

THE BROOKINGS INSTITUTION
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STUDIES

TAIWAN'S ECONOMY
AND A
U.S.-TAIWAN FREE TRADE AGREEMENT

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Dr. ShihYen-Shiang

Political Deputy Minister, Ministry of Economic Affairs, Taiwan

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Moderator

Dr. Richard Bush, Senior Fellow and CNAPS Director, The Brookings Institution

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Deputy Assistant United States Trade Representative for China Affairs
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DR. RICHARD BUSH: My name is Richard Bush. I am the Director of the Center for Northeast Asian Policy Studies here at Brookings. It is my great pleasure to welcome you all today. Thank you very much for braving the cold. We are happy to provide a warm refuge for you.

It is our great pleasure to host this conference on Taiwan-U.S. economic relations and prospects for a free trade agreement. Jim Hoagland, columnist for the *Washington Post*, had a column on Sunday where he talked about the problem of people talking too much about subjects that they don't know anything about, and so I am going to take his advice and not do that. We have some really outstanding speakers who do know what they are talking about, and I think we should get right to them.

What I am going to do is just offer my gratitude to a couple of different sets of people. First of all, I want to thank my staff for working tirelessly to put on this program. The doors have closed in the back so they probably can't hear, but I am thanking them anyway. I want to thank all of the speakers, a very outstanding group of people who, as I say, really do know what they are talking about and will provide us a set of converging perspectives on what is really an important set of issues.

Most of all, I would like to thank Dr. Shih Yen-Shiang for coming across the Pacific to be our keynote speaker today. He is the Political Deputy Minister in Taiwan's Ministry of Economic Affairs. He holds a Ph.D. from the Massachusetts Institute of Technology. He has prepared a really stimulating presentation on the issues before us today. It is our great honor at Brookings to welcome him today.

Minister Shih.

(Applause)

**Keynote speech:
Taiwan's economic outlook and the importance of a
U.S.-Taiwan free trade agreement**

DEPUTY MINISTER SHIH YEN-SHIANG: Richard Bush, distinguished guests, ladies and gentlemen, good morning. It is a great pleasure for me to return to Washington, D.C., and join you all for exchanges on the subjects of Taiwan's economy and a U.S.-Taiwan free trade agreement.

My presentation today will cover Taiwan's economic profile and economic relations with the United States, Taiwan's economic challenges and Taiwan's economic vision through the year 2015, the importance of the Taiwan-U.S. FTA and following the greater expansion of TIFA to FTA.

Over the past 50 years, Taiwan has grown from a poor country into a prosperous society, which it achieved with the help and commitment of the U.S. government and people. In 1952, Taiwan's per capita GDP was a mere \$1,096. All foreign trade was only \$300 million. However, by the year 2006, our per capita GDP had swelled to \$16,000 and all foreign trade topped \$427 billion and all foreign reserve exchanges accumulated to be \$266 billion.

Of course, as you know, Taiwan also became a democratic and modern society. In the year 2002, Taiwan joined the WTO as its 144th member. Taiwan has been a member of APEC since 1991, and now Taiwan is an observer in the OECD steel and the fisheries committees. Our participation in these organizations owes much to U.S. support. Thanks for the American support.

In 2006, Taiwan's foreign trade reached \$427 billion, and GDP grew by 4 percent. Taiwan enjoyed the third highest trade surplus reaching \$21.3 billion in the year 2006, and our trade surplus tipped in 2003 at \$22.6 billion. Last year, Taiwan attracted a large amount of foreign investment, the highest in its history, and an increase of 23 percent over 2005. Our unemployment rate as of December 2006 was 3.8 percent. Meanwhile, Taiwan held bilateral economic consultations in 2006 with the U.S., U.K., Japan and other countries.

In the area of free trade agreements, Taiwan signed its first FTA with Panama in 2004. Similar arrangements were signed with Guatemala and Nicaragua in 2006, and we just completed negotiations on signing of free trade agreements with El Salvador and Honduras last November. These countries are in Central America and are close allies of the United States. Overall, 2006 for Taiwan was quite good.

The next page represents some global rankings of Taiwan's economic performance. First of all, the World Economic Forum (WEF) ranks Taiwan seventh in the world for net working revenues and ninth for innovation competitiveness.

Business Environment Risk Intelligence (BERI) rates Taiwan as the sixth best investment environment, globally. In 2006, the Economist Intelligence Unit (EIU) listed Taiwan third in Asia for potential profit opportunities. In terms of gross competitiveness, Taiwan was ranked first in Asia and fifth in the world by the WEF in the year 2005. These global rankings are indeed encouraging signs for Taiwan.

Since 2001, bilateral trade between Taiwan and the U.S. has grown steadily, rising from \$51 billion in 2001 to \$57 billion in 2006. Taiwan and the U.S. are also closely bound together by investment ties. The United States is a large source of Taiwan's foreign direct investment in terms of the accumulated amount since 1952. The accumulative value of foreign investment now amounts to \$23 billion, and Japan is Taiwan's second biggest FDI source with \$14 billion. The Caribbean Sea is third at \$13 billion, and the mainland of Europe is fourth at \$8 billion. These figures underscore the extent to which Taiwan has internationalized in terms of trade and investment. Again, thanks are all to the Americans.

Ladies and gentlemen, Taiwan's economy looks quite good, but we do face some domestic and external challenges just like any other country in the world. Firstly, the changes in Taiwan's demographic and infrastructures are very significant. Of course, Taiwan also faces global pressures such as the impact of the globalized economy, intensified competition in international markets and economic integration in Asia. An increased focus on sustainable development also prevails in Taiwan. More importantly, our trade and investment ties with China have grown closer since 1990. Taiwan has invested more than \$62 billion in China, and China now is our number one trading partner in terms of trade volume.

This chart shows the changes in the demographic structure of Taiwan over the past 30 years. The current pattern in the year 2006 of Taiwan is very similar to other developed countries, approaching the so-called aging society. The percentage of people of more than 65 years old increased from 3.6 percent in 1976 to 10 percent in 2006, and the percentage of the group of younger than 14 years old decreased from 34 percent to 18 percent.

This chart presents the dramatic changes of Taiwan's infrastructure over the past 15 years as the share of GDP in the public sector declined from 3.7 percent in 1991 to a mere 1.4 percent in 2006. In the same period, the service sector increased from 58 percent to 73 percent while the industrial sector dropped from 38 percent to 26 percent in which 23 percent was contributed from manufacturing industries. The current infrastructure of Taiwan is very similar to that of Japan, and we know that Japan also depends heavily on foreign trade.

So what do the Taiwanese people think about the current situation? Most people in Taiwan believe that Taiwan is now at a crossroads. Taiwan could stall without much progress and it faces the risk of being marginalized in Asia even from the global supply chains. Of course, we don't want to see this happen. We could also

do much better by adopting an energetic growth pattern, increase our ties with other developed countries, and we could achieve economic prosperity and independence, sustainable goals. There has been a lot of ongoing debate on this issue, and the most obvious solution is to promote industrial innovation.

There is a consensus among the government and the business leaders in Taiwan that as we promote industrial growth, we must also seriously consider social and economic justice and environmental sustainability if we want to reach our economic goals by 2015. Let us take a look now at what these goals are.

Between 2006 and 2015, we are aiming for averaging annual GDP growth of 5 percent. Technological advancement, innovation and variegated efforts will be the main driving forces of growth. Our policies are largely focused on recruiting international talent, investing in innovative R and D, promoting emerging industries and promoting international branding. Companies like Acer and Quanta have made a lot of efforts to promote the image of their products. Of course, we know that this is not an easy task, but Taiwan has no other choice.

The government of Taiwan has announced five strategic policy packages to achieve our economic goals last year. The single most important goal is to double our GDP per capita from \$15,200 to \$30,000 from 2005 to 2015. This is indeed a real challenge. Last September and October, our cabinet launched five policy packages covering industrial development, financial markets, industrial manpower, private construction and social welfare.

But we all also know that there is a very critical issue besides the five policy packages, that is, how to build closer ties with the United States, and a signing of an FTA is definitely the core element. According to an October report, 2006, from the American Enterprise Institute (AEI), Taiwanese trade partnerships with its neighbors in East Asia and a U.S.-Taiwan FTA is the key to building those partnerships. With a U.S.-Taiwan FTA, Taiwan will have greater confidence to build closer ties with China. Taiwan will also be more capable of participating actively in Asian economic integration efforts. Surely, Taiwan will be more likely to deepen bilateral as well as multilateral relations with its main trading partners. We all know that free trade agreements are consistent with the WTO guidelines.

An FTA between Taiwan and the U.S. will help sustain the remarkable growth that Taiwan has already achieved over the last five decades. An FTA will also ensure the economic security and prosperity of Taiwan for the future. But why?

There are several reasons. An FTA between Taiwan and the U.S. will create the conditions for more peaceful and stable relations within the greater China economic area. An FTA between Taiwan and the U.S. will spur higher rates of regional economic development that goes with Asia and even the Asia-Pacific region. An FTA aligned with past U.S. efforts to support and sustain Taiwan's involvement

with the global economy. Most importantly, an FTA will nurture the economic ties between Taiwan and the U.S. and ensure that Taiwan continues to be a democratic beacon and economic success story in Eastern Asia. This surely will meet the national interest of the United States.

Let us look at the data. The 2002 study by the United States International Trade Commission (USITC), showed that under a U.S.-Taiwan free trade agreement, U.S. exports to Taiwan will increase annually by 16 percent or \$3.4 billion. This is good for the U.S. economy. Some sectors, such as motor vehicles, rice, fish and other products will increase up to 100 percent in terms of value of U.S. exports to Taiwan. Furthermore, asset management, financial and educational services and other service industries in which the U.S. enjoyed a strong competitive advantage are also expected to benefit from an FTA.

Besides the USITC study, another survey by a U.S. think tank tells the same story. According to a December, 2004 study by Institute for International Economics (IIE), showed that a U.S.-Taiwan FTA will result in an annual increase in U.S. exports to Taiwan of \$6.6 billion which is equivalent to 30 percent of U.S. export value to Taiwan in 2006. The study also shows that the overall wealth gains to the U.S. economy from an FTA with Taiwan is greater than those from 10 other current or potential U.S. FTA partners including Asian countries such as Singapore, Malaysia and Thailand.

These two surveys, one by the USITC and another by IIE, prove that an FTA between Taiwan and the U.S. will bring significant economic and commercial benefits for the United States.

A Taiwan-U.S. FTA is also crucial to Taiwan's economic future. Given the importance of a Taiwan-U.S. FTA, where does Taiwan stand now in this regard? TIFA is a key. TIFA stands for the Trade and Investment Framework Agreement. The United States has asked to resolve existing economic and trade concerns through TIFA meetings with countries with which it is considering negotiating an FTA. This is the U.S.'s common approach to reaching an FTA. Taiwan and United States held the fourth TIFA meeting in 2004. At that time, the U.S. felt that the greatest significance of the re-establishing of TIFA meetings with Taiwan was to return bilateral relations to normal. The U.S. has also commended Taiwan for progress made on these trade-related concerns.

Then at the fifth TIFA meeting held in May last year, the U.S. commended Taiwan on our efforts and progress on agricultural, trade and market access, privatization of telecommunications, pharmaceuticals and market access for medical devices, IPR protection and trade security issues. Other issues including the government procurement agreement, bilateral investment agreement and Taiwan's applications for observer status in the relevant committees and working groups of the OECD were also discussed in Taipei. Taiwan greatly appreciates the efforts of the

USTR and other government agencies.

