

THE BROOKINGS INSTITUTION
CENTER FOR NORTHEAST ASIAN POLICY STUDIES

in cooperation with

THE FREEMAN CHAIR IN CHINA STUDIES
CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

CHINA-TAIWAN-UNITED STATES
RELATIONS

Panel Three:
Regional Issues

Center for Strategic and International Studies
April 23, 2013
Washington, DC

[Transcript prepared from an audio recording]

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

PARTICIPANTS:

Introduction:

RICHARD BUSH

Senior Fellow and Director, Center for Northeast Asian Policy Studies
The Brookings Institution

CHRISTOPHER JOHNSON

Senior Advisor and Freeman Chair in China Studies
Center for Strategic and International Studies

PANEL 1: DOMESTIC POLICIES AND PERSPECTIVES

Moderator:

CHRISTOPHER JOHNSON

Senior Advisor and Freeman Chair in China Studies
Center for Strategic and International Studies

Panelists:

YUN SUN

Visiting Fellow
The Brookings Institution

EMERSON NIOU

Professor of Political Science
Duke University

THOMAS MANN

Senior Fellow
The Brookings Institution

PANEL 2: CROSS-STRAIT POLITICAL AND SECURITY ISSUES

Moderator:

BONNIE GLASER

Senior Advisor for Asia, Freeman Chair in
China Studies and Senior Associate, Pacific
Forum
Center for Strategic and International Studies

Panelists:

ZHAO QUANSHENG

Professor of International Relations and Director, Center for Asian Studies, American
University

WANG KAO-CHENG

Professor, Graduate Institute of International Affairs and Academic Studies, Tamkang University

RICHARD BUSH

Senior Fellow and Director, Center for Northeast Asian Policy Studies
The Brookings Institution

LUNCH ADDRESS: AN UPDATE ON U.S.-TAIWAN RELATIONS

RAYMOND BURGHARDT

Chairman of the Board
American Institute in Taiwan

PANEL 3: IMPLICATIONS FOR THE UNITED STATES AND CROSS-STRAIT RELATIONS

Moderator:

KEVIN NEALER

Principal
The Scowcroft Group

Panelists:

CHOU CHIH-WEI

Assistant Professor, Department of Global Political Economy
Tamkang University

MATTHEW GOODMAN

William E. Simon Chair in Political Economy
Center for Strategic and International Studies

* * * * *

PROCEEDINGS

KEVIN NEALER: Good afternoon. My name's Kevin Nealer. I'm delighted to be introducing our panel today. I noticed that Ray in his concluding question said, "U.S. policy doesn't have to choose between economics and security." Well, this panel has chosen, and we're about the money. I mean just to be clear; the security stuff, that was an interesting 4.5 hours, a nice predicate, but we know what matters in Asia and it's invariably trade and investment -- though my wife, who is a reporter in the region for many years, did admonish me that the most boring line in the history of journalism is "International trade talks continue." So she said, "Try to spice it up."

We're very fortunate in our panel today to have Simon Chair here at CSIS, Matt Goodman, who was responsible for U.S. economic policy in Asia most recently both at the State Department and the National Security Council. Matt was, however, in the unfortunate position. Most new administrations, new entrants in administrations, are able to say for many months, "Well, I don't know what the President's views are on this matter." Matt did not have that opportunity because he had lead responsibility on the Obama Campaign for the Asia Trade Policy papers. So he came in on the first day being responsible.

Professor Chou Chih-wei is with Tamkang University. He has written and lectured extensively on our topic today, on Asian economic architecture, and has regularly consulted with the Taiwan government on these issues. Matt and I were discussing beforehand; we're a little concerned because he also happens to know more about U.S. policy than most American policy speakers would. So we're delighted to have him here today. We welcome you both.

For decades it was fashionable when talking about Asian trade and economic issues to start with the euro centric observation that Asia doesn't exist in the way that Europe does. I suspect that this was code, euro centric code, for the fact that Asia didn't enjoy the advantage of deep, well-established, regional structures and habits of cooperation that we all kidded ourselves to believe would give European economies a certain predictability and limited downside risk. Well, three years into the European crisis, I think there were a great many people in Asia who said, "You know, you're right about that. Asia doesn't exist in the way that Europe exists."

But the intervening event also, as Ambassador Burghardt indicated, is in the last decade we've seen the proliferation of Asian trade relationships of all kinds and indeed all quality. We now see some 233 trade agreements that crisscross the regions. These are of widely variant purpose from what I guess I would argue is the gold standard of the closer economic relationship between Australia and New Zealand and arguably the most extensive FTA anywhere in the world; to others, some of which are vague and kind of aspirational, may have questionable economic and even political incentives. But then there are the larger trans-regional agreements that our colleagues are going to discuss today.

The work we've been asked to do in this panel with our two experts is to look around the region and offer thoughts on what has been described as this noodle bowl of trade deals and help organize our thinking about what they may mean for U.S. and Taiwan interests. I'd ask both of you to start out if we can, and this audience has demonstrated that it is a frightening group of self-starters capable of highly original thought, and I'd like to turn this last session as much into a conversation as is possible. So, Dr. Chou, may I ask you to begin?

