

THE BROOKINGS INSTITUTION  
CENTER FOR EAST ASIA POLICY STUDIES

TAIWAN'S DOMESTIC AND EXTERNAL  
POLICY ENVIRONMENTS IN 2015

Taipei, Taiwan

Friday, December 5, 2014

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

PARTICIPANTS:

**Opening Remarks:**

CHI SU  
Chairman  
The Taipei Forum Foundation

FRANCISCO H.L. OU  
Chairman  
Association of Foreign Relations

RICHARD BUSH  
Senior Fellow and Director, Center for East Asia  
Studies, and Chen-Fu and Cecilia Yen Koo Chair  
in Taiwan Studies  
The Brookings Institution

**Keynote Speech:**

DAVID Y.L. LIN  
Minister of Foreign Affairs  
Republic of China

PANEL 1: PROBLEMS OF DEMOCRATIC GOVERNANCE:

**Moderator:**

LOUIS W.H. TZEN  
Vice Chairman  
Association of Foreign Relations

**Democratic Governance in Korea:**

SUNHYUK KIM  
Professor, Department of Public Administration  
Korea University

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

PARTICIPANTS (CONTINUED):

**Democratic Governance and Japanese Security Policy:**

HARUKATA TAKENAKA  
Professor  
National Graduate Institute for Policy Studies,  
Japan

**Democratic Governance in Taiwan:**

YUN-HAN CHU  
Academician, Academia Sinica  
Professor of Political Science, National Taiwan  
University

**Politics and Budgets: The U.S. Defense Budget:**

MICHAEL O'HANLON  
Senior Fellow and Co-Director, Center for 21st  
Century Security and Intelligence  
Director of Research, Foreign Policy  
The Brookings Institution

**Commentator:**

YU-SHAN WU  
Distinguished Research Fellow and Director,  
Institute for Political Science, Academia Sinica  
Professor of Political Science, National Taiwan  
University

PANEL 2: ECONOMIC ISSUES

**Moderator:**

RICHARD BUSH  
Senior Fellow and Director, Center for East Asia  
Studies, and Chen-Fu and Cecilia Yen Koo Chair  
in Taiwan Studies  
The Brookings Institution

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

PARTICIPANTS (CONTINUED):

**Regional Trade Integration:**

MIREYA SOLÍS  
Senior Fellow, Center for East Asia Policy  
Studies, and Philip Knight Chair in Japan  
Studies  
The Brookings Institution

**China's Impact on the World Economy:**

DAVID DOLLAR  
Senior Fellow, John L. Thornton China Center  
The Brookings Institution

**Economic Reform in Taiwan:**

SHENG-CHENG HU  
Academician  
Academia Sinica

**Taiwan's External Economic Policies:**

TAIN-JY CHEN  
Professor, Department of Economics  
National Taiwan University

PANEL 3: CROSS-STRAIT RELATIONS:

**Moderator:**

FREDRICK CHEN  
Chairman  
Cathay Charity Foundation

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

PARTICIPANTS (CONTINUED):

RICHARD BUSH  
Senior Fellow and Director, Center for East Asia  
Studies, and Chen-Fu and Cecilia Yen Koo Chair  
in Taiwan Studies  
The Brookings Institution

LINGWEI HU  
Deputy Director  
Shanghai East Asia Institute

SHIH-CHUNG LIU  
President, Taiwan Brain Trust  
CEAP Visiting Fellow, 2008-2009

KWEI-BO HUANG  
Secretary General, Association of Foreign  
Relations  
Associate Professor, Department of Diplomacy,  
National Chengchi University  
CEAP Visiting Fellow, Spring 2012

\* \* \* \* \*

## P R O C E E D I N G S

MODERATOR: Ladies and gentlemen, welcome to the conference on Taiwan's external and internal policy environments in 2015, co-organized by Brookings Institution, Center for East Asia Policy Studies, the Taipei Forum, and the Association of Foreign Relations.

Please welcome Dr. Chairman Su Chi to address on behalf of the Taipei Forum. Chairman Su, please.

DR. SU: Thank you. Good morning, everyone. The Honorable Minister David Lin, Chairman Francisco Ou, and Dr. Richard Bush, a good friend, and Chairman Morris Chang, distinguished guests, ladies and gentlemen - good morning, everyone.

On behalf of the Taipei Forum, one of the three sponsors of this conference, I'd like to extend my warmest welcome to all the participants present here and today. My hat tips especially for those who travel from abroad to come to join us.

In September 2013, last year, Madame Koo,

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

also known as Cecilia Yen Koo -- we call her Koo Mama -- generously endowed a chair in Brookings Institution in the name of her late husband, (inaudible) Chairman Koo, and herself, to promote Taiwan studies. It was fitting and proper that the first chair went to Dr. Richard Bush, a world-renowned scholar and former official of the U.S. government.

Since both Madame Koo and Dr. Bush are board members of the Taipei Forum -- so we decided at the time to establish a U.S.-Taiwan policy forum, with specifically cooperation between our two think tanks.

Last year, we were honored to have former Vice President Vincent Siew (inaudible) to deliver a keynote speech at the first policy forum. The conference today is the second event of the U.S.-Taiwan policy forum.

And I'm particularly privileged that the Association of Foreign Relations, headed by my good friend, former Foreign Minister Francisco Ou, is gracious enough to join us as a cosponsor, and help make this event a success.

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

I'm also pleased that so many distinguished scholars and opinion leaders from other countries and cities are here with us today. They are from the United States, Japan, Korea, and Hong Kong, and there are also quite a few scholars from China. As for Taiwan participants -- somewhat be able to tell -- they span across the party lines.

So, in a significant way, this conference happens to mark, for the first time, the coexistence of what I call the Big Triangle, which is U.S., China, and Taiwan, and the small triangle - the blue, red, and green. And I certainly hope that the brainstorming that's about to take place soon will make some contribution to peace and stability in the region.

So, lastly, I'd like to wish all of the participants here today good health and continued success in your pursuit.

Thank you.

SPEAKER: Thank you, Chairman Su. Now please welcome Chairman and Ambassador Francisco Ou to

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



speak on behalf of the Association of Foreign Relations. Chairman Ou, please.

MR. OU: Pleased, as ever, to see Minister David Lin, Dr. Richard Bush, Dr. Su Chi, distinguished guests, ladies and gentlemen, and Mark. Thank you for coming to today's conference.

I wanted to take this opportunity to express my gratitude to Dr. Richard Bush and Dr. Su Chi for co-organizing this meaningful conference. I also want to convey my same gratitude to Minister Lin for his acceptance of our invitation to address the keynote speech later today, and his continued support for Association of Foreign Relations, both including today's conference (inaudible) and to enhance the understanding of international affairs in Taiwan at a grassroots level, organizing (inaudible) conferences like this certainly helps us (inaudible).

Like most of the people in Taiwan (inaudible) in the negotiations of many multilateral and viable economic cooperation agreements in the region. We believe Taiwan (inaudible) and 18<sup>th</sup> largest

importer last year, especially with more challenges and opportunities that have been rarely seen before (inaudible) and with the rest of major trading partners, improved democratic governance, and (inaudible) Taiwan will play an important role in assisting Taiwan to meet those challenges, and take advantage of those opportunities in such a rapidly changing of economic cooperation.

And it goes without saying that the future development of the cross-strait relations will greatly affect Taiwan and regional security in East Asia. Despite the ice-breaking development of such relations (inaudible) May 2008, when Taiwan -- there are still a lot to do to, to consolidate peaceful and stable relations with mainland China or Australian nations efficiently and consistently.

I hope today's conference will come up with quite a few findings and suggestions useful for the (inaudible) of Taiwan's mainland policy.

Thanks again for joining us today. Now I will give the floor to Dr. Bush. Thank you.

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

TAIWAN-2014/12/05

SPEAKER: Thank you, Chairman Ou. Please welcome Dr. Richard Bush to speak on behalf of Center for East Asia Policy Studies, the Brookings Institution.

DR. BUSH: Minister David Lin, Chairman Morris Chang, Chairman Su Chi, Chairman Francisco Ou, ladies and gentlemen, dear friends, good morning.

On behalf of my colleagues at the Brookings Institution, both those who are with me today and those back in Washington, it gives me great pleasure to greet you here today, and to express our deep gratitude for this opportunity to participate in this conference - the Domestic and External Policy Environment.

I'm deeply grateful to my cosponsors, the Taipei Forum Foundation, led by Dr. Su Chi, and the Association for Foreign Affairs, led by my good friend, Dr. Huang Kwei-Bo. They and their staffs have really made today's event possible.

Our conference comes at an important point in the history of East Asia, and in the course of

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

U.S.-East Asian relations. I think we've assembled a really sparkling array of talent to talk about the issues on today's agenda. I know that I will learn a lot. I'm sure that you will learn a lot, as well.

So, with that, I think we should get started. Thank you.

SPEAKER: Thank you, Dr. Bush. The Center for East Asia Policy Studies, the Taipei Forum, and the Association of Foreign Relations are honored to have Minister David Lin of Foreign Affairs, Republic of China, to deliver the keynote speech on viable policy.

Chairman Ou, please come up the stage and present Minister Lin to all of us today at the conference.

MR. OU: Ladies and gentlemen, it is a great privilege to introduce to you Minister David Lin, an outstanding colleague of mine, who has had almost 20 years experience in policy, to portray Taiwan's external policy environment in the near future.

Minister Lin earned a couple of degrees from

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

TAIWAN-2014/12/05

National Chengchi University and Georgetown University, respectively.

During his diplomatic career, he was successfully managed the Republic of China diplomatic affairs in the south regions -- the African, the Caribbean, United States, Southeast Asia, and Europe. In addition, he was in charge of European affairs and international organizations separately at the Ministry of Foreign Affairs.

So far, I haven't been able to find any other (inaudible) official like him who can have this kind of (inaudible) and practical experience in Taiwan's foreign policy.

I know all of you have been expecting Minister Lin all along. Now, ladies and gentlemen, please join me in welcome Minister Lin of Foreign Affairs to deliver his keynote speech on viable policy. Thank you.

MR. LIN: Thank you. Thank you very much.  
Dr. Richard Bush, Director of the Center for East Asia Policy Studies, Brookings Institution, His Excellency,

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

Ambassador Francisco Ou, Chairman of the Association of Foreign Relations, Dr. Su Chi, Chairman of the Taipei Forum Foundation, Excellencies, Ambassadors, and honorable representatives, distinguished guests, ladies and gentlemen, good morning.

It's a great honor and pleasure for me to join you all today in this important conference. On behalf of the Ministry of Foreign Affairs of the Republic of China, Taiwan, I would like to extend my warm greetings to all speakers, panelists, and participants from (inaudible) gathered here to discuss Taiwan's domestic and external policy environment in 2015. Today, I'm particularly delighted to share my observations of progress and prospects for a viable diplomacy.

It was policy in 2008 that remains the principle guideline for our foreign policies. First of all, let's look back at (inaudible) relations before 2008 (inaudible) that two sides of the Taiwan trade -- the ROC and the PRC -- and both adopted a zero-sum and more confrontational approach (inaudible)

in the international region.

In short, before 2008, Taiwan and mainland China were involved in a negative cycle in which each side competed to win over the other's diplomatic partners. This resulted in the (inaudible) of a great deal of resources for both sides.

Meanwhile, in the past six decades, Taiwan's domestic, political, economic, and social transformations have indeed led to new challenges for an increase of foreign policy. When President Ma Ying-jeou took office in May 2008, he realized that (inaudible) vicious cycle in diplomatic confrontation needed to be broken with Taiwan's economic prosperity, sustainable development, and national security, as well as regional stability in Asia Pacific (inaudible).

To this end, President Ma has developed a new strategy that's striven to maintain the status quo in the Taiwan Strait, based on the concept of no unification, no independence, and no need for force. Moreover, two important principles in our interaction

with mainland China are mutual nonrecognition of (inaudible) and mutual non-denial of governing authority, which have allowed substantive relations to move forward.

President Ma has also reaffirmed the 1992 consensus, one China respected in the (inaudible) as the cornerstone of cross-strait negotiations, which has proven crucial to the peaceful development of cross-strait ties, and provided a foundation for a viable diplomacy for the past six years (inaudible) also a key person in the 1992 consensus.

As you are aware, cross-strait reconciliation is at the heart of our viable diplomacy. We are convinced of that. Taiwan and mainland China should share (inaudible) build mutual trust and understanding, and stop wasting resources trying to win over each other's diplomatic partners. Moreover, improvement in cross-trading relations have already proved beneficial -- the recent peace and stability, as well as to Taiwan's (inaudible) external relations, including our minimal participation in the



activities and conferences of any IGOs and NGOs.

Since 2008, we have made significant progress by implementing viable diplomacy based on pragmatism and flexibility. This has allowed for the (inaudible) and effective use of Taiwan's diplomatic resources. Today, viable diplomacy has (inaudible) of the people of Taiwan, as well as widespread recognition in the international community.

I will now briefly outline our hopes today through viable diplomacy. First of all, consolidating ties with our diplomatic partners (inaudible). In the past six years, we have (inaudible) stable and constructive relations with our diplomatic partners. Mutual exchanges and cooperation have been intensified, and mutual visits by high-ranking officials are frequent.

For instance, President Ma has already made (inaudible) overseas trips covering all our diplomatic partners. He is the first ROC President to have (inaudible) and last year, the President of Holy See, to attend the inauguration of His Holiness, Pope

Francis.

More importantly, we have consolidated and expanded substantive cooperation with our diplomatic partners in a wide range of areas, including technical cooperation, medical service, public health, clean energy, and (inaudible). In return, we are grateful that our diplomatic partners have offered us great new support in the international arena.

Secondly, strengthening the substantive relations with friendly countries, such as the United States, Japan, the European Union, and our trading partners in Asia is a major goal. The United States is Taiwan's third largest trading partner that remains our most important source of technology.

Over the last six years, we have adhered to a low-key, surprise-free policy in coordination with the U.S. As a result, mutual trust has been restored, and we enjoy substantive and stable cooperation in a wide range of areas. (inaudible) these improved relations (inaudible) Taiwan's inclusion in the U.S.

Visa Waiver Program -- VWP -- in 2012, and the

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

restarting of trade policy under the 1994 Trade and Investment Framework Agreement -- TIFA -- in 2013. I'm convinced that TIFA talks will lead to greater trade and investment cooperation, strengthening business ties with our U.S. partners, and pave the way for a bilateral investment agreement -- BIA -- as well as our exception to the Trans-Pacific Partnership -- TPP.

These are our major (inaudible). We have noted that the United States has welcomed our agents in joining the TPP. We deeply appreciate that.

In addition to closed economic cooperation, the United States and Taiwan have shared interest in maintaining peace, stability, and security in the Asia Pacific region. Since 2008, U.S. administrations have approved three arms sales packages for Taiwan, valued at over \$18 billion U.S. As former Secretary of State Hillary Clinton mentioned in 2011 -- and I quote -- "Taiwan is an important economic and security partner."

We welcome the United States's renewed focus

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

TAIWAN-2014/12/05

on Asia under these rebalancing policies, and look forward to its positive impact on peace and stability in our region, as well as our regional (inaudible).

In April this year, U.S. Environmental Protection Agency -- EPA -- Administrator Gina McCarthy came to Taiwan to witness the joint establishment of the International Environmental Partnership. This was the first visit to Taiwan by a U.S. Cabinet-level official in 14 years. In addition, there are also numerous exchanges of visits by ranking officials between Taiwan and United States; surely enhanced the cooperation in economy, and trade, security, and other areas.

Taiwan and Japan are neighbors, with significant historical trade and investment partners. Japan is Taiwan's second largest trading partner, and one of its biggest sources of foreign investment. In 2013, mutual precedents partner \$3.7 million, and are expected to receive \$4 million this year. This will be an important landmark.

Since President Ma took office, we have

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

TAIWAN-2014/12/05

concluded 17 agreements with Japan, covering (inaudible) bilateral investment, civil aviation, product accreditation, culture, working holidays, and a new office in Sapporo. In particular, the signing of the Taiwan-Japan fishery agreement in April 2013 last year was a new milestone, putting an end to more than 40 years of fishing disputes. Looking ahead, we will continue to push for the signing of an economic partnership agreement -- EPA -- and a double-taxation agreement -- DTA -- with Japan.

Nowadays, the European Union is one of the most important political and economic blocs in the world. Despite a geographic difference, the Taiwan-E.U. economic partnership is well-established, as the E.U. is Taiwan's fourth largest trading partner, its largest source of foreign direct investment -- FDI.

Since 2008, the E.U. Commission and the European Parliament have issued or adopted 25 statements and resolutions supporting the improvement of cross-strait relations, Taiwan's international participation, and they've enhanced the trade

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

relations between Taiwan and the European Union.

In addition, the European Union's decision to grant visa waivers for (inaudible) to ROC passport holders in January 2011 was an important breakthrough.

Meanwhile, Taiwan-E.U. cooperation in many areas, such as (inaudible) and enhance cooperation of issues of mutual interest.

Over the past few years, with our government's efforts to diversify our export markets, Taiwan has developed stronger economic ties with our neighboring countries in Southeast Asia. Trade between Taiwan and (inaudible) nations amounted to \$91 billion U.S. in 2013. We enjoy close economic relations and intensive exchanges in the agriculture, scientific, and educational sectors with most (inaudible) member states.

At the same time, we have been pursuing even closer economic cooperation, and exploring the possibility of signing free trade agreement with our major trading partners at issue, in order to further strengthen the bonds of the partnerships.

Moreover, the past six months have seen major elections in Indonesia (inaudible). New Indonesian President Joko Widodo -- Jokowi -- has called for closer economic ties, more tourist exchanges, and continued cooperation with Taiwan.

And as an important emerging market, India has been attracting a great deal of interest from Taiwan investors. India's New Prime Minister Narendra Modi (inaudible) a closer economic partnership with Taiwan.

Therefore, we look forward to finding new ways to build our relationship with Indonesia and India in the future.

Certainly, expanding Taiwan's international space is always high on our agenda. In recent years, we have made substantial progress in terms of our international participation. Since our accession to the Asia Pacific Economic Cooperation -- APEC -- Forum in 1991, Taiwan has been a proactive member, has made substantive contributions to APEC projects and activities.

In addition, we have taken part in the World Health Assembly as an observer for six years in a row, and we were invited to attend a 30-day session of International Civil Aviation Organization -- ICAO -- Assembly in September of last year.

As for the World Trade Organization -- WTO -- which Taiwan (inaudible) we took a major step forward in December 2008 when we acceded to the WTO Agreement on Government Procurement -- GPA -- becoming the 41<sup>st</sup> signatory (inaudible). We are now engaged in negotiations with a counterparty to the Trade in Services Agreement -- TISA -- and remain firmly committed to the global trading system and the WTO framework.

Taiwan now is a member of (inaudible) in 57 IGOs, mostly in trade, economy, agriculture, fisheries, banking, and other specialized areas. In order to make more contributions and to fulfill our role as a responsible stakeholder in the international community, Taiwan remains committed to joining more professional and functional international



organizations.

Fourthly, promoting regional peace and stability is of vital importance as part of our viable diplomacy. Taiwan has shown the world that it is a responsible stakeholder (inaudible) particularly as concerns the East China Sea.

In August 2012, President Ma proposed the East China Sea Peace Initiative, urging that consultation replace confrontation regarding competing sovereignty claims over the Diaoyutai Islands, and that parties concerned formulate a code of conduct for the region, and pursue the joint development of natural resources in a peaceful manner.

In line with the principles put forward in the East China Sea Peace Initiative, Taiwan resumed talks with Japan in November of 2012 for a fishery agreement, and reached a no-delay breakthrough. Setting aside (inaudible) and agreeing to share resources, the two sides signed a fishery agreement in April last year.

In a sign of the importance, the good basis

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

TAIWAN-2014/12/05

on this agreement, the U.K.-based financial partners commended the fishery agreement as a proven model for resolving controversies and sharing resources. U.S. Secretary of State John Kerry and Australian Minister of Defence David Johnston have both gone on record saying that the agreement contributes to regional peace and stability.

Another peacemaking achievement can be observed in the resolution of American disputes in the South China Sea, between Taiwan and the Philippines. In May 2013, Taiwan fishing boat Guang Da Xing No. 28 was fired upon by a Philippine government vessel in the overlapping exclusive economic zones -- EEZ -- of Taiwan in the Philippines, resulting in the death of a crewmember and severe damage to the fishing boat.

Following this incident, we (inaudible) on negotiations with the Philippines, which concluded with Manilla making a formal apology, providing compensation, and inviting (inaudible).

In addition, the two sides reached a three-point consensus regarding how to conduct law

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

enforcement (inaudible) at sea in order to ensure the safety of fishing operations.

So, not only has justice been served, a 30-year dispute over maritime law enforcement has been peacefully settled. In fact, this achievement can serve as a working model for all parties concerned to resolve their dispute in a peaceful way.

But now I will turn to future prospects about viable diplomacy. Judging from the foregoing, it is obvious that the conduct of our viable diplomacy, coupled with the ongoing process of cross-strait rapprochement, has opened up more opportunities for Taiwan's external relations.

Taiwan should and will continue to play a protracted in the international community as a responsible stakeholder, a peacemaker in the region, and a provider of humanitarian aid to countries and people in need.

We will also work on the following (inaudible) in the future; first, promoting the East China Sea Peace Initiative to facilitate regional

peace and stability. Over the past two years, the ideas and standpoint embodied in the East China Sea Peace Initiative, as well as the concrete result it has produced, have received broad international recognition.

