA is also significantly affected by the degree to which American business pushes forward, and most American businesses have less of a stake in Taiwan than they have in the PRC, and given the political tensions between the PRC and Taiwan, it is unlikely you will see many corporations, like the chief executives sticking their necks out with the China market by advocating improvements in the Taiwan market.

There is not that much to be gained relative to what there is to possibly lose on the mainland. They don't even form trade associations to do this covertly for them, because the trade associations are also heavily engaged in trying to promote their interests on the mainland.

So, unfortunately, the window is rapidly closing on an FTA for Taiwan, even as free trade agreements are proliferating bilaterally and multilaterally throughout the regions surrounding Taiwan.

Julia?

AMBASSADOR BLOCH: Julia Chang Bloch of the U.S.-China Education Trust. Doug, first of all, welcome back to Washington.

I believe that there is a decided view on the mainland that should the next presidential election give Ma Ying-jeou a victory and return the KMT to power, that somehow the cross-strait relations will change for much the better from China's perspective.

Would you agree with that kind of a perspective? I mean do you think that if there is a change in party control in Taiwan that somehow cross-strait relations will move more toward reunification?

MR. PAAL: I am glad you added that last phrase, because otherwise it was a very tough question. I don't think that Ma Ying-jeou or any of the other potential candidates for president of Taiwan looks forward to negotiations to become the leader of a province of the People's Republic of China, so that reunification is not in the debate. As Ma said in Tokyo this week, and has said consistently, reunification is not even a topic until China becomes democratic, and if you talk to Ma, nobody ever presses him in these public engagements, but if you talk to him, "Why do you talk about reunification?" he answers, “It's in our constitution. If you are president and you swear an oath to the constitution, the topic is in front of you.”

So, it is not as if he is making this up and he wants to promote people by pushing for reunification; it's a present reality in Taiwan life that he tries to deal with.

Now, I am not making a case for him or anybody else. As I said in my prepared statement, of the prominent candidates being considered for the next president of Taiwan, our interests I think will be manageable.

If our interests are manageable, I very much suspect China's interests will be manageable irrespective of who personally wins the election. Again, I think that has a lot to do with what the people of Taiwan feel and say and how they vote.

I felt this very strongly. October 2004 was almost like one day was one way, the next day was another. Sunday morning, everywhere I went, suddenly people were saying -- this is after the Legislative Yuan elections, which at the last moment had introduced some cross-strait tensions as a topic for the election. People really felt that enough is enough, we can't screw with our future. They used stronger language than that when they were talking to me, but they felt that it was time to call a halt to some of the -- and I think that is a widely felt sentiment, and we saw it when Hsieh Chang-ting became Chen Shui-bian's premier: his first interviews were very pragmatic. He said, "Independence is like a distant moon. We can reach for it, but our arms will never get there, so let's talk about what we can do here and now."

So, I don't know what China is thinking as China may come to its conclusions as they did about the 2000 elections, completely wrongly, by listening to the wrong sources or what have you, but I think that we, in assessing our interests, can be more optimistic than not about cross-strait relations.

Way in the back.

MR. FAWKNER: Thank you, Mr. Paal.

Speaking on behalf of the U.S. Chamber of Commerce here in Washington, building on all these questions, what should the U.S. business community do in Taiwan to -- or what is your advice on what they should be doing to engage with the PRC, and what advice should they be giving to the Taiwanese government to engage the Taiwanese business community, and where should they move from there?

MR. PAAL: To engage with the Taiwan business community?

MR FAWKNER: Yes.

MR. PAAL: They don't need much advice. First, the leaders of Taiwan business are internationally first class. These are the guys who built all our computers. All of you who have got computers, two or three of them, 95 percent are from Taiwan businesses one way or another.

They are pretty smart, and our people learned how to work with them. As I mentioned, one of these legacy inhibitions on investment, five American firms, to my knowledge, attempted to open operational bases on the island, so that they could use that as a launch pad into the mainland.

This would have been good for Taiwan, it would have been good for American business, and it would have been good for these people, because their families would then have their kids going to a terrific Taipei American School, they would live in a very convivial atmosphere of Taiwan, good food, relaxed, legal environment is very sound, but they were held up by the fact that Taiwan has a law that if you put yourself in Taiwan, and then try to operate a minute, you may deploy no more than 40 percent of your assets on the mainland.