CHOU CHIH-WEI: Should I sit or should I –

MR. NEALER: Please, whichever you like.

DR. CHOU: Thank you, Kevin, and ladies and gentlemen, good afternoon. My name is Chou Chih-wei. I am Assistant Professor at Tamkang University in Taiwan, and I really appreciate this opportunity coming here to make a short talk on the regional economic architecture and its political security implications.

So let me just start with a joke that was mentioned this morning that there are 100 years for them to wait for the final implication and it's only 41 years past and we still have 59 years to go. That means for all the politicians, scholars, and practitioners in this particular business, we have a lot more work to do so we can save our jobs, right?

When you think about the regional economic architecture from Taiwan's perspective, we really have to think about what was done by the late President Chiang Ching-kuo a few months before he passed away in the 1980s, and there are two things. First of all, he decided to implement democracy for a lot of reasons and to reinforce the legitimacy of Taiwan's government for two different purposes. Number one, to make sure that Taiwan will be in terms of the system be linked with the Western democracies. That's important for Taiwan to have allies and friends. And the second implication is to make sure that whoever is going to run Taiwan, to rule Taiwan, will have legitimacy to deal with the pressure problem of Mainland China. So that's good; that's very important for Taiwan.

And the second job, the second thing that he has done before he passed away, is to open up to China, which you all know that took place November 2, 1987. Just a few months before he passed away, he instructed his party chief man saying that it is important for the KMT right now to think about a working relationship with China; that's what he said. Therefore, he anticipated that there is going to be an inevitable trend for Taiwan in the future, in the distant future to say the least that Taiwan will have to deal with China one way or the other. So it was probably a very good opportunity while he was still there to open up this window of opportunity for the two previous adversaries to stay engaged with each other.

So that's actually what happened that I'm going to talk about today. So this trade between Taiwan and China from Taiwan's perspective initially was illegal, of course. And it was indirect and also it was one-way traffic between the two. Later on it began much more important with a lot of Taiwanese businessmen under the camouflage of visitors going to China looking for trade opportunity or investment opportunity that's what actually happened. And to a

certain extent this trade and investment has become so important that the government will have to deal with it because of the exchange of visits by human beings. And, therefore, there's a requirement on the part of the two-political system to come up with something new to address this overwhelming, ever-increasing traffic between the two. So that's what actually happened.

And now let's think about that was back in 1980s and then starting in the mid-1990s the government in Taiwan under the leadership of Lien Chan as the Premier and also at a time the Minister of Foreign Economic Affairs, Vincent Siew, later on became the Vice President. He proposed the Asia Pacific Regional Operations Center as one of the grand strategies for Taiwan's future. That was proposed in 1993.

However, what happened during that ten-year period as far as cross-Strait relations are concerned? Taiwan was actually going through a different stage of attitude toward China. First of all, which is go slow, be patient, which means the President, President Lee, somehow realized there is a problem with overdependence on China's market economically speaking. So we want to go slow and be patient.

A few years later in 1996 the leader proposed go-south diplomacy, which is bringing Taiwanese businessmen into Southeast Asia. So Taiwan actually has thought about playing the role of a regional player and then missed that opportunity for political reasons. So all that led to the transition power in the year 2000 and then the eight-year period under President Chen Shui-bian and was clear to everybody.

And with all that as the background, President Ma before running in the election he proposed this idea. We need to find some way somehow to get linked with China. So we have to break this marginalization, this isolation. So the real deal about ECFA at the very beginning, whatever the propaganda may be telling us, the real deal is to break the pressure and also for President Ma to score political mileage in the first place. So that's what actually mattered. That's why the moment Ma took office in the year 2008, in just a few months both sides concluded a few different agreements, the charter flights and so on. And then ECFA talks began and it was finalized June 29, 2010, in Chongqing.

To some extent this laid the groundwork for Ma's second term, especially with the early harvest list that was proposed, which was insisted on by Taiwan, asking China and asking the top leadership in China, saying you've got to approve this; otherwise it's going to be reverse consequence to the cross-Strait relations. Even though some of the demand raised by Taiwan doesn't really work for some interest groups in China for some specific industries; however, China agreed with that, but that's just an early harvest list.

Now the two sides are working on the rest of the real deal, which is trade in goods and trade in service and investment protection. And they are thinking about trying to find a way to promote more economic cooperation. So they set up this committee to deal with a lot of the issues, and they're even thinking about custom corporations on the two sides. So this ECFA deal to some extent is not just about economics -- it brings in money, of course, that's very important

-- but it's also very important from Taiwan's perspective to find a way to somehow set up the new regime to deal with China. So that's what actually happened.

So we have this new regime, a set of norms, rules, regulations, and procedures. Think about ECFA for a second. We have a committee, and we have certain procedures. If anyone of the two parties disagrees or dislikes what has been happening as far as ECFA is concerned, then any one party can terminate this agreement. And then by writing their intention to terminate the agreement and the other party will have to respond, and the two have to talk for a certain period of time. And then even if that conversation cannot lead to a reverse decision, which means whatever happened after termination of the agreement will have to be consulted again by the two parties concerned. So the spirit behind all this is to make sure that as far as trade and economic issues are concerned between the two, we've got to talk. There's no other way. You cannot resort to coercion to say the least.