TIFA forms a strong base for Taiwan-U.S. economic relations. Under TIFA, closer economic ties between Taiwan and the U.S. have grown stronger. During the past five talks, Taiwan has actively responded to resolve the economic and trade concerns of the U.S. This should establish a solid foundation for further negotiations. We consider establishing closer Taiwan-U.S. economic ties through bilateral agreements such as bilateral investment agreement under the TIFA structure to be a very positive process. We expect that an enhanced TIFA structure will support efforts by the United States and Taiwan to develop in many areas of mutual interest and of course we would like to see the progress achieved through TIFA become a basis for the U.S.-Taiwan bilateral FTA discussions in the predictable near future.

We also realize that many obstacles remain to be overcome. We know that Taiwan must seek comprehensive support from the private and public sectors in the United States for the FTA. We are also working to consolidate domestic consensus in Taiwan in favor of the U.S.-Taiwan FTA. Some sectors such as agriculture and service have expressed concern about a Taiwan-U.S. FTA. However, generally, we believe a Taiwan-U.S. FTA is good for all parties concerned.

Taiwan has a strong and intense network in China since China is a manufacturing base and huge market for Taiwan businesses. A Taiwan-U.S. FTA is an economic opportunity for both sides, not a hostile gesture to China. Under the given structure of global supply chains, closer economic ties between the United States and Taiwan would not isolate China from the picture. In fact, it will bind the three parties closer by serving their common interests. A Taiwan-U.S. FTA will alleviate misgivings and produce a triple win outcome for the U.S., Taiwan and China. A Taiwan-U.S. FTA is good for all parties concerned.

We believe that a Taiwan-U.S. FTA is crucial to Taiwan's economic future and even for the prosperity of the Asia-Pacific region. We continue to believe that a comprehensive FTA with the United States provides the best possible framework for liberalizing industrial areas that remain to be opened up within other countries. A Taiwan-U.S. FTA will increase the exports of the U.S. to Taiwan. More importantly, given the current trends of economic rejuvenation in Asia and active engagement by the U.S. with Asian countries, an FTA between Taiwan and the U.S. is not just a political gesture. It will ensure Taiwan's economic direction in the future for the next few decades and far beyond the 2015 timetable.

Ladies and gentlemen, with your support, we are determined to carry on our efforts to make such an agreement, a reality with renewal of the Trade Promotion Act which is expected to expire this June. Taiwan thanks the U.S. Government and the American people for their past and ongoing support. Taiwan will remain a close ally of the United States.

Thanks for your kind attention. I wish all of you good health and success.
Thank you.

(Applause)

DR. BUSH: Thank you, Minister Shih for that authoritative, balanced and comprehensive statement.

Before we move to the first panel, Minister Shih has agreed to take a couple of questions. Who would like to ask the first question? Hiro? Do we have a mic? Hiro, just speak loudly.

DR. MASAHIRO MATSUMURA: I am Hiro Matsumura, from Japan, a Visiting Fellow at Brookings.

I agree with the substance of the FTA which would bring Taiwan not only the economic benefits but also political security implications. My question is the legal nature of the document that will be concluded between the two countries, the United States and Taiwan. Is this FTA going to be a state-to-state treaty to which the Communist government in Beijing will most likely vehemently oppose? Do you expect that the United States government will go beyond the red line that Beijing has set?

More specifically, it may be possible to treat this FTA agreement as sort of an executive agreement, short of an international treaty, by which in the U.S. legislative process that this government will go without a Senate ratification process but thereby establishing a precedent to breach the principle of balance of power embedded in the U.S. Constitution. Do you think the U.S. government, particularly the congress, is prepared to go beyond their tradition of practice? Thank you.

MINISTER SHIH: Thank you for your comment on redlines by China. You know that Taiwan's present situation is quite different from other countries. We know that. We know that.

But for the past several decades, probably you know already that Taiwan has already signed more than hundred agreements with the United States, of course, not on the scale like the FTA. It is different. But we do want to talk about an FTA with many countries, not only the United States. Of course, the United States is the most important. We know that the FTA's principle under the WTO framework and is consistent with WTO rules, and Taiwan is a member of the WTO. So I think and also believe that Taiwan has a right to negotiate with all members of the WTO on the subject of an FTA. Thank you.

DR. BUSH: Mike Fonte?

QUESTIONER: I am Mike Fonte. I work as a consultant for the Democratic Progressive Party. There is a concern that Taiwan's Legislative Yuan might not be so interested in an FTA, given the political fight in Taiwan and that the U.S. side might not be interested therefore in going through the process of a negotiation only to get to a point like the arms package, for example, where there is a stalemate in Taiwan. I wonder if you would give us some background on whether you think that there is real support across the board among all parties in Taiwan for this and what the process actually is for ratification.

DR. SHIH: Thank you. Given that an FTA and other economic issues, and there is a very great consensus in Taiwan among all parties that signing an FTA with all countries are very important to the national interests of Taiwan. So I can tell you that all parties support the signing of an FTA with the United States.

DR. BUSH: I think in the interest of time, which we are behind already, we should move to the first panel. If I could invite the members of the first panel to come up, and Minister Shih will sit at the table and be available to take questions when we get to the question period. So if I could invite Paul and T.J. and Dr. Chen and John Deng to join me, we will move to that part of the program.

Thank you, Minister Shih.

(Applause)

Panel I: The state of Taiwan's economy

DR. BUSH: This part of our seminar, as you know very well from the schedule in front of you, is on the state of Taiwan's economy, and this provides the baseline for the discussion that follows. This is not a simple subject because Taiwan's economy is embedded in a larger context vis-à-vis China, vis-à-vis the Asian region, vis-à-vis its relationship with the United States.

To address these subjects, we have an outstanding group of experts. You also have biographical sketches of each of them, so I am not going to waste time repeating what you already have. I would like, therefore, to move right into the discussion and ask Dr. Tun-Jen Cheng from the College of William and Mary to talk about the political economy of Taiwan.

T.J.?

DR. TUN-JEN CHENG: Thanks, Richard, for having me here. I am here to provide some sort of baseline for discussions.

I believe that three processes have reshaped Taiwan's economy during the past two decades: political democratization, economic liberalization, and the closer economic linkage across the Taiwan Strait. Now the stories about how these three processes have unfolded historically have been told and retold many times, so there is no point in repeating them. I just want to make a couple footnotes here. The first two processes have been unbelievably synchronized. These two went hand in hand. The first two processes, I believe are very important and promising factors for the processes to go on.

Well, let me just start by raising factual questions for you to entertain. Had Taiwan been continuously under the spell of the martial law decrees and under tight foreign exchange control and also under the leadership of Chiang Ching-kuo, perhaps Taiwanese officials would not have sunk, say, \$100 billion to \$200 billion in China, for example. So those are the factual questions for you to entertain.

Now a larger question that I have to address here is: How have these three processes indented or affected the contours of Taiwan's economy? I am sure you can identify many, many additional features there. Let me just highlight three which I believe are quite pronounced and sometimes are quite unpleasant to face.

Three points I want to make: the first point is that the state in Taiwan, the government, is no longer so autonomous of the business interests as it used to be and the state's capacity to act in the economic domain is no longer so high. If you remember, prior to political democratization and economic liberalization, political leaders in Taiwan and their technocrats, many of whom are present here today, they were able in the past craft or nurture the economic plans and nurture the small and

medium enterprises and turn them into a backbone of the Taiwan's economy by industry sectors which in turn, of course, was the engine for growth. Meanwhile, in the past, the government was able to hold on and dominate the upstream production in many, many, many sectors -- high services and so on. Therefore, in the old days, we could probably very well argue that Taiwan was a land of SMEs, small and medium enterprises, and SOEs, state-owned enterprises, in vivid contrast with South Korea which was a land of big business.

Now—with exit of the small and medium enterprises to Southeast Asia and China and with the rise of information technology industries and sectors and with the privatization of the state-dominated sectors—big business in Taiwan, I believe, has grown larger and larger. Indeed with the political democratization, the business sector has become a very important player in the making of economic policies and in the making of regulatory regimes. Indeed as electoral space opened up and also as the inter-party competitions intensify, the business captains, if you like, find themselves in the position to do political investment, to weigh in, if you like, in the legislative process, in the electoral process and sometimes even in Taiwan's very unique, pragmatic and informal diplomacy. Not all business leaders, of course, take up political investment. Most are plastics and Taiwan's semiconductor industries, their chairmen, for example, have abstained from politics, but many did not and some did corrupt Taiwan's democratic process as the ongoing saga of certain business groups illustrated.

The second point I want to make briefly is this: Managing the economic linkages across the Taiwan Strait has become a key issue that any administration in newly democratized Taiwan has to wrestle with. This issue, I believe, is quite unique to Taiwan. Many observers in the literature, in the fields of political economy have noted that trade and direct investment are typically minimum or minimized between the political adversaries: Israel versus Arab nations, India versus Pakistan, NATO countries versus Warsaw pact countries in the pre-1980s Europe. So the Taiwan-China tie, if you like, is sort of a conspicuous exception here to this rule. In spite of the political strain, and political hostilities between the two sides, economic ties between the two sides have deepened, and moreover these ties are asymmetric. China is the top destination for Taiwan's exports and for Taiwan's overseas direct investment, but Taiwan is not a prime market or investment site for China, at least not yet. Therefore, how to manage such an asymmetric economic linkage across the strait has become an issue that everybody has to face there.

Now on the island, some argue that investment and trade across the strait needs to be slowed down or diversified and weighed or at least carefully monitored and kept under some sort of threshold, so that economic ties between the two sides will not become leverage in the hands of the Beijing government to coerce Taiwan militarily and politically. Other nations probably can ride on China's rise, but Taiwan probably cannot because China has a political agenda over Taiwan. Therefore, to them, the relationship has to be carefully monitored.

To others, however, others probably see things in a different light. China is less a risk than an opportunity. To these folks, Taiwan probably cannot afford to lose such opportunities. Increasingly, you notice that China centers on intra-regional trade. There have been some overshadowings of the inter-regional trades between East Asia and other parts of the world, and Taiwan is particularly excluded, practically, if you like, excluded from the proposed or already into their bilateral, be it small group bases or regional bases of the free trade agreements. Indeed, some even contend that asymmetrical economic interdependence between the two sides might even enhance the security across the strait.

The debate over managing economic ties across the strait has been waged, not just between the two political camps in Taiwan but within each camp and indeed sometimes even between ministries, therefore indicating that this issue is complex, dynamic and really intractable.

Let me briefly go through the third point, and after that I will stop.

The third point I want to make here is that most voters in Taiwan, in newly democratized Taiwan, are said to be identity voters. But should Taiwan's economy turn sour and if Taiwan's economy were to be absorbed into the Chinese economy, I think economic voting in Taiwan probably in the future might -- and I say might, not necessarily will -- it might trump the identity voting. Nearly all political scientists in Taiwan argue that the national identity there—not class, not religions, not rural, urban, nor capital versus province distinction and so on, but national identity—is the main political fault line. Economic conditions therefore did not seem to matter that much at the ballot box.

Identity voting in the newly democratized Taiwan appears to be, therefore, in vivid contrast with economic voting in mature democracies such as the United States and Western Europe or with any new democracy elsewhere. As you know, we heard that probably with the exception of the last two elections, people here [in the United States] tended to vote according to their pocketbooks or according to general economic conditions. You penalize the incumbent for giving bad economic conditions and then reward incumbents for renewing their mandate. Now the voters in new democracies are probably even more demanding than the voters in mature democracies. A cross-national study shows that voters in the new democracies, the Philippines and so on, tend to penalize but not reward. In other words, if economic conditions are bad, you will be voted out of power. If economic conditions are good, you are not necessarily able to renew your mandate.