What American company that will make a billion dollar play for China is going to put 60 percent of it on Taiwan and then put 40 percent, 400 million left over on the mainland? It just doesn't compute.

So, the Chamber of Commerce in Taipei has argued very strongly that Taiwan should revisit this rule. They also talked about the flow of human resources. Right now, the critical issue for American business is the flow of human resources. They have got people who are in the computer or other businesses need to go back and forth between Taiwan and the mainland.

If Taiwan wants to move up the economic ladder, they need to get into more R&D, design, quite a few design firms there, but there is still no broadband direct connection between Taiwan and the factories where the designs needs to be applied on the mainland, have to be carried over on disks or whatever it is, but lots of little things that could make things better.

MR. FAWKNER: Thank you.

MR. PAAL: Thank you.

Eric?

ADMIRAL MCVADON: Eric McVadon, Institute of Foreign Policy Analysis. Julia stole most of my question, but let me pick up something on the periphery.

I guess I have had Chinese colleagues tell me that they are trying very hard to be more attractive to Taiwan, and I wonder if that is going to be viewed with cynicism. You mentioned polarization reversing between Taiwan and the mainland.

I wonder if there is a chance that the polarization reverses within Taiwan or whether there is going to continue to be a great deal of cynicism about what China's motives are and how sincere they are with respect to being more attractive.

MR. PAAL: Well, there are plenty of people in Taiwan who remind ordinary businessmen and citizens that the PRC has a united front strategy, it is attempting to divide the parties on Taiwan and the voters on Taiwan from the government, so that they can put countervailing pressure on what is now Chen Shui-bian's administration, but there is plenty of institutionalization in the media of a skeptical attitude, and academics, as well.

So, the people hear that, but it's quite clear the present trend is to respond positively to a less unattractive face from China.

On the eve of the elections in 2000, Zhu Rongji was sent out to issue what turned out to be sort of empty warnings to the voters of Taiwan, in very ugly language. The Taiwan Affairs Office spokesman constantly addressed issues with regard to Taiwan in very ugly language, but in the last two years, they have softened these messages.

They have invited people, they have given good treatment, they have opened up certain market segments even if only nominally. It gives them a good headline, they have offered pandas, and then put the Chen administration in the awkward position of turning down pandas that are being offered, and which a lot of very native Taiwanese would like to take their grandchildren to see at the zoo.

So, the PRC's tactics have really improved, so they are today much less unattractive than they were before, which was driving people away. When you combine that with the economic opportunities and the cultural travel opportunities on the mainland, there is a strong feeling that they have in Taiwan of a relaxation of people-to-people kinds of tensions.

Bert?

MR. KEIDEL: I am Bert Keidel with the Carnegie Endowment for International Peace. Doug, nice to see you again and good luck with your new career, and thank you for the encouraging words.

My question is one that is outside my field, so it may be a stupid question. What was the reaction of Taiwan, as you understood it, of the rwo-plus-rwo agreement well over a year ago? Was it a non-event, was it seen as a welcome gesture, or how was it appreciated?

MR. PAAL: That, and the President's remarks on Kyoto during his travel through Japan last year, were both seized upon by Taiwan as constituting a new level of commitment to Taiwan by the United States and Japan.

My frank view of this is that it is illusory, that if you try to pursue where Japan and Taiwan and the U.S. would cooperate concretely together, it's asymptotic, you never get there, there are too many barriers. But in Taiwan, it is useful for some politicians to make the most of it, to claim victories for the people, hoping to win a few more votes, but it's not in the real world.

The two-plus-two statement came out really, it had significance because the topic was raised in a bilateral U.S.-Japan statement, but it had no operational new content. It was simply an acknowledgment that that was an issue. Like a nose on a face: it's there, and we all know it.

MR. CORBETT: John Corbett, CENTRA Technology.

Doug, first, I would like to thank you on behalf of everybody else here. My question reflects sort of my military background. As director of AIT, you didn't have to put up with U.S. Army, Navy, Air Force flag officers coming to visit.