So this is the first step, what Ma Ying-jeou has been thinking about. I think this might have something to do with his intention to talk to the Japanese government on the fishing issue. This is important not just for the fishing rights for the Elan County, which my wife is from so I know a lot of fishermen. The captain who actually led the group to protest actually is a friend of mine. So it's not just about fishing. Fishing is money; that's important, too. But it has something to do with reinforcing the concept that Taiwan, even though it has everything to be a sovereign state, but without being recognized legally as a sovereign state. Still, Taiwan can play certain roles to be connected with the outside world, not just to China on economic issues, but also to other parts of the world. So that's what President Ma has been doing right now.

So having said that, because of this setting Taiwan going through the process of isolation, being marginalized and all that, and then Taiwan find a way to somehow break it and then be connected with China under ECFA. And while all this happened that ASEAN Plus 1, Plus 3, Plus 6, and also not to mention what APEC has been doing since 1989 proposed by Australian Prime Minister and later on became much more important after Clinton had the first summit meeting in Seattle in 1993. And later on the proposed TPP in which right now we have 12 members talking about this agreement. And we have RCEP, Regional Comprehensive Economic Partnership.

So we have all that and Taiwan has been trying to find a way out. So the next question for me to think about to challenge myself seems like the economic interdependence with China or to put it differently, the overdependence on China's market is inevitable for Taiwan. Then what should the Taiwanese government be doing to deal with the problem that may be coming from this overdependence? If Taiwan cannot stay far away from China, if that's not an option, then what do we do? So there might be several safety valves Taiwan can think about. Any one of those will be helpful for Taiwan.

The number one option that we can think about if we choose the economic safety valve itself, as the Ambassador said earlier that it might be possible, that it might be good for Taiwan to become part of the TPP process. That will certainly help Taiwan to ease the pressure

of being overly dependent on the Chinese market, but not to the extent to replace ECFA, but it certainly will help.

And the second possible safety valve for Taiwan is the political safety valve. Right now because economically speaking, Taiwan is very dependent on China and Taiwan is not able to get away. And maybe for some businessmen from Taiwan they prefer not to get away because of the money issue. And just a few days ago, the party chief from Guangxi Province just came to Taiwan to promote more business opportunities for Taiwanese investment. He was saying it is because of ASEAN Plus 1, Plus 3, and all that opportunity because China is opening up to that part of the world. It is certainly the front gate to that big block, so more Taiwanese businessmen will be depending on the Chinese market. So the problem is when Taiwan is overly dependent on China economically speaking, maybe it will somehow smooth out the pressure if Taiwan can be politically linked to the rest of the world.

Well, let me put it differently. Probably a lot of people in this room would prefer not to see a really closely integrated China-Taiwan relationship to the extent that the two finally become politically affiliated with each other. So to prevent that from happening, maybe this will serve Taiwan's interests and this will serve U.S. interests as well to some extent. It is possible to let Taiwan -- well, it goes as it happens, to see how it will actually be interconnected with China economically speaking. However, politically speaking, Taiwan will be able to be linked to the rest of the world.

This is something I like to bring to your attention today. Well, I'm not talking about international space. I'm not talking about recognition. I'm talking about more political connection for Taiwan. And to the extent that if Taiwan can play a certain role, a certain function, maybe this will somehow reduce the possibility that Taiwan will be forced into -- of course, involuntary -- into whatever the future unification proposal later on.

So I'm talking about the second safety valve, which is about political connection with the rest of the world. Of course, when I talk about this, I'm not proposing the independence. But I'm talking about de facto parties patient unless this political connection doesn't really reach the level that in China's perspective whatever Taiwan has been doing in this regard has reached a point that Taiwan may be offering itself to any others as an ally to go against China. As long as we don't reach that, we don't pass that threshold, this political connection for Taiwan with the rest of the world may be just something worthy of our consideration. And that's the second one.

The third one, which is the last one, of the safety valves, is the military aspect, and we talk about that and it was mentioned very clearly. And I think this is certainly very important for Taiwan to continue to have these arms sales in different aspects in different areas as long as the defense capability is sufficient there. So I'm not going to go into detail.

The last point I want to bring to your attention today is about an issue that China is very much concerned, which is Taiwan's identity issue. And we understand that China is now very pleased to see Taiwanese, the majority of the people actually in Taiwan, are not endorsing

the idea of one big Chinese family in the near future. So that's an issue for China. However, they don't really appreciate, they don't really understand, or they are not ready to offer to Taiwan at this point a certain perception, which is when we talk about this concept of "one China, different interpretation." I think this slogan actually was proposed in 2002 by a book written by Dr. Su Chi on the '92 consensus. Originally that wasn't the phrase. The original phrase was "one China, common respective interpretation" because I offered that first draft and Dr. Su Chi said oh no, this is respect. Some people don't get the idea about respect, so he used a planned word, saying "different;" "one country, different interpretation." With that expression, we might be able to accommodate everybody's perspectives.

