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RELATIONS ACROSS THE TAIWAN STRAIT: RETROSPECTIVE AND PROSPECTS
FOR FUTURE DEVELOPMENT

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PARTICIPANTS:

Welcome:

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

Keynote Address:

ANDREW L.Y. HSIA
Minister, Mainland Affairs Council
Executive Yuan

PANEL 1: OPPORTUNITIES AND CHALLENGES IN CROSS-STRAIT RELATIONS:

Moderator:

RICHARD BUSH
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RAYMOND BURGHARDT
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PANEL 2: OPPORTUNITIES AND CHALLENGES OF POLITICAL AND ECONOMIC
DEVELOPMENTS IN MAINLAND CHINA:

Moderator:

CHENG LI
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Panelists:

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PANEL 3: OPPORTUNITIES AND CHALLENGES FOR THE NEW CONTEXT IN U.S.-
TAIWAN-MAINLAND CHINA RELATIONS:

Moderator:

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P R O C E E D I N G S

MR. BUSH: Good morning, ladies and gentlemen. I think it's about time we should get started.

My name is Richard Bush. I'm a Senior Fellow here at Brookings and Director of the Center for East Asian Policy Studies. I'm also the proud holder of the Chen-Fu and Cecilia Yen Koo Chair in Taiwan Studies here at Brookings.

And it's my privilege and pleasure to welcome all of you to our conference today on the subject of "Relations across the Taiwan Strait: Retrospective and prospects for future development." We have an election coming in Taiwan in just exactly about six months, and so because elections in Taiwan have a unique way of driving cross-strait relations, this seemed to be a good time to have this discussion.

When I say "we," I'm not just talking about my Center at Brookings. The other organizations co-sponsoring this event are our John L. Thornton China Center; the Freeman Chair at the Center for Strategic and International Studies, represented today ably by my friend, Bonnie Glaser; and the Association of Foreign Relations, which is based in Taipei and with whom we've worked on this conference and a similar one last year.

And I would like to start my thank-yous by recognizing the big contributions that the Chairman of the Association of Foreign Relations, Ambassador Francisco Ou, made to the making possible this event.

And I'd like also to recognize our colleague, Huang Kwei-Bo, who's the Executive Director of the Association and a former Visiting Fellow here at Brookings.

I need also to thank my own staff here at Brookings, who have worked with CSIS and the Association to bring all this off.

This is a little bit of a sad day for us at the Center because Kevin Scott,

who's been my Associate Director and sort of really the core of the Center for 13 years, is being promoted to a position in our front -- the front office of the Foreign Policy Program. He will still be with us, but he will not be for us. And -- but I want to convey my deep gratitude for all the hard work he's put in for more than a decade and the contribution he's made to our work.

I should also recognize some special guests: Ambassador Shen Lyushun from the Taipei Economic and Cultural Office; Raymond Burghardt, the Chairman of the American Institute in Taiwan, a position I held for a couple of years; Joe Donovan, who is the Managing Director of AIT. It's very nice to have them here, and we will hear from Ray later in the day.

Right now, however, we are going to hear from our keynote speaker, Andrew L.Y. Hsia. He's the Minister of the Mainland Affairs Council at the Executive Yuan in Taiwan.

He is a Foreign Service officer by training, but -- and he has held a number of important positions in Taiwan's Ministry of Foreign Affairs.

Among other things, he was the Director of the Taipei Economic and Cultural Office in New York City, and in that capacity he did a lot of hard work from 2007 to 2011 to try to expand Taiwan's international space because New York is where the U.N. is based. And he had some success. I'm sure he wished that he could have had a lot more success, but that was not because of any lack of capability on his part.

He has been, in effect, Taiwan's Ambassador to Indonesia and to India. He was Deputy Minister of Defense before taking his current position.

And we're very pleased to have him speak to us today on whatever he wants to talk about. It's my great personal honor to welcome him to the podium.

Andrew.

(Applause)

MINISTER HSIA: Thank you very much, Richard, for the kind words.

Dr. Bush, Director of Center for Northeast Asia Policy Studies of the Brookings Institution, Dr. Richard Bush, ladies and gentlemen, honorable scholars, a very good day to you.

It's always nice to come back to Washington after quite a few years. I used to work here in Washington, in TECRO. After that, I tend to come back from time to time, and it's very nice to come back and see so many old friends here in the room.

Well, the Mainland Affairs Council is quite honored to hold this conference again with the Center for Northeast Asian Policy Studies at the Brookings Institution and the Association of Foreign Relations in Taipei. This is my first visit to Washington since becoming Minister of the Mainland Affairs Council. I would like to take this opportunity to exchange with you firsthand experience and views of recent developments in cross-strait affairs.

Ever since taking office in 2008, President Ma Ying-jeou has vigorously promoted a Mainland policy centered on peace and prosperity. Maintaining the status quo in the Taiwan Strait is supported by the majority of the people in Taiwan. It is also the core of the ROC government's Mainland policy. But what exactly is this status quo of the Taiwan Strait?

Since 1949, Taiwan and the Mainland of China have been divided by the Taiwan Strait and governed separately, with neither side exercising jurisdiction over the other. The ROC government is adamant in maintaining the cross-strait status quo of no unification, no independence, and no use of force.

Now I have to make one note here when people say "no independence." I remember when I was in New York after the speeches by the president about "no

independence," one of our diplomatic allies came to me and said, "Well, Mr. Ambassador, I knew until today that you were not an independent country. Otherwise, why should you not declare independence?"

So I have to explain to them that, internationally, the Republic of China and Taiwan, each is a sovereign independent country. But when we say "no independence," we basically that no permanent separation from the concept of China.

And these three "nos" under the ROC constitution framework and consolidating the ROC sovereignty is what is being dear to President Ma's heart. He is also committed to preserving peaceful and stable development across the Taiwan Strait.

Moreover, on the 1992 Consensus basis of "One China" with respective interpretation, cross-strait official interactions and institutionalized negotiations have served to safeguard the interests and well-being of the public. They have also paved the way to broader cross-strait exchanges and contacts in various spheres, and they have created conditions for Taiwan's steady development.

This is the status quo of the Taiwan Strait, one that is enjoyed by 75 percent of the people of Taiwan among whom include candidates in the incoming future presidential election.

An important question, however, is how can the cross-strait status quo be maintained? Looking back at vicissitude of cross-strait ties, it is clear that the status quo of peace and stability achieved under the Ma administration was not pulled out of thin air. It was built on an interlinked, complementary, and truly feasible ultra-stable framework for peace. Maintaining this status quo has, moreover, depended on the existence of four solid cornerstones.

And the first of these cornerstones is the 1992 Consensus of "One China" with respective interpretation. Crucial to this Consensus is this insistence on the

ROC's sovereignty and on Taiwan's dignity. The term "1992 Consensus" was coined in 2000, the year 2000, by Dr. Su Chi, the former National Security Advisor to President Ma. Some people are reluctant to accept this term, but the significance of the '92 Consensus and the historical facts at that time must be respected. The Consensus is also one that both sides can accept across the Taiwan Strait, underlying the mutual trust vital to maintaining the status -- the stable status quo in the Taiwan Strait.

The second cornerstone is made up by core principles of institutionalization and constructiveness that push forward cross-strait relations. The ROC government is committed to promoting institutional and constructive cross-strait ties. Promoting institutionalized cross-strait negotiations, and official and private contacts, these are stabilizing factors in normalizing interactions and upgrading the stability of cross-strait relations.

The third cornerstone is President Ma's "Three Pillars for National Security." These are formed by three lines of defense, namely, the use of cross-strait rapprochement to realize peace in the Taiwan Strait, the use of viable diplomatic methods to establish more breathing space in the international community, and the use of military strength to deter external threats. They ensure cross-strait peace and national dignity and security.

The fourth, and the last, cornerstone is formed by the four principles in handling cross-strait relations. These are putting Taiwan first for the benefit of the people; maintaining the cross-strait status quo of no unification, no independence, and no use of force; adhering to an interaction mode based on mutual non-recognition of sovereignty and mutual non-denial of authority to govern; and applying the democratic mechanism of national need, public support, and legislative oversight, as the fourth benchmark in the handling of cross-strait affairs and sequential promoting of cross-strait

interaction and exchanges.

Now over the past seven-plus years, the two sides, based on this ultra-stable framework for peace, have started institutionalized negotiations on economic trade and security issues to advance the interests and well-being of the people on both sides, protect the security of Taiwan's society, and promote Taiwan's economic developments.

More importantly, the two sides have vowed a liaison and communication mechanism launched last year between the Mainland Affairs Council and the Mainland's Taiwan Affairs Office and begun to normalize official contacts. This marks an important milestone in the development of cross-strait relations. It has also lifted cross-strait ties to the greatest level of peace and stability in 66 years.

Currently, more than eight million people cross the Taiwan Strait each year for tourism, business, visits, and other exchanges and contacts. That forced a mutual understanding.

Moreover, the number of Mainland students studying in Taiwan has increased in the past 7 years by nearly 40-fold, from 823 students to over 32,000. Cross-strait internet uses and students discuss current affairs and share points of views across the geographic barriers.

Taiwan has made an impact in this interaction with the rapidly-changing Mainland China through its unique way of life and the quality of its pluralistic society. These interactions have borne and conveyed the value of democracy, freedom, human rights, and the rule of law to guide the Mainland to institutional reform.

The result of improved cross-strait relations and positive interactions in recent years has also spilled over to Taiwan's external affairs. Though not entirely satisfactory to us, they have given Taiwan more latitude for international participation.

U.S. Assistant Secretary of State for East Asia and Pacific Affairs Danny

Russel has, on several occasions, praised the improvement and progress in cross-strait relations under the Ma administration.

Deputy Assistant Secretary of State Susan Thornton also emphasized in a recent speech that both sides should endeavor to establish a foundation for sustained peace and stability.

Therefore, as we work to promote and maintain cross-strait peace and prosperity, we're also deepening the strategic relationship between Taiwan and the United States, consistent with the strategic interest of the U.S. in the Asia Pacific Region.

There are, of course, some who worry if Taiwan has not inclined too much toward China. I'd like to emphasize, however, that the Mainland's rise has presented a new international situation and order that has prompted many major countries, as well as the surrounding region, to successfully adjust interaction strategies and strengthen political and economic relations with the Chinese Mainland.

Taiwan, as the Mainland's next-door neighbor, is particularly unable to ignore this change. Over the past seven years, Taiwan has strengthened trade and economic interactions with the Mainland. However, its economic dependence on the Mainland has fallen from the pre-2008 level measured by the data on cross-strait trade exchanges, cross-strait investment, offshoring, and other criteria. And in terms of cross-strait political affairs, Taiwan has stood firm in its insistence of sovereignty and dignity.

Nearly 70 years of division and separate governance across the Taiwan Strait have created differences in ways of life, systems, and value between the two sides.

More than seven years of efforts have progressively advanced cross-strait awareness and understanding, but fundamental and intractable political differences remain. The two sides are still unable to establish real mutual trust, which has led to occasional friction between the two sides when dealing with high political issues and has

also extended to conflicts on issues of security and international participation. It is also the fundamental factor that has always created estrangement, suspicion, and psychological opposition between the two sides.

The Mainland has never understood why its expression of good will to Taiwan has failed to win the minds and hearts of the Taiwanese people. Public opinion surveys commissioned by the Mainland Affairs Council show that up to 60 percent of the Taiwanese people feel that the Mainland is unfriendly toward Taiwan.

Many of my friends around the world told me that the Mainland's confidence is growing, but personally, I think the Mainland is actually fearful, facing an uncertain future, and afraid that it might lose all that it has gained. This has prompted it to constantly adopt safeguards and precautions that frequently touch on deepwater regions and sensitive areas within the two sides. This is also the key factor that has caused the recent setback and tension in cross-strait interactions.

One example is the Mainland's attempt to break the intangible and tangible boundaries across the Taiwan Strait. The Mainland has recently rolled out a series of unilateral measures aimed at Taiwan, such as the establishment of the M503 air route, implementation of the visa-free treatment and card for Mainland travel permits for Taiwan residents, passage of Taiwan-related provisions under the National Security Law, and the proposal to ensure the practice of "one country, two systems", and advance China's reunification in accordance with the law. This has not -- this has met with outcries in Taiwan.

The Mainland leader has made statements saying that the mountain will shake. They have adopted the principle of "first cross-strait, then international," placed roadblocks at every turn to block Taiwan's participations in NGOs relevant to the people's livelihood, regional economic integration and participation, and bilateral FTA negotiations

with other countries. This has inevitably been a cause of concern and disappointment to the people of Taiwan.

As such, the Mainland's contradictory initiative in response to developments in Taiwan have, in some respects, had the unintended effect of widening the psychological distance between the two sides. This has created the predicament of a self-fulfilling prophecy in which the more one cares, the easier it is for one to lose.

I'm convinced that these challenges and differences can only be resolved with a stronger confidence on both sides. Tension and conflict have inevitably appeared in the past 20-plus years of cross-strait relations. However, relations will ultimately return to the moderate path of putting the people's well-being first regardless of how the situation evolved. The welfare of the people must be considered, and the Mainland must also fulfill its responsibility to maintain cross-strait peace.

I would like to offer four suggestions for pragmatic development; at the same time, call out to the Mainland.

First, institutionalized cross-strait negotiations must not stall, and the benefits created for the people's well-being must not be retracted.

Second, official interactions must be strengthened under the principles of integrity, and communication must be based on sincerity and good will.

Third, cross-strait exchanges must be sincere; political objectives and calculations must be put aside, for the two sides to truly be of one mind.

Fourth, the world is just one family. Taiwan, as a peacemaker, a country-builder, cannot be excluded from the international affairs, and marginalizing Taiwan will only lead to alienation and resentment.

Facing a complex terrain ahead in the coming year of President Ma's administration, the government will persist in the following important work with the goal of

creating happiness and benefit for the people.

First, the utmost effort will be made to maintain peace and stability of cross-strait relations.

Second, the government will promote institutionalized cross-strait negotiations and convene the 11th round of high-level cross-strait talks. It will also strive to reach an early consensus on issues such as trade-in-goods and on the Strait Exchange Foundation, an association of relations across the strait; establishment of reciprocal institutions; expand benefits from the 20-some signed agreements, in fact; and fully carry out congressional oversight and communication with the public.

Three, the government will work to complete policies that protect the welfare and interests of the people of both sides, such as the rights and interests of many students and spouses living in Taiwan, and expand in-depth intellectual exchanges between the people of both sides.

The fourth, the Mainland Affairs Council is planning to visit the Mainland in the second half of this year. We will also strengthen the effective operation of the communication and liaison mechanism with the Taiwan Affairs Office.

Fifth, the government will actively participate in international community and regional economic organizations.

Looking to the future, we will consolidate the cornerstones for a stable framework for peace in order to proceed forward on a sure footing. In this process, we hope that the Mainland will face the obstacles seriously, respect Taiwan's dignity and public opinion, and not hesitate in facilitating cross-strait work, but rather, further build momentum.

In addition, the Republic of China is grateful to the United States government and private sectors for their longstanding support to Taiwan. The deepening

of Taiwan-U.S. relations and the U.S. affirmation of Taiwan's cross-strait policy contribute to the consolidating peaceful and stable development across the Taiwan Strait while, at the same time, it also strengthens the U.S.'s strategic layout in the East Asia region.

Finally, I would like to thank you very much for your attention and like to wish this conference a full success. Thank you very much.

(Applause)

MR. BUSH: Thank you, Minister Hsia, for those remarks. I think they were candid, concrete, and quite insightful, and I'm sure they've provoked a lot of questions. I think they will be friendly questions, not like that you get sometimes in the legislative Yuan.