As a result, President Ma received the Eisenhower Medallion from an internationally-renowned NGO, People to People International in September of this year, for his contributions to peace and stability in East Asia.

In light of the principle of the initiative, it will continue to call on all parties concerned to resolve dispute (inaudible) consultation, and thus ensure stability and prosperity across the region (inaudible) economic integration to further the talks of economic development.

Taiwan's epic participation in regional economic integration has been (inaudible). To facilitate further trade equalization and increase Taiwan's competitiveness, we have (inaudible) to the Trans-Pacific Partnership at the regional,

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

comprehensive, economic policy (inaudible).

In the meantime, our government has been exploring bilateral free-trade agreements -- FTAs -- and economic cooperation agreements -- ECAs -- by promoting context with a number of countries in the region.

Moreover, Taiwan has made great strides vis-à-vis economic relations with other countries since 2008, and has signed several economic cooperation agreements -- Taiwan and Japan; for example, in a bilateral investment agreement in September 2011 where Taiwan and the United States resumed talks under TR in 2013. Also in 2013, Taiwan concluded economic cooperation agreements with New Zealand and Singapore, respectively.

Visibility studies on assigning our PCAs to India, Indonesia, Malaysia, and Thailand have been either completed or are underway. These are part of our increased mental efforts to join the process of rich economic integration, which will (inaudible) in our accession to the TPP eventually.

Lastly, Taiwan and the Philippines concluded (inaudible) meeting of economic cooperation in Taipei. The two sides agreed to oversee the further cooperation in several sectors, such as investment, trade, and (inaudible). This may create a more favorable environment for Taiwan-Philippine negotiations in the near future for a possible ECA.

Third, continued participation in international organizations will further expand our professional networks. Taiwan's 32 representatives and experts are today able to attend meetings of certain United Nations specialized meetings, such as (inaudible). With our expertise in healthcare and civil aviation, we look forward to continuing our active participation in more functional meetings and activities under individual and (inaudible) frameworks in order to make more contributions.

This year, President Ma designated former Vice President Vincent Siew (inaudible) representative to the upcoming APEC (inaudible) in Beijing in November, to exchange views with leaders of other

economics on how best (inaudible) regional economic integration, including (inaudible).

Taiwan aims to work closely with all other member economies to help construct (inaudible) conducive to greater economic prosperity of the entire region.

Fourth, extending humanitarian aid as an integral part of our viable economics. Furthermore, the Ministry of Foreign Affairs also continues to support Taiwan's NGOs in their effort to participate in international humanitarian and disaster relief activities. In recent years, we have done everything we can to combine public and NGO resources to support overseas humanitarian aid programs. We have provided, for instance, rescue and relief assistance to Haiti, Japan, the Philippines, and several of our diplomatic partners following major disasters.

In fact, government NGO cooperation has been part of the important element of our viable diplomacy (inaudible) in the Middle East, our government and NGOs have been working closely with international

TAIWAN-2014/12/05

organizations to provide humanitarian aid to refugees and others suffering from (inaudible).

As to the Ebola epidemic, we have noted that recent official (inaudible) from WHO show that about 5,000 people have died, but more than 10,000 have been affected. Taiwan is committed to donating 100,000 set of personal protective treatment (inaudible) affected by the virus.

In addition, Taiwan intends to donate \$1 million U.S. and dispatch a team of medical experts to the region to provide necessary assistance.

Last but not least, creating conditions for Taiwan's broader participation in world affairs -- today, 140 countries (inaudible) the latest Henley & Partners Visa Restrictions Index ranks the ROC passport as the world's 24<sup>th</sup> most useful. Taiwan's high ranking is a testament to recognition by the international community for our democracy, economic prosperity, and social development.

In order to give Taiwan's young people a broader international perspective, the Ministry of

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



TAIWAN-2014/12/05

Foreign Affairs has reached a working holiday arrangement with 11 countries, including Australia, New Zealand, Canada, Germany, Japan, Korea, and the U.K. We are conducting negotiations with a few other countries on working holiday arrangements, and looking forward to expanding the reach of this progress in the near future.

In closing, I would like to emphasize that the most important foreign policy asset (inaudible) democracy and our strong conviction that fulfilling our obligations as a responsible member of the international community, the Republic of China, Taiwan will continue to implement viable diplomacy, abide by international law, safeguard the nation's sovereignty, and promote regional peace and stability through cooperation and consultation.

We aim to be a peacemaker, provider of humanitarian aid, promoter of (inaudible) exchange, creator of new technologies, business opportunities, and standard-bearer of Chinese culture.

We trust that Taiwan will continue to

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

receive the support of the international community, especially from all of our friends present on this very occasion.

To dear friends, ladies and gentlemen, I wish to thank you for giving me the opportunity to speak a little. Please accept my best wishes for success at this conferences. I look forward to hearing all that you have to say. Thank you very much.

XXXTRACK 2XXXX

MR. TZEN: Mr. David Lin, Chairman Morris Chang, Excellencies (inaudible) ladies and gentlemen, it is a great pleasure for me to invited to chair this procession of democratic governance.

As we are all aware, we in Taiwan ROC are very proud of the complete political democratization we have achieved in recent decades. Perhaps it is not an overstatement to say that we have a vibrant democracy. In the course of our political transition, we have acquired most of the essential ingredients of more than democracy. They include the separation and

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

control of rule of law, respect for human rights, (inaudible) political parties, actively completing a political arena, (inaudible) of governance, vibrant free media that could expose everything under the sun, and increasing governance transparency and accountability -- and above all, healthcare participation by the civil society.

In spite of all this (inaudible) progress, we feel that we are still miles away from achieving real democratic governance. For a young democracy that we are, it is therefore imperative for us to (inaudible) achieve good democratic governance. I believe that the issue of democratic governance is highly comprehensive. This is particularly so for all of us in a pluralistic society.

For this session, we are very honored to have five distinguished scholars who will enlighten us on this important issue.

Our first presenter is Professor Sunhyuk Kim of Department of Public Administration, Korea University of Korea.

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

Our second presenter is Dr. Harukata Takenaka. He's a Professor of the National Graduate Institution for Policy Studies, Tokyo, Japan.

Our third presenter is Dr. Yun-han Chu of Academia Sinica, and he's also a Professor of National Taiwan University and, concurrently, President of the Chiang Ching-kuo Foundation for International Scholarly Exchange.

Our fourth presenter is Dr. Michael O'Hanlon, Co-Director, Center for 21st Century Security and Intelligence and Director of Research, Foreign Policy, of the Brookings Institute.

Our last presenter, who also served as a (inaudible) is Dr. Yu-Shan Wu, Distinguished Research Fellow and Director at the Institute of Political Science, Academia Sinica, and Professor of Political Science at the National Taiwan University.

Each of them will have opinions for presentation (inaudible). After that, the floor will be open for general discussions.

So, ladies and gentlemen, please join me in

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

welcoming these distinguished panelists. Thank you.

And now may I call upon Professor Sunhyuk Kim to make his presentation? Dr. Kim?

DR. KIM: Thank you. I'd like to thank Brookings, and Taipei Forum, and Association of Foreign Relations for inviting me. It's always a pleasure to visit another democracy (inaudible). It's a great pleasure to be here.

I'd like to structure my talk today into -- divide my talk into three parts. The first part is about background, historical background, because Korean democracy -- I'm supposed to talk about democratic governance in Korea. And Korean democracy should be contextualized in the historical trajectory of tradition consolidation. So, I'd like to talk a little bit about history.

And then I'd like to talk more recent history, in the sense that we have had, so far, six governments since (inaudible) transition 1987. So, I'd like to highlight some of the features of those governments, particularly focused on civil society-

state relations, because that's the key to understanding South Korean dynamics or the South Korean politics recently.

And lastly, I'd like to discuss some of the current issues, current tests, and future challenges of our South Korean democracy.

So, let me first talk about the history. South Korea, I think, is a very interesting case among Asian cases of democratization. And sometimes, it is compared very frequently with the Taiwanese case. And the South Korean case is usually listed as one of the cases of mass ascendant for movement-driven democratization.

So, in the 1970s and the 1980s, there was this sharp contrast and (inaudible) between the governmental authority and state on the one hand and its state, corporate, and social groups, and civil society groups, sometimes underground, sometimes out, or sometimes listed -- and those civil society groups on the other.

And the civil society groups was represented

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

by (inaudible) solidarity of trade unions, and student associations, and religious groups. So, there was this harsh conflict between the two throughout the 1970s and the 1980s, and democratization -- the transition eventually had in 1987 -- was a climax of this clash, both physical and conceptual -- a clash between resistant civil society and very authoritarian state on the other hand.

But I'd like to emphasize that why it was a mass ascendent, and movement-driven, and (inaudible) transition as compared with some other -- all the other cases of democratization involves, at the same time, a conservative democratization. It was not a revolution. It was not a massive uprising. But, rather, it was a conciliatory transition to democracy in the sense that, after this climax, or movement, or mass mobilization in June of 1987, the actual evolution or the actual unions of taking care of the transition was left to elite politicians. And civil society did not have that much role in the constitutional revision process, and founding

elections, and the restructuring of the policy in the aftermath of the transition.

So, it was rebellious and transformative on the one hand, but, also, it was (inaudible) at the same time. So, you have this dual nature of South Korean democratization I'd like to emphasize. And we have had, so far, six governments since 1987. The definition of the progressive and the conservative should be carefully redefined in the Korean context, because the North Korean issue is one of the anchor key issues in defining what is conservative and what is progressive in the country.

But nevertheless, roughly speaking, we had two conservative governments in the beginning in the near aftermath of the transition, and then two progressive governments afterwards, and two conservative governments again. And the current government, I will say, is a conservative government - - so six consecutive governments so far.

And if we look at this overall consolidational base of South Korean democratization,

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



we should be glad that there was no rupture, there was no reversal of the democratic order -- as was the case with some other nations' democracy -- and there was no violence whatsoever, in terms of this peaceful transfer of power between conflicting political forces.

But in terms of -- I mean, if we analyze the civil society's, say, relations in the course of transition period, there is something very interesting here, because we see, on the one hand, a lot of developments in terms of the procedural (inaudible). So, all those essential institutions of democratic governance are there, like (inaudible) institution, like elections, party reform, an empowered legislature, and (inaudible) has become very powerful in South Korea.

We even talk about (inaudible) of our politics, because a lot of political issues have been handled and decided by the (inaudible), and government innovation and administrative reform, including decentralization of local authority. So, there have

been a lot of procedural democratic (inaudible).

On the other hand, however, in contrast, there were a lot of issues related with what is so-called the substantive democracy, related with overall improvement of socioeconomic equality and addressing the issue of socioeconomic polarization and so on has been slower as compared with this progress in procedural democracy.

If I am to highlight some of the important developments, in terms of civil society-state relations over the past six governments, the initial Roh Tae-woo government in the late 1980s and the early 1990s (inaudible) interesting developments during that administration -- key corporatization of state corporative groups -- the formerly state corporative groups that were pro-government between the '70s and '80s, they became rather independent of the state control.

On the other hand, there were these people's movement groups, which had been the Steel Hatters of Democracy Movement in the '70s and '80s, and it

continued with that radical movement for democratization.

And, most interestingly, there were new movement groups called citizen's movement groups that emerged anew in the aftermath of the democratization in 1987, and they focused on new issues, like economic justice, environmental, and general policy, and consumer protection, and so on.

And so there were these people competing with each other, trying to influence the policymaking process. And in the later governments, like the Kim Young Sam government between 1993 and 1998 and the Kim Dae-jung government between 1998 and 2003, we see the slow rise of citizen's movements group, which became dominant and influential towards the policymaking process in South Korea.

That continued into the Roh Moo-hyun government between 2003 and 2008, and a lot of emphasis was put on participation -- participation either as individuals or as groups are participating in the policymaking process.

But another important tendency, another important (inaudible) that happened during this period and over these three governments was that while there was this rise and increased influence of citizen's movement groups, there was this division or fragmentation within civil society between conservative groups and progressive groups.

So, immediately, after the democratization, there was this dominance of the so-called progressive groups, and South Korean people in general indebted for the sacrifice of the former democracy movement. The leaders, activists who were active in citizen's movement still -- but later, particularly during the Kim Dae-jung government, regarding this so-called engagement or Sunshine Policy toward North Korea, there was big controversy in South Korea. And there were pro-Sunshiners and anti-Sunshiners, and there was lot of controversy on that, and civil society was slowly fragmented into two different parts: progressive and conservative. And that has continued up to today.

So, then we now shifted to some current tasks and future challenges. I think that one of the biggest challenges South Korean democracy right now is confronted with is policy discontinuating. We have had these conservative governments or progressive governments. Some of the policy -- not only (inaudible) policies but also major policies -- have been shifting from one pole to the other. Policies continuing -- and that also sometimes is accompanied by political instability.

And so, I mean, this power politicization of public discourse and policy agenda sometimes leads to this phenomenon you might call permanent or constant lame duck kind of situation. So, we have this five-year presidential term, but as any president enters into the second term, the lame duck phase sometimes begin, because all the political issues have been over-politicized so much.

So, in fact, it's very difficult to obtain a bipartisan or even a national consensus on all those political issues, because civil society and the

political circle in general are so much polarized between the (inaudible) political forces.

And behind this is the existence of still-underperforming political parties. And the political parties in South Korea and in the -- one evident example -- one piece of evidence that South Korean political parties are still under-institutionalized is that they are changing their names so often, even experts have very difficult -- I mean, it's very difficult for the experts to follow all the names of those political parties -- and not only the name changes, but sometimes it's very difficult to identify what kind of fundamental ideology they are supporting, and a specific policy agenda or policy proposals they are supporting. And it's very difficult to identify the ideological characters of all those different political parties.

And the political parties are very mistrusted and a very low level of trust (inaudible) by ordinary citizens and voters.

In the past -- I mean, in the 1990s and

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

during some of the previous governments, some of the functions that are supposed to be performed by political parties were, instead, performed by civil society groups. Civil society performed these very essential representative functions that political parties couldn't perform.

But today, because of this fragmentation of civil society itself and mobilization of civil society (inaudible) counter-mobilization of the other segment of civil society and so on. What is important these days is that civil society itself is also less trusted, as compared to the 1980s and the 1990s. And so both civil society and political parties are less trusted by the public, and that leads to the overall crisis of representative domain.

And added to this is that a lot of civil society leaders, including (inaudible) previous civil society leader join the political circle, and became politicians themselves. And that led to this depopulation of the civil society arena, and that also led to this decrease of credibility of civil society

arena.

So, in that sense, we have this big crisis in the representation of domain, because both civil society political parties, according to the view of the public, is not sufficiently performing their representative function. And the people sometimes have to resort to this direct action, like demonstrations and protests are frequently observed in downtown space many, many times.

And in addition to this, I'd like to also point out some of the new things that should be taken into account when we assess the politic democracy in South Korea, because there is this important general change going on in South Korea. And there has been a lot of literature on what the younger generation in their 20s or in their 30s -- what kind of ideological inclination they have. There is still controversy on that.

But in my opinion, the younger generation tends to be a little more conservative, as compared with those who are in their 40s who led the democracy



movement, and who have been sympathetic to progressive governments.

In addition to this generational change, also, there has been a lot of discussion on the impact of information, communication, technology -- because, these days, a lot of demonstrations and protests in South Korea -- on the one hand, there is this difficulty of mobilizing more people, because people are busy, and people are less interested in politics, and so on.

But on the other hand, also, I mean, it becomes easier to mobilize young people because of this (inaudible) development, as well as young people tend to think that, I'm going to be participating in protesting entire government or political protests or demonstrations -- it's not as costly as it was the case in the 1980s or the 1970s, because you don't need to sacrifice your career; you don't need to sacrifice your life and so on.

And so these days, demonstrations and protest actions are sometimes combined with this sense

of festivity. I mean, they are participating in protests, and they take pictures, and they upload that on Facebook and so on.

So, a lot of things actually facilitate the participation of the younger generation in protests and demonstrations, also.

And I'd like to close my talk by commenting on one of the currently-evolving controversies in South Korea -- because there is, right now, an important discussion on constitutional revision. South Korea, as some of you may know, is a five-year kind of presidential system. And South Korea has never had a parliamentary system, except for this one year, a very brief period in the early 1960s.

But right now, there's a discussion -- including a possible transition -- to a parliamentary form of government while a, you know, renewable term for the President or some kind of Austrian or French-type kind of, you know, (inaudible) kind of arrangement between the President and Prime Minister -- although the current President does not like the

discussion very much (inaudible) problems.

But, I mean, a lot of legislators in both the ruling party and the opposition party are interested in discussing this possibility of constitutional revision. And the current constitution was drafted in 1987, so there is this public support, as well as intellectual support for constitutional discussion. So, that might be something to observe in the future.

Thank you very much.

MR. TZEN: Thank you again for such a comprehensive and penetrating analysis (inaudible) sounds very similar and familiar to us in Taiwan, too. Thank you.

Now may I call upon Professor Takenaka from Japan to (inaudible)?

DR. TAKENAKA: Thank you very much for introduction, and thank you (inaudible) and Brookings Institution, the Taipei Forum Foundation, and Association of Foreign Relations for having me here (inaudible) and, also, to have a chance to express my

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

gratitude to the people of Taiwan.

And this because now, over three years have passed since (inaudible) earthquake had hit Japan. But we have received (inaudible) donations, which amounted to almost \$1 million that is probably every Taiwan person has made a donation of \$300 Taiwan and that's significant. And we and the other Japanese citizens -- I was glad to have this chance to thank you.

And today, I want to come back to the original topic, which is democratic governance of Japan. And today, I would like to give a presentation on the state of democratic governance in Japan and its implication on policy of foreign relations.

And, as those people who are familiar with Japanese politics (inaudible) between 2006 and 2012, every year, we have witnessed a change in Prime Minister. So, we've had six Prime Minister between 2006 and 2012. And maybe it's hard to remember the names of political parties of Korea, but it is also hard to remember the names of our Prime Ministers --

and especially for foreigners. And I think that really has undermined our leverage in our foreign policy.

And this is really -- the answer -- you know, the key to answer why we had to see such a (inaudible) turnover of Prime Ministers really lies in the configuration of our political institutions.

And I raise this question -- is Japan a parliamentary system? And according to textbook, it is, yes. But in practice, it is almost not, because, in practice, Japan (inaudible) Japan is really a hybrid of parliamentary system with a separation of power system like U.S. presidential system.

And the key institution is our second chamber, which is very strong. In Japan, they form the Cabinet. And our relationship between our Cabinet and the House of Councilors is pretty much similar to the relationship between the U.S. President and the Congress separation policies.

Okay. Now according to textbook, Japanese parliamentary system, because the Lower Houses chooses

the Prime Minister, and Prime Minister forms the Cabinet, (inaudible) passes a vote of no-confidence, the Prime Minister have options. The Prime Minister can resign, or can dissolve the Lower House. But the key is House of Councilors, and I explain that later.

And before going over the issue of House of Councilors, I would like to give a brief overview of political changes since 1990s, because our political dynamics, they're about to be changed as a result of two major political reforms we have implemented in 1990s.

In 1990s, we carried about two reforms. One is electoral reform. The other is administrative reforms. And this really changed the political configurations within the -- and, also, policy formulation process.

The first is an extra reform. That is, we changed the electoral system from SNTV system -- single nontransferable vote system -- to first past post system. And the (inaudible) reform, we reorganized the structure of the government while

increasing the legal power of Prime Minister. We increased the power of Prime Minister as we are the organization supporting the Prime Minister.

And these two reforms had a big impact on prime ministerial power. Basically, it enhanced Prime Minister's power, but change of electoral from the SNTV system to the first past post system, combined with (inaudible) system.

For those who may not be familiar with this jargon (inaudible) of political science -- essentially, this system -- under the former system, essentially this system -- one district elected several politicians. So, it was easy to get elected as an independent. And therefore, the ruling parties or old parties had to keep party discipline. Even those who do not obey the party objectives and do not get endorsement in the elections had high chances of getting elected as independents.

So, the Prime Minister did not have so much leverage over the members of his party to follow his policies; in particular, when the policies became very

controversial.

Now, under the current system, the first past post system, combined with (inaudible) system, the candidates have to have endorsement from the parties to get elected. And it has become very hard to get elected as independent. So, most of the politicians have to follow the orders from the party objectives. And in case of ruling parties, it is (inaudible). And so the Prime Minister has easier time legislating controversial bills.

And the other administrative reform, also, is (inaudible) Prime Minister's power. Before, Japanese Prime Minister did not have so many resources to formulate policies on his own, and to start policy initiatives. But now, he has (inaudible) and resources, as well as he was given more power to initiate policies. And the second change in the Prime Minister's power was one of the major resources for these two reforms.

And the other change was the change in party system. Under the former SNTV system, it was easier



for small and medium-sized parties to elect their candidates (inaudible). But now, under the current system, more seats are allocated to the first past post system, so that smaller and medium-sized parties (inaudible) in a large political party. And so now, we have DPJ -- Democratic Party of Japan -- for (inaudible).

Okay. Although I have some Japanese specialists here, and they might wonder -- you know, there are small and medium-sized parties (inaudible) still today. But I would say that probably DPJ will continue (inaudible).

So, these were to make changes. And (inaudible) powerful Prime Minister who took advantage of these two reforms. That was Prime Minister Koizumi Junichiro. He's our Prime Minister between 2001 and 2006. He used the increased power of Prime Ministers with (inaudible) system.