Now Taiwan seems to be a departure from this general pattern. In the case of Taiwan, the identity voting thesis, I would argue, however, looking at the future, should probably be served with many grants. Three small points here to sustain this warning: First, in the past few years, there have been a few studies showing that there

are some signs, not strong, but some signs of the economic voting in Taiwan. Even though most voters there are identity voters, particularly among the political sophisticated voters.

Second, democratic Taiwan has not really yet had to go into an election with very tired economic conditions. The March 2004 presidential elections were close, but six months, remember six months before that election, the economy was already turning around. In other words, Taiwan has not faced a functional equivalent of, say, the November 1980 U.S. presidential elections when the incumbent, the president, if you remember, it was Carter in double digits of the inflation rate and then allowing the candidate, Reagan, to ask one of his most famous question: Are you better off than four years ago? Not. Taiwan has not really had to face that yet.

Third, if Taiwan indeed continues to be a marginalized economy and if more and more of Taiwan's residents find that their economic future lies in China, then I believe at least some portion of the pan-green identity voters may in the future become strategic voters rather than sincere voters.

There are other distinct features that I can mention, such as the acute fiscal deficits in Taiwan, such as the perennial sustained political stalemate hindering economic policymaking, but in the interest of time, I think I better stop here.

DR. BUSH: Thank you very much. Our next speaker is Paul Hsu talking about China's role in Taiwan's economy. Paul is the Chairman and CEO of PHYCOS International. Most importantly, he is a good friend of Brookings and a good friend of CNAPS. Paul?

MR. PAUL HSU: Thank you, Richard.

Okay, here is my five cents. I work with the private sector in Taiwan, occasionally giving policy advice to the government, and most of the time even if they listen, they still find it hard to execute due to lack of administrative efficiency. As I said, I work with the private sector, so with no exception, I travel across the strait from time to time, giving my clients advice and help them to develop strategic planning.

In one of the recent meetings in Shanghai, I was mingling with several very influential economists from Beijing, one asked me a very interesting question: with all the political chaos in Taiwan, why does life go on as usual and the economy move forward as usual?

In answering this interesting question, I gave him a lengthy explanation on the process of developing a very strong private sector in Taiwan and eventually establishing a new strong middle class. That middle class, when they grow stronger and stronger, they care about politics but they don't give too much of a damn about

politics. They turn on the TV. They look at the political debate. They don't like it. They turn off the TV. Life goes on as usual. They care more about Taiwan's future economy, and now they think since they don't get too much help from the government they decided to develop their own strategy to expand their businesses across the region.

There was another economist who did not particularly ask me any question but in the conference he mentioned that he recently visited Zhejiang Province, which is known to have a strong private sector. He said the private sector in Zhejiang complained to him that they are facing a very dim future. They said, first of all, they find it difficult to move up the ladder at the technology level.

Secondly, they find the central government's current policy of creating a harmonious society would impose on them rising costs in order to provide more welfare benefit to the employees.

Thirdly, they complained that as a result of internal and external pressure for the revaluation of the RMB, they suffer from more burden of rising cost.

Fourthly, maybe not the least, they complained that they find it difficult to step out of Zhejiang Province since other provinces do not necessarily accept them. They also argued that they have no capability of moving abroad to take advantage of lower costs.

Of course, my response to that is there is a big difference between the private sector in Taiwan and the private sector in China. The private sector in Taiwan was confronted with similar problems 30 years ago, but they learned how to tap into the global product supply chain and take advantage of the outsourcing trend of global companies. Establishing long-term relationships with global companies has enabled them to move up the ladder of technology. They moved from OEM [original equipment manufacturing] to ODM, D for design. Therefore, they carry on their tens of thousands of vendors with them, and they work closely together to secure long-term purchase contracts from global companies and move their manufacturing operations to different locations in order to be cost effective.

In this regard, I want to mention several points. First of all, although some government officials and scholars worry that Taiwan will be marginalized, the private sector refused to be marginalized and they came up with all kinds of surviving techniques, and they came up with all kinds of strategies to make sure they will survive well. It is Taiwan's private sector that makes Taiwan different and interesting.

Some years ago, I was involved in a project of turning Taiwan into a regional operation center for Taiwan businesses as well as foreign businesses. But on that note, probably there were very limited successes. What I would argue right now is

Taiwan has become a virtual regional operation center because most of the Taiwan businessmen still live in Taiwan to operate their business abroad. They may choose to set up their holding company overseas. They may choose, sometimes for strategic considerations, to decrease their capital and to delist their company in Taiwan, and after a while they go public again abroad. They will adopt thousands of strategies to make sure they survive well. But they still choose to live in Taiwan. I think if Taiwan continues to provide the business executives a good environment to happily live in, then Taiwan, for the time being, could be a good virtual regional operation center in managing their businesses in China, Vietnam, and all over Asia. They are expanding despite the various restrictions.

Now the interesting thing is whether this mode of expansion is reflected in the domestic economic statistics. I say no. When Dr. Cheng was talking about some worry about China absorbing Taiwan into its economy, I would make a different argument that it is most likely that both China and Taiwan will be absorbed into the world economy. That is exactly what is happening.

In the global product supply chain management, who is making more profit? Strangely enough, it is the U.S. retailer. The one with the least profit is where the manufacturing facility is located. Those who make more profit than the manufacturing location but less profit than the U.S. retailer are those businesses who are providing logistic support. I still hope that the Taiwan government can adapt its policy to turn Taiwan into a great place for providing all kinds of logistic support for Taiwan companies' worldwide expansion. In this regard, of course, I think it is very important for Taiwan to continue to expand its high value-added service industry including financial services and other services because these industries carry high added value and carry more sustaining power in turning Taiwan into a logistic support center to support Taiwan companies' expansion overseas.

On that note, I want to move briefly to what are the current Taiwan advantages. I have been making these pitches in several occasions recently. I would argue that the lesson and experience learned from the first economic miracle is invaluable. Very few businesses in other economies can repeat or learn that experience quickly, and that includes China. They are yet to develop their own strong private sector. I don't need to talk too much about the economic efficiency of state-owned companies, but I think the private sector is the answer. Now the private sector from Taiwan is doing well in China, and China's private sector development probably would have to take some years.

The second point is the strong entrepreneurial spirit in Taiwan. It is very difficult to copy that without going through all the difficulties in the past. Actually the more pressure given to Taiwan, the more lessons a Taiwan company will learn. I would say having gone through all the hardship in the past, Taiwan companies are getting stronger and better.

Third is the extensive global business network. As I said, once you tap into the global product supply chain, you maintain that invaluable network. You will continue to get purchase orders. You will continue to work with the first class companies around the world.

Then I would also mention there is another tremendous advantage, and that is the untapped financial resources of Taiwan companies. Ironically, most of those financial resources are not located in Taiwan. They are located overseas. That is why you get statistics from ex-President Lee Teng-hui that the total Taiwan investments in China has reached \$280 billion versus the \$50 billion recorded by our Ministry of Economic Affairs. So where did the money come from? Over the years following the globalization strategy, Taiwan companies managed to keep a lot of money overseas for flexible maneuvering; and last but not least is abundant management and business experience for doing business in Asia.

What I am trying to say is for American companies, my advice is to learn about Taiwan companies' network in Asia and to learn about what they are exactly doing. The same advice could be for a Japanese company or a European company. Then you will find Taiwan companies to be probably some of the best partners to tap into the China market, the Vietnamese market, the Malaysian or the Thai market.

With due respect of time allocated to me, I think I'd better close my remark here.

DR. BUSH: Thank you very much, Paul.

Our next speaker is Dr. Pochih Chen, the Chairman of Taiwan Thinktank. His topic is Taiwan's economic position in participation in East Asia. Dr. Chen?

DR. CHEN POCHIH: Thank you, Chairman, ladies and gentlemen. I am very happy to have this opportunity to discuss some of the roles of Taiwan in East Asia.

Dr. Shih has already pointed out the importance of the Taiwan economy private sector point of view, and I would like to add the economic importance of Taiwan from the governmental strategic point of view. I will have six points to talk about today. The first one is about the demonstrative factor of Taiwan. The second is Taiwan as a cooperator. The third is Taiwan as a competitor. The fourth is Taiwan as a partner of the U.S. and U.S. companies. The fifth is the current isolation of Taiwan in the world market. And the sixth part will be strategic thinking about U.S.-Taiwan relationships.

Taiwan has been setting examples for East Asian countries. Taiwan is a forerunner of the East Asian economic development model or so-called export-oriented growth model. Taiwan's Kaohsiung export zone was the first export special

economic zone in the world. That was about 40 years ago, and now the world has hundreds of special economic zones of this kind. So Taiwan is a leader to set some examples for the developing countries.

Taiwan is also important in the development of small and medium-sized firms. Now many countries are learning the development strategies of small and medium-sized firms in Taiwan. China adopted the open door policy in 1979, I believe, not because of the pressure from the U.S. or from the GATT but because of the successful economic development in Taiwan and Hong Kong. Currently, we can see that China even followed some of the economic policies of Taiwan. They adopted a tax on the incremental price of land. It is a failure in Taiwan, actually. They followed that policy.

A successful development of democracy in Taiwan will be a strong demonstration to encourage the democratization of China. You can see that in China now. They are trying very hard to downgrade the democratization of Taiwan because if the democratization of Taiwan is a success, then China's government will face stronger force from their people toward democratization.

I will move to the second point that Taiwan is a major cooperator and investor and East Asia. Taiwan invested a lot in East Asian countries. Now Taiwan is the number one foreign investor in Vietnam and number three in Thailand, Malaysia, and Cambodia. Actually, in the earlier stage of current economic development, Taiwan was the number one investor in many Asian countries. We are the leader to develop new markets for investment. Taiwan's investment is actually also number one in China. There is no accurate data, but we have more than \$200 billion investment in China. Almost half of the FDI of China is from Taiwan. Because of this direct investment, more than 90 percent of the labor exported from Taiwan is now replaced by China and other Asian countries.

Four of the ten biggest exporters in China are Taiwanese companies. You can see what we can do. Now more than 90 percent of Taiwan's exports to China and other East Asian developing countries are intermediate products and goods, so the supply chains, the production chains are very important involving Taiwan and the East Asian countries. The production chain connecting Taiwan with East Asian countries is, of course, also very important for U.S. companies.

Taiwan is a major competitor in East Asia. Not only a cooperator but Taiwan is a competitor. Because Taiwanese companies are very competitive in mass production and cost reduction, the price of almost every product declined if the Taiwanese firms joined the competition. The technology of Taiwan and Taiwanese companies is high enough for them to produce most of the products produced by other East Asian countries. The number of patents obtained by Taiwanese in the U.S. in recent years is number four in the world, only less than the numbers obtained by U.S., Japan, and Germany.

So with the technology, with the experience, we can be a strong competitor, and with this competitiveness we will be able to maybe not force but at least to influence the activities, the policies of other countries. For instance, China joined the WTO partly because Taiwan has been trying to join, and the pressure, maybe political, maybe also economic pressure made China willing to join WTO. Taiwan is the most loyal partner of the U.S. in East Asia, not only politically but also economically.

Taiwanese firms have been cooperating with U.S. firms in the past 50 years and helped to foster development of many U.S. firms and products. The development of the personal computer is one other example. Without the cooperation from Taiwan, maybe the U.S. would not be able to control the PC market. Maybe Japan would take over the market.

Because of time limits, maybe we will jump. Taiwan has been isolated by China, not only politically but also economically. China warned that any country that signs an FTA with Taiwan will receive serious political retaliation from China. Countries other than the U.S. may not have the courage to sign an FTA with Taiwan if the U.S. cannot sign the FTA with Taiwan. China's strategy is to isolate Taiwan so that Taiwan cannot but depend and be absorbed by China. Taiwan's economic dependence on China enabled China to influence or even control the political activities and attitudes of many Taiwanese businessmen. China even succeeded in forcing a famous pro-independence businessman to sign a pro-unification announcement in the year 2005. Actually, in that event, one giant U.S. company was forced by China to put pressure on this Taiwanese businessman. So China has not only put pressure on Taiwanese businessmen but also on U.S. companies.