And so I will call on people as I see hands. When you are recognized, please wait for the mic; a mic will be coming. Identify yourself and your affiliation, and keep your questions short. As you can see, Minister Hsia is a very intelligent person, and he will understand your question if you do it briefly.

I saw the first question there. Mic? There we go.

QUESTIONER: Hi. Good morning. My name is Dr. Donna Wells. I'm a mathematician. I make predictive math models.

Can you talk about, in terms of exports in the developing world, where Beijing and Taipei compete?

Thank you.

MINISTER HSIA: Well, I think for Taiwan we have upgraded our industry long ago because we know that manufacturing for the world is not our business anymore. We need to upgrade our industries from the labor-intensive into sort of a technical-intensive industry. So we moved most of it to Mainland China.

However, during the past maybe 20 years, China has also been growing

economically and upgrading its industry as well. So the Taiwanese business community investors in China actually on moving out of China, a lot of them, and are moving into the inland of Mainland China. That is why when I was in Southeast Asia I saw the influx of many Taiwanese investors from not just Taiwan but also from Mainland China moving to Indonesia, Thailand, and Malaysia.

MR. BUSH: If I could follow up on the question, are Taiwan companies competing with Mainland companies in the China market itself? The Mainland market itself.

MINISTER HSIA: I think so because to many Taiwanese businesses it is absolutely essential that they have to diversify their business, not just for manufacturing exporting but to fight for the Chinese -- huge Chinese market as China is also transforming its economy from manufacturing into a domestic consuming market.

MR. BUSH: Okay. Thank you.

I saw a hand back there. I can't see who it is. Just about the last row.

QUESTIONER: Thank you very much.

I'm Wayne Morrison with the Congressional Research Service.

You mentioned that Taiwan is attempting to negotiate free trade agreements with other countries, which it has every right to do since it's a member of the WTO, but China continues to interfere politically to block that.

And my question is: Shouldn't your government just tell the Mainland Chinese that "If you want to expand ECFA, if you want a trade-in-goods agreement, we're not going to negotiate with you until you move out of the way. Or, there's an agreement; if we sign this agreement with you, then you're going to eliminate your political involvement in our attempts to negotiate FTAs with other countries"?

Thank you.

MINISTER HSIA: We did tell the Chinese that, firstly, it's our legitimate right to negotiate free trade with other members of WTO.

And you know, we sometimes -- you know, China is always trying to make a point that you have to negotiate with me first before you can talk to anybody else.

But, for us, we think it goes both ways. We are negotiating with China, ECFA, and also the aftermath of the trade-in-goods and on services.

But you know, when we deal with other countries, except a very limited few -- at this moment, I think Singapore and New Zealand have signed. The other countries are rather reluctant to undertake this negotiation with us because somehow they were haunted by this "One China" principle and, therefore, need to have the green light from China. So we are still working very hard on quite a few countries in our region as well as in South America.

MR. BUSH: A question over here.

QUESTIONER: Hi. Adri Sali from Reuters.

Obviously, your position on China's new National Security Law is pretty well-known. Has that, or will it have, any effect on economic ties between you and China?

And the second question is the Chinese leader is expected in Washington in September, and almost certainly, the Taiwan issue will come up. In your talks with officials in Washington has that come up, and are you at all concerned about the meeting between the two leaders in September?

Thank you.

MINISTER HSIA: Well, the second question, I think we are fairly confident in the position of the U.S. administration in terms of its relationship with Taiwan. You know, I think the issue will be raised. It will be discussed. But based on our past

relationship with the United States, the Taiwan Relations Act and the Six Assurances, we are confident that our security and interests will not be compromised by the visit.

We are very concerned with the National Security Law passed recently by China because it somehow unnecessarily involved the people in Taiwan to protect the "sovereignty and integrity" of China. But we launched our protest, and we don't think that will ever apply to us, and we made it clear that any unilateral action taken by the Chinese will not affect our legal rights.

Oh, we don't know yet. I guess at this moment we don't see the impact yet.

MR. BUSH: How well is the Investment Protection Agreement between Taiwan and the Mainland being implemented, to speak specifically to economic relations?

MINISTER HSIA: Well, it's been implemented for a while, and there are complaints, of course, but they already established a channel of settling those complaints either through the Economic Ministry; there's a fora for that. And also, the Strait Exchange Foundation has set up a window to solve problems.

Previously, the Notice 62, which the Chinese are trying to regulate the incentives given to foreign investment investors, and we're very worried that will affect some of the investors from Taiwan.

After a series of protests and then conversation with the Chinese through my office, through the Strait Exchange Foundation, and the Economic Ministry, I think they later issued Notice 25 reassuring all the businesses -- Taiwanese businesses that all the new regulations will not have a retrospective effect on them.

MR. BUSH: Okay. Thank you.

Back in the back, Mike Fonte.

QUESTIONER: Thank you, Minister Hsia, for your fine presentation.

I'm Mike Fonte. I work as the Director of the DPP's mission here in Washington.

You said that "no independence" means no separation from the concept of China. It seems to me "no unification" means no integration with the concept of China. So there's a bit "Mao Dun" there; a bit of a contradiction, it seems to me.

And it seems to me that the question of what maintaining the status quo means -- and I'd like your comment on this -- is that it's up to the people of Taiwan to decide which way they want to go. And that's -- I mean, the status quo as it is now, in my understanding, is it's democracy; people like what they have.

So I wonder if you think that this question of the ultimate decision must be up to the people of Taiwan, where that fits in your conversation.

Thank you.

MINISTER HSIA: Well, because we still are having this constitution under which this is a "One China" constitution even of the Republic of China. So when we say "status quo," we maintain status quo as it is now. The Republic of China maintains its sovereignty and its governing power over the territories and people we govern.

I think under the current situation we say "status quo" means that we will not talk about unification, we will not talk about independence, and we will not talk about the use of force against each side.

MR. BUSH: Norman Fu in the back.

QUESTIONER: Norman Fu. I'm a columnist of the *China Times*.

Minister Hsia, good to see you.

My question will probably force you to wash some dirty linen in public. I

want to ask you whether it was really true that one of your deputies, Dr. Chang Hsien-yao, was accused of being a spy for Communist China. Although he has been cleared, acquitted by the court, but still there's a lot of mystery shrouding this particular case. And the speculation is that there was really some personal animosity between his boss, your predecessor, and this Dr. Chao.

Can you shed some light on this case? It's just inconceivable that somebody occupying such an important position should be engaged in espionage for China.

MINISTER HSIA: Well, this is a sensitive and tough question, but coming from Norman Fu, it's no surprise.

(Laughter)

MINISTER HSIA: You know, I went to the office in February, and I was told about this case. And it's not a court that decided. The public prosecutor decided not to launch a prosecution because of the lack of evidence.

And also, because the public prosecutor's statement was listed as confidential. So we cannot discuss that openly.

But all I'm trying to say, that from the brief statement made by the public prosecutor's office, that Mr. Chang obviously handed over some papers through a friend of his to a designee (inaudible). I think for any public service it certainly is not appropriate to do that.

Secondly, if you ask me, Mr. Chang, apart from having an office in the Mainland Affairs Council, also has a private office in Gaozhou sponsored by a businessman. Again, being in government service for 30-some years, I don't think appropriate as well.

Thirdly, being a political appointee, Mr. Chang, I think we all serve at the

pleasure of our president. When the president says, "Thank you very much for your service," you just go. You don't ask questions.

So that, I guess, is the response I can give to you now because most of the content of the -- from the public prosecutor's office is marked confidential. So if I discuss that with you, I'll be prosecuted very soon.

(Laughter)

MR. BUSH: Okay, Nadia Ysal.

QUESTIONER: Minister Hsia, welcome back to Washington in a different capacity this time.

In your speech, you just mentioned you think that actually China is less confident in your assessment. Based on what we've seen now, you know, arresting of so many lawyers in China and tightening their control on NGOs, what do you think this trade will have an impact on China's foreign policy, especially if there's a possibility there will be a new party in Taiwan after 2016? Do you think China will take a tougher stance?

And the second question is you said that China takes so many unilateral actions on Taiwan policy. But besides protesting all these measures, what can Taiwan do?

Thank you.

MINISTER HSIA: That's what makes the work in the Mainland Affairs Council so challenging -- because a lot of the issues surely can be taken by China only unilaterally, which again to most of the businesspeople is very convenient, for example, to give them visa waiver status and also to transform the Taiwan -- the travel permit into a card form, which again looks almost identical to that of the people from Hong Kong and Macau.

We don't like it, of course, and we have to protest. And we are actually

talking to the Mainland Chinese, that if you want to win the minds and hearts of the Taiwanese people this is actually the opposite way to go, by unilaterally trying to win the people without even taking into account the dignity and respect of the people on Taiwan.

And that is just one example. There are quite a few, too.

So, you know, when I say China is -- somehow people thought that China has more -- is getting more powerful in terms of its position, in terms of its interactions with Taiwan.

But we see that China actually is worrying, is very -- is concerned with the upcoming election in Taiwan. They are worried because they don't know what will happen. But this is the beauty of a democracy, that you just don't know.

For us, we urge the Chinese, and we also try -- we also ask our American friends to talk. When they talk to the Chinese, they have to know that Taiwan is a democracy, and to maintain peace and stability, that after 7 or 20 years of hard work, it's not easy. It does not just come from thin air. As I say, we work very hard to that, and we don't want anyone to unnecessarily sabotage or damage that relationship.

MR. BUSH: I think we've seen the same lack of confidence in the way Beijing has handled Hong Kong in the last two years, particularly the issue of electoral reform. What's your observation about the results in Hong Kong, which I think were disappointing all around?

MINISTER HSIA: We watch Hong Kong very closely, and obviously, we also are concerned with the level and the latitude of the freedom and democracy given to the people of Hong Kong. We are disappointed, of course, and we certainly hope that the Beijing regime will respect the people of Hong Kong and of its freedom to choose.

MR. BUSH: Okay. Thank you.

Another question. Over here.

QUESTIONER: Good morning. My name is Tan Lu Reichman. I'm a freelance translator and interpreter, so that means I'm very sensitive about language.

One thing I notice -- in growing up in Mainland China, I notice that whenever we talk about, for example, Ma, we don't say, you know, "President Ma." We say "the Chair of the Kuomintang Party." And if we have to say "president," we say "quote-unquote president."

So during your speech, I notice you've been saying "Mainland China" or "Mainland," but during the Q&A session we've been talking about "China" versus "Taiwan."

So I'm just wondering. Is there any kind of guideline or, in Taiwan, how to deal with this?

And what is -- you know, speaking of people's will, how do people, and especially young people nowadays, refer to, you know, China or Taiwan?

MINISTER HSIA: You certainly are a very good interpreter.

(Laughter)

MINISTER HSIA: When I -- you know, officially. Officially, because of the position I'm taking in the government. So when I refer to Mainland China, I have to say "Mainland China -- (speaking Mandarin).

But you know, sometimes when I talk in English to friends, I refer to "Mainland China" or just "China," but I literally meant "Mainland China."

(Laughter)

MR. BUSH: Another question? Was there one in the back?

Yes. Okay, the lady right here.

QUESTIONER: I'm Astila Asize.

Thank you, Minister Hsia, for giving us a wonderful speech here.

Because you served at MOFA before and Ministry of Mainland Council before, so I'd loved to ask you this question. How do you think maintaining the status quo, especially under the "One China" policy framework, can give the young Taiwanese generation, the future generation, more international opportunities and more international participation?

Thank you.

MINISTER HSIA: I think the younger generation being raised in the age of the internet, you know, cyberspace, they are much more inclined to become "citizens of the globe." A national boundary for them is totally -- you know, for them, it's not necessary, and it will hurt their feelings if they would stop participating in certain activities because of the issue of national boundaries.

So I think for the Chinese, for the Mainland Chinese -- (laughter) -- they have to -- they have to know that even though their policy is to win the minds and hearts of the young people in Taiwan, the -- (speaking Mandarin) -- the younger people, but it's a difficult job to do.

I mean, the younger people, you know, like doing -- when we grew up in Taiwan, you know, the classroom is very strict, that all the doctrines are there, over there. But nowadays, it's free thinking. So for the Mainland Chinese to try to educate them about, you know, "the motherland," the Chinese, will be a very difficult task, similar to that of Hong Kong. If you see the people walking on the street, demonstrating, they're mostly young people, and that will teach many Chinese a lesson.

MR. BUSH: Okay. We have time for one more question. Who will it be?

John Zhang?

(Laughter)

MR. BUSH: Sorry to put you on the spot.

Okay. Anybody?

Okay, back there. Thanks. Rick Fisher, sorry.

QUESTIONER: Thank you, Minister Hsia.

I just wanted to give you an opportunity to explore some of the military developments by China in the Taiwan Theater that contribute to fear and lack of trust, as you mentioned.

Thank you.

MR. BUSH: As a former Deputy Minister of Defense.

MINISTER HSIA: Well, you see, in our defense strategy we are building up innovative, asymmetrical weapons which will make sure that Taiwan is not easily invaded or attacked. And through the support of the United States, we do have the capability to preserve peace and stability in the Taiwan region for a certain period of time. So I think that, again, makes China uncomfortable.

But for all that, we still need to make good use of our hardware as well as training of our own people. As you know, we are transforming into an all-professional, all-volunteer forces, which I'm sure will be much more efficient than the current system of conscription.

MR. BUSH: Thank you very much.

I think that we're going to bring this part of our conference to a close, but I would like to express my personal gratitude to you. I think you've set an excellent context for the discussions for the rest of the day. You've also set a very high standard for all of us to meet. So we appreciate that very much.

We're going to have a coffee break, but I would ask you as the audience

--

SPEAKER: No break.

MR. BUSH: No break?

SPEAKER: No break.

MR. BUSH: Oh, okay.

(Laughter)

SPEAKER: We must not need it.

MR. BUSH: Okay. I thought we were going to have a break. Well, we're not going to have a break. So please join me in thanking Minister Andrew Hsia for an excellent set of remarks.

(Applause)

(Recess)

MR. BUSH: Let's take our seats and resume our discussions. As I said, we've had a very good start and now I think we are going to have a very good discussion on the title; Opportunities and Challenges in Cross-Strait Relations. And we have four excellent Panelists who I will introduce in turn.

The first is our old friend Alexander Huang, who was a Visiting Fellow here in the early days in my Center. It's always great to invite him back. And do you want to speak from there or from the podium? It's up to you.

MR. HUANG: Yes. We have 12 minutes. It's really hard for a Professor to speak for only 12 minutes, because we won't get paid if we don't do three hours.

In this month, exactly, 20 years ago Beijing cut off the instructional dialogue with Taiwan, between Straits Exchange Foundation and the ARATS, and also, exactly this month, 20 years ago, that Beijing locked missiles to the waters in the Taiwan Strait.

So, 20 years has passed. The experience of many in this room, have had -- will not be repeated again, because the 20 years of difference, China has become

the second-largest economy in the world, the largest trading nation in the world, China has military capability to project power way beyond the first island chain, and China has had anti-cessation law that they did not have 20 years ago.

Taiwan has changed as well. Taiwan experienced the two times of change of governments, and Taiwan also has a new referendum law that we did not have 20 years ago. So, judging from the fact, 20 years later, that now we have 890 flights across the Taiwan straits, direct flights, every week, and at 64 destinations, airports that the cross-strait flights go to on the Mainland.

It is very hard to recall what we have been through 20 years ago, and today, if anything happened across the Taiwan Strait, that how the play will be presented again. In January, 2009, about one months after the full implementation of the big three links, or direct air links across the Taiwan Strait, I was invited Alan Romberg to give a talk at the Stimson Center, and he asked me to talk about the future cross-strait relationship. And there was the beginning of the Ma Ying-jeou administration.