And the political scientists, especially the young political scientists, thought, oh, future Prime Ministers will continue to exercise strong leadership,

and will probably continue to carry out reforms that include Japanese economy, Japanese (inaudible) and so we were glad that we implemented two reforms in 1990s.

But our expectations were betrayed, and I was one of those eloquent scholars who was praising Prime Minister (inaudible) will carry out reforms and also applauded the result of these reforms. And many of my colleagues said, after seeing frequent changes of Prime Ministers after Prime Minister Koizumi, many of my colleagues (inaudible) are you willing to change your mind, and why is your theory wrong?

So, I thought. You know, I have to find an answer. And I looked for an answer, and the key is really in the House of Councilors -- and, also, the change of our party system, okay?

Now even the Japanese do not take note of the second chamber, okay? But our second chamber is probably the most powerful chamber, next to the U.S. Senate, in (inaudible). According to the textbook, the Lower House has superiority over the Upper House or the House of Councilors, because it can override a

decision made by the Lower House in this situation.

But in practice, the House of Councilors has equal power vis-à-vis Lower House (inaudible) legislations. This is because the conditions for (inaudible) is so severe, and so it is really difficult to result in the override, okay? You would need 2/3 majority in the Lower. If Lower House has passed a bill, and the Upper House -- the House of Councilors -- rejects this bill, the condition for override is 2/3 majority. If the Lower House pass the same bill with 2/3 majority, then the bill becomes (inaudible). That's the first condition.

And this condition is hard to meet, because sometimes the ruling parties cannot have 2/3 majority in the Lower House. We have about 65 years of democracy, but among these 65 years, it's 7 to 8 years the ruling party's had a 2/3 majority in the Lower House.

And this Prime Minister Abe is lucky now he has 2/3 majority. But even you have 2/3 majority, there's another (inaudible) it is so technical -- and

TAIWAN-2014/12/05

even the Japanese did not know this article in the constitution -- they call them 60 days rule. And if Lower House sends the bill to the Upper House, and the Upper House does not make decisions, the Lower House has to wait for 60 days to treat the bill as rejected by the Upper House. And this 60 days rule really slows down the policy process, and sometimes put the Cabinet in a difficult position.

For example, if you (inaudible) session in September, at the end of the September, and the session is going to end in, for example, the beginning of December, sometimes this 60-day rule makes it (inaudible) very difficult position to legislate laws, because -- I'm sorry; this is getting very, very technical, but if, for example -- if the Diet session starts at the end of December, and the Lower House (inaudible) to pass this bill, then the Lower House pass this bill at the end of October. And if the Diet session lasts until mid-December, then the opposition can just sit and wait for 60 days, because, apparently, that's the time elapsed before the end of

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

mid-December. And so the Cabinet cannot pass regular legislation; even it can result to the override rule.

I put this rather simply, and it's a bit more complicated, but to save time -- I mean, I think it was technical enough, but the legislation process (inaudible) get delayed in such a way.

And so when the opposition becomes a majority in the Upper House, it becomes the determinant -- faces serious problem (inaudible) I think many up here are primarily in the U.S. politics. And if either the Congress or the Senate is shared by the opposition, under (inaudible) government, the U.S. President have always tough time passing through these policy agendas.

And the same situation takes place in Japan. We had a divided Diet. We call them divided Diet when we have an American audience. We call them twisted Diet for the British (inaudible) because they call them twisted parliament, but (inaudible) divided Diet.

And we have had divided Diet most of the time between 2007 and 2012. And between 2007 and

2009, DPJ -- Democratic Party of Japan -- held almost a majority in the Upper House. And what they did was, they really opposed most of the important bills offered by (inaudible).

And then between 2010 and 2012, now the DPJ changes power in 2009, and against the DPJ government and after 2010 House of Councilors election, LDP became the majority with the other parties into the House of Councilors. And the LDP was very angry because the BPJ (inaudible) everything they tried to do, so that the LDP revenged against the BPJ, and pretty much (inaudible) BPJ Cabinets tried to do.

And so most Prime Ministers were driven to political impasses and chose to resign. Prime Minister (inaudible) was a good example, and, also, Prime Minister Kan was put into a political impasse, because he could not pass political legislation. And so he told LDP, "I will resign. So, in the meantime, for my resignation, please pass these important pieces of legislation."

We have had divided Diet in the past, but

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

the political situation did not become that serious because the LDP was the only party which was dominant under the old electoral system, okay? So, the small parties -- under the old system, LDP was dominant and surrounded by small and medium-sized parties. And small and medium-sized political parties have no expectations to win the next general election, so that they choose to compromise and receive some policy concessions from the LDP using their leverage in the House of Councilors.

Today, the (inaudible) incentives looks differently for party politicians, because it is now two major party systems. So, if the leading opposition party obstructs the Cabinet and the government policy foundation, then the opposition has five chances of winning the next general election. So, this is what DPJ did between 2007 and 2009, and their (inaudible) worked pretty well, because they could win the 2009 general election. And in (inaudible) of our policy foundation and security policies.

And because (inaudible) because of divided government, divided Diet, and the policy from a national process in security areas was also without it and was slowed down, we had operations in Indian Ocean assisting the U.S. Navy and maybe other countries engaged in (inaudible) Afghanistan. And that operation had to be suspended because the government could not renew legislation because it was under the Cabinet, but the Cabinet passed through the legislation that was necessary to continue that operation, because (inaudible) from the DPJ. That's number one.

The second is (inaudible) coast of Somalia became very serious towards the end of 2008. So, the Prime Minister Aso decided to send (inaudible) the Indian Ocean, again off the coast of Somalia.

And at the time, you might be surprised, but Japan could only protect the government ships. Of course, we thought this was beyond acceptable (inaudible) so we submitted a bill so that maritime self-defense course can protect ships of other



TAIWAN-2014/12/05

countries, but the DPJ, for some reason, hosted this bill, and it slowed down, so we could not start operations to help to protect ships of other countries for about three months, okay? And generally, the Aso Cabinet could be counted on to result in an override, okay?

Now just (inaudible) on the current political position, Prime Minister Abe is very lucky, because the LPD (inaudible) House majority in both chambers. So, he doesn't have to worry about getting his bills obstructed in the House of Councilors.

Thank you very much.

MR. TZEN: Thank you.

We'll now call upon Professor Yun-han Chu to make his presentation. Thanks.

DR. CHU: (inaudible) I'm given a very challenging job trying to analyze the situation of Taiwan's democratic governance within 15 minutes. It's such a huge topic.

So, I will simply, you know, concentrate on the more recent development, and focusing on

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

(inaudible). And then we want to remember that, you know, he was elected in the year 2008, with almost a landslide (inaudible). And four years later, he got reelected -- I would say, also, with a convincing victory -- although the margin, you know, had shrunk a little bit. And, also, (inaudible) of the independent members -- almost 2/3 of majority (inaudible).

So, in theory, the (inaudible) you know, electoral landslide should have brought a conclusive end to the (inaudible) experiences of a divided government during (inaudible) a presidency under which, you know, he never really enjoyed a majority in the parliament. You know, so he entered in constant, you know, battle or bickering when the (inaudible).

So, a lot of observers had hoped, you know, at the beginning of Ma's first term that, you know, the conclusive victory (inaudible) back to the track of better governance.

But we have to say, you know, in retrospect, especially his beginning of the second term, this reasonable expectation has not been fulfilled. So,

this -- you know, I will use this (inaudible) to try to, you know, explain why this has happened.

A lot of, you know, the pundit, you know, tried to offer their own explanation, and many of them trying to praise Ma - his leadership style, you know - - sometimes, you know, his decisiveness, or his (inaudible) the bills, you know, with friends and rivals.

But I would say this is only a very partial explanation for his overall, you know, sluggish performance. As a matter of fact, I will identify -- you know, there are many what I call intractable factors -- (inaudible) institutional and ecological -- that are pretty much beyond the grip of any incumbent. And because of those, you know, intractable factors, I would, you know, argue that (inaudible) -- to the extent that, you know, it's not simply up to the test of responding to (inaudible) international and domestic policy challenges the country faced.

So, I will, you know, try to lay out those, you know -- the central conditions which have hampered

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

Taiwan's democratic coexistence. Before, you know, I go into the detail -- but, also, I want to give to President Ma some credit, especially it seems like he has accomplished, you know -- despite all the difficult conditions that he has been facing -- resuming the official dialogue in negotiation, normalizing (inaudible) relationship, and concluding 16 bilateral agreements, including (inaudible) the hallmark of his presidency.

And, also, he probably should be given credit for ensuring trust and friendship with Taiwanese allies -- especially the United States. And, also, I think he should be given credit for steering the Taiwan economy steadily through the worst global challenge crises -- seems to be a great impression Ma (inaudible).

But, however, you know, one might also argue that while these accomplishments were enough to carry President Ma through his reelection bid (inaudible) but they probably still fell short of what, you know, his campaign platform had promised, and probably fell

far behind the expectation of the great majority of Taiwan electorate.

So, you know, this is, you know, the reason why, you know, I argue that his accomplishments over the last six years is not nearly enough to adverse many of the world's influence and socioeconomic trend that threaten this island's future (inaudible) one of the most difficult obstacles to (inaudible) democratic governance on this island.

Number one is unfair global strategic condition, in terms of very unfair demographic (inaudible) physical trend. I will, you know, elaborate on that a little bit later.

And second category will be the (inaudible). That include the polarization of party politics between (inaudible) -- and, also, we, you know, we have a very partisan (inaudible) sensational -- but also very fragmented, you know, media.

And the third category of obstacles, you know -- actually, I will spend more time later on on this -- the last staff one -- is what I call

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

(inaudible) -- that, you know, especially in terms of (inaudible) and also having a very fragmented party process.

And now let me, you know, identify a few very unfair but long-term trend. One is -- you know, I think a lot of people in this room are all familiar -- that, you know, we are carrying a radically aging population. Third one will become what a demographer will classify as an aged society, which means they're people of the age of 55 plus -- you know, will come to be more than 14 percent of the population in 2017.

And we will become -- you know, soon become a super aged society, which means that more than 20 percent of (inaudible) you know, that constitutes our population, that will pretty much -- what, you know, Japan (inaudible) right now -- and our reproduction has been very, very dramatically dropped, you know, to (inaudible). You need 2.0, you know, reproduction rate to replenish, you know, the people who pass away.

So, I think this is, you know, very, you know, unfavorable trend. And that will (inaudible)

of, you know, what policy can do to solve a lot of other public issues.

And, also, I think the island have to face up -- you know, this trap of the low-cost manufacturing -- you know, our ex-post factor -- you know, we do have very successful (inaudible) -- you know, like the company that (inaudible) other company in the tri-tech sector, you know, that continued to (inaudible).

And under that kind of business model, you know, the lion's share of our export has suffered from the what we call economization, meaning that the profit margin (inaudible) over time. And our company (inaudible) to compete, you know, constantly, with low-cost, low-wage countries in this global supply chain. It also has a very detrimental effect on the income distribution with China. This will crush the wage level, especially the entry-level jobs.

And, also, the business community, you know, constantly pressures government to give them more (inaudible) has been so skewed that, really, you know,

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

they aggravated the income and wealth disparity -- especially after 2009, when (inaudible) 25 percent or maybe 17 percent, the lowest in the region. And, also, when Ma was inaugurated, you know, in 2008, he's facing with, you know, a very -- mostly, you know, physical condition.

At this point, our government, you know, at all levels, spend about 23 percent of GDP every year when the test revenue is below 12. So, the big shuffle, you know, has to be made up, you know, with increasing speed and time, or selling of stable assets -- or through borrowing. However, the (inaudible) has been, you know, pretty much (inaudible). We are already reaching the ceiling, you know, of the legal foreign story.

And when Ma (inaudible) you know, immediately says, this is a huge global downturn. So, he has to introduce (inaudible) that also, you know, pretty much used up, you know, the remaining (inaudible) of the government.

And, also, I think, you know, when he was

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



inaugurated, he inherited quite a few (inaudible) issues -- or you might even label it as (inaudible). For instance, you know, the growing deficit of the universal health insurance, and also the high-power -- or, you know, power company accumulating loss, because the electricity rate was growing for a long time while, you know, oil and gas, you know, (inaudible) in the price. And, also, we have issues compounded (inaudible).

So, I will argue that President Ma's doomed to be a very unpopular President. But he has to deal with complicated issues. And, actually, he also tried to postpone most of those issues until beginning of second term. And then, you know, he has to (inaudible) to many different countries overseas, to adjust, you know, the health insurance fee, and the pensions fee, and many other (inaudible).

At the same time, I think the island, for the last, I would say, 10, 15 years, has a prior element, you know, for what political scientists label as (inaudible) society. You know, first, there's a

total breakdown of trust and mutual respect in the two competing parties, and, secondly, our (inaudible). And we witnessed, especially, you know, with the emerging of social media, (inaudible) -- you know, different group of people (inaudible) to the likeminded, you know, people.

Okay, so they got fed up with one-study story. So, society actually, you know, becomes also very fragmented, being that, you know, different people with, you know, sources of information tend to have a very different observation of the same event. So, that really, you know, also activated the polarization.

Another important (inaudible) the power in our political system -- now they disperse so wide, it has no sense of gravity. Instead, the (inaudible) more -- especially I would like to focus on, you know, this bigger challenge that the Ma (inaudible) has been facing -- that is legislative gridlock.

And due to this gridlock, I would argue that, you know, the (inaudible) executive branch and

the legislative branch (inaudible). You know, I would say for most part of his presidency, President Ma pretty much, you know, doesn't have real influence with, you know, (inaudible) at all -- despite the fact that his party, during his second term, (inaudible).

While this has happened, I would argue that the pendulum of political power has swung so decidedly toward the (inaudible) trend of the last 50 years.

And this, you know, policy and power reconfirmation has enabled the speaker (inaudible) major political opponents, proposed by the Cabinet, almost at will.

And, also, at the same time, DPP, even though it only has about 40 seats, you know, out of 113, is also empowered with considerable bargaining power over (inaudible) and to enjoy a lot of leeway exercising (inaudible) initiative.

And a very important component that, you know, comes through to this (inaudible) is, well, you know, identified as, you know, probably, you know, the key to, you know, the phenomenon -- that is, the

creation of the party caucus negotiation system. My good friend, Dr. Su Chi, believed that, you know, during his recent presentation at Brookings back in Washington, he has characterized this system as the darkest aspect of (inaudible). I'm hesitant to point out that I fully agreed with him.

You know, since 1999, the speaker in the DPP has successfully pushed for this peculiar mechanism the party calls the negotiation system. And if (inaudible) can form a caucus, and each party caucus can send two representatives to closed-door negotiations meeting convened by the speaker. And any party caucus can make a (inaudible) to send any pending bills of amendment to this negotiation process, and take them out of (inaudible). And in most cases, I will argue the speaker (inaudible) to avoid showdown on the floor.

When I say "showdown," normally not local residents sometimes (inaudible) which is very unfortunate.

And, also, not only, you know, (inaudible)

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

but, also, I think that over the last 10 years, (inaudible) have invented a lot of conventions. Now this convention -- strictly speaking, they are not, you know, constitutional (inaudible) you know, the customs and habits.

But these convention, you know, over time, enable (inaudible). You know, this maybe include that the (inaudible) member can attach a ridiculous number of free rider to the government budget bill. And those free-rider amendments usually have nothing to do with budget, okay? And (inaudible) the budget review process.

And, also, the committee are given the power to introduce motion income as, you know, a part of the budget, you know, so that, you know, the meeting can come back to those members, you know, (inaudible) you know, for releasing those budgets. And they're planning, you know, backdoor, you know, negotiations, until they're (inaudible).

And, also, the new convention also allows the OSN committee (inaudible) the committee doesn't

have any authority (inaudible). However, over time, the executive branch -- however, you know, (inaudible) over, you know, the binding authority of those resolutions.

And I would argue that, you know, over time, the (inaudible) become so timid and feeble to either draw the line or to rebalance, you know, (inaudible) successful relationships. And they never, you know, dare to bring those controversial measures to the committee conclusion to verify whether they are, you know, consistent with (inaudible).

But they are constant. The constants are argued there, you know. Due to the descendents of related power, you know, in spite of the individual lawmakers going (inaudible) or preparing their own agenda, and extorting their (inaudible) create a fertile soil for the mushrooming of back pay political lobbyists and single interest groups. So, all the interest groups, they know that, you know, it's easy; probably not very useful to talk to (inaudible).

But if you gain access to a few ledgers, a

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

few, you know, (inaudible), you can actually, you know, tinker or twist the legislated bill, you know, very effectively.

So, in this case, I would argue that our political system has become infested with (inaudible) that, you know, whoever had access to LY can actually block, you know, bills, provisions (inaudible).

So, there's, you know, occasionally (inaudible) yeah, I'll finish in less than two minutes -- you know, can -- you know, I want them to adopt the (inaudible) tinker or potential audit, you know, through this winding machine.

But not everyone has the access to this, you know, trading process taking place in the LY. I will argue that, then, many leader of the social movement/NGO -- they become very frustrated being locked out of this trading process (inaudible).

So, over time, they simply took their grievances -- and the most explosive form took place, you know, just in the early part of this year, known as the Sunflower Movement. I don't know the factors

come through to this very destructive movement, you know (inaudible).

But nevertheless, you know, again, my thought -- I will argue that, you know, this fragmented political process has so much conflict for our future growth in the region, in terms of our external foreign economy policy.

Up to this point -- and I will bet, you know, this proposition will continue, even after 2016 -- the government was not able to form a cohesive free-trade coalition. Note that (inaudible).

So, at the end of the day, the government can only settle for what I call (inaudible). This approach is taking the lowest common denominator. And so far, a lot of Taiwan is picking up the low-hanging fruit (inaudible) and a free-trade agreement with Singapore and New Zealand, but I have to point out that this approach was something (inaudible) much tougher negotiation on the TPP and RECP.

And thank you for your attention.

MR. TZEN: Thank you, Chu.

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



Now may I call on Dr. O'Hanlon (inaudible)?

DR. O'HANLON: Thank you, sir. Good morning, everyone. It's a real honor to be here.

I wanted to say after hearing all these problems, don't worry; now we're going to hear some good news from the world's largest, most powerful, and oldest democracy. And that's meant to be a joke, okay, so we're clear.

But, actually, I'm struck. My good friend, Richard Bush -- and I'm very grateful to Richard for including me in this -- Richard knows that part of my portfolio at Brookings is to look at troubled spots of the world, and I have to say, even though I understand and appreciate -- I've learned a lot about the problems of Japan, Korea, and Taiwan this morning. Most of the parts of the world that I study would be very happy to have the problems of Japan, Korea, and Taiwan.

So, as a word of introduction, I wanted to tip my hat again to all the wonderful things that have been happening in this region -- and continue to

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

happen, despite the difficulties.

What I want to do this morning in my brief remarks is to talk about the U.S. political system, but with a specific angle on U.S. defense budget -- which, of course, has particular interest in this region, and elsewhere around the world. So, I'm not going to try to speak about everything in American politics, but I want to focus it on that.

But let me begin with just a two-minute summary of the framework and the constraints that led us to where we are in the American defense budget debate today, because it requires a little broader perspective. But I'm going to go fast, and so please don't consider this a comprehensive assessment, or critique, or diagnosis of what's going on in American politics.

But in a nutshell, as you know, Barack Obama was elected in 2008 for reasons that had to do largely with his own excellent speaking and vision, but also the legacy of the Bush administration. And then, if there was any doubt about who would win in the 2008

election, the financial crisis and the Great Recession began just before our elections. And so that's the context.

Barack Obama then inherited a very bad economy. America spread its bad economy to much of the rest of the world, and I still feel -- I know many Americans feel a guilt about that, because the Great Recession really was started in the United States, and we bear primary responsibility for it.

And as a result, Barack Obama presided over four straight years of federal budget deficits exceeding \$1 trillion American, which is a remarkably bad situation, and, in some sense, President Obama, instead of scaling back his ambitions, decided that he had to do things like healthcare reform and financial reform, because he saw no other long-term way to handle our economic woes.

And so, unfortunately for him, this created (inaudible) a backlash, because it allowed Republicans to portray him as a big-spending Democrat, which is their preference in how they -- both parties have

their specific political critiques they like to fall back on. Republicans enjoy portraying Democrats as tax-and-spend liberals.

And because of the conditions that Barack Obama inherited -- but also because of his legislative agenda, which was very ambitious -- Obama played into this caricature to some extent, which then gave rise to the Tea Party movement, which won a great deal of congressional power in 2010, just two years after Obama had been elected himself.

That launched a period of financial and fiscal austerity debate in the United States, which produced, among other things, deep cuts in defense spending under the Budget Control Act of 2011. Defense spending was not the only thing that was affected; domestic investments in education, infrastructure, science, and so forth were also a factor.

For the most part, entitlements and taxes were not a factor, however, which is part of the frustration for many of us watching this process --

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

because, in a sense, the 2011 Budget Control Act cut those instruments of U.S. federal spending that have to do with promoting American power and long-term strength -- defense spending, scientific research, education, infrastructure. You could argue these are the most important things to protect, but they were the first things that were cut.

And since that time, we've been trying to wrestle back towards some kind of a greater sense of sanity in how we make budgets, because, in addition to the immediate cuts that were made under the Budget Control Act, as you're aware, the Congress and President created this concept of sequestration, which meant additional automatic cuts -- again to the instruments of national power that I mentioned earlier: defense, science, education, infrastructure -- and not to entitlements, and not to taxes -- no change to tax code, either.