Taiwan has an important role in East Asia. Though Taiwan is not very big, the direction of Taiwan will influence or even change the balance of power in East Asia. A U.S.-Taiwan free trade arrangement will influence not only the current benefits of businessmen but more importantly also it will change the direction of businessmen and Taiwan toward a more stable East Asian economy and also to the benefit of the U.S. and maybe also to the world. So we should have some strategic thinking about what we can do to influence the direction of Taiwan and Taiwanese businessmen.

As compared with other countries having or negotiating an FTA with the U.S., Taiwan is certainly qualified from a pure economic point of view. Because Taiwan is a major competitor to other East Asian countries, negotiation of an FTA with Taiwan would encourage other East Asian countries to sign an FTA with the U.S. Because Taiwan is a major international investor and some Taiwanese firms moved from China to other developing countries in recent years, some suitable arrangement in U.S.-Taiwan FTA can encourage Taiwanese firms to invest in South American countries, so that Taiwan can support the economic development and U.S. stake there.

A U.S.-Taiwan FTA can give Taiwan more room for economic development to prevent Taiwan from depending too much on China or even be controlled by China. Signing an FTA with Taiwan is proof that the U.S. supports old friends and is not afraid of China's strength.

Taiwan was accused by some Americans of seeking a U.S.-Taiwan FTA for a political purpose. The only political purpose of a U.S.-Taiwan FTA for Taiwan is to avoid economic and political isolation. Accusing Taiwan of a political purpose without noting China's political strategy and pressure which cause Taiwan's political concerns is biased view. It is more possible that some people in the U.S. might oppose the U.S.-Taiwan FTA with a political purpose of not offending China.

Last, some important U.S. government officials say that Taiwan should have direct links with China before the U.S. can consider an FTA with Taiwan. Since China wants Taiwan to accept China's "one China principle" before the direct links, the opinion of these U.S. officials looks more like the opinion of the PRC rather than of the U.S.A. According to the facts and strategies I mentioned, this opinion feeds China's strategy to control Taiwan and to eliminate U.S. influence in East Asian perfectly. It is incredible that the U.S. has such a kind of government officials. Maybe they are rare, but I don't know.

Thank you very much.

DR. BUSH: Thank you, Dr. Chen, for your clear and candid presentation. Our last speaker is John Deng, the Deputy Representative at TECRO. John, it is a great pleasure to have you here. The floor is yours.

MR. JOHN DENG: Thank you very much, Richard. To be the last speaker of a panel, I am very fortunate since pretty much all the territory has been covered, so I can have some light story at the beginning.

Richard mentioned about the cold. We had a very prominent group of visitors that came last week. Very routinely, the junior staff will call us and say, what is the temperature in Washington, D.C.? Here, our answer is 20 degrees. Then they think it is just like in Taipei, 20 degrees Celsius. So when they got here, everybody apologized for not making this clear to them.

Just like I said, all the territory has pretty much been covered. Paul was complaining that his advice was rarely listened to. I think I am one of the guilty parties not to listen to his advice in the past, but I am very glad to see them all here.

I would like to talk about this U.S.-Taiwan economic relation from a broader view. I first worked here in 1979. When I first came here, it was Rick Ruzicka whom we had to deal with all the time. I went to his office to beg him to give us

more textile quota, and we had to go over there almost every day to beg some other USTR colleagues to give us GSP. Don't separate us from the GSP program on certain products. So you see then the United States was a very important market to Taiwan, and we are very fortunate that the U.S. gave us that opportunity to give us the market, so our economy could get a chance to start.

Then gradually, this relation changed to a different phase: the U.S. came to us. They discovered Taiwan gradually became a good market for their products. So they came to us and asked us to open up the service market, agricultural market, asked us to have more discipline on intellectual property rights. Then what we said was we hated that kind of pressure. What are you doing? I mean you come to interfere with our domestic matters by asking us to open up our market. Really, then as a young junior officer, I knew it was good for us. Those are the things which we should do.

But anyway, every time the U.S. came with 10 requests, we would do 2 things. We agreed to two things. Then over the years, we are very lucky to have this kind of pressure, so that Taiwan nowadays can have a very open market-oriented economy. I often think it is terribly difficult to be a figure like Rick Ruzicka in the U.S. government where you do good things for another country while you get blamed. But anyway, that is the relation in the past.

Now I think we all come to the new era, new time. While many of the previous speakers mentioned, I think the United States has its problems and Taiwan certainly has its problems, and I would like to establish that the past cooperation between two countries has produced very good results. The U.S. helped Taiwan get a good open competitive system, and then the U.S. got a good market in Asia. Of course, to us, the advantages, the benefits to Taiwan are also very clear.

Here, I pick out some numbers. In 1980, our two-way trade was \$11 billion. Now it is, I think, very comfortably over \$60 billion. So it is not too many years, 25 years, and number is getting so big.

Another thing I often remind myself and my colleagues, my young colleagues, is that another area where the United States has helped Taiwan quite significantly is Taiwan's participation in these international economic organizations. APEC is an example. WTO is another example. We all should remember that.

Then I said now we face a new era, and we have new challenges ahead of us. In the past years, we have taken many measures. Dr. Shih elaborated very well that our vision of 2015. But here are, very quickly, many improvements of infrastructure as well as strengthening the protection of labor rights, human resources, all the measures taken and to increase our competitiveness in the future. Those efforts also include many improvements on the physical infrastructure. I mean the most clear, obvious one is this completion of a high speed railway which we are very proud of. Although there were some problems in the beginning, but we are still very proud of

that infrastructure. Those are important. Airport expansion, those of you who visit Taipei, now you see two terminals. So all those major hardware as well as software improvements have been taken in Taiwan to increase our competitiveness.

When we look into the future, trade and investment are still one of the most important areas. Politically, democracy, democratic reforms, so on and so forth are important, but the economic side is also occupies a very important place in Taiwan's Government policy. Our economic relation with you, the United States, will continue to be the center of the role in today's globalized production and global supply chain as Paul articulated very well.

I would like to divide two levels. In the government level between the U.S. government and Taiwan government, we have many, many technical cooperation programs which include civil, nuclear technology, pollution control, water management, weather forecast, satellite technology. I think many of you may not know that, but there are many government-level technical cooperation programs going on now.

In the private sector level, U.S. companies are excellent, very good in the innovation and the research and development. Then after they have their ideas, who is the best candidate? Which country is the best candidate to commercialize those products and make it, produce it in a low cost manner? It is Taiwan companies. There are many, many very successful stories. I often heard that there are some, particularly West Coast companies after they are 10 years, 15 years hard working, they have this IPO and employees of the companies get very rich. I really wish I worked for them.

So in the government level and in the private sector level, you see the cooperation demonstrated which is beneficial to both parties.

What is the future? I think the closer integration is important now. We face the challenge from other emerging economies, and the United States of course also faces this challenge of huge trade deficits. We all need to have a better export capability. That is why Dr. Shih mentioned that and I think Dr. Chen also mentioned that we propose to have this FTA agreement with the United States. We are very happy that President Bush also already proposed to Congress to have the trade promotion authority extended. We also hope that this trade policy, trade authorization can be extended, and that can also be one of the benefits. In addition, to the conclusion of the Doha Round, that can also lead to a very good result of an FTA between the United States and Taiwan.

I will stop here and thank you very much.

DR. BUSH: Thank you very much, John. We have five very rich presentations. We now have about 15 minutes for questions until the break. Please

identify yourself. Wait for the mic, identify yourself and your affiliation. Keep your question brief. All the gentlemen up here are very smart. You don't have to ask a very long question for them to understand.

Fu-Kuo Liu has the first question. Also, specify who you want to answer the question.

DR. LIU FU-KUO: Thank you, Richard. Fu-Kuo Liu, CNAPS Visiting Fellow from Taiwan.

I cannot resist asking more than one question because it is such a fruitful and really wonderful panel. Number one question is I understand that Paul mentioned strong demand from the private sectors. I think Taiwan and the U.S. are all democratic societies. The most important thing the government would like to ask the private sectors whether there is a strong demand or there is a necessity for American and Taiwanese industry to cooperate. Is there a strong momentum or incentive?

So I would request Paul to elaborate more on this particular point because over time, the U.S. government is asking if there is a strong necessity or a demand from their own industry. It seems that we do not emphasize this part and all the time we are talking about how important Taiwan is and I think most people understand how Taiwan's environment and industry are favorable to the U.S. But I would very much like to request you to elaborate more on this.

Since Minister Shih is also on the podium, let me quickly perhaps ask a quick question before this time runs out. I think the most important thing for many Americans who come to this particular conference since you do not come every day to Washington, D.C., I think for most Americans or the government official experts, they would pretty much like to know the strong incentive after you squared up all the strong reasons. Could you possibly also tell us is there any action plan from our government?

If not immediately you can react on this, whether in some short terms, we could possibly tell the Americans how the Taiwan side is going to push from now on. We understand political reality. The deadline is just a few months away. How are Taiwan and the U.S. going to push ahead with this agenda? I would very much hope that Minister Shih can enlighten us. Thank you.

DR. BUSH: Paul?

MR. HSU: Taiwan has a very strong private sector. I don't need to repeat that. In fact, Taiwan's future economy relies on the private sector's wisdom and the private sector's continued effort and the private sector's entrepreneurial spirit. I think facing the Asian market, one of the important factors is China is looking for expanding their domestic market. That means China's domestic market will probably

expand rapidly in the years to come and provide tremendous business opportunities.

Taiwan's private sector at this moment, with all due respect to our friends in the government in Taiwan, feels that their interest is not being taken care of. I don't want to be presumptuous on whether the U.S. is taking care of the U.S. private sector's interest. But I think both governments should pay more attention to the anxiety and aspiration of the private sector from their respective country and come up with a more prudent policy and maybe jointly build a better platform to enhance the private sector's interest in the future.

China doesn't have a strong private sector, and on this route, some may have a different view. I would rather take the view that the market provides a tremendous opportunity for both the private sector from Taiwan and from the United States. It depends on how they work together to explore that market. I think U.S. companies can get some help from Taiwan companies and vice versa. Now in this regard whether an FTA is the best platform, I would rather take an optimistic view. Maybe both governments should put more effort into using FTA as a platform and provide incentives for all parties concerned. They should also evaluate the economic benefits of the FTA and other policies evolving around it to provide private sector more economic freedom.

DR. BUSH: Minister Shih, do you want to talk about action plans?

DR. SHIH: About the FTA agenda, I believe that the first step for Taiwan to do is to expand the TIFA structure. With expanding the TIFA structure, we have many agreements that can be negotiated such as investment agreements, tax agreements, government procurement agreements and so on. These kinds of agreements can form parts or chapters or sectors of the FTA. So, first of all, we do believe that an expanded TIFA should form a strong base for further FTA negotiation. That is the first part.

Second, we know that the Taiwanese government must seek the support of the public and private sectors of the United States. In this regard, TECRO has made many efforts to win the support of Capitol Hill, the state governments as well as associations and chambers of commerce and so on of signing an FTA with Taiwan. That is a consistent effort.

Lastly, we believe signing an FTA with Taiwan is very urgent for Taiwan. So we would like to see it happen as soon as possible. Thank you.

MR. BUSH: Douglas Paal?

MR. DOUGLAS PAAL: Thank you, Richard.