I gave five trends that I envisioned then. I said the cross-strait dialogue will turn from fast to slow, from easy to complicated issues, from economic-centered issue to more political sensitive issue. And fourthly, from bilateral issues to the issues that may involve third parties. And number five, moving from the well-discussed issue to those issues they have not studied yet. And six years later when I review what I said about the five points, it is so true that we are getting into the deep water, and it's very hard to manage the cross-strait relations no matter which party is in power.

In the past seven years we have signed 22 agreements under the Ma Ying-jeou administration across the Taiwan Strait, but in recent month we see a slowdown of the cross-strait dialogue. It was because of several obvious reasons, one is the protracted political process in Taiwan, under a kind of a partisan struggle, and also

there has been a growing anxiety among the people, especially the younger generation, worrying about the growing Chinese dominance and Taiwan's ability to make a choice for their own future.

Also it was crossed by China. I think Minister Hsia, just gave us some very good examples from the pronouncement of ADIZ in November 2013, to the announcement of the flight route, M503, and to the unilateral decision on the part of China to change the passport-like travel documents to travel cards. And most recently, only last week, the Chinese -- the Standing Committee of the National People's Congress, passed a new -- revised National Security Law and imposing so-called obligation for the Taiwanese compatriot to support the Chinese sovereignty.

So, all these, I try to think about the term. Twenty years ago I was in Foreign Service together working for Andrew Shaw at Techra. By then we talk about one kind of term called verbal annexation through international media, through propaganda, but by observing what had happened in the past two years under the year of Xi Jinping, I think China is now adapting a strategy, I call that a legal annexation, through China's making of its domestic law and try to gradually, incrementally encroach Taiwan's sovereignty and poison the future cross-strait relationship.

In the next several months we will experience another democratic process in the Taiwan Presidential Election. From the registration of candidate to the ballot, to the Election Day, will be 55 days; and from the Election Day to the inaugural is 126 days.

And that's a long period of uncertainty, and for the past several years I did not agree any of my students to write a paper or do a degree dissertation under the name -- under the title of trilateral -- U.S-China-Taiwan trilateral relationship, if they are trying to talk about the period between 1998 and 2008, because I did not consider that a

trilateral relationship. Trilateral relationship, for me, means three sets of bilateral relationship. I sincerely hope that we can work together and pray for the best, and see the three sets of bilateral relationship continues to work in the future.

It may be another 34 years, before Xi Jinping's China dream can be fulfilled to the year 2049. And for me it means that China needs to maintain another 34 years of One-Party Rule, another 34 years of party controls the gun, another 34 years of reasonable economic growth, and another 34 years of cyber cops. And that's not easy for Xi Jinping either.

So, with all that, I think I will conclude right here and wait for the Q&A Session. If I have any remaining minutes, I will yield that to Alan Romberg. Thank you.

MR. BUSH: Thank you very much, Alexander. Our next speaker is Samuel Wu, Wu Shiouh-Guang. He is an Adjunct Professor at the Department of Public Administration and Policy at National Taiwan University. Professor Wu?

MR. WU: Richard. Ladies and gentlemen, I think I'll just sit here and talk. My name is Samuel Shiouh-Guang Wu, and I'm currently an Adjunct Professor at the Department of Administration and Policy at National Taipei University. And actually I'm also the Chairman of the CDIB Partner, which is an international private equity fund stationed in Taipei. And it is my pleasure and my distinct honor to be invited here, to attend this discussion on the opportunity and challenges in cross-strait relations.

And my assignment, as I understand, is to talk about the linkage between Taiwanese domestic politics and the cross-strait relations. I think I got this assignment partially because I was once a participant, of the Taiwanese domestic politics. I serve in several different capacities, in the Taipei City Government when President Ma was the Mayor of Taipei, and also when the previous Mayor Hau was the Mayor during his first term.

I left the Government job about six years ago, and went back to the academic job, and then I took this Chairman job about five years ago. And my investment team actually invested heavily in the United States, Japan, Southeast Asia and the in China. And therefore my main job in that capacity is to read, research paper on the investment environment on those areas. And therefore it is not that different actually from my academic job.

The only difference is, that when I make bad judgment or read wrong interpretation on those research results and information, I end up lose real money. So, I have to be very careful, and I have to put whatever information that I've got into a balanced and appropriate context so that I don't get carried too far away from any piece of interesting information, and at the same time, if there is a trickling factors of a possible chain reactions, it is not ignored simply because it is a small thing.

So, I don't pretend that I have any insider information about Taiwan and its domestic politics. Instead what I'll try to do here, is to provide an analytical framework that I use and put whatever information about Taiwanese domestic politics of what I've got into this context. And then think about the possible scenario development and their implications. And I hope that my imagination may somehow contribute just even -- even just a little bit, towards today's discussion among such a distinguished group of real experts and informed audience on this subject.

So, the linkage politics between domestic factors and interstate relations has always been a category of variables that raise a lot of tension among observers of the cross-strait relations. For example, the possible change of national leadership in Taiwan in 2016, that's next year, may just be a significant factor to the future of the cross-strait relations.

If a new KMT leader is elected as the successor to President Ma, then it

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is likely that President Ma's current rapprochement policy will be continued. However, if a DPP leader is elected as the new President, then it may create great uncertainty to the future of the relations.

So, to what extent the cross-strait relations will be influenced by the transition of leadership in Taiwan? Well, the leader will be constrained by the already existed structural factors, or he or she, I think, this time is more than likely it's going to be a she; it's more of determined factors to the future of the cross-strait relations.

What are those structural factors? And in what way those factors will shape the future of the cross-strait relations. So, I will try to answer these questions by focusing on Mainland Chinese leaders' possible decision against Taiwan, and in this specific strategic environment. And then think about the possible response from Taiwan and from the United States.

So, let's take a look at the analytical framework itself. If we take a look at the literatures that discuss about the change in cross-strait relationship as the kind of variables, most of them, we discussed about this from the following three categories or factors.

The first one is the international factor, and the second is the interactive factors between the two sides, what I mean by interactive factors implies the memories of the past, and the mode of the most recent interactions and expectation about the future interactions. And the third one is the linkage factors of domestic politics through the cross-strait relations.

And I think the most direct factors is the interactive factors, for example, the recent rapprochement between the two sides has been the direct result of the change of national leadership in Taiwan in 2008, and the expectation that things maybe be getting better by the Mainland Chinese leadership, is apparent of significant factors that

convince them to make economic concessions to Taiwan on the negotiation table for the last seven years.

However, the political leaders on both sides are constrained by the international system factor and their domestic politics. For example, Mainland Chinese Leader may want to take assertive action against a pro-independent Taiwanese leader, but if the United States is in support of Taiwan strongly, and that China's move is constrained, and so I'm strongly suggesting not to use PowerPoint, so I cannot show the figure to all of you.

But actually I've got several figures to structure those fixtures together. But anyway, what I'll try to do here is to just take a look of these three categories of separately. So, let's take a look at the first one, the international factor. I think the most important international factor that will influence Chinese leaders' decision of the level of assertiveness against Taiwan, that's the way I operationalize it.

It's the level of the U.S. support to Taiwan. And however, the U.S. support to Taiwan is also mostly influenced by two other factors; the problems between the U.S. and China, and the strategic interdependence between U.S. and China. So, because of the constraint of the time, I think I am not going to go through all those variables very carefully. Maybe I should -- what I should do is just to directly to my conclusions.

After I examined all the three categories of variables, and then also to put them into three sides, what I call the two-level, the games. And then it is quite possible for us to think about the possible loop of influence between -- among the three leaders; the leader of the United States, the leader of China and the leader of Taiwan.

And I think, what I tried to do is to put all those possible events along the three categories of variables on a time string, and I first put all those events that

scheduled to happen along the timeline from 2013, to the end of 2017.

And I put together this, I call it, future events chart, and so through all those future event chart, and also categorize them into all those three different categories, and then you start seeing -- you'll start to see the possible action and interactions among all those events and the possible loop of influence that's implemented by the three possible players, which are the three political leaders. And then the -- and you can start to have some scenario development out of what might happen, because one or another particular event trigger the whole chain reactions.

So, I will simply jump to what I got out of that piece of the analysis. I think, looking to the future, there is no guarantee that cross-strait relations will surely turn into the better. And in a previous study actually, I argue that Mainland China's expectation that a much hostile leader may be selected by the Taiwanese voter in the future, may actually force Chinese leader to compromise more with the current Taiwanese leader, and that's what happened in the last seven years.

But the second thing is that when a much hostile leader is elected as the Taiwanese President with a much friendly opposition party to Mainland China. That's what might happen next year. May actually, the next -- the much-hostile new leader have less room for negotiation against Mainland China.

And the political linkage between the cross-strait relations and the respective domestic politics, especially Taiwan's Presidential election, can be a very powerful triggering effect that will influence the future of the relations. Actually, I had a chance to interview some of the Mainland Chinese observers of Taiwanese politics, and asked them, how they think about the future cross-strait relations, if the DPP candidate Tsai Ing-wen is elected as the President of Taiwan.

And they actually expressed three deep concerns. First, they believe

that once Tsai is elected, the separatist education of Taiwanese younger generation that's started by the previous DPP President Chen Shui-bian, will certainly be continued and even be strengthened. And second, they believe that other unfriendly events, initiated either by the Taiwanese local governments, or private sector, such an invitation of Dalai Lama to visit Taiwan, will be much likely to be -- to happen, and will be much less easy for the Tsai Ing-wen administration to avoid.

And when this happen, it would certainly raise a lot of domestic pressures to President Xi Jinping, and force him to respond assertively. And (3) they believe that the Tsai administration was much likely to choose a closer position with Japan and the United States, and international disputes between China and the U.S., Japan allies. For example, it may be natural for Tsai's administration to support Japan's claim of free navigation right in the South China Sea.

But this may be perceived by many Chinese as a betrayal of the Motherland in favor of Japan, and to provoke very strong domestic resentment inside of China. And then when it happens the situation may force Tsai to take very strong reaction in response.

So, just as demonstrated in my future events chart, so the reason cross-strait agreement on trade and service is not ratified by the Taiwanese legislative end, and then if the KMT split because of its defeat at the 2016 Presidential Election, then this event will send a very important signal to the very the Mainland China -- Mainland Chinese Leader.

First, it showed that President Ma's rapprochement policy does not support it by the majority of Taiwanese and the current peace development between the two sides of the strait does not gain political popularities for China's reunification dream from the majority of the Taiwanese.

And second it demonstrates that the new DPP Government is less likely to further Taiwanese rapprochement towards Mainland China. And, as a result the resume of the ruling position by the TPP in 2016, were likely to be perceived by Mainland China as a major setback to its rapprochement policy toward China, and this situation will be significant pressures on Mainland Chinese Leader Xi Jinping. And it seems the setback is likely to be interpreted as the failure of his leadership. And as a result he may be compelled to react strongly under the domestic pressures.

So, what we can do about it? I think it is quite important for the -- first to remember that although for the last seven years, the relationship seems to be peaceful and in good development, but the situation may turn to the worst very soon. So it is very important for us to pay a lot of attention, and think about the possible cost no matter what particular policy that we choose.

And the good news is -- last -- I think Taiwan understands the possible danger here, he tried hard this time when he was in the CSIS to articulate her idea of preserving the status quo. I think she tried to send out a message that she accepts the current Taiwanese constitutional order, and her position on cross-strait relations is equivalent to that of the '92 consensus.

And he tried to send out the message without actually saying it. Therefore, her position seems to be acceptable to the United States, and the United States is not in the position to tell Tsai what she should do. However, when Tsai's decision is moving away from the core interest of the United States, I believe that the United States will somehow let her know where the redline is.

And a stable and peaceful cross-strait relations, is one of the core interests of the United States, and high in U.S. national security a priority list. Although the U.S. is not in the position of abandoning Taiwan at all, Taiwanese leaders should not

count on the United States to rescue when Taiwan intentionally provoke China, such as what previous President Chen Shui-bian did during his administration.

Instead, in order to maintain a construction relationship between the United States and China, I think the U.S. will pressure Tsai's administration back to its track, if she really follows Chen's strategy. So, therefore independent is not an option for Taiwan for the next year -- next four years to come, and Tsai's administration choose to go that way, I think Taiwan will have to prepare to deal with an assertive China or by the self.

So if Tsai wants to enhance the U.S. support to Taiwan, one of the things that she may do is to join the DPP, however, in order to do that, he will have to liberalize Taiwan's domestic market. Otherwise, it's next to impossible for Taiwan to join the regional integration organization, and it is certainly detrimental to Taiwan's strategic position in the region if we don't join that particular organization. But this will be another linkage politic issue that should be analyzed next time. So, I'll just stop here. Thank you.

MR. BUSH: Thank you very much, Professor Wu. Our next speaker is Alan Romberg. He's a Distinguished Senior Fellow at the Stimson Center. Alan?

MR. ROMBERG: Thank you very much, Richard. And thank you to the sponsors for including me in this. I'm going to speak reasonably fast, so I can try and observe the 12 minutes, but since I have Alexander's kind yielding of time I will take perhaps a minute or so advantage of that.

The major factors affecting opportunities and challenges in cross-strait relations are pretty obvious, one the one hand political developments in Taiwan and on the other the PRC reaction. What's less obvious of course is what those developments will be and what those responses will be.

As to Taiwan politics, according to virtually all public opinion polls except

for a very brief period, when Hung Hsiu-chu first emerged as a likely KMT nominee, there's been, and still is, a very broad consensus in Taiwan that Taoyuan will win the election in January, and Tsai Ing-wen will the election in January, and current polls show her strongly ahead. It doesn't mean she will win, but that is the current popular consensus in the current state of play.

The only real questions that people have puzzled over, what the margin of victory will be, and whether the DPP, in fact, will also win control of the legislative (inaudible). This latter issue emerged, I would say in particularly stark belief, as Ms. Huang has struggled to clarify her position on cross-strait relations, generating concern within the KMT ranks, both among the presumed LY candidates, and in the party leadership.

In terms of cross-strait policies of the two parties, what we see could be called studied ambiguity on the part of Tsai Ing-wen, and shall we say less studied ambiguity on the part of Ms. Huang. Both have created a certain level of concern and confusion. As per universally understood, Tsai will not embrace the so-called political foundation identified by the Mainland, including by Xi Jinping personally, of endorsing the 1992 Consensus, or any other form of One China, and opposing Taiwan independence.

But the question on the Taiwan side, is whether either during the election campaign or, more important, afterward if she wins, she will adopt any of the so-called poison-pill positions that she and his colleagues have identified, such as one country on each side, Taiwan Independence, denial of the '92 Consensus, or some other kind of rejection of One China.

As those of you who may have had the misfortune of reading some of my recent writings will know, I see a debate in the Mainland, about this and even now, some differences in the way the PRC addresses the importance of embracing the political

foundation on the one hand, and its position on the espousal of unacceptable policies, what I'm calling poison pills on the other. And I'll elaborate shortly.

But here what I had observed is that Dr. Tai seems determinedly avoiding openly provocative positions. She has tried in recent months not to comment on the '92 Consensus, or on One China. And while she has referred to autonomy, as usual, she has even forgone opportunities to refer to Taiwan's sovereignty to China; all previously staples all her comments.

So, what do you end up with when you put this together with her remarks on June 3rd at CSIS, I recall that in her remarks she spoke of conducting, quote, the peaceful and stable development of cross-strait relations in accordance with the will of Taiwanese people and the existing ROC constitutional order. And how, "The accumulated outcomes of more than 20 years of negotiations and exchanges should be treasured and secured, and would serve as the firm basis of her efforts to further the peaceful and stable development of cross-strait relations."

While intriguing, this has not been totally reassuring to analysts as various parts of her comments can be interpreted in different ways. But one thing you can see in these remarks, I believe, is a carefully crafted position, that while seeking to be acceptable in Taiwan, also seeks to respond, both to the Mainland and to American concerns that a Tsai Presidency should not upset the current situation in cross-strait relations.