But sequestration would have additional effects, and it would do so in a fairly arbitrary and almost apocalyptic way -- or, certainly, a very

unfortunate and mindless way -- cutting a little bit or a moderate amount from a lot of different accounts.

The idea behind sequestration is, it was so bad of an idea, everyone assumed that it would not actually happen; that Congress and President would find a way around it. They would pass a new law that would create comparable amounts of deficit reduction without this mindless ax on the instruments of national power. But, unfortunately, that did not happen.

In my quick summary of American politics, the next big thing that happened was the 2012 reelection of Barack Obama. And one of the things he said quite a bit during that election was that he wanted to end two wars on his watch. And, as you know, Obama campaigned, to some extent, as a pro-peace politician, a left-of-center Democrat.

He somehow took the nomination away from Hillary Clinton, when most people assumed that she would win the nomination. Part of how he did that was his pure opposition to the Iraq War. So, he wanted to

be a peace president, and yet early on in his first term, he actually made decisions to triple American combat forces in Afghanistan, and he increased the pace of drone strikes around the world severalfold over George Bush.

So, in fact, he was not a peace president in his first term, but he still wanted to capture that rhetoric. And so by the time he's running for reelection, as you know, he had previously announced a policy of the rebalance for the pivot to Asia. But that policy is solid enough and flexible enough that Obama did not have to portray it as a big, hawkish pro-defense sort of agenda. And instead, when he ran for reelection in 2012, he talked about ending two wars upon his watch.

Well, where are we today? It looks the war that he thought he had ended has come back. That's Iraq and now Syria -- with an American role. And he's still trying to use rhetoric in the United States that we're not involved in combat, but come on; we're dropping bombs every day. So, most countries would

TAIWAN-2014/12/05

acknowledge this to be a combat (inaudible). So, we're trying to prevent any big return to a major boots on the ground role, but we do have almost 2,000 personnel in Iraq today. Those are boots on the ground, and it's a substantial advisory capacity, if nothing else.

And now, of course, President Obama has announced that by the end of 2016, he will recall all U.S. combat forces from Afghanistan, which I personally think is a big mistake, because I think we still need to have the ability to launch commando raids and drone strikes in Pakistan and elsewhere in the region against al Qaeda targets that they failed to get.

But beware -- the President always is talking about ending the war in Afghanistan, but he never actually quite does it. And he will be the first President in American history to have spent eight years in the White House involved in a war in one single place the entire eight years -- Afghanistan. So, he's been talking about ending it,

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



and yet he's about to set a record for the longest single American military role in any one presidency in U.S. history. No other American President ever presided over eight years of combat in the same field.

So, he is, in theory, ending the war, but in practice, he's fighting the war. And we'll see exactly where he winds up.

The reason I spent a couple of minutes on this history with now an eye towards the defense budget is to -- and I want to be done in five minutes to give my good friend enough time to comment, and make some sense of all the things he's heard today -- but the reason I give you this sort of interpreted history is to create a sense of tension in what I'm going to say now about the defense budget.

There is no simple way to portray the U.S. defense budget. Sometimes, we use rhetoric of ending wars. Sometimes, we use rhetoric of rebalancing. Sometimes, we are sequestering the defense budget.

And by the way, everybody here who speaks excellent English, don't feel bad if you don't

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

understand the word "sequester." We are using this word -- it's not really a normal use of the word. So, if you're wondering, what does this term mean? I thought I studied English better than that -- don't worry. It's a bizarre term, and it's meant to be a bizarre idea and a bizarre practice that we were never supposed to be doing in the first place. And now it's haunting us again, because it's supposed to come back on October 1 next year, if we don't find some new legislative vehicle to get around it.

Okay, so there's a little bit of contradiction in the world's largest and oldest -- not largest but oldest and, in some ways, most powerful -- democracies as we talk about defense.

Just a couple of facts and figures, and then maybe I'll conclude. We still spend \$600 billion a year on our military -- \$600 billion American. That is still well over our Cold War average, when you adjust for inflation. When you adjust for inflation, we spent almost \$500 billion a year during the Cold War. Today, we are still spending \$600 billion. So,

reports of America's military demise are slightly exaggerated and slightly premature.

In addition, that \$600 billion still accounts for 40 percent of the world's total spending on military forces. And when you add in our allies and security partners, like the countries and great, impressive friends in East Asia represented to be on this panel today, as well as NATO, our Middle Eastern partners, our Latin American partners through the Rio Pact, we Americans are very blessed. We are part of a broad coalition of more than 60 states, and the combined military spending of those 60 states is more than 70 percent of the world's total.

So, this is remarkable in world history, to see so much military excellence and power under one very vaguely and loosely-defined coalition. Of course, part of why it's been successful is, it is a loose coalition.

We don't always all agree on everything all the time. We don't always do everything together all the time. The Japanese only want to protect their own

ships for a while; we have to live with that. If we have other issues where we disagree with a certain ally -- the Germans don't want to be part of the Iraq invasion, what have you -- we have to live with that. That's okay. That's why the coalition works. That's one of its greatest strengths.

So, U.S. military spending is still quite high. It's still 3.5 percent or 3.6 percent of GDP. There's no country in this region that reaches that threshold, except North Korea. They're slightly above 3.5 percent last I checked, but we're still at 3.5 percent. Now we are headed down, and if sequestration returns, we will be down to about \$500 billion or a little more.

But we shouldn't worry too much about that; we should worry a little. You shouldn't worry too much, because we still have what's called the overseas contingency operations (inaudible), which is a supplemental -- an additional -- budget for war spending. And we are using that budget somewhat liberally, to compensate for the rapid decline in our

base budget, in our core or regular defense budget.

And I would expect that with all the crises in 2014 around the world, that will continue. In other words, we put a little more money in that supplemental budget than we really need for the immediate operations in Afghanistan, Yemen, Somalia, and elsewhere. We actually partly compensate for the fact that we're cutting the rest of the defense budget relatively fast.

And by the year 2016 -- and I'll finish on this note -- by the year 2016, we will have, as will you -- Taiwan friends -- a presidential race. And it's very hard to forecast exactly who will win the Republican nomination in particular. It's probably not even safe to forecast who will win the Democratic nomination, but I will hazard the following prediction: Both candidates will be pro-defense and will be in favor of a strong American role in the world, partly because 2014 has been such an ugly year for the world.

And 2014 has reminded Americans that, as

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

TAIWAN-2014/12/05

much as we sometimes get tired of global leadership, when we get tired, things seem to go a little worse in the world sometimes. It doesn't mean we always do the right thing; doesn't mean American military power is always the solution. And I certainly don't think it is, but right now, there seems to be a bit of a correlation between an American President who's trying to end wars and cut defense spending and a world that's getting more dangerous.

And I would predict that both candidates for the presidency that emerge from our primary process in 2016 will want to restore at least very modest growth in the U.S. defense budget. For example, enough to get our Navy back on a slightly upward growth projection -- because, as you know, we're trying to increase naval strength in the Asian Pacific. We want to have 60 percent of the Navy in this general region by 2020.

But if we cut the Navy at the same time that we're increasing the percentage in the Asian Pacific, it doesn't really make any net positive difference.

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

So, at a minimum, we need to preserve roughly the size of the Navy. We need to avoid cutting the Army so fast that it can't handle two crises at once. And there are a few other practical considerations like that, which I believe will tend to push the U.S. defense budget in a slightly more hawkish direction by 2016.

So, I'm not predicting any radical change, but I will also remind you that sometimes, even though it's ugly on my side of the Pacific, and we're not making policy in a very impressive way, the net effect on the defense budget really has not been so terrible. And I think we'll probably remain a very dependable friend for countries in this region as we attempt to carry out the rebalance strategy, and also prevent the Middle East from totally blowing up.

Thank you for your time; best wishes.

MR. TZEN: Thank you, Dr. O'Hanlon  
(inaudible) for this very stimulating analysis.

Now may I call on Yu-Shan Wu -- Dr. Wu to  
(inaudible) comments?

DR. WU: Thank you, Tzen. And it's really my great pleasure to be able to come here and to comment on the four excellent presentations, which I didn't know a word about before I heard them minutes ago. So, I'm going to spend a few minutes talking about the challenges Taiwan politics (inaudible) what I'm going to do, probably, is more so.

I would like to combine, if I can, the three presentations into a framework -- mainly, I think what we are talking about is the challenges to democratic governance -- not only in old democracies, as in the United States and Japan, but also in new democracies, as we now see in South Korea and Taiwan.

Those challenges that I can see comes from the domestic realm, and it probably has to do with the polarization of the society as a result of increasingly more and equal distribution of wealth. That is the great challenge. And that is combined with very serious (inaudible) challenge from abroad.

In the case of Taiwan, how to deal with a rising China? In the case of Japan, increasingly, how



to deal with rising China? In the case of South Korea, always how to deal with a precarious, unpredictable North Korea? And in the case of the United States, Korea, China, ISIS, you name it.

So, we have all those challenges. So, those challenges are not decreasing; they are increasing. And those challenges are now greatly enhanced by the social media, because the social media is providing the instrument with which social protests can -- the protest groups can dramatically reduce the costs of collective actions.

So, you could have those people who do not agree with the government -- so that it's much easier for them to join their forces, put great pressure on the establishment; further either change the course or to abandon the policy all together. So, you have domestic challenge, you have external challenge, and you have the enhancement effect of the new social media.

And all this will fall on the institutions of democracy. As far as I can see, in other three

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

Asian countries -- Japan, Taiwan, and South Korea -- those countries have changed their legal system to make it more majoritarian, by which I mean the division of political force in the establishment will not be proportional to the social forces, so that if you are a majority party, if you are (inaudible) disproportionately greater voice in the (inaudible) process. This is majoritarianism.

Majoritarianism is good in a sense that it tends to produce very clear majority, so we know who the legal is, but it is bad in a sense that it's not fully reflecting the social mood, the opposition, especially the small political parties, social activism, (inaudible) and so on and so forth.

So, we have all those (inaudible) challenges, and if they all fall on a majoritarian political system, what is going to happen with those combinations?

The social forces, the social opposition, will find themselves difficult to channel into the establishment. And as a result, they tend to erupt

TAIWAN-2014/12/05

outside the establishment. There will be a lot of direct actions. There will be Occupy Movement. There will be -- probably not everyone is trying to follow the example of Taiwan, but, in any case, we just had three weeks of occupational foreign parliament, which was unmentionable and unprecedented. These are (inaudible) challenges to the democratic system.

Let me talk a little bit about the details in these different aspects. First one, I'd like to emphasize that domestic challenge is present in all four countries. And they have probably a common cause -- the common cause being that of the adoption of new and liberal economic policies. Ever since 1970s, especially 1980s, the whole world has tilted towards economic (inaudible). It's more pro-libertarian -- I mean, economic terms. We've had more and more face on the market, and we've become increasingly distrustful of anything that a state might do to enter into the market. And so (inaudible) foundation, private foundation -- they become both.

It started in the United States under Ronald

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

TAIWAN-2014/12/05

Reagan, and United Kingdom under Margaret Thatcher. This thought became to occupy the policy agenda of the major Western countries. And lo and behold, the collapse of the Soviet Union, the whole Eastern Bloc, added to the stress of this neoliberal economic policy.

Now neoliberal economic policy has this advantage of unleashing market forces, and generating creativity, productivity, and so on, and so forth. It also tends to increase the income gap, and any given society has adopted new liberal policies. And that tends to polarize the society, and that polarization finds its way into politics.

So, in all those countries, we are seeing, for example, an increase of its G coefficient, its ocean (inaudible), the rich become richer or poorer, the college students will have to borrow a lot of money to finish their courses, and get their degree, then they are heavily in debt, and so on, and so forth.

I mean, it would be unimaginable that this

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

TAIWAN-2014/12/05

social rule will not find its way into the political institutions. You are seeing all this, and it is happening in Taiwan. In the past, we had very high amount of growth rate, but that frankly slowed down. In the 1980s -- in some years of the 1980s -- we even had double-digit growth, which slowed down to, like, seven percent in the 1990s, five percent, and then four percent, probably -- 2,000 and then lower than that -- three-percent improvements, then.

But at the same time, the institutional income has become uneven. So, you combine these two; obviously, there will be a depression on the system. And I would argue it's the same case in the United States, and in South Korea, and Japan. It's a global trend.

Now that is polarization. But then it seems that market can generate sufficient creativity and productivity to offset the effect of polarization, but, lo and behold, we had the financial crisis in 2007, '08, and '09. And so we had not only polarization, but then stagnation of the economy. So,

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

you are putting these two greatest economic evils together, and so that will create explosive social conditions.

That's why the United States will have people talking about one percent versus ninety-nine percent, the Occupy Movement, and you've got to spread around (inaudible).

So, that's the (inaudible) in the case of Taiwan -- and in terms of external (inaudible) a lot has to do with the rise of China, the recovery of Russia, the strategy picked up by the United States to (inaudible) those forces -- and the very troubling fact that the situation -- that you have not only those strategic challenges, but then, also, the rise of Christian fundamentalism.

So, I think United States, in 1990s -- that was a golden period for the U.S. -- productivity was rising, and Soviet Union was collapsed, and China became stronger, but not to the point of really trying U.S. and Germany. There was some skirmishes between rising China and U.S. (inaudible) but nonetheless,

that was a manageable decade.

But then the 2000s -- those of the 9/11. The U.S. have to determine which is the greater enemy -- whether Islam fundamentalism or the strategic challenge from China. Now I think the U.S. decided that it should go for the more direct challenge, and so went into Iraq, Afghanistan, and Bosnia in 2000. And you are finding that challenge become too powerful to be left alone. So, you said (inaudible) to Asia, and so on and so forth.

Now with China, rising China, Taiwan has been this external challenge. How is it going to deal with that? And that defines Taiwan's politics. Whether you are pro-green or pro-blue, it's not determined by whether you are a socialist or a capitalist in Taiwan; basically, everyone (inaudible). But depending on whether you like to take a more pro-America -- very wary about rising China attitude -- or you take China as both a challenge but also as opportunity, so you would (inaudible). So, that defines Taiwan's politics.

And in the case of South Korea, the progressive and the conservative forces, they obviously are not divided over China, but over how to deal with North Korea.

In the case of Japan, how to deal with China, as far as I'm concerned -- I think it is increasingly becoming a powerful definer of Japanese politics, too.

And in the case of United States, it is basically still left and right -- but, also, taking into consideration this rising challenge.

So, what I'm suggesting is that when you have rising China, you have the recovery of the Soviet Union, you have ISIS, and so on, and so forth, the world has become less and less safe. And those countries are defining their politics in terms of the strategies to deal with those instrumental challenges.

So, (inaudible) you have polarization of the society and economic problems, and externally, you have the shift of the national forces, and debate on what is the best challenge or best strategy to deal



TAIWAN-2014/12/05

with it. These are the challenges that all those democracies are facing. And they have (inaudible) which I would describe as a majoritarian side to deal with (inaudible) in South Korea, Taiwan, and Japan.

They all shifted in their electoral systems away from the SNE system to MMN. And MMN is more majoritarian; SNE more proportional.

And as a result, today, we are seeing Taiwan -- the KMT controlling both the presidency and the legislative branch.

And in Japan, we are seeing Shinzo Abe in full control of the Diet. The reason for the ruling party to be able to have (inaudible) has a lot to do with the electoral system, which gives them the weight that, actually, they don't have in a society.

So, when that happens, and you have a very serious challenge, right? And those challenges would give rise to very serious debate as to what is the best strategy. And the government will take only one strategy, and many people rejected that, and they would take different strategies. But their voices

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

probably cannot be sufficiently heard (inaudible) we are seeing a lot of social actions, direct social actions in Taiwan, in South Korea, and probably you are going to see more in Japan, and even the United States.

So, that's the (inaudible) how are we going to deal with greater challenges domestically and internationally, with a political system that may not be able to take into considerations a lot of voices in the society?

I don't have a clear answer. This has to be answered and solved by different democratic democracies that we mentioned. But I do think that even with that, all the institutions, democratic institutions, have shown great resilience against radicalization of their politics. So, things are still basically run within democratic channels. Democracy is still the only game in town. And so I congratulate on that.

Thank you.

(Recess)

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

MR. BUSH: Ladies and gentlemen, if I could ask you to take your seats. I think we should get started. The panel this afternoon is on economic issues, what somebody in my luncheon table called medicinal science. Anytime you have a panel after lunch, it's a little bit difficult to (Laughter) mobilize the interest. So, I'll do my best.

We have excellent speakers; two from Brookings and two from Taiwan. My colleague, David Dollar is not late in getting to the dais. He's actually not here. He was planning on coming, and then there was a medical procedure that he had to get done fairly quickly, and it's not life threatening in any way, but this is something that had to be done. So, he kindly agreed to do a video of his presentation, which we will see in a few minutes.

I was the son of an intellectual, and so when I was starting out in life, I really had no appreciation for business or economics. It happened that the dissertation I did at Columbia University was about Chinese business and Chinese entrepreneurs, and

as a result of that, I grew to really admire the talents of entrepreneurs anywhere. And one can, I think, make a case that the progress that we have seen over the last five or 600 years in human history is really the result of the unleashing of capitalism around the world, and entrepreneurship, policy innovations, the fostering of human resources.

And the issue now is how to sustain this in a very different environment, and how to ensure that the continued -- the incorporation of new economies into the world economy occurs successfully. And so we had four interesting presentations on that. And the first comes from my colleague at the Center for East Asia Policy Studies at Brookings, Dr. Mireya Solis.

Dr. Solis has a PhD from Harvard. She taught for many years at the American University, and now, fortunately for Brookings, she is with us. And she will talk about regional trade integration. So, Mireya?

MS. SOLIS: Thank you very much, Mr. Bush, for that introduction. (Applause) Good afternoon.

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

TAIWAN-2014/12/05

Thank you. I would like to thank the Taipei Forum and the Association of Foreign Relations for their warm hospitality. I must say, this is my first time to visit Taipei, and I'm looking forward very much to discussions this afternoon, but also, quite frankly, to step out there and walk around a little bit and see what the sights are here to be seen.

So, the task for me this afternoon is to talk about regional trade integration, and I'm going to focus most of my remarks on what I think is a leading trade initiative that has had major impact in actually spurring and bringing to the (inaudible) into a reality negotiation of other trade agreements. And this is a Trans-Pacific partnership. And given that we have just a few minutes, given that it's after lunch and I don't want the audience to go to sleep, I'm going to keep it very tight, very short, and just start really talking about what I think are three central issues.

What are the stakes? What are the challenges? And what are the consequences of not

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

addressing these challenges successfully? So, I am going to end my presentation with a thought experiment. What would happen if we could not get TPP done in a timely manner? So, let me then start by highlighting why I think the Trans-Pacific partnership is so important. What is the significance of these trade initiatives, in particular? And I want to highlight three main things.

One is the impact that the TPP has had in launching what I think is really quite novel, and it has a lot of promise, and that is the era of the mega regional trade agreements. Second, I want to highlight what are the unique characteristics and traits of the TPP; why we think this is special for a negotiation. Keep in mind that there are close to 400 FTAs or free trade agreements that have been nullified with the WTO, and yet, we think that a TPP has a special significance, and therefore, the challenges are indeed, (Inaudible).

And last, regarding the states, I want to highlight why the United States is championing a TPP

TAIWAN-2014/12/05

in the way it is (inaudible) what are the goals and objectives that the U.S. is pursuing through a Trans-Pacific partnership. And once I have laid out what we have stated, then I want to discuss where we are today in the negotiations, what are the challenges, and again, consequences.

So, let me then start by talking about how the TPP has helped to bring about the era of mega regional trade agreements, and why these, I think, creates great promise in having a very substantial trade agenda in a way in which we have not had in the past. What are these mega trade agreements? Why do we find ourselves so interested in understanding them?

Well, first of all, there are very important quite simply, because of the sheer economic gains that stand to be derived from this exercise in market visualization. We're talking about very large endeavors. When you think about in the past free trade agreements, it used to be bilateral efforts among really small economic partners. And the puzzle -- there are many interests as well -- one could

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

TAIWAN-2014/12/05

explain would negotiate with partners that represented 1 percent or maybe 3 percent of these exports. We're not talking about an exercise of that nature at all. We're talking about trade agreements that can supply sizable shares of world GDP.

The TPPs -- particularly 40 percent. But it's not the only mega regional trade agreement. We maybe also are going to talk today about the regional comprehensive economic partnership and the Japan -- the EU-FTA is another mega FTA, and of course, the China-Japan-Korea, which also represents close to a third of world GDP. So, we're talking about sizable trade groupings that are being now negotiated.

Another very important fact is because these mega trade agreements -- is that we're now seeing industrialized countries negotiating preferentials. And I remember talking a few years ago to a very (inaudible) diplomat, and this person made the point that if you had the three largest industrialized countries or industrialized (inaudible) in the United States, European Union and Japan negotiate

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



preferentially, that that actually spelled the end of the agreement with the WTO.

Well, we are there in the sense that we do have industrialized countries negotiating preferentially outside of the WTO. I do not think that that means an authority (Inaudible), and I do think it actually represents the fact that the WTO is facing significant challenges, which I will highlight, and that creates an incentive for these countries to find an alternative vehicle to continue to discuss and flesh out the new round of rules for trade and investment.

But what's also very interesting is that the scope of trade negotiations has expanded quite dramatically. And now, we're talking about something that we like to address, regulatory protectionism behind the border measures. It's not any longer just about hires. So, we're talking about competition policy, state of enterprises, intellectual processes and so forth.