Would it have helped your job, what difference does it make, should we have flag officers coming to help in our relationship with Taiwan?

MR. PAAL: That is a very good question. I can conceive of no way where having U.S. flag officers visiting Taiwan would advance American interests. First, it would be in violation of explicit agreements between the United States and the PRC, which would then give a pretext to the PRC for making life difficult in other areas, whatever they choose to make that be.

Secondly, very pragmatically speaking, we have one of the largest arms programs, sales and liaison programs in the world between Taiwan and the U.S.. It is conducted almost subterraneously, but it is huge. They have been overtaxing our people, our small staff.

One general officer visiting would tie up all 20 of our officers for what would be, “Here are two good things for our two countries in the future” at the end of the day, and it would get very much in the way of the kind of business we need to do with Taiwan to keep the place relatively impregnable, and therefore less likely to invite military action and force us to consider getting involved.

So, I see no use in flag officers visiting Taiwan, sorry to say.

Jeff?

AMBASSADOR BADER: Doug, my question is inspired by your sartorial choice tonight. I see you are wearing a light green tie and a light blue shirt.

MR. PAAL: That's a choice I have made often. I am also wearing some tomato sauce.

AMBASSADOR BADER: I assumed it was a statement and I guess I am wondering, do you see any prospect in 2008-2009 of a less polarized Taiwan body politic in which the next president can rule from the middle, or is that just a vain hope of some of us who like to dream that moderates have a continuing place in democratic societies like Taiwan and the United States?

MR. PAAL: Again, as I said in the remarks, I have got quite a bit of confidence in the pragmatic underpinnings of the Taiwan people. They are pragmatic people, they have survived on an inhospitable terrain in difficult circumstances for a long time.

But getting to vote is a new thing, getting to vent your spleen at people is a new thing, and they seem to have to go through a few cycles of this, but as I was trying to say earlier, what I saw in late 2004 was people saying "Okay, we have done that, let's move on to something more centrist."

Now, a lot will depend. We haven't seen the redistricting of the upcoming Legislative Yuan elections. How that is handled will be extremely important as to whether this is a partisan nasty fight or reflects more traditional pocketbook and localist interests in the upcoming election.

If the Central Election Commission drives a redistricting that is as contentious as, say, the Texas redistricting was, we may end up with more tension in the legislature, and therefore, a harder situation for whomever becomes president to govern.

I still think the general trend - having been a CIA analyst, I am always throwing up the worst case scenarios - but trying to be more responsible than that, I think that the likelihood is that the Taiwan folks are going to give their new leader a chance to -- he is going to have to earn it, too – to give him a chance to pursue a constructive course.

There are a lot of unattended issues. The legislature has had before it a vague set of proposals for 800 billion yuan, eight-year programs, and 500 billion yuan, five-year programs. Nobody knows what the content of these are. They are just political shibboleths.

People want some things done. They want the mountains to stop sliding down on villages when typhoons come, they want the rivers cleaned up, they want the schools improved.

Taiwan politicians have been giving away state universities. Every town wants to have its own *guoli daxue*, and so politicians give them one. They've got 165, I think, universities. The budget pie for the universities in Taiwan hasn't changed, but they keep slicing it thinner and thinner. Now they have got to pass special legislation to try to take the prestigious schools, like National Taiwan University, and give them a little extra money, because they were beggaring

their science departments, the high-quality departments that have made Taiwan a success in education.

Public education at lower levels, the elementary and middle schools, is highly controversial. The reforms that were started in the late 1990s have been disastrous in the eyes of the families whose kids are in those schools. So there is a lot of pragmatic agenda at home for the Taiwan leadership, together with the legislature, to focus on, that I think would win them substantial centrist support.

Rust?

AMBASSADOR DEMING: Thanks. Rust Deming, former Foreign Service officer, now Professor at SAIS.

MR. PAAL: Former resident of one of the finest houses in the American Foreign Service in Tunisia as ambassador.

AMBASSADOR DEMING: Doug, you talked a lot about the restrictions under which AIT operates, and the U.S. government in general operates.

My question is, to what extent does this interfere with effective understanding and communication between the two governments, and if it does, is there any room for maneuvering in terms of lifting some of these restrictions?