While not embracing the specific provisions of the political foundation, Tsai has laid out a position that if implemented in a straightforward fashion, could be viewed as not inconsistent with the elements of that foundation. Note the phrase more than 20 years of negotiations and exchanges. This would seem designed to encompass 1992. Not openly embracing the 1992 Consensus, or course, but not attacking it either,

or moving away from the record of achievements under him.

And reference to the accumulated outcomes as the "Firm basis" of her efforts to further peaceful and stable cross-strait relations, which seem to be a direct response to Deputy Assistant Secretary Susan Thornton's remarks here just two months ago in this building, on the importance of just such a basis.

With Deputy Speaker Huang, after all the recent storm on (inaudible), what we have come down to is basically a continuity of the Ma administration's policy of One China respective interpretations, and adherence to the 1992 consensus. But it took a while to get there, and it's clear that some damage has been to the KMT in the process. I mean, after all, even if she's right the reporters, "Are never able to correctly understand" what she says, and I'm not arguing that is necessarily the case, but anyway that's not an explanation, it's a revelation that she needs to express herself in terms that can be correctly understood.

In any event that's where things are now, and if she is indeed nominated and elected I expect her to continue most of Ma administration's basic prostrate approaches.

The final two things I'd say about the Taiwan side of the equation, or (a) the impact with the so-called third force in Taiwan politics is not entirely clear at this point whether the minimum is not going to encourage the movement by the DPP toward anymore explicit acceptance of PRC positions. And (b) James Tsung seems much more seriously interested in running than one might have guessed, and he might well have more support than one might have guessed, but if he runs alongside a KMT candidate, the outcome seems pretty certain. We saw that movie in 2000.

If it ends up that he's the only blue candidate, that could put things in a different light, but I don't see how that's going to happen. So, then the questions

become, how will the BRC react to the election, and what is the likely course of cross-strait relations in the future?

I see something of a debate in the Mainland between those who believe there must be serious consequences for any Taiwan administration that does not accept One China, and oppose Taiwan independence, on the one hand; and on the other, those who, while agreeing, there cannot be progress in such a situation, and inevitably there will some degree of setback, do not see a need to punish Taiwan, as long as Taipei does not engage in provocative actions or adopt provocative positions vis-à-vis sovereignty-related issues.

As George W. Bush might have said, whatever anyone else in China thinks, there will, of course, be only one decider, and Xi Jinping has taken some pretty tough positions. Meeting with KMT Chairman Zhou Li-luan, in May, he said if one were to deny the 1992 Consensus, challenge the legal basis of both sides to the Strait belonging to One China, advocated one country on each side, or One China, One Taiwan, there cannot be peace, there cannot be development.

But even in what she said, one could see a nuanced position, that is while he insisted on the fundamental importance of the political foundation, he spoke in more dire terms about situations where somebody actually denied or challenged the basic positions or advocated antithetical ones.

As to the PRC's approach to Deputy Secretary Huang, even though I think Beijing will certainly not love all of her positions, just as it hasn't loved everything Ma Ying-jeou has said or done, if she were to be elected we should expect from Beijing a pretty much steady on course approach, regarding cross-strait ties and further agreements.

And interesting question to me any way, is even then whether things

remain boxed in by the LY, or if that were the case, whether this would affect Beijing's enthusiasm for signing more agreements. How would Beijing play this? Another consideration is that if the Mainland sticks to its current position that Minister Hsia mentioned, the actual agenda must be completed before other aspects of Taiwan's aspiration for greater international economic participation.

Taiwan's ability to diversify its international economic links, even on a bilateral basis, much less a regional one, could face some serious constraints. This obviously would be the case of course, if the DPP has elected, indeed, and probably much more so. The interesting thing to watch here, however, is whether a ruling DPP might not take a more pragmatic approach to cross-strait agreements than we've seen over the past few years.

That is, while there might still be some substantive aspects of the agreements that DPP would insist on fixing, once it's no longer confronting a Ma administration it might become easier for the DPP to see its way clear to come to terms with Beijing. In any case even if Beijing is not in a punishing mode, one point on which most observers seem to agree is that if there is a DPP administration with its present positions, official that is MAC, TAO; and quasi official that is SEF ARATS ties would be seriously affected, and no new agreements would be signed.

Whether the substance of the pending or planned and if an implementing agreement would somehow be moved into other channels, is unclear. But working through existing mechanisms would certainly be pretty much off the table.

My sense is also that Beijing will in any case remain quite constrained in terms of Taiwan's international space, while the KMT victory would mean continuity in at least such areas as inviting a Taiwan observer to the World Health Assembly, a DPP victory could well see a change on that score. The survival of the so-called Diplomatic

Truce would also seem probable with the KMT victory, but at least an important measure could quite possibly erode with a DPP win.

Tsung Ya-Po the Deputy at ARATS, formerly Deputy at the TAO, was in Taiwan a few weeks ago and was pretty explicit about all of this. Indeed, he made the most extensive public statement that I have seen about the consequences of the common political foundation being weakened or undermined. Giving more specificity to Xi Jinping statement that relations would become turbulent, Tsung went on to say that, "Consultations would be broken off, conditions for exchanges and cooperation would shrivel up, and management issues related to foreign affairs would become difficult to handle," that's a quote.

He also said obtaining the benefits of trade and investment with the Mainland, and of Taiwan's participation in regional economic activities, all require the cross-strait relations be what he called "compatible" with such arrangements. Whether, in the meantime, Beijing will do anything to try to affect the outcome of next January's elections remains to be seen.

The Mainland has learned the (inaudible) Ji lesson, so it won't be blight about it, but there are things one could imagine that Beijing could do over the coming months, if it wanted to demonstrate the benefits of the current approach, and implicitly the cost of a different one. It could do so, for example, with regard to Taiwan's participation in the AIIB, or wrapping up the negotiations of the SEF areas and offices, and even providing assurances that if a peace accord were to be negotiated, as Huang advocates, the Mainland would not such a negotiation to try to force a formal political agreement on the status of the two negotiating parties.

It could, but I doubt it will. Rather, in light of the projected DPP victory, the PRC attitude seems to be, that as long as no overtly provocative steps are taken by

Taipei, Beijing probably feels no pressure to take such positive steps. Instead, it feels that if necessary it can afford a cooling of cross-strait relations, at the government level, even if aspects of people-to-people exchanges continue.

That said, to conclude, in light of the very serious challenges the PRC leadership faces on other fronts. There is a question about how far it really would want to go in seeing deteriorations across -- deterioration across regulations. Absolutely the direct challenge One China, it seems to me a security crisis, is highly unlikely. But regarding any other scenario, while I've offered some thoughts, the fact is that none of us knows, and I'm sure this is a subject being given considerable attention in Beijing. Thank you.

MR. BUSH: Thank you very much, Alan. Our last speaker is Guo Baogang. He is a Professor at Dalton State University College. I confess that I didn't know where Dalton State College was. Dalton is in Georgia, it's in the Smoky Mountains, and so we are very pleased that he came down from the mountains to talk to us today. Professor Guo?

MR. GUO: Thanks for having me. The advantage of being the last speaker in this Panel is that all punch lines are taken, so I will try to brief and make summary remarks. And first of all, I want to say that the past seven years, the cross-strait relationships have been at its best. And what had been achieved in the past seven years have far exceeded what has been accomplished in the 60 years.

So as some of the number, as indicated by previous speakers we have seen, 22 agreements have been worked out, and we have seen something between like 10 million visitors, visiting each other across the Taiwan Strait.

And on the Mainland side, we see that were over 90,000 Taiwanese business investment project has been approved, and the trip volume between the two

sides has steady increased to something close to USD200 billion, and that number is twice the amount of the three volumes between China and then Russia, and it's about one-third of the size of the U.S.-China trip volume, which is very significant.

And speaking from my personal experiences, I came from Henan province in Zhengzhou, here in China. In my city we see the Foxconn, Taiwanese business came to my city, and set up some huge assembly plant. As a result, now 70 percent of the iPhone sold in the world are produced in this (inaudible) City, Zhengzhou, 70 percent. So you can see the impact of Taiwan investment in China.

However, the passive trend that we haven't seen in the past seven years is not, you know, stable. It's very fragile actually, and it can be reversed by political development such as the upcoming Taiwan Presidential Elections. If any of the candidates choose to abandon the so-called One-China principle, I would imagine there will be some consequences as some of the speakers has noted.

So, the second point I will make is that, what has, you know, developed in the last seven years has a lot do with Ma Ying-jeou's Mainland policy. So, he plays a vital role, plus the warming down in the warming up of the relationship across the Taiwan Strait.

I guess there are couple reasons for Ma Ying-jeou's initiative. One is that two decades of turbulent pro-independent administrators under the Li Yuan (inaudible), and Chen Shui-bian, has really stirred up the waters, and even causing Taiwan's allies, the United States, are very upset. We know that under George W. Bush's administration, and he forced to abandon the U.S. long-held policy of strategic ambiguity, and now he made it clear that a U.S. only recognize the PRC to be the state, the sovereign state, and Taiwan is a part of China.

So, you know, the United States never see that publicly, so now what

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Chen Shui-bian has done, forced Bush to come forward with more clear statement, which really narrow the space for Taiwan. I think Ma Ying-jeou has realized that, that Taiwan need to make a good turn with the United States and not further deteriorate it, the trust, and relationship between the two sides.

The second major factor, led to the Ma Ying-jeou's decision to warm up relation, has a lot do with the international and economic environment. As we know, as the Doha around negotiations has hit the bottom for the World Trade Organization, and all the regional agreement has proliferated, and many countries rush to sign bilateral or multilateral free trade agreement.

Many of them, like one speaker previously had stated, they look for China for approval before they can do anything similar to Taiwan, because for their fear of offending China's One-China Policy. And Taiwan being an export-oriented economy was really in a serious (inaudible) position if the current regional and bilateral Trade Law has been created, and that will threaten Taiwan's export economy.

I think that Ma Ying-jeou quickly accept Vin Chen Chau's idea to work out something with the Mainland, to be something like a common market with the Mainland so that at least they can push forward at least the economic liberalization, and to further sign more FTP with other countries.

So the score card here really is the Economic Cooperation Framework Agreement, the ECFA, so on that treaty -- under this agreement, and Taiwan has, again, a much wider access to the Mainland market, and even the Mainland willingly to give more concessions, and on the others, its trading partners, to almost give an equivalent to like 50 percent preferential treatment to the Taiwanese product.

But the effort to continue in the same direction to further liberalize the service treaty has hit the bottom of the rock for some reason, as we saw in the media

when the coming down, trying to bring this service trade agreement to the (inaudible) and some upsetting use, took on the sunflower moment, and they occupied (inaudible)) and tried to prevent the passage of this trade agreement.

So there was really a major setback for my Ma Ying-jeou's effort to continue to promoted economic exchanges with the Mainland. And it's a major step back. Now the third point I want to make is that despite all those positive development, what I also noticed that the importance of Taiwan in the sign of U.S. relationship, and also the cross-strait relationship have declined due to the marginalization of Taiwan. And so in terms of U.S.-China relationship we see the two countries now are focused more on important issues, other than the Taiwan issue, to more forward, and working in -- and you know, to keep working on issues, like a global -- anti-global terrorism, you know, your environmental protection.

So, in other words, the Taiwan issue is no longer has occupied the central place as what it used to be. The rise of China in the last three decades, where I see, you know, the comparison between the economic strengths across the strait has tilted more favorably towards the Mainland. Taiwan's economy used to be, you know, considered a significant amount of the Mainland's economy, one-third the size of the Mainland's economy, and now if the Mainland economy -- I have some numbers, are many times bigger than Taiwan's.

We used to look for Taiwan, and we consider them to be our rich brothers, and they always come in with a sense of arrogance and look down upon the Mainlanders, and now feel like, okay, the Chinese tourism is going to suddenly pour into Taiwan, they are buying everything, and there's a sense of imbalance going on. And the trend, it will continue with the China projected rise to become a number one economically in a matter of the next decade.

So, Taiwan probably will feel more marginalized down the road. So the consequences of marginalization is that it will give more power to the Mainland when they are dealing with Taiwan, and maybe the right to speak, as we saw with the (inaudible), may no longer, in the hands of the Taiwanese. Maybe the Chinese Government on the Mainland may want to control the agenda, my want to set a timetable down the road, rather than to perform the so-called unification indefinitely.

So that's a possibility, but domestically we see that marginalization has also led to, you know, some previous pointed that the frustration among -- the Taiwanese use, and rather than facilitate that sense of nationalism or for no history, that blood is a lot thicker than water, in a way we see this more development of Taiwanese identity among the Taiwanese, so that actually is contrary to what the Mainland has hoped for. So this is something to watch for, how those are going to eventually work it out.

And finally, just a few words about the upcoming Taiwan election, as I mentioned whoever win, it will be very significant events, and we have the war of two women, and if Tsai Ing-jeou XXXSIC ING-WEN?XXX wants to consider herself to be Chinese, then she's making history. It will be probably the second leader in China's history to be the number one leader the next -- the previous one was (inaudible).

And also as *Time Magazine* noticed, and she's the first woman to lead a real Chinese democracy, that's also significant. But because Taiwan has adopted ambiguous position on the Taiwan issue, and nobody knows exactly what she wanted and -- sorry -- and so, even though she took a moderate position, and it really cost a lot of worries among the Mainland, the Mainland, you know, people.

I think even more worrisome, is that there's a possibility not only to DPP when the Presidential Election and occupy the executive leadership, but also there's a possibility that DPP might retake over the majority seats in the (inaudible). So the last

time we saw what happened is demonstration against administration where the DPP controlled both the executive and the (inaudible), and seems to really turn down to the south. So, who can guarantee this is not going to happen again? All right so my time is up, I'll stop comments right here. Thank you.

MR. BUSH: Thank you very much, Professor Guo. Thanks to all the Panelists for the presentations. I think you've probably stimulated a lot of questions. I have a lot, but I'm going to restrain myself in the interest of having a lot of audience participation. Again, once I recognize you, please for the mic, identify yourself. If you want to direct your question to a particular person indicate, and keep your question short? So, who would like to ask the first question? Mike Fonte?

MR. FONTE: Thanks to the Panelists for find presentations. I'm Mike Fonte, I'm the DPP's Mission Director here in Washington. Dr. Wu, you mentioned several times, I'm not a linguist like our friend up there, but hostile Tsai Ing-wen, hostile to China, I don't believe that's her position, and I think that's a false designation for her.

And Dr. Guo, you talked -- correct me if I'm wrong -- but I thought I heard you say that George Bush agreed that Taiwan was part of China, that there had been a shift in U.S. policy. I've been working for the DPP for 14 years now, I lived through those Chen (inaudible) years. Never has the United States agreed that Taiwan is part of China. The position is clear, that the status of Taiwan has to be agreed to mutually and peacefully by both sides, because the U.S. never accepted Taiwan as part of China. I'd like you to clarify where, if anywhere, you got that statement? Thank you.

MR. BUSH: Thank you. Professor, do you want to respond?

MR. WU: Well, I have to admit that I have to use the language carefully. Actually on paper I have used it as quote/unquote, okay. What I'm trying to say is that compared to President Ma, it seems to me that Taiwan is perceived by Chinese leader a

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little bit, you know, hostile than Ma, when it comes to her position against China. That's the only thing that I was trying to say.

MR. BUSH: Professor Guo?

MR. GUO: Okay. I think that's a fact that Bush administration moved from the strategic ambiguity to strategic clarity. And there are a couple comments from his press man, an administration talked something like that, and just clearly, he indicated that U.S. only recognized the PRC as the sovereign government representing China. Whether or not the government said directly -- the U.S. Government said that Taiwan is part of China, that's probably not quote directly from the statement. But my understanding is that if the PRC represent the whole China, therefore Taiwan is included.