And this creates a very significant

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

challenge for trade negotiators regarding what is the right boundary. How far should these trade agreements go? Because if you think about it, I do not want to be a trade negotiator myself. Think about this big challenge that you face, because you're really talking about going after, behind aborted measures that have a discriminatory container, and that we are trying to eliminate that in order to make sure that you have a market access.

But many of these regulatory measures could be there ostensibly to protect consumer environmental work extenders, and therefore, making that determination between what's generally domestic regulatory policy and what is there to actually discriminate against foreign policies and foreign countries is not an easy exercise. And that's the exercise in which all these trade negotiators are engaged in today.

So, we have therefore -- we have mega trade agreements, really expanded, scaled out -- the range of ambition, of scope, of reach on the trade agenda.

And I would make the case that really, the TPP is the one that helped launch, in many ways, encouraged other countries to then react to the TPP by also negotiating more ambitiously and launching these different trade initiatives.

Why is the TPP having this very important role? Why is the TPP special? What do we think makes this agreement as showing more ambition than others? I will make the case that there are three central characteristics of the TPP that tend to get base callers very interested in the outcome, in the actual fate of this trade negotiation.

One is because of the sheer level of ambition. There is one phrase that is attached to the TPP, and where actually, as I'll go to the discussion (Inaudible), we're going to see whether the TPP will live up to its promise or not. But what is this phrase? No exclusions to the economy. And this actually does mark a very significant development mission, because as I said before, there's scores, hundreds of free trade agreements. But we know that

these trade agreements had been easier to negotiate politically because the sensitive sectors tend to be satisfied, and therefore, did not reach as far.

The TPP, actually, the predecessor agreement is a so-called P4, which brought together four small open economies with very ambitious goals, and they actually achieved liberalization ratios (inaudible) of 99 percent, 98 percent, which basically means you put everything on the table. It's a very ambitious exercise of liberalization. The challenge is can we replicate that now, but it definitely is a much larger, on the table. But in terms of really starting with a -- or starting with a different planness, that the TPP has a very high level of liberalization in mind.

The second element that makes the TPP stand out is again, the ambition in a low (Inaudible). It has more than 20 chapters, and it really is trying to come up with rules to bring disciplines to faculties - - very difficult issue of non retired buyers. Non retired buyers by definition are non transparent,

TAIWAN-2014/12/05

difficult to measure, and again, the subject to these students who were there -- actually there to block the market or to carry out generally passed up foreign policies. So +again, it's a very difficult undertaking (inaudible)trying to codify visuals in a way other (inaudible)have not done so.

But what I think is perhaps, the biggest selling point on the TPP, where its greatest purpose really lies, is that it has an open vision, in the sense that if you compare it to many other free trade agreements, they're exclusive clubs that make it very difficult for other members to actually think about accession, think about joining. The TPP is, in principle, open to all APEC economies. And it has been very clear from the beginning that for the TPP to be successful, it had to grow. Had it stayed small, had it stayed just four or six economies, it would not have allowed it too much. Now, we have 12 economies and in principle, this could grow over time. And I think that it is this open vision about creating an Asia-Pacific wide platform that makes the TPP more

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

attractive.

Now, what are the specific goals that the United States is pursuing in this trade negotiation? I would like it that they're all very significant. One is, I think, that the United States is trying to update the rules of trade and investing. Keep in mind that they have not been updated at the multi national level for now close to 20 years. We have not had a membership wide agreement in the WTO that updates rules of trade and investment for 20 years, and we know that through that time, the global economy has not stood still, and therefore, there is an increasing part of that that's mismatched between the realities in the ground as to how international production is organized, how its change among countries takes place, and whether there are rules available at the international level. So, from the point of view of the United States, often, these rules of trade investment are very important goals.

Second, there's a clear recognition that China -- that Asia is the most dynamic region in the

TAIWAN-2014/12/05

world, and therefore, the need for the United States to help shape the regional architecture for this economic dynamo is that a strategic investment on a key region. And I think there is a very important desire to not be marginalized from the process of ARSEF realism, and at the Q&A first time, we can get into this point. But I would make the case that this has not always been an easy task for the United States.

And if you look at the past approach of trade policy to the region, which was to negotiate bilaterally, there were significant challenges of being successful there. The United States managed to negotiate with industrialized countries in the region, but the negotiation with countries in developing Southeast Asia, regulations (inaudible) did not go very well. They had to actually be suspended, and there was a concern that there would be other trade initiatives for East Asia that would not include the United States.

With the TPP, U.S. policy, trade policy in

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

the region gained traction. There was this shift to what is called the critical mass approach, a ticking point approach, and when the United States joined the TPP, then that created interest for many other countries, and they were able now -- they were willing now to join and negotiate in this much more ambitious template of what a trade agreement should comprise.

And last but not least, I think that the TPP has become now an integral, an essential component of one of the central priority board policies for the Obama administration. And I'm talking about the Asian rebalance. Because I think after the TPP, the rebalance proposition becomes much more attractive, much more compelling, one, because it recognizes the multi dimensionality of relations with the region. This is not to be just a narrow ship in military strategy. It has to happen on what are the sources of shared economic prosperity.

And therefore, what the United States is trying to do with the repeal is to lay out addition precisely about what these rules should be about, and



TAIWAN-2014/12/05

how you deepen economic exchange between these economies across the Asia-Pacific. But I would also make the case that the TPP can do what just military strategy cannot do in the region. And that is, to send the reassurance to countries in the region that the United States is not interested in pursuing a competition with a secretary competitor and trying to marginalize China.

I know that there has been a lot of discussion as to where the TPPs have containment strategy. I would make the case, and I'm sure you have other points of view and we can discuss it later. But I would make the case that it's exactly the opposite. The TPP is not about containment. I would make the case that the TPP is about inducement.

The biggest payoff in my mind of the TPP is in fact, at some point in time, certainly not tomorrow, but at some point in time, China will come to the realization that joining the TPP would be advantageous to deepen the market reforms and to consider this necessary to continue with this growth

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

TAIWAN-2014/12/05

process. And that, likely, would be the biggest contribution that the United States could hope to realize for the TPP exercise, to make sure that China abides by these disciplines, these new rules of trade and investment. And they would create a more seamlessly integrated Asia-Pacific region.

So then, you can see that from this presentation, that there are very significant stakes involved in the negotiation of the TPP, and we are now at a time, I think -- critical time in (Inaudible). Let me address a little bit the challenges that we're facing today, and then again, conclude with this experiment or this stock process of what happens if we do not successfully deal with these challenges.

I would make the case that four years into the negotiation, we have reached the point where we are asking ourselves the fundamental questions as to what the TPP can deliver; why is not moving as fast as we would like it to do? The first question, I think that the state of negotiation misses is whether the TPP can live up to its high level of ambition or not.

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

Can the no exclusion mantra survive?

As I said before, this was inherited from the (inaudible)-- this very high level of liberalization. When you're thinking about, say, a 98 percent rate of prior elimination. It was easier to accomplish this when you had four small open economies, but now that you had this new membership configuration, there is probably the realization that it might be difficult to achieve these levels.

And especially now that Japan is on board -- you know that Japan has made the case that it has five sacred commodities, and it has become very difficult to try to get to Japan to be much more ambitious inside the cultural proposal. But even if you want to be a pragmatist, even if you want to allow that there's some super sensitive (inaudible) that should be set aside, I think that this requires an extremely difficult balancing act. And again, the skill of the negotiators will be very much tested here, because it could be a slippery slope; because if Japan can make the case that it has these ultra sensitive sectors,

well every other country participating in the negotiation can make a similar case.

And you will not want the (inaudible)very slow, and the TPP turning into a model of the (Inaudible). So, I think that the balancing act is how you contain the rigor, the ambition that sets the TPP aside, but also, make allowances to make sure that these trade agreements can be ratified domestically. They must pass muster -- the different political processes of all countries involved, and it is indeed, a very difficult balancing act (inaudible)a lot of hinges and the result of the TPP.

The second fundamental question that I think that the TPP raises is that people have now come to realize how diverse the members are. And that is important, because we all felt that in the TPP, you had countries that had self selected into these negotiations. Right? They had to engage in confidence building measures. They had to show they were prepared, ready and that they had the degree of ambition.

But the problem is, once you're in the negotiation, then you're going to find it very hard to make sure that those rules match your developmental needs. And there are going to be countries at very different levels of development. So, you have on the one hand, for example, the United States and Japan, but we also have countries like Malaysia, Vietnam and Peru who may have very different approaches on some of the rules, areas and negotiations. So, finding (inaudible) around here is also very important.

The most fundamental question that I think that the current state of TPP negotiation raises is one basically of leadership. And there are two main economies involved in the TPP negotiation so far -- the United States and Japan. And I would make the case that these countries, therefore, face special leadership burdens, and that they have to lead the way. And I would make the case that that the absence of a market deal access between the (inaudible) of the United States is taking the oxygen out of these negotiations. It is not possible to move forward on

the rules area. It is not possible to move forward on the other very important market access negotiations because the two largest economies in this trade negotiation cannot reach an agreement.

And of course, we know that trade policy is very much linked to the best economies. And I think that the problem is that in both sides of the Pacific, the United States and Japan have had some leadership differences regarding these trade negotiations. I don't have a lot of time to go into this, but I think that more importantly in the United States, the absence of trade promotion authority has passed the shadow of these negotiations. There is a raging debate in the United States as to whether you can get an ambitious TPP before you get TPA.

And actually, from the other point of view, I think that the sequence is rather clear that you cannot ask your counterparts to make their best offers; that you cannot send the signal that there is in the United States sufficient domestic political will, the working political institutions, the domestic

TAIWAN-2014/12/05

consensus on these trade agreements if you cannot pass TPA; that that's a very important reassurance measure.

And because my time is very limited, let me then talk a little bit about what would be the consequences of not meeting the past leadership -- the leadership test of not successfully navigating the challenges of these negotiations. Time is running out. I would make the case that because of the American presidential elections in 2006 (sic), we really should have trade promotion authority and a broad agreement on TPP by the first quarter, or at most, the first half of 2018. If we go past that point, then of course, the shadow of the presidential elections will make it even harder to contemplate, you know, this very ambitious trade negotiation.

So, what happens if this does not focus the mind? Well, I think that this is bad news along a number of very important fronts. From the point of view of the United States, I think this would be a huge blow to its credibility, because as I said, the TPP is central to the rebalance. So, you think about

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

TAIWAN-2014/12/05

it as the two legs of the rebalance, and absent the TPP, their balance is not going to walk. It's actually probably going to limp.

And if the United States put out a shared view of economic prosperity and it turns out that there was not enough consensus for these countries to come on board, I think that that's a blow to U.S. leadership. I think it also would be a serious blow to the credibility of Japan and its economic revitalization program. We also show that the Prime Minister is not showing enough resolve to really take on their cultural interests, and these would be problematic.

I would make the case that the people that follow trade, like me -- the failure of the TPP or the TPP negotiations continue (Inaudible). If we cannot get 12 countries who have self selected, who have tried to show that they have the motivation to agree on a deep integration agenda, I would have to ask myself, then what's left? Because the multilateral route is not moving. Even preferential trade

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



agreements cannot deliver these results. How do we make sure that there is this updating on rules of trade and investment?

And to conclude, and I'm sorry for going so long, but just since I'm here, what I will also make the case is that it would be a problem if there no TPP, because then one could not benefit from the catalytic role that a TPP could play. I understand that while it's not in the TPP, that the previous panel talked about some of the challenges that Taiwan would have to come aboard, and I'm sure that the other presenters will address this, but I would make the case that Taiwan could benefit in many ways from TPP participation.

And if we (inaudible)TPP, then obviously, those options are not there. How? Well, Japan -- Taiwan is a country that relies on trade as a major source, a major driver of growth. So, for a country that's a trading nation like Japan, they mark -- like Taiwan, sorry -- we marginalize that the central trend in trade negotiations is, I think, a big loss. I

think that Taiwan, like many other countries, could use a TPP to promote international competitiveness, to advance its structural reforms, to promote the competitiveness of the (inaudible)center, and so forth.

I also think that Taiwan could do what Japan did with a TPP, and that is to gain leverage and influence in other trading negotiations. Taiwan has a key role in Asian supply chains, and we know, therefore, that it would be of great benefit for Taiwan to participate in a trade agreement like the regional comprehensive economic partnership, because the (inaudible)will actually benefit Taiwan very, very much.

But I would make the case that Taiwan has a much larger possibility of participating in the ARSEF if it's first in TPP. It's a way in which you actually boost your credibility and your standing in trade negotiations. So, just to conclude, after I highlighted the stakes and after I highlighted the challenges and go about the differences in there, so

TAIWAN-2014/12/05

not delivering on the TPP. I'm hoping that this will be concentrating on (inaudible) that we all to come to a successful wrap up of these negotiations.

(Applause)

MR. BUSH: Thank you very much, Mireya. I'm sure people in the audience have some questions about other implications of all of this for Taiwan. So, my job as moderator is to make sure that you have the time. We now move to our colleague, David Dollar, who is a senior fellow in our John L. Thornton China Center. He is a longtime expert on the Chinese economy. He worked for many years for the World Bank, including years in China at the bank's mission. He was most recently with the Treasury Department in China, before he came to Brookings. And he speaks to us remotely from somewhere in Washington, D.C.

MR. DOLLAR: Hello. I'm David Dollar speaking to you from the Brookings Studio in Washington, D.C. It's a great pleasure to participate in this conference by video link. I'm going to talk about the short run trajectory of the Chinese economy,

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

some of the key reforms that China needs to carry out and finally, what are the implications for the rest of the world. What are the implications for Taiwan and Asia-Pacific and the whole world economy?

So, let me start with this short run trajectory of the Chinese economy. And China has been growing very well for a long time, but one problem in its growth model is that it has come to rely excessively on investment. The investment rate has reached up above 50 percent of GDP, when Japan and Taiwan were growing quickly, and we never saw those kind of investment rates. The problem with such a high level of investment is that the capital stock has accumulated very, very quickly, and there is starting to be excesses in different parts of the economy.

In China in particular, we see excesses in real estate. And then, because real estate depends a lot on steel mills and copper smelters, there's also a lot of excess capacity in heavy industry, and there was a big campaign built up of local government infrastructure for several years, and that's been

winding down. So, what we have is a Chinese economy where investment is naturally slowing down, and that's a healthy thing. But because investment is half the economy, of course, that starts bringing down and down the GDP growth rate.

We'll get new data within a week or so, third quarter data. Yet, most economists expect China's GDP is growing at 7.2 or 7.3. That's still quite good and the leadership is pretty relaxed, because so far, consumption has held up well. Investment is slowing down, but consumption has held up well. Consumption is mostly services, so the service sectors are growing quickly. These are more labor intensive, so in the first eight months of the year, China created ten million new jobs, and the leadership is pretty relaxed about the growth situation right now, because the labor market is quite tight.

So, I think as long as the labor market remains tight, I don't think we'll see any big stimulus on the part of the Chinese government. So,

that's a big of background; that the economy is slowing down because of investment, the government is basically allowing to happen, doing some things to encourage consumption, which is holding up really well.

Now, the main thing I want to talk about this second part of the talk is China's reform program. In its third and final resolution, China put out an ambitious series of reforms, and these could potentially help very much with this transformation of China's economy, reigning in wasteful investment, but encouraging household income and consumption.

So, let me mention three areas of reform. First, China has a repressed financial system. Interest rates are low, capital markets are under developed, the capital account is closed. So Chinese households do not have a lot of savings options, so they tend to buy apartments. So, that's been one factor stimulating the housing boom. But it would be good for China's economy if it liberalized gradually the financial sector, let interest rates rise to a

market level, let private firms go to the capital markets.

We'd then get Chinese households earning a better return on their savings, and that would stimulate their income and probably their consumption. And also, the current system lends a lot of money to the local governments and state enterprises at low interest rates, so letting these interest rates rise, we take away some of that subsidy to investment.

The second area of reform is the hukou registration system. I'm sure you know China has a very tight household registration system that limits the ability of labor to move around. This influences the growth model. It makes it hard for rural families to come as families to the city and get good health and education benefits. Migrant workers can come to work, but they leave their children behind in the countryside.

So, the leadership is talking about easing up on these restrictions, but they're starting out in third and fourth tier cities, and the risk here is

that there's probably not a lot of productivity gain from letting (inaudible) in the third and fourth cities. There would be a lot more gain if more people could move to the flagship cities, not just Beijing and Shanghai, but also places like Honjo and Suzhou.

A third area of reform is that China is quite closed in terms of its services sectors. Services like financial services, telecom, media, logistics -- these are dominated by a small number of state enterprises, and there's a little bit of private activity and very, very little foreign investment. China and the U.S. are negotiating a bilateral investment treaty, and I think that will be a very important reform that would help with China's reform and be good for U.S.-China relations if China can follow through and offer up a small, realistic negative risk for this bilateral investment treaty negotiation. Opening up those sectors means that China would have new areas of productivity growth, and that would help with this transformation of the growth model.



Finally, I want to say a few words about implications. If China makes this transition smoothly, that will generally be good for the rest of the world economy. China's appetite for energy and minerals will probably diminish, so if you're an exporter of energy or iron, you know, China may not be quite the boom it was in the past, but we should see more diversified imports in from China. A hundred million Chinese tourists went abroad last year, many of them to Taiwan, Hong Kong, Southeast Asia.

The Chinese are starting to send their children to schools abroad. All of those are forms of imports of services into the Chinese economy. So, this transformation of the China model would definitely help some of the neighboring economies perhaps, give quite a powerful boost to neighboring economies in a more diversified way than we've seen in the past.

But I want to end with a caveat. These are difficult reforms. There are many specialists who are skeptical that China can follow through on these

TAIWAN-2014/12/05

reforms. They're quite political. For example, opening up financial services or telecom, and if China is not able to move aggressively on reform, then probably, you'll see the economy continue to slow down.

This is the logic of diminishing marginal returns. If you keep investing in the same areas, you're going to get diminishing and ultimately, zero returns. And so, China really needs to open new areas of dynamism through reform. If it doesn't reform, then China could be a source of instability in the world economy. Thank you very much. (Applause)

MR. BUSH: I'll tell David you gave him applause (Laughter). I hope no one has a question that only he can answer, because he's not here to answer it. We now turn to two specialists from Taiwan to talk about economic reform in Taiwan. In some ways, they're very similar. They both work for premier institutions here in Taiwan.

Professor Hu Shen-Cheng is at Academia Sinica, and Professor Tain-jy Chen is at National

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

Taiwan University. They both got their PhDs in the northeastern part of the United States; Professor Hu, at the University of Rochester, and Professor Chen at Penn State. They both have served the Republic of China as heads of the CDPD; Professor Hu from 2004 till 2007, and Professor Chen from 2008 till 2009.

I do hope that they don't have exactly the same views, because if they do (Laughter), it'll be a very boring panel. So if you have some differences, that would be great. So, Professor Hu will speak first.

MR. HU: Thank you. I'd like to basically distinguish myself for Professor Chen by (inaudible)that economics is (INAUDIBLE). But I'll try to talk about the current state of the economy (inaudible)space of economic development (INAUDIBLE). I think that this year, despite the (inaudible)world economy, (INAUDIBLE). At the beginning of the year, (inaudible)economic growth (inaudible)just over 2 percent, but by now, we experienced (inaudible)currently 3.5 percent.

The unemployment rate and the (inaudible) crisis of (Inaudible), they are able -- thinking ahead. Thinking how (inaudible) rates indicate that the (inaudible) increases entirely among businesses over the economic (inaudible) next year, simply said. They are said to be on the right spot. First, there is increasing (inaudible) risk in the world economy, especially the Chinese economy. Taiwan's largest (Inaudible). The Chinese economy goes to (inaudible) of structured changes we also experienced while (INAUDIBLE).

The reason the times (INAUDIBLE). The big picture is it could affect (inaudible) tourist (inaudible) because (inaudible) exports -- other (INAUDIBLE). I think at this year's exports -- exported (inaudible) suggest that Taiwan's economy is still (Inaudible), in spite of all the talk about the (inaudible) and others. Despite all the talk about how we are under pressure like Samsung.

Samsung brought us a (inaudible) good, but it's profit is going down quite quickly. But

TAIWAN-2014/12/05

(inaudible)how these groups are making record  
(INAUDIBLE). This year, we can -- everyone expects  
(Inaudible). Taiwan has the world's most (Inaudible).  
ICT is the prime series. The ICT sector now amounts  
to 20 percent of our manufacturing sector, and also is  
responsible for 40 percent of the total exports. We  
are (inaudible)in the launch of Kessler.

We can say -- (inaudible)that Taiwan is  
the birthplace of Kessler (Inaudible). We are quite  
active in the introduction of iPhone 6. (inaudible)in  
the new things such as IOT, the Internet Of Things  
(Inaudible). Taiwan's (inaudible)are known for  
flexibility, remedy and cost control. I think now the  
product cycle is basically in the ICT sector -- it's  
become shorter and shorter. The remedies of Taiwan's  
(inaudible)-- we also put in cost control. But the  
cost control is very small. It's now reaching above  
the neck.

(INAUDIBLE)

MR. HU: Now, in order to hold back the  
manufacturing costs, Taiwan has also overseen most of

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

TAIWAN-2014/12/05

the export office it received. In the manufacturing sector, it's about 20 percent. But in the ICT sector, which is as high as 85 percent, and much of the exports is for (inaudible)outsourced obviously go to China. Now, because of the outsource of production, Taiwan is now able to (inaudible)because of the case of domestic investment.