Recently an American private equity firm has made a bid, a friendly bid, to

take over a public company which is non-government in Taiwan, and there seems to be signs of resistance, political and governmental resistance to this privatization. Can you tell me how that fits in with Taiwan's broader approach that we have been discussing this morning in your panel?

DR. SHIH: Yes, that is a very interesting case. I forget the English name of the company. This must have an English name.

MR. PAAL: ASE [Advanced Semiconductor Engineering, Inc.].

DR. SHIH: I see, ASE. That is a packaging company for the semiconductor industry. It is the biggest one in the whole world. I remember it is the Carlyle Group that is trying to acquire ASE with a huge amount of money. Generally speaking, the government favors to support that kind of deal. That is in general principle. But the government, some agencies, do have some concerns over the status of private equity because you know that the Carlyle Group is such a huge, a big private equity firm. I think you know that. Other countries, not only Taiwan, but the U.K., and Japan, and also Korea express some concerns about the operation of the private equity. So it matters on the technical side, how to manage, how to handle the acquisition by a private fund in Taiwan. That kind of issue, people have concerns, yes. Thank you.

DR. BUSH: The gentleman in the blue shirt.

MR. DAN NEUMANN: Dan Neumann, I am with Inside U.S. Trade. Good morning, I think I have bothered some, if not many, of you before. I am just wondering to the government folks on the panel today. What is the most recent reaction you have gotten from USTR, from the U.S. Trade Representative, regarding a possible FTA negotiation and what is TECRO's or Taiwan's strategy? If the trade promotion authority expires and there is no renewal in this Congress, what will Taiwan look to do then? Thank you.

DR. BUSH: John, do you want to take that question?

MR. DENG: Thank you. Thank you very much, Richard. Whenever I have a group from Taipei, my usefulness is getting lower.

Recently, Tim Stratford, the Assistant USTR in charge of Taiwan matters, went to visit Taipei. Like Minister Shih said, we think it is a good idea. We understand the USTR is pretty much occupied on many, many important cases: negotiation with Korea, with Malaysia, TPA extension, Doha Round. So now it might be that their hands are quite full. However, we shall not stop here.

That is why we have this expanded and robust TIFA process. We agree that we should work on a government procurement agreement. We agree we should work on an investment agreement. We agree we can even explore this avoidance of double

taxation agreement. So that is the current situation. Nobody is giving up on the FTA. We will continue to pursue that, but while we realize there are some limits now, we will find a solution and we have already identified certain areas we can further deepened, strengthen our trade relation.

As to the TPA, we are very happy that the President already asked Congress to have this extended or renewed. Of course, we are for that. But anyway, we often said that trade liberalization is a long-term effort. Without the TPA, this trade liberalization process should continue. So we will work with the United States government regardless of this TPA. But I think I will have to make my point very clear. We are for the extension of the TPA. Thank you.

DR. BUSH: We have time for one more question. Let us see, the gentleman right there.

QUESTIONER: Thank you very much. I am Mike Cho with the U.S. Commerce Department.

Just listening to the panel about how in terms of China and Taiwan, Taiwan presents this very attractive political-economic model, but I am just wondering, especially listening to Dr. Chen, it seems like China is that huge threat that may wipe Taiwan or the Taiwanese current political-economic model off the face of the earth. So I am just wondering. I don't want to make my question too theoretical. Does the Taiwanese private sector and the Taiwanese model face any threat from China in terms of China's pressure? Thank you.

DR. BUSH: T.J., do you want to have a crack at that first?

DR. CHENG: My take is this. It is not in danger by China, the Taiwanese model. I mean the model stands by itself, of course, but the Taiwanese business sector, I believe probably has already begun to convince itself that you need to globalize through China and globalization is against the administration, if you like. There is no way they can avoid this on the route.

The other side of the coin here is that the Chinese authorities—and this is based on frankly my very premature observations, having spent the summer in Beijing this past summer, talking to Chinese folks—are beginning to convince themselves as well that Taiwan business is in their pockets, that they are glued. Investment sites here are too tempting to resist. They are not just here to manufacture any longer. They are here to explore a local market as well. China is not just a manufacturer's place but also a market increasing in importance. Therefore, the folks in some corners of Beijing may become even more confident that the wind is blowing their way and perhaps on the political front, that might become a problem.

If you are playing the economic card very well, if you have incentive, if you

have a linkage, the integration, it is working. You don't even have to talk about coercion, and a political change of mind will probably ensue. I am not saying that that will happen. I am saying that will be in the minds of some Beijing leaders. Of course, that is not necessarily the opinions of the Beijing leaders. As you know, Beijing should not be seen as a homogenous group any longer. You see competing cards in there.

What I am saying is that this kind of development may convince probably some corners in Beijing and perhaps Taiwan's business will have to let it go. Taiwan's future belongs in China, lies in China. That will not be a healthy thing to develop, it seems to me. Miscalculations can happen and so on. I am not very articulate here, but that shows that this issue again is very intractable, complex and dynamic.

DR. BUSH: Paul?

MR. HSU: About 16 years ago, 16 or 15 years ago, when *Business Week*, the U.S. magazine, had their last big conference in Taiwan, I was responsible for helping to put the conference together. Peter Drucker went, was invited as a keynote speaker, and when I was introducing him, I was pretty young then, younger than now. Peter walked up to me. We shook hands. After they introduced me, he said, Mr. Hsu, you Taiwanese will own a good part of China one day.

I said, what the heck was he thinking about, 16 years ago. Now I think this man, although he has passed away, he had wisdom.

Now China is facing several problems, serious problems. The first problem is when are they going to let their private sector grow. When are they going to, like the Taiwan government several years ago, let their private sector play a big role in their future economy? The second serious problem is when are they going to resume the private ownership of property? They have actually imposed a lot of restrictions on their own people.

But to a foreign investor, although we cannot own land, we can own the use of land for many years. Hopefully, they won't change their policy drastically again. The trend is set. The wind is blowing. Now we should take a different perspective on short-term wind and the lulls, and we should take a long-term view about the future development of China.

My personal feeling is the Taiwan private sector should play a big role in that, but the Taiwan government should insist on maintaining the status quo. I think the status quo is something that will give Taiwan an opportunity to grow further in the next 15 years or 25 years, whatever, because there is no pressure on Taiwan right now to be a part of the People's Republic of China. All they talk about is please, admit you are also Chinese. We can play that game for many, many years. We enjoy

Chinese food together, so we are all Chinese in that regard, right? Here is my brief remark on that.

DR. BUSH: Thank you very much. We have to bring this session to a close.

Before I give up the chair, I would like to announce a couple of upcoming CNAPS programs. First of all, on February 13th -- that is next Tuesday -- in collaboration with the Korea Economic Institute, we are going to have a program on human rights in U.S. foreign policy with a focus on East Asia. Then on February 22nd -- that is a Thursday -- we are going to have a program on the 2/28 incident, February 28th, 1947, how it is remembered and how reconciliation about it might occur. We urge you to attend.

We are going to take what is now about a 10-minute break and urge you to use the restrooms, straight back, grab some coffee and something to eat, and come back. We will resume around 11:15.

I want to thank each of the panelists and Minister Shih for an outstanding session.

(Applause)

(Recess)

Panel II: Toward a U.S.-Taiwan Free Trade Agreement

MR. RICK RUZICKA: Ladies and gentlemen, please take your seats. We will begin the second panel.

Distinguished ladies and gentlemen, good morning. Welcome to the second half of the “Taiwan’s Economy and a U.S.-Taiwan Free Trade Agreement” seminar put on by the Brookings Institution. As I start, let me extend my thanks to all who have come here, to our speakers and also to Richard Bush, a colleague and a mentor who has graciously asked me to do the honors here today which I am very pleased to do.

For those of you who were not here for the first session, it was very much in-depth, very interesting, very illuminating on the current state of the Taiwan economy, and the discussion also touched on different parts of Taiwan’s aspirations for a free trade agreement with the United States. We had some very good points made by the speakers.

I just wanted to go to one point made by Deputy Representative John Deng. He made it sound like I was a very good negotiator. He had to come and beg me for market access. In actuality, what he was doing was coming and informing me of the flexibility that he was using under our textile agreement to increase his exports. So let me just set the record straight that John was a good negotiator and I was the one who was being manipulated in those days.

As in the first session, you all should have with you, in front of you, the biographies of all the panelists. So I don’t really need to go through an in-depth introduction. What I think I will do is then just turn it over to Rupert Hammond-Chambers who is president of the U.S.-Taiwan Business Council and ask him to give us the benefit of his wisdom.

Rupert?

MR. RUPERT HAMMOND-CHAMBERS: Thank you, Rick. Can I have that wisdom part in writing? I hope you are all enjoying the Scottish summer weather. They would be sunbathing in this if it were on the other side of the Atlantic.

Thank you, Richard, for hosting this event. I really do mean that and to your excellent colleague too, Kevin, for all of your hard work in putting this on. Just a tremendous first panel, really the insight offered by those who were speaking was very, very useful and to have an opportunity here in D.C. to get those insights as opposed to having to travel all the way to Taipei is, without question, a good thing.

Recently, I have been looking back a little bit on the period in which we were working towards WTO accession for Taiwan, and in those days I worked for Ambassador David Laux who is sitting here next to Richard in the front row. Richard

was head of the American Institute in Taiwan in the latter part of the nineties and John Deng was at TECRO. So we have got a couple of people here who were integrally involved in that process. But throughout it, throughout that process, so often we heard in the early nineties—I started at the Council in 1994 when David graciously gave me a job—but throughout that process, you would periodically hear it is not going to happen. It is too difficult. China opposes it. Those are a small spattering of the sorts of things that we would hear often about the prospect for WTO accession for Taiwan.

What happened? Taiwan acceded to the WTO.

Did it happen as quickly as we would want it to have happened? No.

But did it happen? Yes, it did. It happened because it had to happen, because Taiwan's involvement in the global trading community in Geneva was essential. At some point in time, that became the overriding issue and everything came together and we, the community overall, were able to get it done.

I think the principal theme of what I heard this morning in the panels and amongst all the panelists, between the U.S. and Taiwan was partnership, economic partnership, how the two sides worked together to bring about an economic relationship that is virtuous for both sides and it continues at really a tremendous rate.

I am not sure if any of you had an opportunity to read much of the coverage about the latest device that Apple is producing, the iPhone. Not surprising, I found the most fascinating part of that story the fact that Taiwan is building it and that you looked at some of the equity values of the companies involved with that and they got a nice little bump. As more was written about it, you saw some of the supply chain synergies that went about, that drove that decision for Apple and ultimately gave them the supplies that they needed to produce that device. We will wait and see if it is successful, but nevertheless behind that big announcement for an important U.S. company was Taiwan partnership.

I think that is a very important issue as we segue into the issue of a free trade agreement because ultimately the issue, at its narrowest interpretation, it is a bilateral agreement between the United States and Taiwan. But if you look at it more broadly, actually it is about globalization. It is about how does Taiwan fit? How does the U.S.-Taiwan economic relationship fit into that complex interwoven economic global community that is trading with itself?

The *Wall Street Journal* in one of its three editorial bits had a little blurb entitled Exports in Free Trade, and if you will indulge me, I will read from it just briefly: According to the USTR's office, U.S. goods exports have climbed by some 26 percent among the 10 countries which the U.S. has signed free trade agreements with since 2001, and that is in contrast to 13 percent growth across the board for the same period for countries which have not signed free trade agreements with the

U.S.—twice the rate.

In the last 12 months, this is the best window to look at, as that FTA really kicks in, what sort of growth rates can you see. In the last year through November, 2006, following FTAs with Australia, Chile, Jordan and Singapore, U.S. exports to those nations rose at an over 40 percent clip compared with 14.4 percent for the rest of the world -- all dramatic numbers. I am sure those of you who read about the growth numbers last week can't help to be impressed.