So therefore that's a reason you switch recognition from Taiwan to Mainland China, otherwise you continue to maintain the ROC recognition.

MR. BUSH: Alan, do you want to speak to that point, or just refer people to your book?

MR. ROMBERG: Yeah. That's a good point yeah.

MR. BUSH: Okay. While I'm thinking about it, for those of you who are standing in the back, we have a few places up in the front, if you'd like to sit down. The next question? Yes, in the back there. I guess that's Wayne Morrison.

MR. MORRISON: Yeah. Thank you. Considering the tightrope you have to walk on, vis-à-vis China, I'm just curious about your impressions on U.S.-Taiwan economic relations, because it seems to me that those relations have not been so solid over the past few years. For example, we suspended the trade and investment framework agreement for over five years, and these issues regarding beef and pork, such as the (inaudible) issue. It just seems surprising to me that this is something that continues to cause serious problems.

You know, when Taiwan wants to get into the TPP, for example, you would think that there would be some more political support to deal with this issue so that Taiwan would be considered to be more ready to join the TPP. So, I'm just wondering if some of the interest groups in Taiwan, are so politically powerful, the AG issues, the beef, the pork issue. Is that such a serious problem, domestically, for Taiwan that it can't overcome to sort of improve its relationship with the United States?

MR. BUSH: Who would like to take on that question?

MR. WU: Maybe I can try, because the last part of my presentation actually touched a little bit upon this particular issue. Actually as I understand, when Tsai was in D.C. sometime ago, she was asked to say something about the liberalization of Taiwanese domestic politics, but she didn't say enough on these particular grounds.

And what I'm trying to say at the last part of my presentation is exactly that without going further in terms of the liberalization of Taiwanese domestic politics it is very difficult for Taiwan to join the TPP. And in that part it will be interpreted as distant from -- in terms of the relationship between Taiwan and the United States, which is bad to Taiwan. So I think that's a very serious issue for whichever incoming Taiwanese leader to think about. Thank you.

MR. BUSH: Wayne, just a personal, mischievous comment. One could ask the same question about interest groups in the United States and their influence over our economic policies, and the way in which the U.S. Trade Representative's Office sort of chooses to pursue the relationship. I think going back to the last question, Alan, you decided he had a comment.

MR. ROMBERG: Yeah. I don't want to get into a theological discussion of U.S. policy, but I guess I'd have to say, I think U.S. policy is more nuanced than you suggest. That if you look at the documents the U.S. has taken a position in which it

doesn't challenge the assertion that there is One China, which Taiwan and the Mainland are both parts. But basically, as I said, it leaves it up to the people, on both sides of the Strait to work that out.

And so, I don't think you would find support for the notion that, for example, at the United Nations the U.S. accepts or anywhere else, that U.S. accepts that the Government of the People's Republic of China speaks for Taiwan. It is absolutely true that the U.S. recognizes the government of the PRC as the sole legal government of China, but then it has this more nuanced expansion of that position.

MR. BUSH: Also I'd say that if there was a shift from strategic ambiguity to strategic clarity, it applied to our willing to come to Taiwan's defense in case of a crisis and not to Taiwan's legal status and whether it belong to China.

MR. ROMBERG: Yeah. But I would also say that I don't believe it has moved.

SPEAKER: Yeah. I don't either.

MR. BUSH: Okay. Yes. Right here.

SPEAKER: Thank you. I'm Rishta Laucent of Georgetown University. My question goes to Professor Huang. I recall that in your presentation you mentioned that you discouraged your students to do research on the trilateral research. So, I want you to shed more light on the reasons, and because you mentioned that Taiwan is a democratic country, and what are the reasons that you do research on this topic but you don't like your students to do this research. And a workshop on a conference like today, is that likely to happen in Taiwan that easily, or actually it's also very sensitive? Thank you very much.

MR. BUSH: I think she has put you on the spot. (Laughter)

MR. HUANG: Well, you know, a teaching job really does not give you a

beautiful paycheck, but one good thing is that when you walk into a classroom you are the Commander and Chief, and that's the beauty of teaching. You know, not every profession can enjoy that, let me reiterate, you know, in my personal definition, if we want to have a trilateral relationship then we must have three sets of bilateral relations all workable or manageable, or otherwise we do not have a trilateral.

You know, so if you look at it like this, this is U.S. Taiwan, this is U.S. China, and then you have cross-strait, so if you have a delink then all the diplomatic battleground will be in Washington, D.C., because we had experienced 10 years between 1998 and 2008, when cross-strait institutional dialogue and negotiations were suspended.

So the problem is that how can one construct a trilateral when there is a delink between -- or there was no dialogue in the negotiation through the formal channels, or authorized vehicles between Beijing and Taipei. That was my point. You know, I admit that I'm a dominating professor, I do not negotiate with my students. And that's my style. Thank you.

MR. BUSH: Next question. I'll ask a question. I guess this probably goes to Professor Wu. It's my impression that from 2000 to 2008, the activity of Taiwan companies, in the Mainland actually increased a great deal. That they went around the Taiwan Government in spite of the fact that institutional and political relations were pretty bad. Do you expect the same thing to happen if Tsai Ing-wen should become President?

MR. WU: No -- I think actually, we don't have to wait until the next administration, actually the trend is already clear recently. We have witnessed a whole bunch of Taiwanese companies started to pull out from China into some other places. Just like what I think Mr. Hsia had already mentioned about that. But there is another serious problem, actually. There were several very famous companies, and enterprises

cases which have already existed in the Chinese market for the last 20 years or something, legally, but recently under great pressures to close their operations.

And I think that will send a very negative signal to all the people in Taiwan, that you cannot trust Mainland China, especially in terms of your property rights. And I think that's a very big mistake that the Chinese Government or the -- is doing. The matter is because of the local government, or it's because of the central government.

When you deprive people's property especially without any clear pattern, then you created tremendous uncertainties, and people are afraid of that, and distrust mounted among many Chinese businessmen, and I think that's extremely detrimental to the cross-strait relations.

MR. TAYLOR: Jay Taylor, Independent Writer. Alan Romberg, please. Alan, your analysis suggests that the events of the past eight years -- Can you hear me? Your analysis suggest that the events of the past eight years, under Ma Ying-jeou have made it virtually impossible for the DPP to divert in any significant way from President Ma's policies.

At the same time, wouldn't you agree, that these same developments have made it very difficult, but hardly impossible, but very difficult, for the PRC to depart from its support for the status quo policies, and instead to seek some new departure such as a time table; in other words, the prospects for a very long, indefinite prolongation of the status quo has been markedly improved.

MR. ROMBERG: Thank you, Jay. Because I had some other comments I wanted to make and you opened the door to my making them. I'm not sure it's only sort of policies, it's the development of -- well, it's policies, if that's the developments, which I think have solidified a lot of these, or consolidated a lot of these relationships, in the interest of both sides of the strait.

I mean, one thing I was going to say is that the Trans-Arabian era created a lot of angst in the Mainland, and as people have pointed out, in the United States. And some of that hangs over now, because when you listen to PRC people talk about this election, officials, and scholars who are closely connected to officials, it's always sort of, Taiwan was responsible for this or that or the other thing under Chen Shui-bian administration and they don't trust her, and I think that's something people need to take into account.

But I would also say that the Chen Shui-bian period made Beijing face up to what really matter. And so they came up with what somebody has referred to as the anti-cessation law. So, as opposed to a previous period in which all sorts of things would possibly lead to use of force, or threat to use force, including the passage of a certain amount of time, without a negotiated unification agreement, that's not where they are today.

In law, and now only talk about three conditions basically that come down to, either moving toward independence or setting the ball rolling toward independence in some irreversible fashion, or absolutely blocking reunification, otherwise, I think that the scenario you sort of identify is basically right. I think the problem that a number of people see today, particularly in the Mainland, is concern that, in fact, the DPP, whatever, Tsai, or others in the DPP may say now, during the election, once they are in office, if they get to office, may pursue policies that, in fact, are more independence oriented.

And if I would -- I don't happen to think that's likely, because I don't think people in Taiwan are going to tolerate dangerous policies. I didn't think they would do it under Chen Shui-bian, I don't think they'll do it under anybody. But if that were to happen, my judgment is that no matter what the relationship with the United States is,

that the leadership in Beijing would have no choice but to act in some fashion to reverse that if other factors didn't lead to a reversal of that.

I think, you know, when they talk about core interest, I think that we need in this particular sense to take that very seriously. I agree with you, I think that basically the set up is that there will be an extended period as the two sides relate to one another, not necessarily smoothly always, and maybe we are heading to a period where it won't be so smooth. I don't know. And I don't rule out at all, that at the end of the day they can come to terms which would be satisfactory on both sides.

Not through their ways of thinking, but there are ways of getting, I think, to that position. But I don't think that anybody is looking for a fight. I don't see how you would come to the conclusion in Beijing, that if you weren't forced into that position, it would be in your interest to do that. And I certainly don't see why anybody in Taiwan would think it would be in their interest given the likely consequences of any move in that direction.

MR. BUSH: Could I push you on that a little bit. I think you suggested that there were things that Beijing might do, just to indicate that things had changed, and they -- and international spaces of area where this seems to be most obvious. I guess my fear is that while Beijing may feel that these are limited steps, they would have a psychological impact within Taiwan, among the public, among the political class, that would create pressures on a President side to respond in one way, so you would have a negative spiral developing.

MR. ROMBERG: I think that's right, and I think that the PRC needs to think hard about what steps they might take lest they induce -- induce that offset cycle. I still would argue that both sides have a fundamental interest, if not forced into a really harsh security-related kind of confrontation, in limiting that. I mean, for example, if Beijing

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were to say to a number of Taiwan's currently diplomatic partners, who have indicated they really would kind of like to switch, that, well, we've held you office but, you know, it's okay. Do you want to come along, we'll open the door; they might do that.

Who would get the blame for that? I don't think the DPP would likely get the blame for that, I think that the -- in Taiwan -- I think the PRC would get the blame for that. So, would that lead to a really huge kind of crisis? Not if the leadership in Taiwan is handling this in a sensible way.

And I think people in Taiwan need to be ready for some negative consequences, and I think probably they are. I think some of the talk about how well we can get around some of the PRC's restrictions, for example, on economic agreements, is a little bit of wishful thinking. In the sense that Minister Hsia indicated, the PRC is already blocking agreements.

I don't see how, frankly, Taiwan joins the TPP if Beijing opposes it. That is there -- it isn't just a matter of the United States, which I think would and should favor Taiwan's participation if it is economically merited. I don't think it is yet in that position, and it would be very difficult to get there. But if it is, my view is that that USG shouldn't oppose that, but there are 11 other countries at this point. And so I think that Taiwan's application is quite vulnerable in that sense, if Beijing wants to object.

Yeah. There could be a negative spiral and I would hope that people in Beijing would think hard about what they want to do that makes their point, and what actually could really harm things in a fundamental way over the long run. As I say that even the people who say, let's not punish Taiwan, let them slow down, and this and that, and so on, they are prepared for a cooling of relations for some time.

MR. WU: Maybe just a few words. I think one of the things that they might do is to cut the allowed visitors to Taiwan in half, for example, or even altogether.

And in that way, actually I think a lot of Taiwanese business may have to -- actually that's what I did. Actually sometime ago, I suggest to some of my friends in the business world to conduct a pressure test on their financial cash flow.

What if, you know, suddenly the incoming visitors cut into half or even altogether, is that going to cause financial pressures or cash flow pressures on your business? If that's that case you'd better prepare for that, because I think that's quite likely to happen at the second part of the 2016 or the first part of the 2017. So, I think that's another possibility.

Well, there are different scenarios we can add it up, our list, from the suffering of our diplomatic relationship to the cut down of the tourists from China. You know, I have been working with some of the French, including partly with the government agencies to run scenarios. And I think the more we get into it, I've run three already, the most difficult thing is still international participation.

You know, suffering of -- I mean cut down of their diplomatic allies the impact was smaller compares to a bigger impact through my own game, it's that next spring, that Taiwan did not -- Taiwan does not receive the invitation to the World Health Assembly, and people react relatively strongly, compares to -- that another diplomatic -- ally had been lost.

So I think that we still have time that we need to go through different layers of possible scenarios. Beijing also needs to understand that if they tightened their policy statement, and does not allow a flexibility of interpretation, and for instance, the 1992 consensus, is the anchor of cross-strait relations; you know, if you do not allow some kind of flexibility, a reversal will tighten your own hands as well.

So I think both sides need to understand that it is not in anybody's interest to have a spiral, that's negative enough to ignite military conflict. Of course there

are other scenarios that could involve in the armed forces on both sides. For instance, in East China Sea, or South China Sea, but that's something that we all need to study carefully. We still have time.

MR. BUSH: Okay. Thanks. Professor Guo?

MR. GUO: Yeah. I don't think the Mainland will take an all or nothing approach, they probably will separate the people to people, economy to economy, party to party, government to government. So if Tsai Ing-wen wins it's going to take some (inaudible) policy -- most probably stop all the official exchanges, but you will see the economy will continue to go on, and people-to-people, probably, will continue to go on.

MR. BUSH: Please?

MR. ROMBERG: First of all on the tourism issue, I agree, they could do that. I think it would be a mistake, just for the reasons that you are citing, and as I said to a group here to so long ago, in commenting on Tom Christensen's book, the view that you get from officials in the PRC is, well, of course we wouldn't stop it. But people just wouldn't want to go to Taiwan in that circumstance, but there's a risk that they will alienate a lot of people by hurting a lot of businesses doing that.

I agree that they will try and separate things, the way you just described. One of the issues here though, are these buying missions, or are they official when they are led by a provincial party leader, is that a party activity, is it private? I think it's going to hard for them to figure out how they want to slice that. But I agree with you, they will try to do that.

Two other points, I think that on the '92 Consensus, you know, they've made clear for quite some time, the point is even though the '92 consensus is how this is expressed, when you read into their statements what they are really saying is the essence is One China, of which Taiwan and the Mainland are both a part. So I don't

think that the words '92 Consensus are really very important if you get the essence. But I think that if anybody challenges the essence, that's where things will get very difficult for Beijing to ignore it.

If as I said before they simply don't endorse that position, then it raises the question in my mind about how far Beijing really would want to go.

One other word, Minister Hsia mentioned a word that I have used many times, and others in this room have used many times in dealing with our PRC friends, which is dignity, Beijing likes to talk about fair and reasonable arrangements with dialogue, and so on and so forth, and to a certain extent you can see how that is sort of happening but maybe not in everybody's view. But I think that they have paid grossly insufficient attention to the question of the feeling of dignity, and I think that, Alexander, what people are reacting to when you raise this question about the World Health Assembly.

Yes, there are some substantive things that go on there, but it really is sort of dignity. And I'm sure there are people in the PRC system who understands this, but I don't get a sense that so far, it has informed their approach in a sufficient way to help them win hearts and minds as they would really like to.

MR. BUSH: Thank you. I have a question back here, and then we'll come over here. Right there, you have the mic.

SPEAKER: (Inaudible). I'm with the China Times. I have a two-part question for Mr. Romberg. Other than what Tsai Ing-wen said in public during her visit here, are you aware of any private and more reassuring assurances that she may have given U.S. officials in her meetings with them. This is the first part. The second part, Xi Jinping is coming in September for a visit, obviously the possibility of Tsai Ing-wen becoming the next President in Taiwan, is a matter of serious concern. When he meets

with President Obama, do you care to speculate as to how President Obama will address his concerns about Tsai Ing-wen, or the DPP becoming the party in power in 2016.

Thank you.

MR. BUSH: Alan?