We (inaudible)and just talk about there's too much investment in China. Taiwan is undecided. China has 150 percent and China's domestic investment is 150 of GDP. Taiwan was slightly more than 20 percent compared to (inaudible)for Korea, because the investment was not adequate. We do not produce enough jobs to employ young people. So, the unemployment rate among the young was high -- as high as 13 percent, even though our overall rate of unemployment has just come down to under 4 percent.

And as far as this, now our -- we also (inaudible)that a (inaudible)state nation (inaudible)income is (Inaudible). Taiwan worked hard (inaudible)--

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

(Break in recording)

MR. HU: -- and in regulations, in terms of investment and value, in terms of committees of doing these things. But somehow, we are not able to (inaudible)for the investment. We did fall way behind Korea. And I think of one (inaudible)was our (inaudible)in signing FTAs with strength in commodity trading (Inaudible). This put us in a disadvantage in competition for investment with Korea.

Now, with inadequate (Inaudible), inadequate investments, it comes through excess savings. Savings (inaudible)investment. There are excess savings. Now, amounts to 1.5 trillion (inaudible)dollars -- what can qualify for savings are our GDP. This excess savings flows into the housing market. Now, because housing prices could go way up, and now the high housing prices maybe come -- probably come (Inaudible), number one -- the housing price over household income is -- was making climbs in Taipei City compared to most -- about five times above most other cities.

TAIWAN-2014/12/05

We are even higher, compared to Hong Kong and (Inaudible). The stagnation of when this happened, also caused us some problems. Poverty, for instance, comes -- find it easy to recruit (?) poverty from Taiwan, and it's all (inaudible)and not worry about how we happened to get employed. They could be attractive to China, (inaudible)or Hong Kong. One job was the government's -- this money goes through Hong Kong -- could be managed by Taiwanese leaders.

(Discontinued Professor Hu's speech at 43:27 -- unable to understand extremely heavy accent - - low volume and difficult sound quality. Transcript resumes at 54:30)

MR. BUSH: Thank you, Professor Hu. Now, Professor Chen.

MR. CHEN: Thank you, Richard. I do share the defined (INAUDIBLE). Unfortunately, it's not one hundred percent over that time (Laughter). So, I can't. But I do -- be able to set some time, maybe for the discussions from (Inaudible). But we focus on trading and the moderate perspective and up to -- up

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



through (Inaudible).

So, beginning with some of the (INAUDIBLE), we move to Taiwan's situation to talk about FTA. First, we'll touch upon that, and then we answer questions or do you want to talk through (Inaudible). First, the world trade has really injured Europe, as I see it, since the 2008 financial crisis in the sense that of this growth rate in the past 15 years or 20 years has been very different since 2008.

So, if you look at the statistics, you're going to see that between 2009 and 2008, probably 30 years, the world trade has been growing at a speed -- a growth rate of about twice the growth rate of GDP, and that has been changed since 2008. Now, the growth rate of trade is about the same as GDP. Again it's the figure -- this is what I took from the World Trade -- WTO statistic. You know, in the middle line, the green one is the growth rate of trade. The red line is the growth rate of GDP, and you divide, you know, the top by the bottom one and you get the growth. So, you can see that there really -- sort of moving up

since 2000 -- I'm sorry, since 1990 until 2008.

This picture -- I think the next one will be -- so that really suggests there is some kind of reaching change in terms of the world trading situation. These figures probably show better about how the disruption happened occurring around 2008 and 2009. You know, the blue line has been the sort of -- you know, it's a 10 year moving area, just like taking out of the sort of movement fluctuations from year to year. So, you see a very straightforward and up shot, you know, growth line of the world trade.

And suddenly, there was you know, a drop in the 2008 crisis. And then go back in after 2010. But you can see the growth rate now has been you know, obviously lower and on a different path now. So, that indicates very well that this kind of rupture -- almost rupture sees sequential crisis. So what happens? What happens is I think, our interpretation is this great expansion of the processing trade. The processing trade in the perspective from the United States or Europe is just offshore sourcing. Okay?

The management firms are moving some of these more labor intensive activities to countries like China. And then, bringing them back when these processes are completed. So, we are looking at these processing trades, which has been really extensive, primarily because of the opening up of the world trade system, and also because of (inaudible) change that makes (inaudible) unbundling or production of the evaluation more easy. And also, because of the participation of China in world production.

So, these reasons together -- you see a dramatic increase of these processing trades. Okay? And now, these pretty much came to end because you know, this processing trade has created some kind of imbalance between the U.S. and Europe and Asia, on the other hand, in the sense that it's you know, offshore sourcing countries have been running like overconsumption situations for a sustained period of time, and Asia has been (Inaudible). So, these growing values are one reason for this situation to be -- not to be able to continue forever.

And the second reason is because China eventually reached a so-called, at least turning point. So the service labor is no longer there. Okay? So, as a result of these, you're going to see that -- we're probably going to see a different picture of world trade from now, and also, celebrate a moment between U.S. and Europe and try to do something called re-shoring. The green bag (?) goes overseas (INAUDIBLE).

And here are some statistics to indicate the change of this processing trade. China has the statistics on the percentage of trade, which is of the offshore sourcing nature. So, on the second column, you can see the ratio of processing trade out of China's (Inaudible). But it used to be over, you know, roughly 50 percent in the middle of the 1990s, and then over 50 percent after 2000. But then, you can see a declining trend of that ratio in recent years, and very dramatically.

I think in the recent year, we have seen from the statistic is we have already (inaudible)35

percent. So, it's a big decline of the percentage of this -- of shows, mostly in FTTs global management. So, that's also some kind of early evidence of the change of the change structure.

Okay, now, let's look at Taiwan's trade statistics, which are pretty dismal, as we just said, in the sense that you know, this is all kind of ranking in world trade. We used to be somewhere around 12 or 13. Now, it's down to number 20 in the world. The export actually did not grow at all in the last three years. I think that last years' export, 2013's now exports are actually less than what we exported in 2010. So, we are a very major player of these processing trade things. Even though China, you know, has been the biggest exporter. But we are doing these things together pretty much, with China.

And so, when that process trade kind of hit, you know, some kind of structural turning point, we also suffered. But the entire world, as I said -- the entire world in expansion -- we saw the momentum for a very rapid increase of trade has pretty much come to

TAIWAN-2014/12/05

an end. So therefore, that exceeds -- trade figures, you know, have been kind of disappointing in the last three years. And therefore, that you know -- also, as a result, our increasing costs in China is that we'll see more exports to Southeast Asian countries, so the Taiwanese companies are shifting some of their offshore (inaudible)China to Asian countries, too. So that's another reason.

So, maybe let's look at these figures. As you can see, they are -- this is the trade statistics for Taiwan, the first three quarters. And you can see this -- you know, on the last column, you can see the growth rate. We probably have the same (INAUDIBLE). I think it would be much worse if TSMG is not shipping out iPhone related products to China on the U.S. So, the recent figure has been eliminated mostly by the increase in those semi-conductor exports from Taiwan. On the one hand, it's about 2 percent or something. It's really dismal.

This is our monthly trade statistic, and if you can see that, you know, before July, you know,

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

TAIWAN-2014/12/05

it's 1 percent or 2 percent. It's been kind of up and down. The last three months, it has looked better because of these sort of performance and something about the (Inaudible). This is our sort of structure of the export commodity. You can see that here (inaudible)and semi-conductor in the product we have is now accounting for about 31 percent of our trade, which does kind of improve things like you know, computers, because computers (inaudible)product.

We are also denying (inaudible)formal electronic LCD and other things, so the (inaudible)product components, including the semi-conductor products are the major -- sort of the mainstays of our entire export now. And so, these ratios have been increasing. So, we have a very concentrated -- if you also include those sort of photo electronics and the computer power in the same category, and these sort of broad definitions of ICT, it's already constituting about 50 of our exports. So, it's a very concentrated industry structure.

Okay? And as Dr. Hu already mentioned, it's

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

TAIWAN-2014/12/05

concentrating in general in Hong Kong. However, this percentage has been decreasing in the last two or three years, already. It used to be over 40 percent. So, I see an increase in the export share to the U.S. and countries. And the U.S. is picking up a little bit in recent years.

Okay, so you know, skip this and go to the FTA agencies. FTA doesn't matter, although that -- as you know, Dr. Hu mentioned, our income per year in Korea has been more and more aggressive. You know? The last (inaudible) item you can see, the Korean has signed FTAs with (inaudible) countries, China not included, harboring 35 percent of external trade, including all of the major trading partners, the U.S. and the EU.

Taiwan has only been able to sign something we saw -- diplomatic relations countries and (INAUDIBLE). We assigned EKVA, kind of a free work agreement with China, and then New Zealand and Singapore, which cover, I think, less than five percent of our export, China included.

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



So, this left out the recent situation of (inaudible) curves. This is a picture of -- sorry, it's in Chinese, but you can see the last figure there, the -- you know, the most east figure. The gray line will indicate the Korean share in the U.S. market. And then the blue line is our share on the U.S. market for all commodities. And then this, the second -- you know, the bottom of it -- the low line was a line again, for the commodity which carries (Inaudible). Okay? That means Taiwan would be discriminated because of the U.S.-Korea (Inaudible).

You can also see an upward trend for the Korean export in terms of market share and our sharing. The blue line, in terms of market share. So it's been hurting. It's hurting us already. So, this is kind of like all of the TAC, not only hurt us in terms of trade aversion, but it also hurts the investment sentiment, because particularly multinational companies. You're looking at Taiwan and then consider to do something here, and they have asked -- you know, when they export their product from

TAIWAN-2014/12/05

Taiwan, what kind of terror they will be facing in their destination market.

So, that hurts particularly. And also, the domestic companies. You know, they want to set up their new productions. They may consider that they move that to other countries, such that the terror proves safe. So, I think the -- how to bring this (inaudible) is very important. A recent problem with the China -- I think it's being discussed in the morning, kind of in order to kind of overcome these FTA siege problems, we try to have a deal with China.

And to do that -- what we keep doing is, and then people begin to be so worried. So, the so-called Sunflower Movement is very indicated as some kind of stress of society, our current policy. Whether this will make us too dependent on China, number one. Second, is this policy really going to work? After we sign this FTA with China, can we really be free from motioning our FTAs with -- you know, with the other countries?

This is also our problem. So, I think you

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

TAIWAN-2014/12/05

know, (inaudible)has mentioned the recent movement on the (inaudible)of things thesis, so it made our FTA agreement, our TPP or off-site is very important for us. If we are able to join this, and we will probably be able to ensure society that this is not a one-way street. When we have this FTA deal with China, this is not just a one-way street. We will go to China and stay there and become over dependent on our market, and then we'll still be isolated.

So, I think this regional agreement such as TPP is great for us. And we trying, actually -- you know, every scholarly discussion ever (Inaudible), we are also trying to persuade our Chinese counterpart that Taiwan's participation in the regional agreement such as TPP is good also, for the financial regions. So now, all the people have confidence that -- so they're building a closer relationship with China. It's good. It's not something to be worried about. So, that's -- I think the other part has been discussed by Dr. Hu, so I will stop here. Thank you for your attention. (Applause)

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

TAIWAN-2014/12/05

MR. BUSH: Thank you very much, Professor Chen. We now have a little time for questions, so I'll open the floor. And if I call on you and I don't seem to recognize you, it's because the lights here are pretty strong and I can't see a thing. But when I do call on you, if you would indicate who you want to direct your question to -- and please wait for the mike. So, who has the first question? Yes, right there. Is that Joanne?

(Discussion off the record)

MR. BUSH: Come here.

MS. CHEN: Thank you. I'm Joanne Chen from Academia Sinica, and I have one question for Dr. Solis. Can you make some concrete policy proposal to Taiwan to enhance our possibility to join TPP? And also, I know Dr. Bush is the chairperson, but coming from Washington, can you make some prediction about the midterm, whether the Democrats will be able to keep the majority status, and the implications for U.S. trade negotiations abroad in the future? Thank you.

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

TAIWAN-2014/12/05

MS. SOLIS: Thank you very much for your question. So, as an outsider -- I'm not an expert on Taiwan, but from what I can gather, I could make the following proposals -- clearly, to revitalize the (inaudible)process, that dialogue with the United States, to make sure that you can boost your credibility by addressing issues that have been difficult with the (inaudible)relationship with the United States, such as beef and pork.

I also think that in the aftermath of the Sunflower Movement, and I understand that it was triggered mostly by these very specifics and abilities of (inaudible)economic integration, but nevertheless, required by what are going to be the domestic institutional procedures for review and ratification of trade agreements, so that again, trade inquiries of Taiwan can understand what the process will be like.

And I think that you should continue what you're doing. I think that my experience from watching what other countries do is never put all your eggs in one basket. And of course, Taiwan has

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

benefited greatly from WTO membership, but you know, the benefits of using that to pursue domestic reform have probably been already accomplished, and I think it's time to think about how you create synergy among trade negotiation fronts.

So, all of the initiatives that my fellow panelists discussed in terms of negotiating bilaterally, trying to pursue the different dialogues of the United States, consulting with TPP partners informally as to what will be required, and then, sending a clear message as to the existence of a domestic consensus and streamlined review applications to seniors for trade agreements, I think would be complete steps that can be acted upon now to pave the way for potential accessions.

MR. BUSH: Thank you, Joanne, for your question. If I could predict American elections, I would not be working at Brookings. I would have a higher paid job (Laughter). I don't know what's going to happen in the Senate. It's very close. Usually, in the 6<sup>th</sup> year of an 8 year term, the moving party

TAIWAN-2014/12/05

does very badly. I think it will come down very much to the turnout of Democratic voters, of particularly Hispanics and African Americans. Perhaps, the Democratic party has a similar -- a turnout problem that's similar to the one that (inaudible) has for the 9 and 1 elections that are coming up.

Ironically, it may be that a Republican victory, a Republican control over the Senate will make it easier to pass TPA, Trade Promotion Authority, because Republicans are generally more in favor of free trade than Democrats. They are much more in favor of free trade than the current Senate Majority Leader, Mr. Reid, and he has been an obstacle. So, even though I may have my own party wishes about who wins, I do see perhaps, a side benefit.

And then, we could achieve what Mireya discussed, and that is, quickly pass TPA, get a TPP agreement done in the first half of this year. But getting a real TPP agreement is the first precondition for Taiwan joining the second round of TPP. Thank you. Next question? Over here. Is that Edward

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

Chung?

SPEAKER: Yeah.

MR. BUSH: Right behind you. Hi, Edward.

SPEAKER: Hi. And (inaudible)for Taiwan to join the TPP and set -- you know, TPP is not so easy for us to join. And asset -- may be -- might be more difficult, because even though China is -- Taiwan always a corrector -- (inaudible)mentioned that both sides of Taiwan's administrators could discuss the possibility of joining the (Inaudible).

However, I don't think that China would not set barriers -- that they would set barriers for Taiwan to join our sector. Do you have any strategy or plan to (inaudible)-- Taiwan (inaudible)have plan to join our sector? Thank you.

(Discussion off the record)

SPEAKER: (inaudible)-- I believe there was good -- something to look at, I think, because the Hong Kong already stalled the negotiations with the ARSEF countries to have a financial Asian Hong Kong FTA. And it's officially started already. So, I



TAIWAN-2014/12/05

think currently, you know, China is now preparing Hong Kong to be a member -- potential member of the ARSEF future. Because ARSEF has said that we've got to have something with (inaudible)first.

So, I think Taiwan, of course, is a lot different from Hong Kong. But when China have sought -- you know, set up this kind of scheme or this agreement for Hong Kong to do so, it's some indication of it's good -- this economy.

(Discussion off the record)

SPEAKER: (INAUDIBLE). I think that the U.S. (Inaudible). The U.S. must decide whether it would allow Taiwan in TPP, or exclude Taiwan from TPP. This would then force Taiwan into joining ourselves or even moving closer toward Chinese economies. That is for the U.S. to decide. If we do not participate in TPP, then of course, we would (inaudible)-- it's possible we would join ARSEF. ARSEF (inaudible)would be much bigger to say in the world politics, the world economics. It would a better, stronger (Inaudible).

If we are allowed in TPP, I doubt that we

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

TAIWAN-2014/12/05

would join ARSEF. And then, TPP's power -- whether (inaudible)-- and then that's what the U.S. has to decide -- how it would treat Taiwan. To move us closer to China, closer to Southeast Asia, or allow us in the bigger (Inaudible).

(Discussion off the record)

MS. SOLIS: Okay, if I can offer some general comments on what I said and how I can -- one can think about eventual participation, I would start by saying quite candidly, that sometimes in the debates in Washington of long trade experts, I notice a lot of the skepticism as to what is going to be the value added of our set. And there's a discussion or there's a political comparison with the TPP.

And very frequently, American analysts would say that there is going to be a much lower quality agreement, and it's not going to have the same level ambition and rule, and that the overall levels of (inaudible)nation are going to be rather low. I think that this might not be the best way to realize that. I think ARSEF has more to offer than these really, in

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

particular, because many of the participating countries actually have relatively high levels of (Inaudible).

I mean, they're willing to lower that as a benefit, and given that we're talking about the center of you know, supply chains that are (inaudible) for the coming and going of components is quite accurate, then there's a real benefit to be derived from (inaudible) agreement agents. So I think that you know, if you look at the studies, like for example, if you (INAUDIBLE), that there are really special gains to be derived from our set, even if it doesn't match the level of ambition of the TPP.

And I like not to think about this as rival, zero sum trade negotiations, but actually, as constructive competition in the sense that -- to the extent that TPP seems close to coming fruition, that will encourage also, ARSEF countries to think more boldly and to try to go further in the liberalization effort. And also, because we have to keep in mind that there is overlapping membership. Many countries

TAIWAN-2014/12/05

who have participated in TPP also participate in ARSEF. And I think it's a good, healthy competition.

Having said this, I think it's also important when Taiwan thinks about how it's going to position itself into these two mega (inaudible) agreements to think about where these negotiations are at today. And the fact is that the TPP started much sooner, and the ARSEF is just in the early stages. So, it's not going to come to fruition. It's not going to materialize very soon.

We also have to keep in mind that India is part of this exercise, and India is going to obviously, exercise some influence on the actual outcome. What we hear so far is that India is taking a rather defensive approach. The figure that was circulated among trade experts is that India was prepared to discuss only 40 percent (inaudible) in the nation. This would be \$2, actually, so hopefully, we can go further than that.

Now, my point that -- I perhaps made it too quickly because I was trying to rush, is that when I

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

TAIWAN-2014/12/05

think about you know, accommodations for Taiwan -- maybe to give you an example and a lesson, I think, I have learned from watching what Japan has done with its trade policy, because Japan is obviously a very large economy, but Taiwan is really punching along its way in international trade negotiations.

And when we joined the TPP, we actually managed to get a lot of leverage in our negotiation in France. Why? Because China's responsiveness to developments in the TPP -- it was really quite striking how China would calibrate its strategy vis-à-vis Japan, when Japan became very close to negotiating, to enter the TPP. So, you could expect that if Taiwan is interested in the ARSEF, my suggestion, my modest suggestion, not being an expert on Taiwan's trade policy is that if you have TPP in hand, you'll have a much better position to talk about diversifying an entry under military agreements where China's consent is essential.

So, I would suggest that there is, perhaps, a natural sequence because of TPP's positions are

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

going forward, and how you actually can position yourself to revive benefits from TPP, given the known China's responsiveness to developments to that trade position. Thank you.

MR. BUSH: Edward, let me talk a little bit about TPP. And my first point has to do with ARSEF, as well. You probably understand that Beijing has said that it would be better for Taiwan to finish ECFA before it undertakes these regional trade agreements. That of course, creates a political debate within Taiwan as to whether the elements of ECFA are a threat or an opportunity. Whichever you choose as a matter of public consensus, the challenges follow.

Now, with respect to TPP, I think the most likely scenario for Taiwan that meets to Taiwan joining is the pattern that we followed in WTO; we meaning the United States and Taiwan. The first precondition is that China itself decides as a matter of principle that it is in its own interest to join TPP. And this is a way of stimulating necessary and fundamental economic reform in the same way that the

WTO was perceived by (Inaudible).

Then, if Taiwan is moving ahead in its negotiations with existing TPP partners such as the United States, that gives Beijing another incentive to negotiate more seriously, because it doesn't want Taiwan to get too far ahead. And then, the outcome is that the two enter at the same time.

Finally, I think there is a political argument that Taiwan can be making to the mainland about restrictions on its ability to join regional trade arrangements. And that argument is as follows: That if China has as part of its goal, winning the hearts and minds of the Taiwan people, then it's going to be more difficult if Taiwan is not prosperous. If Taiwan is (inaudible)hind stack (inaudible)or stagnant economy, then -- and if China is blamed for that in some way, then that's not in China's interest.

And I think that Taiwan liberalizing its economy and joining regional blocs is a very important way to improve economic performance and growth. So, if China blocks Taiwan, it's going to bear a cost, as

TAIWAN-2014/12/05

well. So, who has the next question? We have time for a couple more. Yes, sir. On the -- right on the aisle there. I don't see who it is.

MS. LYNN: Good afternoon. My name is Sarah Lynn. I'm coming from the Legislator of Bea Kim Shell. So, I have a question directed to Dr. Solis regarding TPP.

MS. SOLIS: Uh-huh.

MS. LYNN: There has been talk that because of the market access issues between the United States --

(Break in recording)

MS. SOLIS: I've heard that argument. I think it's actually out there, far fetched. I think that Japan coming into the TPP (inaudible)the economic and the geopolitical implications of this agreement. And if you see my mind, you can see below that Japan could be dropped from these negotiations. I think that would be a tremendous blow to the U.S.-Japan alliance.