And now I'd like to offer a different, maybe one step further or different, expression to somehow make it clear to not just people in Taiwan and people in the U.S., but also people in China to understand what really happened as far as Taiwan's identity is concerned. Because they don't really appreciate, they can't really understand the feeling of being a master of its own domain like the famous music opera, *Les Miserables*, there's a song called "master of the house." That's important. People in Taiwan want to be able to feel they can run their own destiny. That's important, but they are not able to go forward to enjoy their independence. This is clearly reflected in the public survey.

So the next, the second best choice is find a way for the two people to share this. So I'm proposing here that maybe a different expression such as "one country, shared representation." If this may work anyway in the distant future, maybe the people in Taiwan will be able to feel much more about being the master of at least their part of the big family, so "one country, shared representation." Only by proposing this or advocating this may be there is an opportunity for people in Taiwan after all this economic integration, after all this cultural exchange, a lot of Chinese students coming to Taiwan and vice versa, and a lot of Taiwanese going there just for a ten-day visit, that doesn't help. ECFA was the second round of cross-strait interaction, the second round, because it opened up a very different aspect. A big bond has been created to link the two together, but it only serves the money issue, the business interest. It doesn't really cultivate the Chinese. That's the problem. And it will never bring Taiwan into the embrace of Beijing's whatever it is unless there's more consensus being built up during this long process of peaceful development. So that's why I'm proposing today a "one country, shared representation." This is something that maybe we can think about for the future.

And having said that on the final note, since there are quite a few perceptual gaps among Beijing, Washington, D.C., and Taipei and vis-à-vis this triangular relationship, that means we have a lot more work to do so we will not lose our jobs anyway. Thank you. I'll end my presentation on that note. Thank you.

MR. NEALER: Thank you so much for that very rich menu of political economic ideas. Matt, I'm going to ask you to even widen the aperture further and look at some of the regional opportunities from the U.S. perspective.

MATTHEW GOODMAN: Thank you, Kevin. And I can't resist using my standard line about the relationship between economics and the important issues that you

discussed earlier today, which is that all of you are interested I think primarily in life and liberty and we do the pursuit of happiness. So there's a reason it was listed third, but it's also a good thing and, hopefully, one that can keep you awake after lunch.

MR. NEALER: Remember, the Founders said happiness or property.

MR. GOODMAN: That's right. So I was asked to talk about regional economic architecture from a U.S. perspective, and I will probably not do that. I'll probably do regional economic architecture from a Matt Goodman perspective, but I will try to channel the U.S. more broadly where I can. And I'll just cover three areas.

First of all, why the United States engages in Asian economic affairs, how we engage in Asian economic affairs, and then actually try to answer the question of what the landscape looks like from here in D.C.

So why we engage: Well, I mean I think Willie Sutton had it right. Why he robbed banks was because that's where the money is. The Asia Pacific, obviously, with \$30 trillion of GDP, which is about 55 percent of the world, 45 percent of the world's trade, and the U.S. selling almost a \$1 trillion worth of goods every year to the region, which is more than half of what we sell anywhere, it's clear that this is a region that we need to be involved in economically. In her now seminal piece in foreign policy in November 2011, Hillary Clinton when she laid out the pivot, the so-called pivot -- I'm not sure what the current popularity of that term is, but I find it useful because it's short and has sharp consonants in it so I'm going to use it -- she talked about the focus of the previous decade being primarily on the areas of the world in which there were risks, the most risks and dangers, and that the Obama Administration was trying to shift focus towards areas of the world in which there were opportunities. And if you're going to look for opportunities in the world, you're going to look at the Asia Pacific again, and you're going to look at economic issues. And, indeed, when she laid out the elements of the strategy, she had sort of six elements to the pivot strategy, at least a couple of them, one was explicitly about economics, trade, and investment expansion, and a couple of the others like engaging with multilateral institutions and dealing with emerging powers were implicitly about a lot of economic issues.

So economics is absolutely the critical element of the pivot or rebalancing strategy and really for three reasons beyond the money: One is it's what Asians want. They want the United States engaged on economic issues in the region. They want our military, security, political, and diplomatic presence, but they don't just want that, they want our economic presence. It's what Americans want. I think Americans would not support our continued military engagement in the region if it weren't for the growth in jobs that we're presented from the region. And it locks us into regional affairs in a way that -- particularly through treaty negotiations that we're engaged in which I'll come back to -- it locks us into the region in a way that really nothing other than maybe security alliances really do and by the way at a much cheaper cost. I'm sure Barbara Weisel of TPP negotiations are very high, but in the scheme of things it's actually quite a cheap way to buy some engagement and some love in the region as well by the way.