MR. ROMBERG: Thanks, Norman. (Laughter) First of all, on the question of what Tsai may have said in public to you as government officials -- in private - - excuse me -- in private to you as government officials; since we have Ray Burghardt speaking later I'll pass the ball (laughter). But I guess my position is essentially what you see is what you get. She's trying to, in my view, as I said in my remarks, convey the view, the impression and convince people that what she is saying is not going to upset the applecart.

She's not going to endorse One China. She's not going to foreswear the notion of Taiwan independence. She's just not going to address those things, I think. But she's -- if you look at what she said, including at the CSIS Speech, she is trying to make it clear that she's going to support, as she puts it, the status quo of the stability. I'm not going to go beyond that on that.

Xi Jinping and Barack Obama, I would see no reason to assume that the President, the U.S. President will say anything different from what U.S. Presidents have said for a long time about our policy. I think it's a pretty consistent position. We don't support Taiwan Independence we don't support any of that. We don't support unification either frankly. What we support is a peaceful, non-coerced, mutually-willing process to resolve issues between Taiwan and the Mainland. And we've used a lot of our energy to try to do that over a very long period of time.

MR. BUSH: Norman, I also think that Susan Thornton's talk here at Brookings on May 21st, provides some guidance about what President Obama might say,

and the, sort of, circumstance we will be in, come September. And this will be the last question.

MR. WINTERS: Steve Winters, Independent Researcher. Getting back to the comment about the Mainland attempting to win hearts and minds; I haven't heard any references here to this whole thing about Silk Roads, or Martine Silk Road, Silk Road right through the middle of Eurasia to who knows where, Rotterdam. How is this resonating with the people in Taiwan, if at all, and particularly with the youth, because of course, this to some people seems -- in Asia, seems like the future? And who wants to be cut out of the future.

MR. BUSH: Who would like to speak to this? Professor Guo.

MR. GUO: Yes. My paper touched upon a little of it, but I don't have the time to talk about it. I think that's part of Taiwan's marginalization. So far they have shown no interest in the One Belt One Road Project. And probably Taiwan, they are not in a position to contribute it significantly in any monetary term either. You know, they want to join the AIIB but, you know, China has not agreed to that, yet. I don't know. It's something waiting to be seen, what role Taiwan can play in China's strategic move to view this close relationship with (inaudible) and Europe through the landmass.

MR. BUSH: Do you want to --

MR. WU: But there are -- To my knowledge there are more than -- at least a dozen, more than a dozen, joined research projects, the Taiwan University and the research centers, they are working with their Mainland China counterparts, on the One Belt One Road strategy. If we are talking about industries or business, not yet, but how China would shape this One Belt One Road, Taiwan has participated a lot on those. Thank you.

MR. ROMBERG: Richard, just one final. To go back to Norman's

question, and to supplement what both you and I said, the U.S., as I said, doesn't support any particular outcome, but what it has said, is that it opposes unilateral efforts by either side to change the status quo, and I think there was a lot in Susan Thornton's remarks that address that. So I agree with Richard on that, but I think that's been an explicit position at the USG for some time.

MR. BUSH: On your question, the initiative, the PRC initiative that Taiwan has responded to is the Asian Infrastructure Investment Bank, and Taiwan would like to -- said very quickly that it wanted to be a part of that. Beijing deflected them, in moving up -- moving towards the Inaugural Meeting. The issue is now hung up over what Taiwan will be called and under what political status it would participate. So, as in all things, it comes back to politics.

With that, we bring this session to a close. Thanks to the Panelists for their presentations, and their responses to questions. Thank you for your questions.

We now move to lunch, and lunch will be through the double doors along the side here. And if it's laid out the way we usually do it, it's a buffet lunch. You can get the same food from either side of the table, so you don't have -- go on just one side. I hope that you can sort of move through the line and come back to your seat as quickly as possible, because we having Ray Burghardt speak at 12:30. And maybe Ray should go first so he can get some food. So I thank you again. (Applause)

MR. LI: My name's Cheng Li. I'm a Senior Fellow and Director of our John L. Thornton Center here at Brookings. First, I want to join my colleague and mentor, Richard Bush, to welcome guest speakers, especially those who are from Taiwan who traveled all the way for this excellent conference. This morning's panel and also two keynote speakers really did a good job. I hope that we will reach their level in our excellent panel.

Earlier someone used the term, I think, called linkage politics to talk about China's domestic development or any country's domestic development whether the United States or also Taiwan and also its implication for their policies in the region. Now, certainly we know that China's economic and political develop which is the main theme, main topic for this panel will have very strong implications to cross street relations. But currently the economic and political situation in China is a very complicated one. It is very important for United States, for many other regions to have a solid understanding or balanced view of China's domestic development whether political or socioeconomic.

If our view is not balanced or imbalanced or distorted our policy will be too. But China's political economic development, in my view, is very paradoxical. We can see from China's political front, Xi Jinping's started very strong and bold anticorruption which has been well received in China because of public support. His popularity has been very high. Also, more than any other leader in China's modern history. Xi Jinping talk about legal China, legal development of China will now become one of his major legacies.

Also, more than any other leaders in China's (inaudible) history he emphasizes the role of think tanks, especially think tanks discourse about China's domestic and international policies. But these are very positive developments, but look at the concerns. The concerns include people saying that anticorruption becomes too excessive or will receive very strong opposition. Also when Xi Jinping talks about legal reform or legal development or legal China that in reality you also see that anticorruption is really not based on rule of law, and also like national security laws and the foreign (inaudible) laws really create an atmosphere that is very worrisome and the international community responded very, very negatively. Earlier we heard from our reporters talk about arrests of human rights lawyers. Whether it be 50 or over 100 we do not know, but

certainly that's a clear policy measure from the establishment.

But on the economic front, also we see a paradox. On the one hand, Xi Jinping, especially in the so called (inaudible) really accelerated the financial liberalization and marked the reform. Including free trade zones, private sector development, and also private banks now start to provide a very, very important role. They provide the loans for small and medium sized companies. Especially recent college graduates now could receive some loans from various banks to do so called innovation driven kind of experiments. These are very promising.

Also, the service sector, whether education, public health, logistics, and et cetera really also have a high percentage of growth rate. And finally, the AIIB really show that China's economic strength on the global stage, and China's influence, whether it be South American, Africa, or around China's border and becomes stronger and stronger in economic development. But at the same time we also see some fears or worry. The recent example of the stock market crisis. This is a term Chinese use. Certainly, give a sense of humble feeling of Chinese. It reveals the vulnerability of China's economy.

Also, government interference is still very, very strong especially in the IT industry. That anti-monopoly law hurt the interest of foreign companies, and private firms are still in a less favorable position to compete in some ways. The land reform, I think one of the speakers will talk about, still in the very early stages, and China's urbanization process also, to a certain extent, delayed because of all these difficulties.

Finally, there's a linkage between domestic economic development and the political development. If we really want to have an innovation driven economy you should maintain a certain degree of political openness which is lacking at the moment. So all these are challenges. I hope that our panel, really four excellent speakers, found

various angles based on their expertise will shed light about their understanding about China's political and conversation landscape, and how to reconcile these paradoxes.

So each speaker will speak for 12 minutes, and we have a timer. Then we will open for questions. I may start with one or two questions. Thank you very much. Please. Since they already have their bios printed in the program I don't want to talk about their achievements, their publications, just mention that we start with Dr. Leng, please.

MR. TSE-KANG: Thank you, Mr. Chairman. Let me first express my appreciation to the host institutions, Brookings Institution and Association for Formulations for inviting me to this wonderful conference.

First things, domestic politics is such a big issue. Today I'm going to focus only on the culture aspect or cultural policy aspect. To my understanding, it is a very typical combination about political calculations and some market impacts in China. So I'll argue that culture is kind of a very important basis for the legitimacy of the Piazzi regime, but at the same time you serve as a very useful toolkit, embrace many different aspects of the social life. So it's more like an instrumentalism to socialize the region, and to promote some kind of market mechanism under the banner of culture industry of culture leadership.

But at the same time, I'll argue, as the Chairman indicated, the importance of the role played by Xi Jinping himself. He pushed for the new thinking or new consolidation of power. So it is related to some kind of political consolidation of the political leadership. For instance, I think because of the time constraint we are not going to go into the details about that, but you can think about the legitimacy of the CCP regime tracing back to the Yan'an period. If you reread Chairman Mao Zedong's talks, so it's more like a reflection of the current leadership style of Xi Jinping, and also the desire to

strike a balance about economic development and the new ethics or morality, and the new socialism or any kind of capitalism.

So another important task as to redefine the so called ideology, what is the current ideology? How to re-explain the current ideology. So as you can see, about two years' ago there was the so called Number 9 documents to set off some prohibitions in the social life. For instance, to talk about Western Constitutional politics, and the universal value of civil society and so forth and so on. And also there is another interesting development about a year and a half ago about Xi Jinping's talks to try to reflect Mao Zedong's Yan'an talks.

For instance, to reemphasize that the social and the peoples' interests as the root of the culture in terms of arts and literature. Also to raise the flags of the socialist core values. And also literature and arts are not just slaves of the market forces. They need to lead the market forces and to lead the country. So patriotism to lead as their focus to lead correct historical, ethical, international foundations, and also their different opinion or even attacks about Western culture, so Western culture should be only the instrument (inaudible).

So it's a very interesting talk to remind us about a foundation of CCP's legitimacy and also with respect to the Qing dynasty, the instrumentalism of the Western value. So that is a very interesting shift of the culture policy or we can see the refocusing on the impacts or the instrumentalism of culture in the political life.

But at the same time, culture can also be utilized as a very important instrument to promote market impacts or market forces. For instance, there are similar documents about two years ago indicating that China has to establish supervision recommendation instead of direct management of the cultural industries. Also to grasp that market mechanism by transferring (inaudible) units into culture and to prices, and

also in a global setting China should expand the global culture exchanges, and to enhance institutional capacity to consolidate the global voice power to describe a much better China story. So it's not just about the mass implication, it's also for the global implication.

But given the fact that China's such a big country, if we talk about a culture change or culture policy I think we have to consider not just essential level, but also the local level. So according to our research in the last few years we noticed that the implementation at the local level will be different. In many cases that will be a very different combination of real estate manipulation, market forces, and a sound political indoctrination. So there's differences in different local tradition, and also some urban redevelopment schemes, and in some feel (inaudible) imagination about globalization like global cities, for instance.

So there's different mindsets between the central and the local level. In some aspects they even have some conflicts between the incentives of the local level and the policy guidelines from the top. So if put that local, cultural implementation as a very important political economy in China I will argue that we have to embrace or combine different aspects about urban development or rebuild the new township schemes.

For instance, as I indicated earlier there's imagination of a global city to push globalization and also a lot of urban reconstruction which will introduce a lot of new players. For instance, how to balance historical preservation and some market revenues. Because in many cases these are not preservation cases. It's real estate cases. Also, there are a lot of connections with urban milieu with which they are embedded. Also, there are different policy schemes whether to view the new clusters like high-tech zones or any kind of promoting a mature, urban culture to promote innovation which is a very

important part for China's foreseeable future in terms of manufacturing a 4.2 or any kind of advancement.

To sum up the different aspects about local culture policy and essential policies, actually they are domestic in the global aspects about this cultural dimension, but at the same time, it may also intensify the differences between the state and society. Probably not at conflicts between the state and society. The state tries to incorporate the society into the comprehensive scheme of governors.

Also, we also notice the emergence of the so called strategic business alliances between local governments and many private sectors. The local government have transformed themselves as a very important market machine under the different banners or labors of development companies. At the same time, given all these market impacts I'll argue that culture is still very sensitive sphere of influences in (inaudible) China. There are a lot of political topics like local identity, the tolerance of local identity. Also, even tracing back to the golden era of the Ming area in 1920s or 30s. This is also a very sensitive issue.

Also, whether China will promote a real human-based cultural development or institutional and market-based cultural development. That is still under debate, and we can have some more elaboration in the future. Thank you very much.

MR. LI: Thank you, Professor Leng for, first of all, following the timeline, and also really addressing a very important topic about culture. As we know that Xi Jinping also emphasizes the cultural development, the so called softer power, so called Chinese Dream, and also reach of a nation of the Chinese nation. (inaudible) his culture approach. At the same time, you know, we talk about Confucianism is important for China's development, but the same time, as you mentioned earlier, there's kind of a Maoism or culture or (inaudible) sounds like also returning a certain way. So how to

reconcile that one is also a challenge for foreign observers like ourselves. I hope in the Q&A you will shed light.

Now next, Professor Hans Tung from the National Taiwan University.

MR. TUNG: Thank you, Dr. Li. Thanks a lot to the Brookings Institution and AFR for an invitation. This panel is a great opportunity for exchanging views with seasoned China watchers and what has been going in China after Xi Jinping took power and some potential policy implications. I'm going to be using (inaudible) China instead of (inaudible) in China. It seems there's a little confusion on this panel anyway.

So while most people today might be more interested in knowing things about China's stock market plunge and how this episode is going to end. I supposed it's equally important to take the longer-term view on what Xi has brought to China's political regime since 2012. So what I'm going to offer today in my, roughly 12 minute talk, is a tentative explanation based on the recent burgeoning literature on authoritarianism, authoritarian institution in the fields that compare politics and political economy along with my own contribution to it.

So the first half of Xi Jinping's first term of 2012 has dazzled many seasoned observers of China's politics. So there were open trials of prominent legal figures such as Bo Xilai and more recently, Zhou Yongkang who used to be worshipped in China's political pantheon, part of the bureau. And there was also an anti-corruption campaign sweeping across both the upper and lower echelon within the Chinese bureaucracy. Furthermore, there were new social initiatives launched to engage newly emerging opinion leaders, and to help tighten up the government's control over the society as a recent regulation for sending up leading party member's group as social organizations show.

These new developments defy some convention wisdom in the China

field. Was it all because of, as some suggested, the leadership style of Xi Jinping that such a great transformation in China's politics could happen or is there any more systematic or institutional factor that could account for all these? So now I will turn to the theory of authoritarian institution for a while.

Just to summarize some major points in this literature, first of all, the literature took its origin from political scientists wondering about why there are seemingly democratic institutions in authoritarian countries, and China, for one, has institutions such as political parties, Peoples Congress, and political consultative conference. The general conclusion from this literature is that since no dictators rule alone they need to share power with other political elites. Every ward there are supporters in order to secure their cooperation. As a consequence, having those seemingly democratic institutions can facilitate these political exchanges by making them more credible. This is one of the important sources for authoritarian resilience.

Moreover, on top of these insights from the literature, I make an argument here that we should actually refer to the distinction between two kinds of authoritarian institutions. One established for power sharing with elites while the other one for the cooptation of potential social position. The main justification here is that these two different kinds of institutions are actually designed to deal with different risks. The former is defined as the sharing of the spoils for enjoying rules between the dictator and his allies, and geared towards avoiding coups while the latter is defined as a kind of political exchange where the dictator rewards his supporters is for avoiding revolutions.

More critically, given the fact that a dictator's resources are limited in this institutional investment, and therefore, investing more in the power sharing institutions implies investing less in the cooptation institutions. So given this conceptual framework, we therefore could characterize different authoritarian regimes according to their

investment profiles. Comparatively speaking, given the same level of regime risk, a single party authoritarian regime invests more in power sharing institutions by power sharing with elites and less in social cooptation than a personalist authoritarian regime where power is many concentrated in its autocrat. In addition to making comparisons to cross different regimes, the framework also allows us to make comparison over time.

So now coming back to the Chinese case, so according to this framework, the Chinese regime under Xi's predecessor, Hu Jintao, obviously himself been a leader among elites, was apparently one that spent most of its resources in power sharing institutions. This is why China before Xi had been described as a regime with a collective leadership or fragmented authoritarianism. However, Xi Jinping's regime has challenged this conventional wisdom. His transformation of China's political regime goes beyond just changing the rules of gain among Chinese political elites, but extends to its state society relationship. This has created a whole new institutional landscape in the Chinese politics, and how should we characterize China's political regime under Xi Jinping?