What this really draws out, for me anyway, is that while we would all, as free traders, like to see the Doha Round consummated, the fact of the matter is that in Asia at this time or around the world, the proliferation of bilateral and regional multilateral agreements is a fact and it is good for the United States. We are benefiting from that. Our companies are benefiting from it.

Of those accords, just one last note here from the piece: While these trading partners represent only 7.3 percent of world GDP, they are the destination for 42 percent of U.S. goods exported.

It suggests to me that we have something that is working for us. We are doing it with some smaller markets. If we do it with larger markets, the suggestion here is that the benefits could be that much greater for us.

I will keep it brief, Rick, since we are a wee bit pushed for time.

The U.S.-Taiwan Business Council is in favor of a U.S.-Taiwan free trade agreement. I would argue that Taiwan is doing mostly what it can at this juncture, given the political atmosphere here to move things forward. The benchmark I would put back is probably the TIFA meeting last year when [Deputy United States Trade Representative] Karan Bhatia met with [Taiwan's Minister of Economic Affairs] Steve Chen, spent some time out in Taiwan, and what we saw as a business community back here was the political leadership in Taiwan necessary to push through on a number of issues that have been important for the U.S.-Taiwan commercial relationship now for a number of years.

From what I understand—and I will defer to Eric, given that he was there—at Christmas when he and Tim were back in Taiwan, there was again another opportunity to benchmark progress, further progress and an increased willingness on Taiwan's part to substantively address the issues in the bilateral trade relationship. That is essential for the goal of achieving a free trade agreement or the intention to negotiate a free trade agreement which I think is our initial goal because if in Washington, D.C., in the interagency process, it isn't broadly viewed that U.S.-Taiwan economic relations aren't in a good place, heading in a good direction, we have really no hope of securing an FTA. It has to be tracking in the right direction. Those participating in the interagency process here in Washington, D.C., I would suggest to you need to feel good about that if they are going to reach consensus and

then go to those that they work with and for to suggest that it may be time to entertain a free trade agreement.

For the U.S. business community, as was mentioned in the first session, investment agreements, tax agreements, Taiwan's accession to the GPA [Government Procurement Agreement], these are some of the things that we would certainly like to see in free trade agreement negotiation. Certainly, we could do them individually, but we believe an overall negotiation with those as important aspects is the preferable route. As Nick's and Dan's study, the U.S.-Taiwan study done by IIE just across the street, draws out important sectors, the service sector in our estimation is the one in which U.S. companies stand to benefit from the most, but there are others. If you wish, I would certainly suggest reading that report. It has some very interesting themes in it.

A couple of other things I wanted to just address in my time before I pass it back to Rick, much has been made about cross-strait links, and that is absolutely right. The membership that we represent supports and therefore our organization supports the normalization of cross-strait trade. We think it is important. We think an FTA is important. We do not see one before the other. We see them both as equally important because if you bring it back to my original statement about globalization, they are both essential components towards removing inefficiencies in the supply chain and ensuring that Taiwan is a vibrant economy and therefore a partner of choice for U.S. companies.

So we also counsel the present Taiwan government to do everything that it can, whether it be incrementally or all at once, to remove the barriers to cross-strait trade and increase the efficiencies in that area. That is unquestionably in the interests of the U.S. companies that look to Taiwan businesses as partners, but again we don't see one before the other. We see both at the same time, both important. All sides have a responsibility, as does China.

On the China issue, just for a second here, this is where I would defer to our friends and colleagues in the U.S. government about how they approach China vis-à-vis China's willingness to engage in good faith on economic integration issues and to ensure that that debate is as honest as is possible and that the political dynamics there, as Chairman Chen mentioned very candidly as he is wont to do, as he mentioned, the politics of that are kept out as much as is possible. Personally, I think the Premier, Premier Su, taking a very interesting incremental approach to the removal of cross-strait barriers, and we have certainly seen that in areas such as the semiconductor space which the U.S.-Taiwan Business Council is very involved with.

One final point, if we accept that in Asia at this time there is an increasingly dynamic process of regional bilateral and multilateral integration through FTAs, what does it mean for Taiwan to be on the outside for American businesses?

If Taiwan is marginalized as a function of trade agreements that it is unable to

represent its equities in, what does that mean for us?

I would suggest to you, surely, a Taiwan able to represent its interests in that dynamic is inherently in the interest of our companies, not only those businesses that are hugely vested in the market, such as Deborah Waggoner's business—who is sitting there—at Corning, but also those companies who may not have a billion plus dollars on the ground but who look to Hon Hai, Quanta, Wistron, and a whole range of other companies as partners in the global technology supply chain. If their base and their economy are not active and vibrant, it creates instability in the relationship, and we can't, as a community, here just look at Taiwan through a political-military prism. There is an economic dynamic here too. Economics is a national security issue as well.

Thank you very much indeed.

(Applause)

MR. RUZICKA: Rupert, thank you very much for those very insightful comments on U.S.-Taiwan FTA possibilities.

Let me now ask Dr. Mignonne Chan to speak. Dr. Chan?

DR. MIGNONNE CHAN: Thank you. It is great to be invited here. Thank you very much.

Today, I actually feel that all the heavy-weight statements have been made by the previous speakers. So I will only make some marginal remarks here. I will look into the current outlook for a U.S.-Taiwan FTA via a SWOT analysis, S-W-O-T which stands for Strengths, Weaknesses, Opportunities, and Threats. In the last section, I will suggest some action plans from the perspectives of the U.S. and Taiwan, which is the assignment from Dr. Richard Bush.

The contents of my powerpoint presentation here will cover very briefly the background scenario, key issues, a SWOT analysis, and a proposed action plan which are mainly to maximize the S and O, strengths and opportunities, and to minimize weaknesses and threats, W and T.

On background notes: here it will suffice just to cover a few key events. First, on the global front, we see a frozen Doha Development Round negotiation in the WTO. Second, on the Asia-Pacific regional arrangements, we see the active ASEAN Plus 3 and East Asian Summit in the making. Whereas there is an FTAAP (Free Trade Area of Asia-Pacific) strongly proposed by President Bush at APEC last year. Third, an envisaged FTA is to serve as catalyst for building block rather than stumbling block to global and regional liberalization. The fourth element here is: China has replaced the U.S. and become Taiwan's chief trading partner. We had a lot of number crunching in the last panel, so here I would only say that Taiwan's trade

dependency on China has a 24 percent stake, the highest among all our trade partners.

Against this background, there are four key issues I will identify here. First, the U.S. trade strategy of promoting competitive liberalization on regional and global levels, and this is what Fred Bergsten coined as the “Bicycle Theory”-- not to stand still, but to serve as an engine and keep the ball rolling.

Second, a combined balanced approach to liberalization is required to have both a market-driven and institution-induced liberalization. Sometimes the business sector may or may not see the benefit of a balanced approach.

The third issue would be peaceful resolution in cross-strait relations for all stakeholders. Here, I would mention two points. First, it is an innovative approach to conflict resolution and second, to engage China as a responsible member in her aspiration for establishing a new international order.

Finally, but not least, is the U.S. exemplary role in global leadership.

In a SWOT analysis, the strengths and weaknesses connote internal positive and negative elements respectively for an envisaged U.S.-Taiwan FTA. The opportunities and threats connote external positive and negative factors that go beyond the U.S.-Taiwan bilateral environment.

The strengths of a U.S.-Taiwan FTA, as I see it, would include: (1) reduction of tariff and non-tariff barriers which would lead to reduction of business transactions costs; (2) the scope of coverage should be “WTO plus” not only in terms of sectoral coverage but also in terms of government transparency; (3) more trade creation effect from within than trade diversion effect from without; (4) the scale of economics will increase the economic growth within an FTA; and (5) technological advancement would lead to more new trade issues such as environmental costs, which will in turn lead to sustainable development and quality labor standards. As Mr. Deng earlier mentioned, actually Taiwan has learned a great deal in the process of liberalization and in the long tradition of strong bilateral strategic partnership in economic, political, cultural and military spheres.

But there are also a few weaknesses in the U.S.-Taiwan FTA. Consensus-building is required regarding the scope of coverage for “substantially all trade”—such as agricultural, pharmaceutical, telecom sectors, IP issues, government procurement, et cetera. More efforts are required in forging strategic partnership for mutual benefits, especially in the trade diversion area. Domestic legislative requirements apply to both the U.S. and Taiwan, including a questionable renewal of the U.S. President’s fast track trade promotion authority. In Taiwan, there is challenge in managing trade and national interests beyond bipartisan division. Lastly, there is a weakness in the treatment of delicate cross-strait relations.

In terms of opportunities, which connotes positive factors from the external

environment, I believe that a U.S.-Taiwan FTA would serve as an example for advancing global and regional trade liberalizations. That includes commitments to continue liberalization and rewarding trade partners with irrevocable commitments to values of democracy and human rights. Second, it would be a symbolic declaration on cross-strait conflict resolution, not necessarily contradicting U.S.-China strategy partnership. There is a recognition of de facto sovereignty which applies in APEC, in WTO and many more to come, I hope. So the de facto sovereignty instead of absolute or de jure sovereignty is a basis for peaceful resolution and a sustainable one in cross-strait conflicts. Lastly, there would be a competitive liberalization effective to counter marginalizations created by others' exclusivity.

Now let's turn to the threats as external elements: (1) proliferated FTA efforts currently under discussion may divert U.S. focus from the U.S.-Taiwan FTA at hand; (2) a U.S.-China strategic partnership may constrain a U.S.-Taiwan FTA in terms of when and whether to pursue; (3) a lack of innovative approaches to the One China policy and perhaps scant discussion on enhancing human security. Human security encompasses multi-dimensions in economics, health-related industry such as the pharmaceutical industry, the availability of vaccination, et cetera.

What follows will be some proposed plans of action for the U.S.: (1) to initiate bipartisan consensus and prioritize the signing of a U.S.-Taiwan FTA; (2) to ease potential negative feedback by engaging in constructive dialogues with relevant trade partners; (3) to set the tones for rule-making in regional and international regimes; and (4) to continue playing key roles in orchestrating new global order. It is a mutual learning process. It is not about confrontation.

Proposed plan of action for Taiwan: (1) to have Parliament members participate in the process of bilateral trade negotiations and to effect timely approval; (2) to consolidate the necessary domestic reforms with challenges in implementing FTA clauses. Once we sign it, we need to implement it; (3) to learn new frontiers in liberalization and create competitive edges in the process, many issues on strategic alliance were discussed in the last session as well.

As to some joint efforts by both U.S. and Taiwan, I propose: (1) to set up realistic timetables and achieve "WTO Plus" win-win negotiation outcome; (2) to showcase the bilateral FTA signing and serve as a catalyst for open membership to FTAAP in APEC; (3) to explore strategic alliance in regional operational hubs and collaborate joint ventures with other trade partner countries, as our good colleague, Paul Hsu, has mentioned quite a few earlier; and finally, (4) to establish coalition and submit WTO proposals for dispute settlements in the Doha Round negotiation.

With these, I will submit these thoughts for your further elaboration. It has been a long tradition that the U.S. has leadership vision in global trade and investment. The U.S. has been a pioneer in promoting competitive liberalization. I strongly believe that a U.S.-Taiwan FTA will serve as an essential link in the liberalization process.

Thank you very much.

(Applause)

MR. RUZICKA: Dr. Chan, thank you very much for that insightful analysis of the U.S.-Taiwan FTA.

Let me now turn to Eric Altbach who is the Deputy Assistant U.S. Trade Representative for China Affairs, and we will listen to him present the U.S. government view of a U.S.-Taiwan FTA.