MR. PAAL: Thanks, Rust. Actually, some of those things have been adjusted over time. With the end of the George H. W. Bush administration, they allowed cabinet level members with economic and non-national security responsibilities to visit.

The first one, I think, was Trade Representative Carla Hills, and then there was Energy and Transportation on the books. Maybe some of them happened, maybe some of them didn't happen.

They were dependent on the annual meeting of the U.S.-Taiwan Business Council, and that sort of lost steam with the political change in Taiwan in 2000 when the KMT-affiliated Council on the Taiwan side wasn't as attractive to the Taiwan government, or to the business people. It's a complicated story.

There are ways to get communication. We have pretty good communication with the modern telecommunications to make things easier. We have had to make changes that I frankly got involved in, was actually going to their legislature and saying we are from the United States of America, at least AIT, and we have some views on what you are doing.

The first time one of our officers went up to the legislature to do this, there were outraged headlines in the Taiwan press about “how dare these American diplomats stick their noses in our affairs,” and we had to remind them that there was a fairly substantial history of the reverse in

Washington, by Taiwan authorities.

It has become a more normal thing to talk with them although it is still dangerous, because there are very few internal guidelines on confidentiality and the like. If you are about to have your legislature cut in half, you have a 50 percent chance of not being around next year, so the chance of taking every opportunity that comes along to get in the newspapers, be on TV, is irresistible, so right now it is a very dangerous place to show your face. They are all looking for TV time.

David?

MR. LAUX: David Laux, your predecessor on the National Security Council, and when I left that job, when David Dean decided to go out from being the chairman for eight years, and be the director in Taipei, and I was recommended to take his job, you were my recommendation to replace me on the NSC. I was delighted to see you get that job and what you did with it and what you have done in your extended AIT.

Shortly after I took the chairmanship, the Chinese-American Association here, the Taipei Chinese-American Association, had a dinner to welcome me and hear my views, and Walter Judd was there along with some other notables, and at the dinner, I said, "Walter, if you were going to make the speech instead of me, what would you say to these people, what has Taiwan done, what do they stand for?"

He said something which I thought was very profound. He said, "You know, David, remind them that they are like a lighthouse off the coast of one billion people, showing a different way, a better way, democracy, and all the things that go with it, and they are going to be the example for the meeting."

I think, you know, looking back on these twenty-odd years, that is exactly what Taiwan has been, and that many of the changes for the better that have come to mainland have come through them.

I just wonder if you would speculate on this idea a little bit yourself, and also, would you for a minute comment, looking ahead to the elections two years from now, would you speculate a little bit on what you think might happen under a KMT leader and what might transpire under another DPP leader?

MR. PAAL: Thank you for putting me on the hot seat. I really can't answer the question of the beacon or lighthouse to the mainland. I have never heard anybody on the mainland, anybody ever say they look to model themselves on what Taiwan has done economically or politically.

That is probably impossible for them to say if they feel it, so that is no fair test of how they feel. I do know that the experience with Hong Kong since 1997, with the Taiwanese people and with the Chinese people, has been one that has caused them to have reconsideration about

making China more like Hong Kong.

I do know that the recent political excesses on Taiwan, with the fighting in the legislature, give ample pretext for people to make allegations that Taiwan is no model of democracy, no model for the PRC: it's too chaotic.

I have even seen Taiwanese legislators on television broadcast in the PRC saying that Taiwan democracy is a joke. I think that was something where the line should have been drawn more clearly in advance, but it was done.

So, the PRC impression I think is more likely to be unfavorable. We might, ourselves, conceive of Taiwan as that kind of lighthouse, but I don't think you could prove it through evidence from mainlanders, given their exposure to propaganda and constraints.

The second question was what would be the differences between the two sides. Well, anybody from the DPP is going to have to deal with the legacy of the DPP's party plank on independence, its revised party position on not seeking independence soon, on the history of Chen Shui-bian's backs and forths on a lot of issues, so it is going to be different from what a KMT person would have to do.

The KMT person must -- especially if Ma Ying-jeou is the leading candidate, who is the guy accused of having Hong Kong feet -- must be very, very careful, too, so that he doesn't give, in a campaign or in the early days in office should he win, the impression to the voters of Taiwan or Taiwanese origin, that somehow it is back to the good old days. I am pretty confident he wouldn't do that; he is a smart enough politician not to do that.