First of all, I mean, it only took several months to realize that China's collective leadership had almost come to an end, and it was now Emperor Xi who played solo. Especially after two important new organizations. One is Central National Security Council of the CPC in Communist China's Communist Party, and the other one is the Essential Leading Group for a comprehensive (inaudible) reforms. After both organizations were established during the third preliminary session during the 18th CPC Centered Committee most of China watchers realized that the current Premier Li Keqiang had been sidelined, and it was primarily Xi who called the shots in most important decisions regarding either national security or domestic reforms.

At the same time, when Xi tried to consolidate his power through creating

the two organizations I just mentioned he also launched an anti-corruption campaign. That has made both prominent CCP leaders and ordinary cadres arrested and tried. Xi's political move to purge several fashionable leaders and their henchmen implies strongly that he no longer wants to share power with other factions as Hu Jintao used to do. Furthermore, the very fact that the anti-corruption campaign so far has gone beyond the level of top elites means that the campaign is not just about personal or a power struggle, but it's also about making profound and systematic changes in China's power sharing arrangements. While, I mean, we don't have to go so far as to announce the death of the collective leadership. Xi needs to support from other prominent elites, or even the party, it is nevertheless undeniable that the rule of the game among elites since Xi Jinping has been fundamentally changed.

Xi Jinping's built moves in both the anti-corruption campaign and the restructuring of the top decision-making mechanisms can be explained as a response to increasing risks of social instability. As a matter of fact, addressing issues of social instability arising from a growing gap between rich and poor, and tensions between corrupt officials and ordinary citizens was already a top priority during the Hu years. The harmony society campaign under the Hu Administration was precisely designed to reign inequality across both social classes and regions. However, I think that both Hu Jintao and Wen Jinabao were fully aware about how social disparities could undermine legitimacy of the communist rule in China. Both of them, and the entire leadership back then, had never come up with any measures of what Xi Jinping has done.

As a son of one of the founding fathers of the People's Republic of China, Xi Jinping enjoys a substantially larger support base among elites than his predecessor. This has enabled him to ignore various vested interests responsible for China's growing social tensions and adapted policy measures that could help diffuse

potential risks arising from intensifying social grievances. So if the political logic of political regime survival posited above is right, and Xi does have the political capital to transform the Chinese regime what exactly has he done so far to square up to challenges in this regard?

It was not until earlier this year that we began to observe Xi's move in his social arena. So on May 29 the Politburo based a new regulation, it's provisional, the regulation on CCP party, a leading party member's group that ends, on the one hand, further regulate and fortify the leading party member's groups. In Chinese called (inaudible) that have already been established in non-party organizations such as the government agencies and quasi-government associations, and expand the party's outreach to social organizations such as NGOs that have been left out or left relatively untended by the CPC on the other.

One of the new regulations announced to be only provisional is (inaudible) wide concern among NGOs over been further squeezed politically, owing to the party's organizational penetration if the law were to be fully implemented. Technically, however, it probably takes some grand social engineering and mobilization to create Pengo's, a party organized, a non-government organization, by setting up leading party member groups in NGOs. This is because most NGO members are not party members, and it's even more unlikely to have party members assume leadership positions in them. Is Xi going to ask current NGO leaders to join the Communist Party or is he going to take over NGOs by dispatching party members to be their leaders.

It waits to be seen which approach Xi's going to take or if this regulation's going to be a tiger without teeth. Regardless, this new policy endorsed by the Politburo, however, eroded a diversion of institutional investments from the power sharing to cooptation institutions in an attempt to coop the potential opposition in the

society. So combining both analysis and Xi's restructuring of China's elite politics, and the new initiative in social cooptation completes my depiction of the institutional trajectory Xi Jinping's political maneuvering has taken. Facing a similar challenge rising from social tensions since China opened to the global economy, as Ho Jintao, Xi was able to react to a challenge in a totally different way. Because of the political clout his personal background endowed him with.

However, the way in which Xi Jinping utilized this political endowment has followed a certain institutional logic. First of all, because power sharing and coopting institutions are substitutes, Xi had to restructure the elites politics first before he could tackle the problems in social cooptation. Second, as far as social cooptation is considered, Xi has adopted the party-based approach since this is more effective than purely (inaudible)-based one. Third, as institutional logic shows, when power sharing and coopting institutions are substitutes it is inevitable for Xi to break the previous pact between a dictator and his allies, so he can have more leeway and resources for social competition.

So finally, two takeaway points. So this is a big gamble Xi's taking right now. If Xi makes it and garners a broader support base from the society, owing to the social cooptation, he will be able to create a new leadership model for China. If he fails during the term then we shouldn't be surprised to see a Hu Jintao Jr. in charge in 2017. Second, so some policy implications for, you know, (inaudible) whereas some of us are based. So Xi's great a social and political engineering is almost certain to drive a wedge between the Mainlands and Hong Kong and Swiss Taiwan in many dimensions.

Politically, people in Hong Kong and Taiwan, the younger generation especially, are going to find it more difficult to feel positively about Mainland's political system. Socially, the shrinking space for the civil society in the Mainland is also going to

make it harder for the Chinese people outside of the Mainland to appreciate the China Dream. Thank you.

MR. LI: Wow. Quite provocative. Okay. Let's move to Scott Kennedy in the CSIS.

MR. KENNEDY: Thank you, Cheng. CSIS is proud to partner with the Brookings Institution and the Association of Foreign Relations on today's events. We are really honored that so many people came to participate, and from such a long way.

I wanted to talk a little bit about three broad trends in China, and then what they mean for others in general, and then what they mean specifically for Taiwan. There's going to be a little bit of overlap in our remarks, particularly with Hans', but I think a slight different twist, and that's always fun.

In China's policy process I would agree with what Hans has said is that power is moved up the system and into the party. There are now, in addition to the two organizations that he mentioned there are actually 38 leading small groups now. They've doubled in number in just two years. And China has gone from fragmented authoritarianism to just straight authoritarianism. I would just say this is not only because of Xi Jinping's reading of the faults of the system before that collective leadership or a fragmented approach meant that there was compromise in addressing every type of problem that the country faced, generated a lot of corruption, and limited China's ability to have global influence. The solution of that was to centralize power and move it up and into the party.

As a result we have a much less transparent system. It's much harder to find out what's going on, even if you work in the system. It means that it's subject to much more volatility at the top because it's just a small group of people making decisions. I like to say that Xi Jinping has a kitchen with several tables at it, and he goes from one

table to another depending on which issue he's dealing with. It's really just a small handful of people at each table, and there's just a couple people that move around with him to these different tables. That's a very different policymaking process than we've had in a very, very long time.

In terms of economic policy, China's overriding goal is definitely about avoiding the middle income trap and moving up the value added chain in all spheres of production. In the process of doing that they know they need to liberalize, and Xi Jinping has outlined a lot of reform efforts. But they need to find a balance with maintaining growth which requires a whole variety of stimuli, and we saw that on full display last week. From a week ago Friday through last Friday they threw everything at the stock market, including the kitchen sink. Today, I think at the end of trading Monday, the Shanghai Index is up about 13% over where it was at the end of trading on Wednesday. So apparently successful, but what that does is it makes it harder to implement the whole variety of reforms that they want to in order to move up the value added chain.

All of that translates, regardless of whether it's about reform or moving up the value added chain, into a lot more investment abroad from China, a lot more trade. You see Lee Ka Chong's visits. He's traveling the globe promoting manufacturing cooperation. He was in Latin American in early June. He just was at the OECD headquarters about ten days ago, and this all fits with their economic reform goals.

The third trend has to do with China global governance. You know, there's a lot of talk about China trying to set up, what people call a separate kitchen or a whole new international order. That's really not true, 99% of Chinese efforts are about integrating into existing international institutions, and they spend most of their time doing that on a day to day basis. Yet, since Xi Jinping came to power, they have developed some new organizations, like the AIIB, and tried to increase their influence in existing

institutions, like the IMF and others. But these efforts really aren't because they are so dissatisfied with the existing rules. They just want more influence or what they say, (Chinese spoken). They want more voice. They don't know what they'll say when they get that voice, but they want a lot more voice.

Now, these trends and politics, economic policy and global governance have big implications for everyone that interacts with China. In terms of the policy process, it's just much more hard to follow this place, and it means that we all have to, whether we like it or not, engaged the party directly. You cannot just go to ministries in China and find out what's going on anymore. You really need to go to party organizations in these leading groups. That's not easy to do because the party doesn't really put out a sign and have a practice of welcoming people in for that type of engagement.

Economic policy, it's clear now, that even though this is a reformist leadership in general the problems of economic reform, just the real problems of the economy day to day they are never going to end up in a pure market economy with this group in power. It's just not in their DNA, and they are never going to get to the other side of the shore, if you think of how they talk about feeling the stones across the river. That shore is super far away. It's, like, wider than Lake Michigan, so you can't ever see the other side.

This means that as they move up the valued added chain they're going to be competing more with advanced industrialized economies like the United States, like in Europe, like elsewhere in East Asia. So as there's going to be greater business opportunities with China because average wages are rising rapidly. It means there's going to be more competition, and you're only going to be able to do well in China by targeting consumers, and figuring out how to plug in and collaborate with the Chinese

economic machine.

It terms of global governance, to paraphrase Joe Nye, if you treat China as a system opponent, they will become a system opponent. So what we need to do is figure out incentives to get China to want to be in the international system. Otherwise, they will look for other things to do. So that's not guaranteed, it's really how we respond diplomatically.

In terms of the implications for Taiwan, in terms of the policy process it's about dealing with the Communist Party directly. For Taiwan, actually, that's probably easier than for any other country or region on the planet because there are already extensive direct party to party ties. So we just have to keep continuing that, and everyone actually needs to come to Taiwan and say, how do you guys do that because we need to learn how to do that as well.

In terms of economic policy, it means that Mainland China's economic gravity is going to continue to expand, and it's going to continue to draw Taiwan in. Regardless of which presidential candidate wins, regardless of their policies, diversifying Taiwan's international economic profile is going to very, very difficult just because of that gravity in china's economic policies. It also means more economic opportunities, like everyone else faces, but also particularly for Taiwan, a lot of competition. If you're in the semi-conductor industry in Taiwan, you're facing a lot of challenges in China because that is one of the primary sectors where they are investing billions of dollars and forcing lots of collaborations. Right in the space where Taiwan has developed its core expertise.

In terms of global governance, I agree, it's going to be more difficult for Taiwan to expand its international space. It's going to face the challenge like every other smaller country or territory in the region of being forced again and again, perhaps, to have to choose between the United States and China every time there's some problem,

like with AIB. It's in Taiwan's interest, and actually the United States and China's too, that we avoid those type of AIB like moments where there's this forcing of a choice. There's a lot of areas we're going to see that down the road.

I'll just conclude by mentioning what's going to be the most obvious is on TPP. Taiwan is, obviously, hugely interested in being first in line once TPP is concluded and the new round of members can sign up. So is China, so is everybody else. Will we be able to follow a WTO-like formula for both sides getting in, and that's going to be really hard. Because China has more power than it had in 2000 or in the late 90s when they made that deal with the United States that it'd be fine for Chinese Taipei to enter as long as China got in first. That's going to be a rougher going.

But I think in this instance, the most important thing for Taiwan is that TPP be signed and it be implemented. That is actually more important than Taiwan becoming a member or when Taiwan becomes a member. Because TPP is the leverage that the international system needs to push Chinese economic reform more broadly, to create more opportunities for businesses around the world and in Taiwan, and to get China to play by the rules that we think our appropriate which will create more opportunities for Taiwan. So I think more attention to TPP in general as opposed to which party becomes a member. I'll stop there. Thank you.

MR. LI: Thank you, Scott. Very comprehensive point. Now, last but not least, Professor Zeng Jin from Florida International University.

MS. JIN: Hello, good afternoon. First, I want to thank our host for inviting me to this important conference. I'm a PowerPoint person, so we'll see if my talk today will become a lullaby without PowerPoint.

I came back from China four days ago and I would like to share with you some of my initial findings from my field work on China's recent land reform. The Lula

land system has been essential not only for farmer's welfare in the Lula development, but also for security and the social stability. This is especially true in China, a country that faced 22% of the world's population with only 7% of the (inaudible) land.

In a span of less than 70 years, China's Lula land system has swung from privatization to collectivization and to something in between. The household responsibility system which features collective ownership of Lula land with land use rights located among farmers in egalitarian fashion. Given China's labor abundant and land scarce reality each farmer was assigned only a tiny plot of land. Most farmers tired on the land all year long, but with barely enough to get by.

As China become urbanized and industrialized, over 250 million farmers have left the land and moved to cities. Only the oldest stayed behind to take care of the land. Since the early 2000s the Chinese leadership has been facing serious Lula problems. Farmers are poor. The countryside is underdeveloped, and (inaudible) production is precarious. In an effort to modernize agriculture product and alleviate Lula poverty, the Chinese government has taken unprecedented measures to empower farmers. Including extending land use tenure, abolition agriculture tax, and providing farmers with subsidies.

In recent years, the Chinese government is vigorously promoting the transfer of Lula land use rights and the establishments of Lula land markets. By consolidating Lula land holdings the reform aims to solve the problem of land fragmentation and in-house production efficiency. The sanction for the center has (inaudible) in a wave of land use rights transfers. In the summer of 2014 and in 2015, I conducted preliminary fieldwork in ten Chinese villages, two in the Norther Province, Shandong, and eight in the Southeastern Province, Fujan.

Despite differences in the patterns of land transfers, some

generalizations can be made. I would like to briefly first discuss three major opportunities of the reform. First, the recent land reform has enabled the emergence of new farming entities including farms, farmer's cooperatives, and agriculture enterprises. Larger scale farming has created higher incentives for operators to modernize agriculture production and increase production efficiency.

Second, the recent reform also attracted outside investors to Lula areas. Buoying the much needed capital, technology, and the management skills to Lula areas, as well as creating job opportunities. Third, the recent land reform booster income for some farmers. For those who lease the land from villagers farming on a large contiguous parcel of land is more profitable.

Despite progresses, difficulties remain. There are four major challenges of the recent land reform. First and foremost, frequent land adjustment poses as a serious barrier to long term land transfer. To push forward Lula land reform a prerequisite should be less stabilization of farmers' land tenure for years, if not for decades. Yet, this last counter to the ingrowing principle of equality in land holdings in a village level. Among nine of ten villages interviewed, it's a common practice to great these tribute land among Lula households every three to five years according to population change.

Second and relatedly, the lack of a formal land registration program makes it difficult for larger scale land transfers. Most farmers I talked to do not have a land use rights certificate. Rather, the security of the property lies hinged on a common understanding and the memory of fellow villagers. Frequent land redistribution also made land certificates redundant. Yet, the lack of formal registration program and the land certificates could turn away outside investors or lead to land disputes when the lease involves outsiders. To correct the deficiency China started the land registration

program in 2008, and is rolling out a scheme nationwide this year. The goal is to complete land registration and the issuance of land use rights' certificates to every Lula household by 2020.

The reform aims to further protect the land use rights of farmers and to pave the way for larger scaled land transfers. This sounds very good, right? However, the implementation of this will-intentioned policy encounter resistance at a village level. As farmers wanted to stick to the old practice of land readjustment. So shall local officials follow the mandates from Beijing or respect the farmers' preferences? The answer seems to be both.