It would also mean that there are basically

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



TAIWAN-2014/12/05

very few economic gains that the United States and most foreign countries can derive from a TPP. And if you think about which is a country that coming on board opens fresh gains from trade, because it does not have already a trade agreement, or because the agreements it has consisting that -- the existing agreements are not so far in the previous Japan. So the (inaudible)of the agreement I say, are from successfully negotiating with Japan.

I see this more as a negotiation strategy than trying to indicate to Japan to signal that these positions -- they seem very (Inaudible). But you know, not to put all the blame on Japan. I also think -- let me make this point. If you think about whether -- the political conditions that are required for both liberalizations, they will pass into Japan. Strong Prime Minister, no domestic challengers, no national elections coming up soon. They're all there. And the country is not moving.

Partly, it's because the government is not taking on as much as it could or it can -- very

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

TAIWAN-2014/12/05

cultural sector. But I also think that Japan is taking a cautious approach, because the United States does not have TPA. And I think that Japan does not want the same fate that Korea endured -- the same situation where the (inaudible)FTA was left on legal for five years. So they're clearly waiting for that signal, that commitment. o, I think as I said before, I see the initial deficits, but on both sides of the (Inaudible). Thank you.

(inaudible)

SPEAKER: Tim Jin Yeng from the Institute of International Relations. My question is also to Dr. Solis. You mentioned about -- TPP is a valid containment, but an inducement for China. I just got back from the U.S. this morning, and watching some of the news reports, they still -- I mean, they create you know, TPP as a means to contain China (inaudible)you know, asset. So, you're an expert on these regional things, but yet, the media -- you know (inaudible)of the --

(Break in recording)

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

TAIWAN-2014/12/05

SPEAKER: -- is really handed to contain China. So, I don't know how will they -- China's diplomat in the U.S. react to you know, your interpretation.

MS. SOLIS: Thank you very much. I think there's a (inaudible) point that the media goes for the rivalry story. Right? Because it's more compelling, when you're trying to catch the attention of the public. But you know, to be quite frank, I've had many exchanges with you know, officials of China that follow economic relations, and I think it's very clear that there has been a shift over time in China's position on TPP.

It did start very guarded. It start with a containment, a notion. But over time, it became more of, you know, well actually, we should study this proposal. We could think about, as Richard was saying, the WTO precedent where we use this trade negotiation to leverage domestic reforms.

And to be even quite more candid, more recently, I had a discussion that actually was a

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

TAIWAN-2014/12/05

little bit more worrisome. They have gone from worrying about containment to let's study these very seriously, to now, can the U.S. deliver? And the more the negotiations stalled, the more they are going to take these (inaudible)world. First, let's see what is going to come out of this.

What would be the price stamp for China to consider joining? But I actually do think that the shift among many elites in China that have a bad (inaudible)that is about (inaudible)in China than more about whether you know, it would actually be a good thing for China. I just do -- add one more comment. Then I know we're out of time. I think it's really interesting, and if you think about what is China's signature initiative during the APEC and international economic front, it is the (inaudible)of Asia-Pacific.

And this is a notion that actually was developed in the United States and that very much endorses the view that is about the Asia-Pacific. So, I think that China's views have also shifted significantly in a way in which actually makes a

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

TAIWAN-2014/12/05

possible alignment of views more likely. It's still a steep challenge. It's not going to happen right away. But I think we're moving past the rhetoric that is about marginalizing, isolating China to how do we think about collaborating and shifting a broader regional effect.

MR. BUSH: Okay, I think we're out of time. I want to thank all of you for your excellent questions, and thank the presenters. We will take about a 15 minute break and then return for the final panel to be chaired by Dr. Fredrick Chien. Please join me in thanking our -- actually, our four presenters for their outstanding presentations.

(Applause)

(Recess)

DR. CHIEN: This is the third and final panel of today's seminar and the subject of this panel is Cross-Strait Relations. We are very fortunate in that we have very distinguished panelists; they are all outstanding scholars. They are also quite interesting. They represent different views, one from

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

TAIWAN-2014/12/05

United States, one from mainland China, one from the Green, one from the Blue. One by one I will introduce them, but we have the order on the program, but I have to defer to the demand or the request of my good friend, Richard. He wanted to have the final words so we are flipping parts. Let me call on Professor Huang who is the Secretary General of the Association of Foreign Affairs. May I call upon Professor Huang?

DR. HUANG: My personal understanding about this current **Ma Ying-jeou** administration's basic thinking about the planning and implementation of mainland China policy.

There are three points I would like to point out today. First is that I think for the Ma administration it would like to transform cross-strait relations from confrontation to at least muddling through. But this maybe we don't know how to end the hostility between the two sides and we don't know how really to deal with China's communist regime, but at least we can transform the state of cross-strait relations from confrontation to something, not

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

TAIWAN-2014/12/05

peaceful but something with no violence. Particularly I'd like to mention that at least for me the Ma administration has been carrying out some very important historical experiments in the fields of diplomacy, politics, and economics. In diplomacy, you know, the Ma administration calls for a diplomatic truce which really brought at least a temporary peace between the two sides. And in politics the ambiguity between the two sides has brought mainland China and Taiwan to the negotiating table and the mutual de facto recognition of jurisdiction which had never happened before. And in economics, we have talked about ECFA in the previous session, and ECFA and related pacts have paved the way for a more stable relationship between Taipei and Beijing. So those are efforts made by the Ma administration in the past some six years.

The second is to continue institutionalization of reciprocal cross-strait relations. In that sense I think both governments in Taipei and Beijing are trying to highlight the

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

TAIWAN-2014/12/05

commonalities and shelve sharp differences. And so for Taiwan I think the Ma administration is very realistic to envisage the reality that is the rise of mainland China is unstoppable. And for Taiwan to have a greater international participation Taiwan needs three components, one of which has to do with mainland China. That is the passive understanding of mainland China for Taiwan's international participation. Of course the other two components for Taiwan's greater international participation are strong international support and strong domestic consensus. That is why we made it at the WHA case and IPO case.

The third point I'd like to make here for the Ma administration's basic thinking is to widespread the diligence of peace resulting from cross-strait relations. I think right now the policy of the Ma administration's mainland China policy has resulted in the more stable regional relations, not only between the two sides of the Taiwan Straits but among most of the East Asia major countries. These policies promoted by the Ma administration also bring

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



less burdens for each other's friends or allies in the region or in the world. More importantly I would like to identify the very important facts that the peaceful anti governments of cross-strait relations and exchanges have generated new momentums and proffered more public goods for the region and the world.

So Taiwan's participation in the WHA and (inaudible) organizations for example have helped Taiwan join meaningfully international society and help Taiwan provide Taiwan's knowledge, knowhow and some other services to those people incoming (inaudible).

So these are the basic thinking behind President Ma's mainland China policy after May 2008. But -- next screen -- I'd like to point out that there are to be some insurmountable obstacles for the Ma administration in 2015. So to save our time I think I will only point out three. The first is undoubtedly unstable domestic backing for President Ma's mainland China policy. I personally sense that in Taiwan society we are having less and less confidence

TAIWAN-2014/12/05

resulting partially from economic advantage in favor of mainland China. That is with a strong economic performance of mainland China some of our people in Taiwan feel less confident in dealing with China's communist regime. That leads to further retrospection or conservation or reservation in Taiwan's general public's opinions about President Ma's open policy towards mainland China. The second factor in this category is Taiwan's need for social media. That will impact Taiwan's public policy from a more critical angle which is good. But sometimes the media are posting heavy criticisms ending public policies because they try to criticize public policies which in turn makes the Ma administration more difficult to manage its mainland China policy. Something that might be even more important I think in that for President Ma is doing something risky. In other words I think President Ma is shaking hands with the regime that has a very negative image in Taiwan society and has vowed to take power back with whatever possible means it could, either violence or non violence. So

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

TAIWAN-2014/12/05

for President Ma his promotion of such a mainland China policy will be questioned by some people having serious doubts of mainland China. So it's not because financial China policy, but because of the image and the determination of Beijing to take power over. That's the trouble with President Ma's mainland China policy.

And the second point I would like to identify is President Ma's strong ambition with mediocre political communication skills which has been widely recognized in Taiwan society. My personal interpretation of President Ma in his cross regulations and policies is that he tried to speak up to fulfill those tasks that were supposed to be carried out after the late 1990s. That is he tried to catch up with those that should have been done but that hasn't been done. So he thinks he is doing the right things and standing on the right sides and he's responsible for history. But as I said before because of the so called Beijing factor, so the Ma's administration backs appropriate narratives about the

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

TAIWAN-2014/12/05

management and the consequences of President Ma's mainland China policy, not to mention the responses and practice of mainland China for responding to President Ma are also questioned and worried many, many Taiwanese. So with ambitions, but I think this political communication needs to be had in order to make our people feel more comfortable about the pace of President Ma's mainland China policy.

And the last thing I would like to emphasize is the enduring suspicion and distrust of mainland China. Some people argue that mainland China and Taiwan have been going hand in hand with less and less struggles between them, but I sense that actually for Beijing leaders there is still strong suspicion of Taiwan, actually that they don't trust Taiwan; they don't trust most of Taiwan politicians. Let me give you probably two examples. One is regarding Taiwan's international participation. I've been asked by some important mainland China officials who are scholars having closer connection with the authority that if Taiwan would like to pursue greater international

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

TAIWAN-2014/12/05

participation then how can Taiwan guarantee Beijing that Taiwan should be able to avoid the influence of Taiwan independence while Taiwan's promoting its expansion and participation. More specifically can Taiwan or can the Ma administration promise that there will be no to China when Taiwan is getting involved more and more international transitions. That's one of the things Beijing is afraid of. And also Beijing sometimes asks why does Taiwan want to join regional security arrangements but not to form some sort of security arrangements between the two sides of the Taiwan Straits? So do Taiwan just want to go internationally, not go with cross-strait relations? So sometimes they have big doubts of Taiwan's determination in joining regional security arrangements. Another example is Beijing's response after the Sunflower Movements. So this social protest against cross-strait trading service agreements actually worries Beijing very much. And this suspicion has been amplified by the so called Occupy Central movements of Hong King. So Beijing now has

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

probably deeper suspicion of whatever Taiwan has to do with Beijing because unless Taiwan say hey, I would like to be united with you. So, but Taiwan won't say that, so Beijing will always have some doubts of Taiwan regardless who the relationship is.

So my conclusion that I think next year it would be a very, very tough year for the Ma administration, not only internationally as discussed in last session, but also domestically. So how will the Ma administration deal with that? I think the most important thing is to have some blasts, some basics that can really move and impress our people and make them think that the (inaudible) cross relations will actually and eventually benefit most of the people. I think that's hard, but I think that's the only way that can save the Ma administration in 2015.

I think I'll just stop here. Thank you.

(Applause)

DR. CHIEN: Thank you, Dr. Huang. And our second panelist is Mr. Shih-chung Liu, who is the President of Taiwan Brain Trust. Mr. Liu has a very

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

TAIWAN-2014/12/05

illustrious background. He was Director of International Affairs to Department of Democratic Progressive Party. He is still working for his Ph.D. at (inaudible) University and he was formerly a Research Fellow at Brookings Institution. So without much ado I will turn the mic to Mr. Liu.

MR. LIU: Well, thank you, Honorable Chairman Chien. It's truly an honor for me to able to attend this panel and then to address you all kind of factors that might affect policy environment next year.

Let me make it very clear that I' not representing the DPP today (laughter). That's why I'm wearing a pink tie instead of a blue tie because I firmly believe that while Taiwan is now is more of a pink politics within a blue-green dichotomy. So while I think this is the best phenomenon that can explain the still ongoing transformation of Taiwan politics. I firmly believe that when it comes to foreign policy or cross-strait policy making the key word is to avoid miscalculations. Cross-strait relations require

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

TAIWAN-2014/12/05

comprehensive, strategic assessment and policy formulation to prevent misjudgment and that could cause the situation to speed out of control and to treat retention and to escalate into a crisis. And such an assessment must take into account domestic political developments on both sides, changes on the foreign policy, the respect leader's perception of these situations, and finally the reevaluation of the consequence of the policy implementation. So think the timing of this meeting is very, very important because while most people have been preoccupied with how to win the upcoming elections at least there are still a lot of people caring about what might happen after the election. So I give high credit to (inaudible), and also to Dr. Su as well as all the people who have made this conference come true.

So let me start with domestic politics. This is an issue that I think most of you have been paying attention to. I would say according to various public polls, including some sort of PNP friendly media polls, I would say there's a general consensus

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



TAIWAN-2014/12/05

that the governing (inaudible) administration might suffer a huge loss 30 days from now. So this is one of the key issues we have to address in terms of all kind of new plan that the change of domestic politics might have on future cross-strait relations. I don't have to give you the numbers, but for the opposition, DPP, it is very likely that in addition to the six counties and cities that it has governed there is a real chance for DPP to aid at least two to three seats on the municipal, up on mayoral levels, mainly greater Taichung City and Chilong City and possibly Taipei City. They give this as far as independent, mayoral candidate Ko Wen-je. So I think this is something that I'm sure that KMT government has been worried about. So still 30 days to go, we'll be watching. But this kind of general prediction is correct, that KMT will suffer a huge electoral setback, then I would say that President Ma will face a severe potential cause trouble from within the KMT. And also it might have some sort of negative impact on cross-strait relations next year. The chance for the DPP,

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

TAIWAN-2014/12/05

opposition DPP to win back government power in 2016 will increase, but I don't think it's still a guaranteed result. So let's wait and see.

When one tries to project the policy environment on cross relations next year I think it's very important for us to at least view some of the changes that have been made in cross-strait relations in kind of unpredictable directions. I think Dr. Huang had mentioned a series of events happened this year, namely the Sunflower Movement. It was more of a public backfire to the way that the Ma administration fast tracked the cross relations. In summer we have this allegation against former Mainland Affairs Council, Deputy Minister Chang Hsien-yao for allegedly leaking state secrets, and that if vindicated some of the Sunflower Movements call that -- there has been a severe lack of transparency when the government in Taiwan deal with this China's counterpart. In fall we had of course Occupy Central, still ongoing. It's more of a movement against the implementation of one country, two systems. And then in early winter we

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

TAIWAN-2014/12/05

have the most recent cooking oil scare involving the Ting Hsin Corporation and having that according to more evidence that the Ting Hsin Corporation has a closer connection with KMT and the Ma administration. And the company has large money in China, but instead they have sold tainted cooking oil to Taiwanese people. I'm not saying that they are the fast growing anti China sentiment happen in Taiwan, but definitely would have some sort of negative impact when it comes to future government decision making toward China.

Finally, after months long urging to meet the Chinese counterpart with Ma Ying-jeou wanting to meet with his constituency (inaudible) in Beijing, however Beijing has officially denied him that. So his National Double Tenth Day statements President Ma kind of took a tougher stance by reiterating of 1992 consensus as a basis of cross relation. He also expressed his stronger support for the Hong Kong people's struggle for universal suffrage of your chief executive, and even appealed to Beijing to let some people go democratic first. I think Beijing's

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

TAIWAN-2014/12/05

reaction as illustrated by its spokesperson of Taiwan Affairs Office was that Taiwan authorities should not make irresponsible comments about Hong Kong. People have been wondering whether this Double Tenth Day address expressed by President Ma was some kind of a turning point for cross relation. I wouldn't make such a risky prediction; we still need more time to watch. But I will say that cross trade will be further stopped next year, no doubt about it, and not to mention that we have a local election coming up. So it's very important for people in the post-Ma era, for those people who have had their eyes on the next presidential election or legislative election to take more into account those changes between two sides.

So my advice to President Ma is to consolidate the cross-strait achievement that he has made so far and rebalance Taiwan's external relations with other major countries and devolve power to ensure a peaceful, smooth transfer of power in 2016.

Let me turn to the DPP and address some of sort challenges faced by DPP and also incumbent

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

TAIWAN-2014/12/05

chairperson (inaudible). I would say of course local election looks pretty good for the DPP and of course it increased the chances for the current (inaudible) Taiwan to lead the DPP's next presidential nominations. However even if the DPP score a big victory in November it does not necessarily translate into another victory in 2016. Why? Because Taiwan will now face President Ma Ying-jeou, not to mention that the huge lateral loss in November of the KMT I would say will further increase the unity of the KMT because of the fear of losing government power in '16. So it is important for (inaudible) not only need the DPP to win the (audio skips) interview. In that interview she said that if we the DPP can win the nine-in-one elections China will automatically adjust its course in a direction favorable to the DPP. Moreover as long as China adjusts its policies DPP the U.S. will have nothing much to say. This statement as far as I'm concerned triggered the rebuttal from Beijing and also bewilderment in Washington. In September of course Richard made some comments in D.C.

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

TAIWAN-2014/12/05

I don't have to explain details of what he said, but my own observation -- because I haven't even discussed it with you -- on why he says something like that, but my own reading is that I think Richard's statement does not represent first to some extent Obama administration, and was not meant as a deliberate warning to Tsai or future DPP presidential candidates, but rather a kindly friendly reminder to the DPP future leaders. Because of what happened in fall, September, fall 2011 when Tsai Ing-wen in the capacity DPP's presidential candidate of was in D.C. there was this unfortunate *Financial Times* incident, so there's a fear that after Dr. Tsai's statements in July could Washington regard Dr. Tsai's July statement as filled with the hope that the DPP will reclaim government power in '16 so that Washington should of course give silence? If this is the case I would say it constitutes a potential source of misperception and miscalculations. But the good news is as far as I'm concerned Dr. Tsai and her foreign policy team had literally started communication with Washington on

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

TAIWAN-2014/12/05

this matter and explain the rationale behind Tsai Ing-wen's most recent statements.

Another belief is that in the past two years, even when I was working for the DPP, we have seen a change of personnel in the Obama administration dealing with Taiwan, including the AIT team here in Taipei. They are experienced, they have done an excellent job in terms of leading both sides to walk out of the shadow of what happened in fall 2011, and in a way to deepen our recovery, a mutual trust between DPP and Washington. However I think DPP leader needs to work harder to rebuild trust in the people who make the ultimate decision at the white house. So my recommendation to the DPP is to not misperceive Washington's thinking and take Washington and Beijing for credit. And Dr. Tsai and her foreign policy team should keep up the good work of rebuilding mutual trust and engaging (inaudible) with the U.S. And furthermore DPP needs to strengthen its policy discourse and strategic reassurance vis a vis the Obama administration; identify and communicate with a

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

TAIWAN-2014/12/05

possible U.S. presidential candidate and their team and establish substantial trustworthy channels of (inaudible) with China to dispel Washington's and Beijing's misgivings about the unpredictability of the DPP leaders.

And regarding DPP's relationship with China, my understanding is that there's still distrust and misperception from Beijing. The result of Taiwan's local election will definitely determine Beijing's next step, but what the DPP can do -- because DPP cannot control what Beijing can do, so at least DPP can do something right now and that his (a) it should continue its past words of strengthen internal consensus building within the party and with Taiwan society, including different political parties, and (b) to establish authorized channels of communication with the Chinese, (c) present policy with moderation and presence, (d) finally to come up with a balanced China policy before the next presidential election unfolds. The DPP can no doubt quote many reasons including civil moments happening in Taiwan and Hong

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



TAIWAN-2014/12/05

Kong, as well as China's internal uncertainties and assertive foreign policy to hopefully convince the U.S. that more caution and patience are needed for cross relations. But the DPP should not take Washington's silence or Beijing's acceptance for granted. So Dr. Tsai and DPP need to come up with a China policy and more longer-term strategic direction and is able to continue with her cross-strait relations so there will no imminent crisis when it regains government power. She might also win the support of Taiwanese voters and see to it that Washington does not at least take side. She must also ensure that Beijing will not go as far as breaking off cross-strait exchanges in a bid to exert pressure against the possible election of Tsai Ing-wen as Taiwan's new president. Constructive steps include more open and friendlier measures to treat Chinese tourists, spouses, students, as well as introduction of a pragmatic approach to institutionalized cross-strait official exchanges.

Finally, it is my hope that three sides,

ANDERSON COURT REPORTING  
706 Duke Street, Suite 100  
Alexandria, VA 22314

Phone (703) 519-7180 Fax (703) 519-7190

TAIWAN-2014/12/05

Beijing, Washington, and Taipei can craft a balanced relationship. China is no doubt facing severe international challenges. Xi Jinping has forcefully delivered his anti corruption commands for all three years and has just adopted policy to achieve the goal in a most recent Chinese community party. So facing potential unrest within Chinese society. So he demonstrates stronger foreign policy attitudes, not to mention that upcoming ethics summits also will be (inaudible) for Washington to construct this so called major power relationship with Beijing. And there are a whole list of issues. When President go to Beijing he will talk to Xi Jinping. I think it's very important for Washington -- again this is my personal advice to Washington, and that is to not see U.S.-Taiwan relations simply through the lens of cross relations. I think Taiwan can definitely play a more strategic and constructive role in the overall U.S. imbalance and also the next presidential race is coming up in the next years. For those who have potential of joining the Kuomintang, I think for any

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

TAIWAN-2014/12/05

political party or any political leaders in Taiwan he or she must work harder to reach out to those next U.S. government leadership.

So I think I'm going too much time so I'll stop here and work on your questions and comments. Thank you.