So how we engage: We do it bilaterally, regionally, and globally. Bilaterally, obviously we have economic relationships with every country of Asia, and I'm not going to talk about every one of them. I'll just talk about Taiwan for a second. I think some of the others are very well known. The U.S.-Taiwan relationship economically is very important. It's a \$.5 trillion economy. We have about \$90 billion of two-way trade. There's about \$20 billion of U.S. investment in Taiwan. But it is also a relationship that's had its challenges and there are a number of outstanding issues that make it difficult, have made it difficult, to deepen and expand the relationship. And I think people are well aware of the ones in the agriculture sector, and so I won't focus on those. There's been some good progress, but I think those still continue to hinder the relationship.

There are issues about regulatory structures and systems and processes in Taiwan that are creating challenges. And I think there's a broader question from Washington's perspective about the deliverability, the ability to deliver on economic progress and on commitments even. And I think that that has been a challenge in the relationship. I think President Ma clearly has demonstrated good intentions and he's made good progress on some of these issues, but that's after a lot of hiccups and stops and starts that have really I think undermined some of the confidence in the relationship here.

But because of the progress that I mentioned, there was resumption of the TIFA talks in mid-March, and I think that's a very significant step. I mean it's kind of amusing because when I used to do trade policy in the U.S. government, a TIFA was considered sort of very much FTA super light. I mean it was basically a short document that was a framing document for having any kind of conversation at all. It's taken on enormous weight I know in Taiwan, and it does have significance in this context because it does provide the framework for talking about potentially deepening relations. In fact, in the talks last month there was a pretty significant statement on investment relations and agreeing on principles on investment and on ICT, on technical barriers to trade, and so forth. And so there's been some real progress under this, and I think it's very important and a good thing that it's back underway. And I think it will now be a regular part of the relationship, which is good.

But I think that ultimately President Ma has said it best when he said in his inaugural that, "Only if Taiwan opens to the world will the world embrace Taiwan." And so I think that's literally what he said, and I think that's the right spirit in which I think the U.S. is looking for further progress in some of these difficult issues.

I'm going to come back to other ways we work with Taiwan, but let me just move on quickly to the -- regionally, of course, we engage in a number of different ways, but primarily we're focused in terms of economic engagement at the regional level at the moment in two areas: One, APEC, the Asia Pacific Economic Cooperation Forum that we helped found in the late '80s and elevated to the leaders' level in 1993. And APEC while it's -- I often call it the Rodney Dangerfield of U.S. foreign policy and maybe there's some people here old enough to remember Rodney Dangerfield's line so I can still use that -- but it actually is quite -- it gets a lot of good stuff done. In fact, that was our slogan when we hosted APEC in 2011: Get Stuff Done, and

actually it was something a little cruder than that, but we reduced it to Get Stuff Done for the purpose of the PG ratings that we're trying to aspire to. But it's been useful as an incubator for trade and investment, liberalization across the region. And so, for example, again in our host year in 2011, we agreed with Taiwan's strong support, agreed on a set of liberalization measures in the environmental goods and services space, and this was something that the Doha, the WTO, had been struggling with for many years. And APEC rolled up its sleeves and went out and got an agreement to lower tariffs on environmental goods below 5 percent by 2015 with a specific path to agreeing on what those products were and then moving forward to reduce tariffs. So it's done some very useful things, and I think still plays a very important part of the architecture maligned as it often is.

And then obviously the other one is TPP; that's the other regional engagement with the addition of Japan, which is an enormous significant inflection point in a lot of things, in Japan's history, in U.S.-Japan relations, and then certainly in the development of TPP. This grouping of countries, 12 economies across the Asia Pacific, has a combined GDP of something like \$27 trillion, about 40 percent of the world economy and a third of world trade. And as you know, the aspiration is to reach as the leader said, "A comprehensive next-generation regional agreement that liberalizes trade and investment and addresses new and traditional trade issues and 21st century challenges." And this is clearly the most important economic issue that we're pursuing really anywhere in the world, but certainly in Asia, and it's been a hard slough over the last couple of years since it started in 2010.

The leaders have set the goal of October in Bali for agreement in principle on the text of the agreement. Most people think that's not going to be reached. I think there's a chance it might. I'm not going to stand up here and predict exactly when it's going to be reached, but I would say that there's more progress than I think meets the eye and still some tough issues on intellectual property, on state-owned enterprises, on environmental issues, investment issues. But I do think it's making progress. And I think with a real commitment from the United States and, frankly, even the addition of Japan, that net I think is a good thing for TPP's momentum, although it will obviously be challenging to absorb such a large and complex economy into the group.

A couple of myths about TPP that I like to try to dispel: I mean one again that it's not working. I think the problem with these trade negotiations is that it is well, like your headline, trade talks continue. I mean they do continue, and you don't know much about what's actually going on behind the scenes until the very end. So it really is sort of darkest before the dawn and then all of a sudden you realize there's actually quite a substantial amount of work that's been done and there's this very powerful set of commitments that's been made if it works. And I do think I'm on the relatively optimistic side, but admit that there's a substantial risk that it won't work. But I do think it might well work and if it does, it's going to surprise everybody and it's going to be a huge thing for the region and for us economically and strategically.