MR. ALTBACH: Thank you very much. I wanted to thank Richard Bush for inviting me to participate in the symposium today, and I appreciated very much the opportunity to hear the views of people on this panel as well as the previous panel. I enjoyed the discussion we have had so far.

I just wanted to say a few things about U.S. economic engagement with Taiwan. As the last speaker, there is always the problem of being repetitive with those who have gone before you, so I will try and minimize that, but please forgive me.

As our other speakers have already noted, we have a very strong trade investment relationship between the U.S. and Taiwan. Taiwan is the eighth largest trading partner for the United States with two-way trade approaching \$60 billion. The stock of U.S. foreign direct investment in Taiwan currently approaches \$15 billion. Taiwan is a significant foreign investor in the United States. Taiwan clearly has been and continues to be an important economic partner.

The U.S. interaction with Taiwan has evolved as our two economies have grown closer together. As has been noted, the United States strongly supported Taiwan's entry into the World Trade Organization, and we have encouraged its active contributions to that organization. We continue to support, for example, Taiwan's accession to the WTO Government Procurement Agreement. We support Taiwan's full participation in the Asia-Pacific Economic Cooperation forum. When I was working at the National Security Council, I was one of the people in charge of APEC, and I know that we work very closely with Taiwan in the APEC process. We think that is very important.

The United States places great importance on our bilateral relationship with Taiwan, and we continue to seek ways to strengthen and deepen our economic engagement. As has been mentioned by a number of the previous speakers, the key mechanism for our bilateral economic cooperation is our Trade and Investment Framework Agreement, the TIFA, which was originally established in 1994. The TIFA meetings offer us a real opportunity to review at high levels our entire trade relationship and seek ways to remove obstacles and expand opportunities for our

business community. I was glad to hear that Rupert and his membership were taking interest in our last set of meetings.

As was mentioned, our last high level TIFA dialogue was held in Taipei in May of last year when our Deputy U.S. Trade Representative, Karan Bhatia, and the now Minister of Economic Affairs, Steve Chen, chaired the meeting. As I think was mentioned, we thought it was a very productive meeting. Among the issues we addressed in the TIFA process were improved enforcement relating to intellectual property rights, further opening of Taiwan's agricultural sector, continued modernization of the financial sector. We talked quite a bit about how Taiwan can most actively contribute to a successful conclusion of the WTO Doha negotiations. We talked about liberalization and reform of government procurement practices as well as reform of Taiwan's regulations and pricing mechanisms for the pharmaceutical industry. We made important progress on many of these areas of discussion.

We agreed to launch a new dialogue on intellectual property issues to intensify our cooperative work in this area, and we welcome the progress Taiwan has made in enhancing enforcement efforts including the introduction of legislation in ISP liability, peer to peer file sharing and establishing a specialized IP court, and we look forward to legislation in those areas passing as soon as possible.

We agreed to launch a consultative committee on agriculture to address agriculture trade and policy issues at a high level and seek to expand two-way trade in this area.

We conducted intensive discussions on health care and pharmaceutical issues, supporting Taiwan's efforts to reform regulatory and pricing policies to create a fairer trade environment for both domestic and foreign firms in this industry and benefit the people of Taiwan. This is a particularly important area, and I think we had very useful progress and look forward to continuing those discussions.

As Ambassador Bhatia said in Taipei last year, we hope that the TIFA can continue to be effective in achieving the kind of concrete progress that will expand bilateral trade and investment flows. Ambassador Bhatia proposed at that time that we seek to explore whether we can enhance our cooperation through possible agreements on issues such as bilateral investment, avoidance of double taxation, and government procurement. These are discussions that are ongoing. We very much hope that there is a possibility of moving forward in these and other areas, and we are very open to the possibility of seeking enhanced economic cooperation on these kinds of discrete issues that may yield concrete agreements.

I should note that we are working very hard to make progress on these issues in advance of the next meeting of the TIFA which will be held in Washington, D.C. We haven't agreed on a date as of yet. We hope to hold the next TIFA during the course of this year, and we will be working to finalize what time will be best for that

meeting.

In addition to this very full agenda of bilateral economic issues, the U.S. has also urged Taiwan to think about another challenge that has been discussed here today and that is how Taiwan can retain its competitive edge in the increasingly integrated Asia-Pacific region. I was struck by what Rupert said earlier about situating U.S.-Taiwan economic relations in the context of developments in the regional and global economy, and this I think is very important. It should be the kind of approach that we take in all of our economic policymaking, that the context for our work is the developments in the real economy at the global level. Finding a way to ensure that Taiwan remains an important part of the region's value chain requires a policy environment that is consistent with the evolving strategies of multinational business. For this reason, it is clear that Taiwan's continued economic vibrancy over the long term necessitates progress in addressing cross-strait economic restrictions. I think this is widely understood in the business community both in the United States and in Taiwan and elsewhere.

China is playing an increasingly central role in regional production networks, not only as a site for final assembly but as an increasingly important market both for commodities and finished goods. Taiwan's remaining restrictions on travel to Taiwan by PRC employees of Taiwanese companies as well as multinational companies on outward investment to China, bans on cross-strait trade and certain products and the lack of cross-strait air and shipping all have an impact—negative impact—on Taiwan's competitiveness. The restrictions that Taiwan imposes on these kinds of economic interactions with China do not apply in South Korea, Hong Kong, Tokyo or Singapore, for example. We welcome the progress that is now being made in establishing a more liberal regime for cross-strait links, but it takes place in the context of very rapid increases in integration amongst other regional economies, and this is just part of the context for evaluating these policy changes.

As Ambassador Bhatia pointed out last May in Taipei, these remaining restrictions discourage multinational corporations from establishing or expanding their operations in Taiwan because these operations are viable only if integrated into regional production and distribution networks. By placing Taiwan's talented and dynamic entrepreneurs at a disadvantage, it puts them in an increasingly difficult position as well.

I want to underscore that the U.S. government fully recognizes that decisions regarding these issues and how to move forward on these challenges are decisions for Taiwan to make, but I think Rupert's comments about the concerns of his organization's membership speak to the importance of continued progress.

I want to respond to the discussion of Taiwan's interest in an FTA with the United States, the subject of today's symposium. The Administration has a very full trade agenda for the period leading up to the expiration of trade promotion authority in June of this year. One of our critical priorities of the U.S. Trade Representative

where I work but the Administration more generally is to reenergize the WTO Doha negotiations and achieve a successful conclusion to the round. As I think everyone understands, this is a very serious challenge and one that we are taking on at the moment. We also have a number of ongoing FTA negotiations currently underway including negotiations with South Korea and Malaysia. These negotiations consume quite a bit of both USTR's and interagency resources.

This very full agenda places significant demands on USTR and other agencies given the extremely short time remaining under TPA. I should also tell you that there are quite a few potential candidates for FTAs with the United States. When I used to work at the White House in the National Security Council, we had quite a few meetings relating to the desire of various trading partners to seek FTAs with us. Quite apart from the specific merits of any of these candidates, it is frankly impossible for us to launch any new FTA negotiations at this time, and I think that is increasingly understood. While gaining renewal of TPA authority is a top priority for the Administration in the area of trade policy, at this stage it is too early to assess if and when TPA will be renewed and what form that renewal may take.

I was very much hoping that our colleague from the Hill would join us today and we could perhaps address questions relating to that to him, but alas I guess we won't be able to. I am still holding out hope.

When we are again in a position to launch new FTAs, any potential candidate should focus on building a record of accomplishment and resolving bilateral trade issues and implementing WTO and other trade commitments, and I think Rupert noted that earlier. It is critical to demonstrate that there is strong and active support in the U.S. business community and on Capitol Hill. I cannot overstate the importance of this. In the recent environment on the Hill in terms of trade policy, it is important that there be both private sector and Congressional champions for any agreement. The challenges we faced in gaining ratification of a number of recent trade agreements, I think speaks to that requirement. The experience with CAFTA, I think, is enough to underscore the importance of doing that kind of work and having that kind of support. So this is a sort of general recommendation to any would-be FTA partner.

I would like to note that many of the topics we are currently addressing in the TIFA process, I would say have the potential to make a significant contribution in the area of resolving bilateral trade issues and building broad support for deepened economic cooperation in the U.S. business community. I welcomed John Deng's comments earlier that we should really use the TIFA to its fullest potential in moving forward in concrete ways that have a real impact on the economic relationship between the U.S. and Taiwan.

I see that we are running out of time, and I want to leave some time for discussion. So I think I will end my remarks there and look forward to your questions.

(Applause)

MR. RUZICKA: Let me thank our panelists for their presentations which I think were informative and very helpful.

Before I open up to questions, I just wanted to jump between sessions here and return to Dr. Chen Pochih's slide that insinuated that U.S. officials were requiring a pledge of One China policy before an FTA would be considered. I think what you have just heard from Mr. Altbach is in fact what the U.S. trade officials at the highest level are saying, and I would note that he was paraphrasing what Ambassador Bhatia said in Taipei in May, which is not that Taiwan must declare acceptance of the One China principle before any kind of FTA negotiation could be started but rather that it is important to recognize the comparative advantage that your entrepreneurs have established in the global supply chain and that supply chain extends across the strait and that it only makes sense to facilitate that by making sure Taiwan's policy environment is consistent with the evolving strategies of multinational corporations. That is a far cry from saying that the One China principle must be accepted. I just wanted to set the record straight on that.

Let me then open up for questions. Make your questions very brief if you would and wait for the microphone to come. The gentleman in the back?

MR. NEUMANN: Dan Neumann from Inside U.S. Trade. I am just wondering, regarding the two main points that the USTR is looking for when pushing for a free trade agreement, the bilateral differences being resolved quickly and the strong private sector support, if we remove the rather large idea of trade promotion authority being extended from the picture, where is Taiwan in terms of achieving those goals that USTR is looking for? How close is Taiwan to reaching a point where USTR will be comfortable in discussing the idea of opening up free trade agreement negotiations?

I would like to hear from Mr. Altbach, and then I would love to hear a response from our industry friends on the other side of the panel to see their reaction to what they think Taiwan has achieved in that regard.

MR. ALTBACH: Thanks very much.

On the issue of the degree of success we are currently having in resolving bilateral issues, I would characterize our TIFA process as reinvigorated. We went through a period of, I would say, a very challenging environment in resolving a number of bilateral issues, and there were a lot of concerns, for example, in the area of intellectual property enforcement. In fact, the TIFA process became a bit moribund during a period of time, before being revitalized, I would say, in 2004 and the progress continuing from there.

We are very optimistic that the constructive attitude on both sides is going to continue and we look forward to it bearing fruit in specific agreements in new policies changes in a variety of different areas. However I think we still have more to do to bring that TIFA process to the next level, and we certainly look forward to having very robust and constructive preparations that will pave the way for a very successful meeting here in Washington. I think we have a very positive attitude about the overall trend, but we look forward to achieving concrete outcomes. Some incremental process on issues is very helpful, but to take it to the next level, we are looking for more concrete outcomes, and we remain optimistic that can happen in the near term and then going forward.

I wouldn't speak with great authority on the level of U.S. business community support, and I would leave that to Rupert, but I would say that while we hear expressions of interest in the notion of a U.S.-Taiwan FTA from many small companies, for example, throughout the United States, we rarely hear from major U.S.-based multinational corporations on the subject. I will leave it to Rupert to give a fuller explanation of where the business community is on the issue, but that is just my perception from where I sit at USTR.

QUESTIONER: For when the U.S. would be willing to open up a free trade agreement negotiation, we talked about those specific issues as benchmarks for when you would consider an FTA negotiation. Where is Taiwan in terms of meeting those goals? You talked about the next level. Does that mean a new level of TIFA negotiations or a new level in terms of examining a free trade agreement negotiation? Thank you.