[Side B of audiotape begins.]

MR. PAAL: …I was referring to earlier, but are also smart enough to know what is workable and what is not in Taiwan. So, I am not too worried about the differences between the two sides' candidates.

DR. PEI: Minxin Pei with Carnegie Endowment. Doug, in China, there appears to be a consensus now that time is on China's side and that lies behind many flexible changes that are seen. What is the sense on Taiwan regarding the future?

MR. PAAL: Again, views are very polarized. I think you will find more and more in the corporate world, big companies that are out in the international world, an increasing sense that that is the case.

Among the small shopkeepers and service trades people, there is a reluctance to accept that or to agree to it. Of course, the government keeps flailing away at the concept, saying that, in fact, Taiwan is a lot stronger than people think, it continues to win the most free economy award, and has good productivity gains that are very stable, well, unemployment is larger than it has been in the past, but it has sort of stabilized now and at a reasonable level, I think they have good

supporting currency reserves.

Nonetheless, there is an underlying nervousness -- when people in the administration, in Chen Shui-bian's administration, come after us frantically for FTAs, it suggests they feel that something is getting away from them, but they want an FTA that is basically political, they don't want to deal with the economic realities, which would mean telling some of their shopkeepers they are going to have to change their ways of doing business, because that might cost them votes, so they are trying to have it both ways.

Oh, someone who really knows – Mark.

MR. PRATT: [Inaudible.] I have talked with a number of young Taiwanese who have studied at universities; they seem to be really well informed and also have a good estimate of what is happening there.

MR. PAAL: On the mainland about Taiwan?

MR. PRATT: On the mainland about Taiwan, about the United States, about China and the world, all kinds of things, which the old, shall we say, the old intelligence experts of the KMT, to do like calling up their old buddies in Zhongnanhai, something that is no longer possible because they are now all dead, but the point is the young people seem to be doing a pretty good job.

MR. PAAL: Well, I don't have the length of experience that you have, but I have a lot of that experience from the '80s through the present.

In the '90s, Don Zagoria included me in his merry band of Nobel Peace Prize seekers trying to solve the cross-strait issue for about a decade, and we would go back and forth between the two sides and stare at the face of the intelligence establishments and policy establishments in both Taipei and Beijing.

In the early '90s, we had very strong positive discussions with Taiwan intelligence officers, but also policy people who had that kind of experience or who had been very good students of the mainland, and pound for pound, they way outclassed the Chinese side. The Chinese side was living in shibboleths and theological postures, and with very little information within that access to media, it seemed.

In the decade since, it has been completely reversed. The guys you were thinking of have long retired or passed on in Taiwan. I don't want to use too harsh language because this is an open forum, but I wouldn't look first at the National Security Bureau for an understanding of the mainland or to some other agencies in Taiwan, because they simply can't attract people who are interested in that work.

People who are interested in that work will teach in a university in China or they will work in a corporation there, if that is what they want to do. It is not an attractive alternative to be

in Taipei, forbidden to ever travel to China even though you are a China specialist.

On the other side, in the PRC, they must have, I don't know the exact number, my impression is at least 250 people following every sparrow chirp on the island. They really are incisively chewing over the material. You can't surprise them about anything, because if you have appeared on TV with somebody, or as many Taiwanese businessmen who were called back during the last election, are sort of impressed and just standing on the stage with President Chen Shui-bian, and show some support to protect their business interests in Taiwan, they would soon be called on the carpet in Beijing because somebody saw Channel 48, got a tape of them with Chen Shui-bian, and they got to *biaotai*, they have got to express themselves why they were wrong in doing that.

The PRC has greatly improved its knowledge, and they have I must say close to complete knowledge of what is going on in Taiwan, if not complete understanding.

It is a closed environment, as well as an open environment, which is a source of concern for us as we share technologies, weapon systems, and the like.

Thank you, Richard. This has been a wonderful opportunity. I am glad to have so many good questions.

DR. BUSH: Thank you very much. Thank you all for coming. It has been a wonderful evening.

[Applause.]

[END OF TAPED RECORDING]