And the other big myth is, of course, that it's designed to contain China, which really I know is an on-again, off-again held view in many quarters in Beijing, but really doesn't sort of make sense. I mean a trade agreement can't contain anyone. And the objective is

actually precisely the opposite of what that implies, which is that it implies the objective of TPP is to exclude China. In fact, it's designed to pull China into a system of rules that the U.S. and the other parties to TPP feel need to be updated to deal with the realities of the 21st century trade regime. And so it is very much designed to ultimately pull China in.

And then one more thing that I would say about -- actually two more things -- about the regional engagement: One is Taiwan and TPP. So theoretically Taiwan is an eligible member for TPP membership. It's a member of APEC, and TPP was born out of the rib of APEC. And every one of the 21 economies, including Taiwan, is theoretically eligible for membership. You have to be accepted into the group by all of the existing members, and you have to demonstrate that you're willing to aspire to the same set of high-standard commitments that the current group is aspiring to. So far Taiwan has expressed interest, but not really a demonstrated commitment to reaching those high standards. So there haven't been, as far as I'm aware, serious conversations about bringing Taiwan in. But I think it would be a very good thing for everyone involved if ultimately Taiwan were to aspire to join and were able to join at that high level of commitment. So, again, it's something that I think is possible.

And then one more thing about the regional engagement: We do not engage or have not engaged yet, the United States, in one of the major other forums of the regional architecture in Asia, which is the East Asia Summit. We've not engaged on economic issues and that's been deliberate because of a desire to really focus that forum on the key security-related issues in the regions where there was this sort of gap in the architecture at certainly the leaders' level. And so the focus has been on those issues.

When I was doing this stuff inside the government, I stuck to that party line that we shouldn't pursue economic issues in the EAS. Now that I'm on the outside, I would say actually that I think we should. I think we should engage more on the economic issues. There is an aspiration to talk about trade and financial issues in the EAS, and I think the U.S. could bring a lot to that conversation and could help to shape it constructively. But I also understand the realities of all the other strains on what the U.S. is trying to do in the region. Still I think we could creatively find a way to engage more on those issues.

Finally, at a global level: People forget that we actually do a lot of Asian economic work at the global level, obviously in the WTO, but also in the G-20 where half the -- well, if you count literally 20 around the table, it's actually more like 57 if you count the EU and various invited guests. But of the core 20, half of those countries are Asia Pacific countries if you include the United States and Canada and Mexico. So we actually do a lot of work on growth on financial stability and other things and that's often neglected as an important forum for dealing with Asian economic issues, but it is very much a part of the story.

So just finally just the sort of D.C. view: I think of all this, some of that's implicit in what I just said, but I think of the sort of New Yorker map of the world, the New Yorker view of the world, when I think about our view -- now I really am dating myself except it's been replicated so many times it's been franchised out. I think from Washington's perspective when you look at the regional architecture, you're looking first and foremost at APEC and TPP

somewhere in sort of the foreground and then looking at this RCEP, the Regional Comprehensive Economic Partnership, which the U.S. is not a party to, but it's very much a part of the landscape, again bringing together 16 of the 18 members of the East Asia Summit, all but the U.S. and Russia.

And I think this often gets misunderstood as well. I think that actually RCEP is not an unhealthy thing for the United States. It helps create a healthy competition between these different approaches. And actually even in economic terms, there's been some pretty significant econometric work done on these agreements. And Peter Petrie, in particular, has done econometric analyses in which he shows that the RCEP could generate, if it led to total liberalization of border measures among the 16 members where the border barriers are still relatively high, it could generate annual global income gains of as much as \$600 plus billion, per year annual global income gains. Whereas TPP might generate only more like I think it's \$300 or so, again because most of the benefit in terms of the welfare gains would be more directly from RCEP in removing these higher barriers in that grouping of countries and sorry, by 2025. I didn't say 2025 is the year by which he estimates these gains would be accruing. But he also importantly shows that if these two agreements can ultimately be brought together in some way - and he isn't very specific about how that would exactly happen; we're doing a little work on that here at CSIS -- but if these two things could be brought together into an APEC vision of a free trade area of the Asia Pacific, that could generate as much as \$1.9 trillion in annual global income gains by 2025, which is real money.

Meanwhile, out there on the horizon you've got the Korea-Japan-China FTA, which has now had a first actual round of talks last month, although I'm not sure there was much concrete resolve there. But this is a significant development and something that I think is worth watching. Again, I don't think it's zero-sum with TPP or RCEP in principle and may even be a possible way of bridging those two other bigger, broader, tracks. There's talk of doing more rounds of that this year. But I'm not sure given the stuff you guys were talking about earlier today, and that is the sort of security tensions in the region, I'm not sure how fast that's going to progress.

And then you have all this 233 other bilateral arrangements and much of that strikes us from Washington as more strategic than it is economic in terms of the actual economic bang for the buck in a lot of those agreements. But to the extent it does increase trade and it does increase economic welfare, that's a good thing for the United States even if we're not a party to the agreement.

So looking at all this, it's messy and it is a noodle bowl, but somehow -- I mean first of all it's inevitable because there is no single answer that's going to bring all of these countries and economies together in the near future to one big, happy, economic arrangement for a variety reasons. And I think at some level it actually works. There is a kind of a healthy interplay between these different organizations that keeps everybody on their toes and I think helps produce better outcomes. I'll stop there.