DR. CHIEN: Thank you very much, Mr. Liu, for your presentation. (Applause) Now the speaker I'm going to call upon is Mr. Hu Lingwei, Deputy Director of Shanghai's East Asia Research Institute. This is a very important think tank in the City of Shanghai and Mr. Hu has been doing research work on cross-strait relations for quite some time. He will be making his presentation in Chinese. So for those of you who have difficulty understanding Chinese please turn on your earphones.

Mr. Hu?

MR. HU: Thank you, Chairman. And thank you for Dr. Richard Bush, and thank you, Dr. Chu Si, and Chairman Francisco Ou; I'm so glad that you have this opportunity to share my own views and share my own

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

TAIWAN-2014/12/05

views on cross-strait relations with mainland China policy towards Taiwan. Unfortunately my English is not good enough so I'm only speaking in Chinese so that I can express myself clearly. (Speaking in Chinese). (Applause)

DR. CHIEN: (Speaking in Chinese). The next speaker and the final speaker will be our co-host, Dr. Richard Bush.

DR. BUSH: Thank you very much, Dr. Chen. I'm glad that I chose to go last because I had the opportunity to hear the three excellent presentations that we have just heard, and they really were excellent and I compliment each of the presenters. It also gave me a chance to totally agree with my friend, Liu Shih-chung's, explanation of the remarks that I made about six weeks ago. I couldn't have said it better myself.

I'm going to start by talking about my speculation, and that's all it is, about trends in cross-strait relations in 2015. And I won't cover everything, but I would make the following points:

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

TAIWAN-2014/12/05

First of all will there be political dialogue between the two sides? I think it's highly unlikely, perhaps impossible. I think you understand the obstacles. The first is public opinion in Taiwan which has not yet been prepared for political dialogue. Second is the conceptual gap between the two sides and that's essentially over the issue of the Republic of China. Second question, and it's related to politics, will there be a Ma-Xi meeting? I think it's not impossible, but it is contingent upon satisfactory consensus on several different issues. First of all what is the setting, is it more international or more domestic? How do we characterize the meeting, is it party to party, or is it leader to leader, or something else? Third, what do each of the leaders call each other and what do the respective media call the leader of the opposite side? Fifth (sic), what is the framework for the meeting and how does that framework relate to the one China issue? And finally what's the agenda, what do they seek to accomplish?

Third, and this also has to do with

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

TAIWAN-2014/12/05

political issues, what is going to happen to Taiwan's international space and its international activities? I hope during 2015 that Beijing allows Taiwan greater scope to participate in the international community and make a contribution to world affairs. I hope that Beijing certainly doesn't further restrict the scope of Taiwan's activities. I'm not particularly optimistic here because I know what has happened and what has not happened over the last six years. I do believe that how Beijing handles Taiwan's international space can help it or hurt it in winning the hearts and minds of Taiwan people. The more restrictive Beijing is the more it will hurt winning hearts and minds.

Fourth, on the question of military trends I think that we will see continuing and gradual increase in PLA capabilities in two respects. One in strengthening the PLA's ability to deter Taiwan independence, and second in the unfortunate situation that some conflict should occur to block or complicate U.S. intervention. I don't expect any kind of

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

military trouble, but I think China will continue to build up its capability to respond to a situation it doesn't like. And this also will kind of effect China's effectiveness in winning hearts and minds.

Fifth, on economic issues I think we discussed this at length in the previous panel, clearly Taiwan faces three dilemmas in deciding its economic policies and therefore the economic dimension of cross-strait relations. The first is the degree of liberalization and pursuits, low, high, in between. And this has consequences for economic reform and for domestic politics. Second is the direction of liberalization. Does Taiwan emphasize liberalization vis a vis the mainland or does it work with other trading partners? My own view is that it should do both, but figuring out the sequence and the relative balance is not easy. And then third how does Taiwan cope with Beijing's potential political veto over its economic liberalization with other trading partners? Does Taiwan in some sense accommodate that or does it resist it?

TAIWAN-2014/12/05

However Taiwan resolves these dilemmas the government must sustain public support. I think that was the lesson this spring. And I understand fully that when it comes to convincing people of the value of exposing their economy to competition, that's a very hard sell. It involves short-term and medium-term sacrifice for the sake of long-term benefit. I believe that opening one's economy does stimulate reform and it does stimulate people to work very hard, but it's still difficult.

So I think the question on cross-strait economic relations going forward in 2015 is whether the ECFA Agenda can be completed. I don't have the answer to that, but clearly that becomes the foundation for other things happening. Concerning the U.S. role -- and I don't speak for the U.S. government, I'm going to speculate, I actually think there's going to be a lot of continuity. The policy that you see in 2015 will be very similar to the policy we've seen in 2015, 2013, and 2012, and I can go on with that.

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



TAIWAN-2014/12/05

Now, seven, I think there are side issues that have emerged and will continue to be at play that affect cross-strait relations, and the most interesting and pressing one is Hong Kong. Now because Hong Kong faces some of the same domestic challenges that Taiwan does, and these are economic inequality, questions about opportunity for young people, and so on, because Hong Kong and Taiwan are facing the same kind of civic movements that really transform the internal politics I think it's very important for Taiwan people to watch what's going on in Hong Kong, more important what Beijing does vis a vis Hong Kong. Maybe clues over the long-term to what kind of policy PRC pursues. I hope there's not crackdown, I hope that the two sides in the Hong Kong struggle can work out some sort of reasonable compromise, but it will be a challenge. So in 2015 I think we're going to see a mixed picture. The biggest question and the one that is hardest to answer is what is going to happen in fulfilling the ECFA agenda.

Now having speculated on those areas I would

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

TAIWAN-2014/12/05

like to come back to the issue that my friend Hu Lingwei raised and that is the discussion here, fairly intense discussion over Xi Jinping's remarks on September 26. And does it make any difference that he's talking more about one country, two systems and less about the 1992 consensus? I share Hu Lingwei's view that this represents no real change. Unification has always been the mainland's long-term goal vis a vis Taiwan. One country, two systems has always been the formula for a unification. Now there may be sort of changes in rhetorical emphasis, but I think we should just accept that this has been the policy and it probably will be the policy. 1992 consensus I see is different. 1992 consensus is a useful device for addressing near-term issues. How to promote mutual reassurance between the two sides, how to promote mutual cooperation where it's politically feasible. And I think that we will see a keen emphasis on the 1992 consensus.

Then the question is why did Xi Jinping feel it was important to reiterate and reemphasize what has

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

TAIWAN-2014/12/05

been longstanding policy. I think he's pursuing a certain tactic in preparing for the 2016 elections and that is to set very clear parameters about what Beijing expects and will tolerate with respect to Taiwan's own mainland policy. The mainland has done this before; one can argue it did it in 2012. It's a tactic it used in Hong Kong over the last year or so. I'm not sure it works totally there, but there is a consistency here.

Finally, as I've suggested the direction and the pace and the scope of cross-strait relations going forward will to some important extent be a function of politics in Taiwan. And that is in two senses. The first one is obvious, and that is who will be Taiwan's new president and what are that president's policies. And so I think the mainland will be focusing a lot on the 2015 campaign and the campaign means that are put forward. And I was very interested to listen to Liu, Shih-chung on his thoughts on that issue. But there's a second dimension and that is the political system as a whole. We've seen new actors asserting themselves

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

TAIWAN-2014/12/05

in Taiwan politics and working very hard to place their views on the political agenda, and there's a question of how the political system as a whole will accommodate those forces. Then there's the larger question of how the political system can address in an effective way the challenges facing Taiwan. And on this question I cannot improve upon the presentation of my friend, Chu Ling Han this morning. I agree totally with his analysis. I hope he's wrong, but as usual I think he's right. I also agree with him that a weak and ineffective political system handicaps any president in carrying out his agenda or her agenda. I think that regrettably that Taiwan voters are not being well served by their democratic system. I confess that American voters are not being well served by their democratic system. But you live 90 miles away from China, we live thousands of miles away from China, so we have different situations. And individual politicians may benefit from the way this political system works, but I think there's a question that has to be faced and that is will the position of

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

the Republic of China vis a vis the mainland be stronger or weaker if the political dysfunction continues.

Thank you very much. (Applause)

DR. CHIEN: Thank you, Richard. I think you will agree with me that we have four very, very outstanding panelists give us a lot of insights for us to reflect upon. Now it's time for Q & A. I guess we have about 25 minutes. Do I see -- yes, there's a hand. Please identify yourself and your question and who do you pose the question to.

QUESTIONER: I'm Professor Thai teaching at Taipei University. My question will be directed to Richard Bush and Hu Lingwei. If President Ma does not encounter some difficulties or problems at home, political setbacks, will President Xi still propose one country, two systems or maybe it's just a guess work? Okay, thank you.

DR. BUSH: In think Lingwei should answer this first since it's the mainland you're asking about. (Laughter)

TAIWAN-2014/12/05

MR. HU: (Inaudible) clarify the question.

QUESTIONER: I will ask it in Chinese.

(Speaking in Chinese).

MR. HU: (Speaking in Chinese). (Laughter)

QUESTIONER: (Speaking in Chinese).

MR. HU: (Speaking in Chinese).

DR. CHIEN: Any other questions?

QUESTIONER: I'm George Stein from Tanishka University. I have a question I would like to pose to Professor Liu. I don't know I can call you as my friend or not. In addition to the advice you presented to, you know, you had stated to Tsai Ing-wen, to Obama, you know, to the KMT, essentially that other than those veterans or anti (inaudible), I just want to, you know -- or DPP's real stance on the (inaudible) trade service and (inaudible) commodities service and (inaudible). Do you foresee those the easiest would be done which in the coming next year or will it cut wide on that? Or the DPP won't fight against that? Thank you.

MR. LIU: Well, thank you for your question.

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

TAIWAN-2014/12/05

I think I can only speak for DPP on several dimensions. One in the past two years that DPP definitely has made some concrete steps instead of just rhetoric in terms of coming up, introducing some drafted bill related to cross-strait monitoring mechanism, establishing the cross-strait negotiating mechanism and DPP's positions on the so called cross-strait service and trade agreement has been very, very clear. A year ago, a year later. A year ago nobody expect there's a Sunflower Movement. So right now what we face is a bigger social -- a pro social force that's bigger than DPP, that has cast doubts on the way that the current government negotiates the service and trade agreement. That's number one. Number two is the way that it push forward, the passage of this agreement in our legislature. So until the government responded to this bigger -- and this is bigger social first, I would say DPP can always count on it, some of the pragmatic and Taiwan interest centric kind of cross-strait negotiations. So one of the ones I get to DPP leaders is focus more on the pragmatic

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

TAIWAN-2014/12/05

legislations. For example involving now we have official meetings, institutionalized, right, on each year with China's counterparts on the (inaudible). Hopefully it comes back. It's kind of official battle can be going on and also hopefully that DPP can make extra efforts in terms of helping the government in Taiwan also the maker (inaudible) to negotiate a balanced bill to institutionalize the establishment of cross-strait office. I think there are some preconditions introduced by DPP, but the overall DPP is supportive of institutionalized and this kind of a bill. I think further government cross-strait interactions.

DR. CHIEN: Shapiro and then the lady on the third row in the middle.

MR. SHAPIRO: Don Shapiro from the American Chamber of Commerce. Actually my question was quite similar to Professor Thai's. And I wanted to address it to both of the Taiwan panelists, but maybe Mr. Liu has already given an answer. What do you expect will be the fate in the legislative Yuan of the cross-

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



TAIWAN-2014/12/05

strait services agreement and what do you expect the impact will be on cross-strait relations? Will the services agreement pass in the legislative Yuan and what will be the impact if it does not on cross-strait relations, and also for Professor Huang.

MR. LIU: Okay, just simple answer. I hope -- and again this is one of the advice I get with DPP leaders, that is after the November elections and between the nomination of the next DPP president I will say I can see this window of opportunity, you know, from December to let's say April, May next year. In other words next LY session could be a window of opportunity for the new DPP leaders to present a more moderate and pragmatic approach to address these issues. I'm not saying that DPP will technically support the passage of this service and trade agreement. It's up to the legislative members to discuss, but I can only see a slight window of opportunity in next spring for DPP and of course the government, KMT, to jointly work out a solution.

DR. HUANG: I've always argued that actually

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

TAIWAN-2014/12/05

there should be some consensus between the blue and the green, not only on the issue of trade and service agreements, but also on the issues like South China Sea, China Sea, et cetera, because I don't think the two major parties should have a sharp claims on these important issues for our national security. And unfortunately we've seen such a sharp division between the two parties which has trapped Taiwan into a very difficult situation. So if there's a failure to pass these trade and service agreement in LY I would argue that maybe Taiwan's economic future will be doomed in the sense that Taiwan will have to be forced to deal with either the U.S. or mainland China. That Taiwan will actually join one of the major regional economic arrangements, DPP or R7.

MS. CHEN: Thank you. Joanne Chen from Academic (inaudible). My question is to Dr. Bush and (speaking in Chinese). The first coming it meaning, the Xi Jinping and Obama is going to have bilateral meeting. And Susan Rice hoped this meeting was the milestone for U.S.-China relations. I wonder if you

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

TAIWAN-2014/12/05

expect some kind of breakthrough and implementation for cross-strait relations because more relaxed relations between U.S. and China. Thank you.

MR. BUSH: Thank you, Joanne, for your question. The first purpose of this meeting as with the meeting at Sunnylands last June was to sort of build a personal relationship between the two leaders and I hope that is successful. U.S.-China relations have a number of difficulties over the last year basically and so I think that this meeting could be very important in stabilizing that relationship; I'm not sure there will be a breakthrough. There are some issues on which cooperation between the two countries might be increased and improved. Those issues include ones like Iran and North Korea and ISIS and climate change. There are some issues where we have more frictions, where the dialogue between the two presidents might lead to better management. These include the East China Sea, South China Sea, cyber security, Russia, and so on. I'm sure that cross-strait relations will come up because Chinese leaders

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

TAIWAN-2014/12/05

in these meeting usually bring it up and we have our response. And I think that a better U.S.-China relationship will have some modest positive impact on cross-strait relations, but I suspect it's not the most important issue in the meeting.

MR. HU: (Speaking in Chinese).

DR. CHIEN: We still have about 10-12 minutes so are there any further questions? Yes, please.

QUESTIONER: I know this is getting a little further away from the immediate cross-strait question, but a couple of you mentioned the South China Sea. And clearly Taiwan has a very interesting role in this debate since on this particular issue Taiwan may align partly with mainland China. But I guess my question is to what extent do any of have thoughts about even the rough contours of where this issue might go and how we could ever see a solution in the South China Sea because is the only solution that China gets 90 percent of it? Is there a solution with territorial division or is the sort of thing where everyone can

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

TAIWAN-2014/12/05

claim part of the sovereignty and there's combined economic development where China has a large share but everyone plays? I mean what kinds of ideas could even help us towards a solution over the longer-term on this very tough issue?

DR. CHIEN: Your question to Dr. Huang or Professor Liu?

QUESTIONER: Anyone who would feel inspired out of all five of you (laughter), including my Chinese friend.

DR. HUANG: Actually I think we have many political minds here who can better answer this question than I, but I try. You know, first of all I think mainland China should realize that without Taiwan's participation, okay, the South China Sea cannot be resolved, but mainland China hasn't been able to face the reality to let Taiwan in. So I think for that Taiwan will never cooperate with mainland China even though China doesn't see Taiwan as part of the important players in the region. But that is that. I also have argued that Taiwan is not so

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

TAIWAN-2014/12/05

interested in working with the (inaudible) actors like mainland China, but Taiwan is also interested in working with other claimants for some possible joint explorations in the -- with the South China Sea while protecting freedom and (inaudible) both of which are very important for all of these countries surrounding the South China Sea.

And one final note that mainland China should be aware of the possible negative consequences of blocking Taiwan from joining any South China Sea negotiations and missions because that would cause some setbacks onto cross-strait relations. So I think it's not only tough for Taiwan but also tough for Asia.

MR. LIU: I would only -- again this is my personal view, it does not represent the DPP's official position, before I left the DPP's headquarters we had a series of discussions on this, internal meetings, and no official decision has been made within the DPP yet. So it's up to for example (inaudible) to express DPP's position on this issue.

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

TAIWAN-2014/12/05

And my own take, and also during consultation discussion with another of my colleagues or people who are more closer to DPP, we came to some sort of consensus, that is peace and stability is Taiwan's first, you know, goal. Second goal is to hopefully use this issue and turn that into chances of diplomatic resolution for Taiwan. That is most people felt more close to DPP tend to favor a solution that are more in mind with international norms. But we came up with more I would say constructive thinking that Taiwan should use this kind of thinking and engage not only the U.S. but also all parties involved in this issue to hopefully open up some doors on a bilateral cause, not all fall behind the same -- this kind of dialogue. So only Taiwan can incorporate into this kind of regional security doubt as Dr. Huang just mentioned. On this issue I think I share a little bit of consensus with him, except the measures that have been taken by the Korean government, still not different than the DPP. But again I haven't heard Taiwan would public express this position yet. So I

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

TAIWAN-2014/12/05

would assume it's still not an official policy adopted by the DPP because it's still in the stage of internal discussion.

MR. BUSH: You're absolutely right that the Republic of China's claims in the South China Sea are the same as the People's Republic of China's claims. Where the two are different is their attitude towards how claims should be promoted. And Beijing has been more aggressive in how it asserts its claims. Taiwan has been much more aligned with the United States and other friendly countries on the principles of how these disputes should be handled. Taiwan was, along with Japan, created the most concrete and specific agreement for sort of reducing the danger that comes from aggressive assertion of claims through the fishing agreements with Japan. That sets an excellent example for other countries. I also agree with Kwei-Bo that it would be very useful to find a mechanism for Taiwan to be involved in any negotiation of a code of conduct, either in the East China Sea or the South China Sea.

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



TAIWAN-2014/12/05

DR. CHIEN: Okay. And yes, the lady over there.

QUESTIONER: My name (inaudible) from National Chengchi University; I'm a professor in the Department of Education. I remember this morning Minister Lin mentioned about the viable diplomacy. He talks about something about cross-strait, especially among the cross-strait relationship and exchanges among the younger generation. I'd like to ask a question about, you know, maybe any of -- each of you panelists, would you predict what would happen between China and Taiwan, maybe 10 or 15 or 20 years from now when the younger generation take the administration? Among them many of them have the cross-strait experience. For example we have so many students coming over from China the other way around that -- and I also believe maybe Dr. Liu from DPP, maybe you also visited China. I don't know, did you ever visit China? Yeah, okay. So you might see some major differences between you and your older generation from the other DPP part. And that's the catalyst between

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

TAIWAN-2014/12/05

Taiwan and China. In another panel, 15 or 20 years do you ever predict maybe -- if we can stay as a status quo as we are nowadays in another 20 years what would happen between these two? And could you picture this? Thank you.

DR. HUANG: I think that's a question -- it's a big question, excellent question. I don't think I can predict what will happen 20 years from now but we're talking about young people, I assume that's for example age between 22 and say 30 or 39. So we should assess the environment we are living right now. For example in Taiwan, I remember when I was 20-25 I was in college and we went through the first open period of Taiwan's democratization. So that was more of an enlightenment to the way that I understood politics later. So I would imagine for the young Chinese who are with age between 20-29 now they are witnessing a fast changing society. Some of them get easier access to international information, what's happened in Hong Kong; they can always find some, right. So there's no limitation to their attempts to

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

TAIWAN-2014/12/05

explore what happens outside. So once those young people right now with ages between 20-29, when they become middle age, 40, the way they are dealing the political system or socially, businessman, they might have different concept about how China's role should go. And like the younger generation who appear on the street in spring this year, the Sunflower Movement, that was the whole afternoon. Eighty percent of the participants were exactly young people we're referring to. Never before have then went on the street and, you know, protested the government. No single political party can mobilize. So what's their worry, what's their concern? Through their slogans and banners they had posted, they're not just worried about potential economic competition they might face from the Chinese young people once government implement service and trade agreement. They also worry about Taiwan's future being merged or unified by Chinese in an undemocratic way. So if you interview them you'll see that they have different concerns, not just for their jobs and their future. So I would say

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

TAIWAN-2014/12/05

we have to take more into account the environment they are living right now because 10 years, 20 years later may not be the elite in their society. So they might change or dictate their future concept of how Taiwan society or Chinese society should fully evolve.

DR. CHIEN: So any other questions? Oh, there's one.

QUESTIONER: I'm a graduate student at American Studies at Tamkang University. Well, after hearing so many remarks personally I have a feeling that -- I hate to use the word hegemony or hegemonic power, you know, with the rising of China, but it seems that, you know, Taiwan has a lot of challenges ahead and I'd like to ask any of you, would you perceive, you know, with the rise of China, you perceive China has a hegemonic power and that's why, you know, like, you know, Deputy Director Liu mentioned that now with rising of China and so many disputes happened in the past few years, this was between China and Philippines, East China Sea and South China Sea. So I don't know if, you know, we

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

TAIWAN-2014/12/05

have entered another area of, you know -- we see that China has become a regional hegemony. And also this morning -- because Taiwan really want to join TPP but it seems that we have to take a lot of factors into account and we have to see if we are allowed by the hegemony in the region. Thank you.

MR. HU: (Speaking in Chinese).

MR. CHIEN: I think the session has to stop now because it's 5:00 o'clock and Dr. Su Chi, President of Taipei Forum told me to make sure that since we do not have a closing ceremony --

\* \* \* \* \*

CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Carleton J. Anderson, III

)Signature and Seal on File)

Notary Public in and for the Commonwealth of  
Virginia

Commission No. 351998

Expires: November 30, 2016

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