MR. ALTBACH: I think that is a very good question, and it is one that is very hard to answer. I should say from my experience working at the National Security Council and having participated peripherally on some of the discussion of other FTA candidates, that the process of reviewing potential FTA partners is extremely comprehensive. It takes a long period of time. It involves the full range of U.S. government agencies that have a stake in our relationship with the potential FTA partner, and that includes not only all of the economic agencies but all the foreign policy agencies as well. It goes up to the very highest level, and the President has to approve moving forward.

It is very hard to say if you meet certain criteria in the USTR purview, for example, that will suffice to move forward. I think it is better to think of bilateral trade discussions going well and achieving concrete outcomes as a necessary but not necessarily sufficient condition because it is a very integrated approach. We don't look at potential FTA partners in isolation, because, as I said, there is always a long list of would-be FTA candidates. So it is not whether a particular candidate might or might not qualify. It is where you rank within this broader pool of interested parties.

Because of that, it is very difficult to make a characterization of what would be required for the green light to move forward because it really does depend on the

overall relationship, the context of where we are in our bilateral relationship and the broader pool of other candidates that are under discussion. I should say that given where we are on TPA, this FTA candidate assessment process is not currently going on in a serious way because it doesn't make sense to do it until we know what the environment will be. We are not there at this point. So it is a very theoretical discussion. As I said, USTR is just one—an important but just one—of the players in this overall review.

MR. RUZICKA: Who else is out there? The woman with the red hair?

MS. PRISCILLA HOFFMAN-STOWE: Hi, Priscilla Hoffman-Stowe. I have a question for Dr. Chan. Maybe some others would be interested.

A number of speakers have mentioned the need to have China see a U.S.-Taiwan FTA as a win-win-win proposition which sounds great, but I am just wondering how would you get China to feel that way about a U.S.-Taiwan FTA? What inducements? What arguments? How would you do it? That is my question.

MR. RUZICKA: Great, thanks. Dr. Chan, do you want to take a shot at that?

DR. CHAN: All right, it is quite a challenge I believe and it is a matter of negotiation. As Rupert earlier mentioned, for the WTO case, it was impossible in the beginning, but a lot of strategic dialogue, I believe, can change China's mind on that, and this can be backed up with some objective criteria. In the earlier panel, we talked about the value of Taiwan in the global supply chain, the actual cross-strait economic interactions, the mutual interdependence and the U.S. market somehow balanced with China's market. I believe not only in the trade area but also in the investment area, China is looking at not only inward investment but also outbound investment both in Taiwan and in the U.S. With a tripartite coalition, I believe actually the risk assessment will change the whole picture.

I don't have any concrete example for you right now, but I think ASE's case that Mr. Douglas Paal earlier mentioned could serve as a simple case of how to forge mutual benefits for the three parties.

MR. HAMMOND-CHAMBERS: My own view on getting China, persuading China is that I would suggest somewhat cynically—I am not a cynic but I would—that China is never going to be happy on this issue and that really where it is going to get is attempting as best as we are able as a country to establish what is fundamentally in our interest, what we can give a little bit on and then pushing for that. Again, I would suggest that, as a practical matter, China will publicly declare its unhappiness but we will move forward. That is sort of the experience on the WTO side as well.

I want to loop back in on this to Dan's question earlier on. What are we all taught, in U.S.-Taiwan Relations 101? Be patient. Be patient. Taiwan, although Eric, as always, is very articulate about the process that we are undergoing and I have

no doubt that is the process similar in all our bilateral relationships, the fact of the matter is that Taiwan is different. Its status creates this unique relationship and this unique challenge for our country, and therefore all the interest of our countries as a consequence swirl around. Eric absolutely alluded to that, that yes, we certainly have this commercial relationship; we have to have it positive; it has to be going in the right direction, but there are extenuating circumstances that will impact the ultimate decision.

I would have to defer. I have never worked in government, but I do understand that ultimately this would go all the way up to the President. At this juncture anyway, he is going to have to feel comfortable with that if he is going to make a decision positively to press for FTA negotiations.

One other thought, big companies, big company support, I do want to address this issue. The Council, AmCham, IIPA for those of you who know Eric Smith, all made positive statements on a U.S.-Taiwan free trade agreement. We all have qualifiers, but overall you can leave that standing out there.

This issue of the special nature of the relationship and the growth of China as an important partner for our country, for our companies and their willingness to press for bilateral issues that may impact what is most important to them because companies have priorities as well. While it may be easy to say well, get companies on board for an E.U.-U.S. FTA as challenging that might be but not so controversial. A U.S.-Taiwan FTA for big companies to support is a very different risk proposition, and they are looking at all their interests, and they are saying what is ultimately important to us moving forward. It is very difficult not to look at China into the future and say that is a market we must be successful in if we are going to continue to be successful.

How do you marry that priority up with the legacy interest that you have in Taiwan and your own interest in the future, the Taiwan relationship? That, I would suggest to you, is the challenge that companies face. It is not that they are not supportive, and I would say that it is not that they are not prepared to be supportive. It is simply to look at the traditional way in which companies support free trade agreements or multilateral rounds and then attempt to apply that to Taiwan. It is not a fair comparison. This is not the way that is going to play out.

MR. RUZICKA: The gentleman in the white jacket in the back? In the middle, sorry.

QUESTIONER: Thank you. Jim Barger from Washington Trade Daily. Just to follow up a little bit on that and trying to think outside the box a little bit, a number of years ago, the U.S. and Taiwan got away from the issue of having embassies in each country by having an institute and a cultural and economic office. Can you have a free trade agreement without calling it a free trade agreement and maybe negotiate it a little differently?

MR. ALTBACH: Those of us in government are very unused to thinking outside the box, I should say. That is always a risky proposition.

There are two challenges to thinking outside the box in the area of trade agreements, particularly free trade agreements. One is the WTO requirement that FTAs encompass substantially all trade, so that is one framework that the United States thinks is very important to operate within. We know that there are FTAs being negotiated that may not encompass substantially all trade, and we think that contributes to the trade-diverting effect of these, what, in our view, would be lower standard agreements. We would be loath to participate in downgrading the quality of what are supposed to be comprehensive free trade agreements. That is one challenge.

The other challenge, of course, is trade promotion authority. Congress has very specific ideas in mind as to what constitutes a free trade agreement. When you think about TPA renewal, we have already heard from new Congressional leadership on some of the key committees about the kinds of adjustments that would be made potentially to TPA if it were to be renewed.

For those of us at USTR, we are bound to negotiate agreements in that context. I think in terms of the nature of the agreements we can negotiate, we have a very significant set of constraints.

With respect to how one would move forward with Taiwan, theoretically, I think that the broader view would be that these kinds of agreements do not necessarily have any relationship with the issue of sovereignty. I think that in terms of moving forward with economic agreements of various sorts including a potential FTA, we could find a modality that would work consistent with the Taiwan Relations Act and so forth. But as I said, those of us in government are extremely hesitant to engage in outside of the box thinking, and those are just my off the cuff personal views and don't necessarily reflect the position of my agency or of the U.S. government more generally. I could go on and on with my caveats, and I am tempted to do so, but I will leave it there.

MR. RUZICKA: Rupert, would you like to add to that?

MR. HAMMOND-CHAMBERS: I will just be really quick. I mean Eric wouldn't say it because he is far too modest, but I do want to take this opportunity just to say that sometimes I think it is unfairly reported that the U.S. government sort of sits on an island on Taiwan policy with these great big walls around it and are oblivious to the dynamics taking place externally, and that is just not the case. I just want to leave that out there.

In the context of this question, not that I am suggesting that we shoot for anything other than an FTA for those of us who support it but simply that those who work within government, in my experience, have a very keen sense of what is taking

place externally and they also have a very keen sense of how the system works and how to move things forward even if it is not quite at the pace that we may want.

MR. RUZICKA: I think we have time for two more questions. Charlie, would you like to give us your best?

MR. SNYDER: Charlie Snyder of the Taipei Times. I have a question for Mr. Altbach, and this follows up on some comments that Rupert made in connection with the question a few minutes ago.

A lot of people think that in fact the reason there is no Taiwan-U.S. free trade agreement and may never be is because of China's opposition, not because of economic or other political issues. I wonder if you could talk to the question of whether in fact China's opposition does have a veto effect on a U.S.-Taiwan free trade agreement.

MR. ALTBACH: Let me be clear, as I think other U.S. officials have been clear. I am following in the footsteps of the Deputy USTR Karan Bhatia in responding to this question which is that China does not have a veto over any U.S. government policy decisions including in the area of our foreign economic relations. So the answer to that question is clearly no.

As I have tried to describe, our approach towards whether to move forward on any particular FTA with a trading partner is a very complicated one, and I think it is fair to say that we don't have a serious understanding of exactly what China's reaction would be if we were at the point of preparing to launch an FTA negotiation with Taiwan because we have never been at that point. That is just not where we have been in our bilateral economic relationship. I think the Chinese have an understanding that we are moving forward in economic cooperation, but they also have a good sense of where we are at present.

Certainly, however, China's reaction is an important issue. As Rupert has noted, it is part of the context for the business community in assessing their support for an FTA, and it would be a part of the broader foreign policy context for U.S. policymakers to consider. The position of other trading partners to the potential launch of any new FTA process is something we would consider, but none of them, including China, has a veto over what we decide to do.

MR. RUZICKA: Last question, Jacob.

QUESTIONER: I am Jacob Chang from the KMT-PFP office.

Firstly, I want to say that for FTA between the U.S. and Taiwan, the opposition parties are in support of that. When Chairman Ma came here last March speaking at Rupert's lunch, he firmly expressed his support.

Secondly, I want to ask Mr. Altbach. You talked about two challenges Taiwan is facing now. One is the business community, and the other is Capitol Hill. Sorry to see that Jonathan is not here today. I remember back in the eighties when Taiwan was trying to get into CAFTA, the letter was co-signed by over 60 members. Then priorities changed. For Taiwan, for two Congresses, they were sponsored by maybe over 100 members. I really want to see how much Congressional pressure the USTR wants to see to take any action. Thank you.

MR. ALTBACH: Thank you for your question.

Again, I think one important question that we will face in terms of evaluating Congressional support for a particular FTA and for FTAs in general is what Congress decides to do with respect to TPA. Certainly, we have had letters of support from some members of the Hill. We receive many letters from the Hill on many subjects. The Hill is not shy about expressing its opinions on a variety of trade issues and support for a Taiwan FTA is something that we have heard about. But the context of trade politics on Capitol Hill, I think is a very dynamic situation at the moment, and certainly the Administration is very hopeful and optimistic that there will be a renewal of TPA to allow us to move forward to a successful conclusion of the Doha negotiations, to a successful conclusion of ongoing FTA negotiations and to allow the launch of new FTA negotiations in the future.

That threshold question of will Congress support moving forward in that way is something that I think will be answered by the actual votes that Congress takes on important trade issues going forward including TPA. Letters are useful. Resolutions being sponsored which don't come up to a vote but float out there for a session or two and then disappear, these are all helpful in understanding where people are on issues. But what really matters, of course, are votes, and we will learn more about where Congress is on trade policy generally, in the course of the term depending on how they vote on things like TPA.

MR. RUZICKA: I think that wraps it up, if you all would join me in giving a hand to our panelists for a really good job.

(Applause)

MR. BUSH: Thank you very much, Rick, for doing an outstanding job. Thank you all for coming. I think we have had a very good discussion this morning, not only understanding much more clearly the problems of getting from here to there but also the opportunities that the goal of a free trade agreement represents.

I thank you again and particularly thank all of those who came so far to be here today. Thank you again.

(Applause)

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