MR. NEALER: Well, my thanks to both of you. You've set the table elegantly for questions. You know what moderators always do. They have a couple of framing questions out of fear that no one is going to have a point of view in the audience. I've seen you at work. I have no such fear, and I'm not going to waste a moment on personal dignity. Let me go ahead, and again, the same rules as before. Please identify yourselves.

QUESTION: Hi, my name is Eric Lowe. I'm with the *Fair Observer*. My question would be to Mr. Goodman. I don't know what phrase you're talking about with the Rodney Dangerfield situation. The only thing I heard about is like "I got no respect." That's the one I heard of.

My question is that you talk about like the TPP thing. The problem is that since China is the most important country in the region, for not inviting them over into the TPP situation, so is it going to make it very difficult because a lot of countries in the Asia Pacific region trade with China. So that's why they think it's kind of a containment situation. It's almost like you have an Obama situation without Beyonce.

MR. GOODMAN: Hadn't thought of that. I like metaphors, but that one I'll have to chew over. Well, look, I mean I think competition is not the same thing as containment. I mean I think a lot of this is about competition. Every country wants to be more involved in the China market. We do, and everybody in ASEAN in Northeast Asia all want to be engaged economically with China, but they want to compete on a level playing field with high-standard rules. And I think they want to incentivize everybody, including China, to play by those rules. And so I think that's really what this is about.

In terms of inviting China, I mean people don't get invited in the first instance to join TPP. It's an open architecture as part of APEC. Everybody's invited in a sort of general sense, but you have to in a sense apply. You have to say, "We're interested and we'd like to join." Japan -- nobody asked Japan to join. Japan asked to join and said and eventually convinced just this weekend by the way -- if you didn't know, the TPP trade ministers met at the APEC, another useful role for APEC -- at the APEC senior officials meetings. The trade ministers met and they agreed and issued a statement that they all agreed that Japan was ready for entry. We have to still go through our procedures domestically, but we've agreed in principle.

And so Japan has now been in that sense invited in. If China made a decision that it wanted to aspire to join this agreement and to aspire to reach the same high standard of rules, in theory it could join. I think that's not going to happen, so I'm not playing games. I mean I don't think China's going to join anytime soon, but in theory it could and nobody's excluding it from joining.

MR. NEALER: Back here, please.

QUESTION: (Inaudible) from University of Virginia. I also have each a question for the gentlemen, the panelists. To Professor Chou, I can sense that there's like a

rising consensus given to your presentations that in Taiwan there's pressure on Taiwan to break up the isolation and also to kind of diversify its trade ties besides with Mainland China. But I wondered that because I think in reality and whether we can see that for Taiwan, which reaches the ECFA with China and also the Fishery Act Agreement with Japan are contingent on China's possibility and also Japan's pressure on the political tension on territorial disputes.

So I wondered that could you -- I believe that there is some kind of factors in constraining Taiwan's options. For example, like TIFA and TPP, obviously Taiwan has no -- like given the asymmetrical negotiation directly on the U.S., Taiwan cannot really control the progress given that they have to conserve other U.S. reaction. And I think the U.S. has been very clear about the TPP. It has to be under the consensus with other partners. In that kind of situation, Taiwan can be included.

So given these kinds of facts, and to think about the slow movement of Taiwan to approach ASEAN countries to bridge the agreements, could you kind of identify the factors that actually what made Taiwan have a very slow movement. And what would be the Taiwanese Administration to break this kind of ice and to really move on? For the second question to --

MR. NEALER: Well, I'll tell you what, let's -- that was a very substantial question. Let's try to give Dr. Chou the opportunity to respond to that if we can.

DR. CHOU: Thank you. During the 1990s Taiwan wasn't able to find a way to promote its external trade opportunities with other countries because of the pressure from China. And now since Taiwan has hammered out the ECFA deal with China and to a certain extent it actually removed the isolation issue on the part of Taiwan. So that's what I was saying.

And the second question, the second point you mentioned, how come Taiwan has been slow in terms of moving toward ASEAN countries? Well, as the Ambassador said a moment ago, that Taiwan and a few other countries in ASEAN, they have been talking about the possibility of working on moving toward a free trade agreement and so on. And also Taiwan has been talking to Singapore on that particular issue. And I think the politics in Taiwan actually doesn't really drive the politicians to think about this issue on a global scale. They think about the relation with the U.S. and with China mostly for politicians. And they have to clarify it. They have to figure out this first and then it will be easier for Taiwan to actually expand its horizon with others.

And that's also one of the reasons that when Ma was asked during that debate on the ECFA deal and also on other occasions, what would be the potential benefit for Taiwan if we do sign the ECFA? And the official position the propaganda said on the Taiwanese government said once we sign this with China, we can easily find ways to sign FTAs with others. That's what's been proposed before.

MR. NEALER: And right down here, Dr. Bush.

QUESTION: Thank you very much. Thank you for two great presentations. I'd like to ask Ambassador Chou a set of linked questions that relate to why China's economically attractive to Taiwan. I mean we've heard several different reasons why it is and why it should be. One is as a platform for the production and assembly of goods for advanced markets. Second is an end-market itself, both for Taiwan goods and now with ECFA Taiwan services. And you mentioned another as a backdoor into ASEAN and other markets.

Is this mix changing? What is the policy environment within China towards these different kinds of modes of interaction? And what does a changing mix have to do with or how does it relate to Taiwan's competitiveness and economic autonomy? Thank you.

DR. CHOU: Well, I think under part of the Taiwanese government, there is really not much about the policy guidelines toward the business community as far as how they should be reaching out into the Chinese market. And the example I raised earlier was the party chief from the Guangxi Province coming to Taiwan to lure more local businessmen to begin to explore the opportunity in China because that part of China actually is the front door to ASEAN. And wherever there is business opportunity, there is businessmen going, and that's the driving force behind all this.

What happened in the 1980s the model for Taiwan is to become relatively richer - I mean it's a labor-intensive, export-oriented, industrial park and later on it was replaced because some of the Samsung industry moving toward China to reap the last possible profit it can actually get. And now the most prevailing, the most obvious, business model is for like Foxconn. It's one of the issues.

And ASEAN hasn't been the target area for Taiwan as a whole, officially hasn't been. It was proposed in 1996, but it wasn't a big success for a lot of reasons. First of all the language barrier and geographical locations, and doing business in China has been considered as much more easy from a business sense.

But nowadays as the rising awareness of this issue and labor issue in China, it become much more difficult for our business to follow the previous model. And that's why Vincent Siew during his meeting with Xi Jinping just a few days ago at the BAO Forum for Asia, he proposed to Xi Jinping saying, we need a new model for cross-Strait economic cooperation, and we need to explore the common vision across Taiwan Strait. And we also need to jointly find a strategy to address, to deal with, to cope with, the regional economic integration. That's what Vincent Siew proposed to Xi even though his role now is civilian, but that's his interest or area of concentration. It reflected a lot of future possibility, which means from his point of view, Vincent Siew, the former vice president of Taiwan, he has been concerned about the future model for Taiwan's economy to remain successful and prosperous. And in his point of view, he said dealing with those issues jointly with China is probably the best approach for both Beijing and Taipei. And what Xi Jinping responded during this meeting and Xi was saying okay, we understand this is important and we will look into this problem and we will find a pragmatic way and a feasible way for Taiwan to be linked to such a regional economic block. So that

remark to some extent reflects that Xi's cautious response toward the request from the former Taiwan vice president.

So this is not a promise, but there is a possibility for the two to move forward. And that's why I said while China so far as far as economic front is concerned, is still very reluctant to bring Taiwan into as an equal partner. They always want to treat Taiwan separately even though we're on an equal basis, but separate just among the two of us. And so this is romance with nobody else involved. So that's a problem. Wherever there's a romance, one of the lovers will have to make it public. We want to make sure there is a guarantor during this process. So for Taiwan it may be okay to have an enduring romance going on indefinitely without getting into a legal bond of marriage unless there's something prearranged before this takes place -- a prenup to some extent -- which is to settle the property before they enter a special political affiliation with each other.

So we want to share representation around the world so that we feel much more comfortable we are part of the family. That's what you are proposing. China has been asking Taiwan to -- Xi Jinping said this, we want you to think about this from one big family. We want Taiwan to jointly work with China on all these economic issues from the viewpoint of one big family. But what kind of proper property Taiwan can actually claim or Taiwan should be entitled to.

So that's the issue that hasn't been addressed. So that's why I say we need to share this representation around the world. That's the first point even though it may be politically sensitive, but it doesn't really cost China much. Imagine one day if Taiwan can have an opportunity to be represented in most of the international organizations and having a liaison office in all capitals, I mean much more political sense. And then this arrangement may not actually jeopardize, may not actually challenge, China's claim as being one of the big sovereign states. It doesn't really produce a next step automatically to say as long as Taiwan has all that, you will become independent automatically. It doesn't guarantee that way, not to mention there's a military pressure there.

Somebody mentioned or a point made earlier why does China switch to coercion, the stick approach? I mean this will become a completely different ball game. So China doesn't want that either; it doesn't serve their interest. It serves nobody's interests. So we have to stick with this peaceful, this carrot approach. So where's the real carrot? Well, where's the real beef for Taiwan? We need to figure out the real beef issue.

MR. NEALER: I am admonished by our host today that we've got some friends who've got travel obligations; hence, we're going to have to -- we were to have cut this session short at 2:30, but I think you'll agree with me this was too good a discussion not to keep going.

I couldn't presume to summarize this, but both in listening to what Ambassador Burghardt said and the comments I've just heard, so many policy options and policy choices are driven by interest failures or interest successes and how adaptive we are to them. So much of

what I've heard is adapting to successes, not dealing with failures that certainly on the economic side I'm heartened by it.

Please join me both in thanking our organizers and in thanking our panelists today for an outstanding summary of the issues. Thanks so much.

* * * * *