For instance, in a county in Fujian Province, the officials from the county level down the village level knew pretty well that farmers would have the final say on the duration of land tenure, and that land use rights' certificates are likely to be useless. Nevertheless, under the pressure from the Shapira's, local officials gradually complied with a new mandated, and attempted to get the job done by 2017, the deadline set by the provincial government. The price tag of surveilling every piece of farming land and issuing land use certificates in the country is about 30 million renminbi. A significant amount of the capital that could be put into productive use in other ways.

Third, there has been no unified Lula land market to facilitate land transfer actions. Instead, Lula land transfers exhibit distinct features of (inaudible). On the one hand, most land transfers among farmers in the same village on a voluntary basis. Such transfers were often informal, small scale, (inaudible) and with lower rents. On the other hand, when agra business or outside investors wanted to lease land from farmers they tended to really on local officials to mediate deals with villages. Such transfers are often larger scale, long term, and with formal written contracts and higher rents.

Although Lula land transfer centers have been established at the township level in response to Beijing's mandates, few were functioning. Why? It's largely because most office centers are short of staff, capital, and other resources. One township official confided to me that Lula land transfers was at the bottom of his agenda. He was concurrently wearing two titles. The director of a Lula land transfer center, and the head of Lula economic management office. His office was simply too busy with other job assignments. After all, his performance is not evaluated against the progress of Lula land transfers. According to him, his superiors only paid (inaudible) services to the importance of promoting Lula land consolidation, but allocated no financial or human resources to his center for land transfers.

Fourth, although the central government reiterated the importance of food security, there is a certain degree of diversion of land from food production to cash crops and non-farming uses. For instance, once agra business I interviewed leased 700 moo farming land for one village in Shandong Province to cultivate quality cotton seeds. Another big agra business I interviewed rented land from various villages in Fujian Province and it turned edible land into chicken farms.

Some farmers also lease the land to grow cash crops such as tobacco, flowers, and herbs. Even though China has said a redline guarantee that edible land never shrinks to less than 1.8 billion moo, or 120 million acres, local officials I interviewed hardly follow the guideline in a strict manor. So what does China's land reform tell us? The Chinese government has repeatedly pledged to deepen Lula reforms, and to step up agriculture modernization. Yet, agriculture is still the weakest among the four (inaudible) of industrialization, informationization, organization, and agriculture modernization.

Tackling province in a countryside is crucial to China's efforts to build a

moderately prosperous society. A key component of the Chinese Dream, proposed by Xi Jinping, the importance of rural development in China cannot be overstated. As a government statement said, if China wants to be strong agriculture must be strong. If China wants to be beautiful, the countryside must be beautiful. If China wants to get rich, the farmers must get rich.

Whether recent land reform helped modernize China's agriculture production and get a Chinese farm rich, despite a great fanfare, there are obvious problems in the design and implementation of the reform measures. China's recent move to encourage farmers to transfer the use rights of the contracted land has been driven first and foremost by the top leadership. The top down reform approach assumes that reformers in Beijing have good knowledge of local conditions, and their preferences of local participants. Yet, the government's efforts to secure (inaudible) for farmers appear to be unpopular. Why? It seems that China's reformists follow the logic of economic efficiency which contradicts the logic of social justice that prevails in most Chinese villages.

Whether or not the recent land reform will be successfully carried out across China remains to be seen. But given China's huge size and great diversity, it will be judicious for policymakers to discard the one size fits all fantasy by allowing more local discretion and the flexibility when implementing reform policies.

Last, I want to mention that the men in China and Taiwan are facing similar problems of small-scale farming, the aging farming population, and the lack of competitiveness in the agriculture sector. In May 2009, the Council of Agriculture of Taiwan launched a small landlords, big tenants policy, so the government of the two sides of the Taiwan Strait can certainly learn from each other about the design and implementation of land reform measures to solve a common set of problems. Thank you.

MR. LI: Wow, four excellent presentations. Before we open the door for questions let me have a round of questions for my colleagues and panel. First one is for Dr. Leng, but also for others. Xi Jinping recently announced his blueprint, his ideological framework which can interpret in four areas he calls four comprehensiveness. Namely, middle class development, market economy, rule of law, and the governance into the tough measures against party corruption, and also party governance, et cetera.

Now, in your view, this is a good framework or bad framework? Or maybe you can also interpret this as empty promises, hypocrisy. It's a huge mismatch. Alternatively, we may argue that if all these things needs this is still the process, and in other countries all this development takes a long time, so we should be patient. This is still a good framework. So this is one of the things we talk about, the culture, talk about ideologies, it's the overall framework. So this is a question for you. Let me finish the questions for the other three as well.

Professor Tung, I share with your concerns, your worries, and also used some very strong words like (inaudible) radical, authoritarianism, and also talk about social engineering. Could we interpret this as just tactics or Xi Jinping's strategy? You cannot open up China's political system immediately, so you may need to consolidate power. Therefore, just like what (inaudible) did early on. And this also raises a question about the society because all the changes are not only just lead by leaders, but also by society.

Early on, when Xi Jinping laid out the middle class market reform develop governance, it also affects the social demand. Now, you mentioned about young people in Hong Kong and Taiwan, but we should not forget young people in Mandarin China. They are also forced for change. Their mindset, their value therefore, profoundly form the proceeding generation, probably more similar to their peers on Hong Kong, in

Taipei, in Washington D.C., in New York, and Tokyo. So what is this implication? This may appear to be optimistic or pessimistic, this assessment?

And for Scott, I have three quick questions. When you mentioned that Xi Jinping's leadership became less transparent are you saying that Fujit, Tao, and Chancellor Ming are quite transparent? This is number one. Second, you talk about DNA, not in their DNA and is that true that the Xi Jinping is surrounded by financial technocrats, border class financial technocrats. They contribute, they play a very important role in any international institutions in private banks. Like Deutch Bank, Goldman Sachs, IMF, and etcetera. Do you think they don't have DNA? What about Xi Jinping himself? He (inaudible) his career from Fijian to (inaudible) in Shanghai which are market friendly. He pushed for market reform. Is this another factor we should consider?

Finally, you talk about the 38 leading groups. Now, this will raise a very interesting question. You know, in two years, there will be another party congress. Should we look at this leading group or should we look at the power build in the standing committee.

Professor Jin, about the land reform, very, very important subject, but our knowledge is so limited. Thank you for sharing your observation. Now, this land reform is often interpreted as an urbanization process because people in rural areas will move to urban areas because of land reform. They can't transfer a sale of land. So how ready the urban area is in terms of environmental protection, in terms of public worth, like water, traffic, and in terms of social tensions in excess education and etcetera would benefit? Finally, in terms of jobs? So what's the best strategy in terms of timing, and should we be considered about all these factors in urban areas before we talk about land reform and urbanization.

So quickly to answer this first set of questions and then open the door for others.

MR. TSE-KANG: Thank you, Professor Li. I think the four comprehensive is very important ideological innovation on Xi Jinping. But it's very comprehensive and also in terms of rule of law what I'm really concerned with whether the rule of law could be implemented under the party state system. Under the party state system how to develop a supervision mechanism I think is really the core of this kind of rule of law discussion. Because as we all understand, the (inaudible) tried to come by rule of law and it sunk to regional culture, Confucianism.

But it seems to me that is a very odd kind of combination. For instance, reestablishment of the social norms. Secondly, whether elite center or law center. Thirdly, whether the rule of law will be used as an instrument to consolidate the party state control or return to the Western concept of rule of law. I think that is the major differences.

The second about the improvement of the governors. Again, I just wondered that probably they are going to promote a new kind of model called Gungo entrepreneurship. Government organized non-governmental organizations. That will be the new instrument for them. Probably nothing very new, but they try to combine with entrepreneurship to combine with market forces under that different kind of state control. But they try to avoid direct intervention from the top. So that's why they have, kind of, a new mechanism of governors. It doesn't mean the retreat of the state. That will be an inner way for the state to reintegrate into social life.

MR. TUNG: Well, it's not a question that I could quickly respond, but I will try. So I guess the second question is, we should sort of factor in the young people in this equation and in Mainland China. It's obviously right, but I guess that's exactly the

point I'm trying to make during my talk which is that it's certainly true that, you know, those social challenges are simply the outcomes after so many years of opening up to the outside world. So the increasing gap in income equality and other things and, you know, disparities across different sectors of the society obviously makes it extremely different for the Central Chinese Government to govern the entire country.

I guess that's exactly why Xi Jinping took such a radical, I mean, radical that's relatively speaking. Relatively speaking, compared to his predecessor Hu Jintao. I guess, I mean, you have so many high ranking cadres arrested and tried. I mean, that's obviously why I use this term, radical. I mean, it doesn't mean that I'm very pessimistic about China's future, but it is a long shot. It's extremely radical because previously when we characterize China's regime with collective leadership it's basically a rule by consensus among those elites. But now what is radical is because what Xi Jinping is doing is trying to break that pact, so now no power is going to be shared. I'm going to consolidate the power. I'm going to monopolize the power.

After he's done that, he moves on the social cooptation. If he can do it then, obviously, he would transform China's regime from a single party or, you know, bureaucratic military (inaudible) regime to a regime close to a personalist regime. That's, obviously, going to change China fundamentally. If he can do that then, obviously, I mean, China would be -- you will have another new China in five to ten years.

Especially, he's so ambitious that it does not stop at elite level restructuring. He also tried to, you know, coopt new potential social opposition. I mean, if he can do that, obviously, China would be even stronger than it is today. But that's pretty risky, right? I mean, that's why I use gamble. I mean, if he fails then you could -- and especially, you know, talking about young people. I mean, those young people today, you know, I got visit China pretty often, and, you know, when I talk to young

people there, I mean, you can sense that aspiration for Western style lifestyle. They want to go to the U.S. or other Western countries to study, and they want to explore a new way of life.

So, obviously, what Xi Jinping is doing right now is totally diametrically opposed to that aspiration. For now, I mean, we don't see any potential insurrections initiated by young people, but in the long run, I guess that's another source of instability that, you know, Xi Jinping has to face if he's still in power by then. Okay. Thanks.

MR. KENNEDY: Terrific questions. I love always being pushed a little bit on these. In terms of transparency, I think what we've done is we've gone to, if a scale of 1 to 10 where 10 is the most transparent we've gone from a 4 to about a 2 is what I would say. I think the reason we were up at four is because the government bureaucracy had more policymaking authority, and they competed against each other. So outsiders could engaged different parts of that bureaucracy to learn about policy and collaborate with different parts of the bureaucracy both at the national level and the local level. It's much harder to do that know, I think. Talking to companies and others that engage the system, that type of ability to divide and conquer isn't there anymore the way it used to be.

In terms of the DNA of these officials, I guess I'm not a geneticist, so I can't say for sure. But even with a very well-respected group of advisors around Xi Jinping, and in the rest of the bureaucracy, the experience is that they are prone to incrementalism, even when it's in a liberal direction. Just about any time of liberalizing policy is also cut into seven, eight, ten steps rather than in one foul swoop. That may be because of DNA. It may be because of the situation they're in where they're scared of the risks of total liberalizing any one area at any one time. So whether it's situational or genetic I guess we'll have to see, but the behavior is still relatively similar.

As for the decision making process at the top, I would never say the Politburo Standing Committee is irrelevant, but I would say what is interesting with all these leading groups is that policymaking now -- and they're not more leading groups than there are ministries, so policymaking is now organized by problem, not by general issue area. Especially if you look at who sits on these leading groups and how they operate. So, you know, I think the leading small group on comprehensively deepening reform is China's defacto cabinet right now, not the state council. I wouldn't say the state council is irrelevant at all, but the way that organization operates they don't just collect information and share general thoughts the way leading small groups used to act. It really seems to me their function has changed. This is something that Chris Johnson and I have been paying a lot of attention too lately, and we're working on something that ought to be out in the next couple weeks.

MS. JIN: Okay. Thank you for your question. I think land reform is part of the industrialization and organization process. Because of industrialization is creates huge job opportunities for migrant workers.

As to your question whether the cities are ready or not, I don't think they are ready to give equal access to education and health services to migrant workers and to grant them urban household registration. But the problem is today if you go to China's countryside you can hardly see young people around because all of them have left for cities. They prefer to work in, you can call them the sweat workshop or the construction sites, instead of keeling the land. So the question becomes in 20 years' time who will tend the land? Who will grow food for the Chinese population? I think that's why Lula land reform is so urgent today. Thank you.

MR. LI: Well, thank you all for answering my questions. Although some of them may be unfair and too harsh and I just want to push you to think about all these

different ways to be fair to anyone. Now it's open.

QUESTIONER: Hi, good after. I'm Dr. Donna Wells. I'm a mathematician. I make predictive math models. The Ambassador mentioned a decline in exports from Taipei to Mainland China. Can we talk about that? Is it entirely market-based or is that be design? Thank you.

MR. LI: Do you want a specific one?

QUESTIONER: No, the panel's fine. Thank you.

MR. LI: Okay. Anyone. Who would like to answer the question?

MR. KENNEDY: I'll just briefly say this isn't my area of expertise, but in general, I think declining trade that China's had recently is simply a consequence of the slowdown of the economy at large which has affected all of its trade. I mean, the dollar value of imports of oil, for example, have dropped dramatically even though the quantity has stayed the same. So I'd imagine that it's the same for Taiwanese' companies exporting to the Mainland, facing the same types of pressures which is why companies from everywhere, you know, are more dissatisfied and have problems with the Mainland. To some extent, it might be a tightening of things, and some of the things that you mention in terms of industrial policies. But it's also just there's less business, and when there's less business companies are more cranky.

MR. LI: Yes.

QUESTIONER: Gregory Hull from Radio Free Asia. I think I'm going to press the panel a little bit more, and I'm going to flip my position from a human right activist to a supporters of the authoritarian regime. Since we saw the biggest drama of financial history last week and it's still ongoing. The Chinese stock market has singed from 30% to a 15% rebound, and we are talking about 1.2 trillion renminbi trading volume, every day, which is higher than the NYSE.

This has never happened before in the -- well, except the 1929 Wall Street meltdown. This is a unique experience. So my question to the panel will be, shall we (inaudible) of economy or political economy since China is always an exception it can use its political force or security force into the stock market, and searching each listing company which American can't do. We know that from the policy circle of the Chinese stock photos, essential bankers. They are all very well-educated. They come from Yale. They are highly critical to the U.S. economy. They said, why American has killed ye? Why not China?

Now, if you compare the NYSE to PUA's showed at around 23. Nowadays in China, if Shanghai's stock market's PUA is only 18 which is comparatively lower than the U.S. So my question will be, are you guys sticking to your tax boat or shall we rewire the tax boat because of China since they can do the things which we cannot imagine? If they can't, so my question will be, if they can't sustain the so called Chinese model when is the breaking point? If we miss the breaking point last week when will be the next trigger point for the Chinese collapse? Thank you.

MR. LI: Well, first, do you have the answer? Okay. So the answer is no, he does not have the answer, so do we have the answer?

MR. KENNEDY: I'll give an answer, whether I know it's the answer I can't say for sure. I mean, I think it's, in general, just not a good idea to be dogmatic or ideological about these type of issues. In general, that type of intervention that they displayed, both in the run up of the market, and in the run down are things not to be generally favored. We've got to pay attention to the run up in the market which is since spring of 2014 a whole lot of stimulus package, step by step over time.

That's just as dangerous as what they did over the last ten days, you know, having companies suspend their trading, creating a fund to buy the shares,

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ordering large shareholders not to sell of their shares. Those type of things. Both violate the standard, conventional wisdom of what one ought to do. I think the question is, you know, both exist in a context. The anti-corruption campaign, and maybe other factors generated slower growth than they were expecting and they needed to do something to stimulate the market. It just so happened they also, a lot of that money moved in the securities' sector instead of going into the real economy. They also allowed margin trading which was a big reason why that happened.

Now to get out of the problem then, you can understand why they would intervene with a 30% drop. In October 1987, the U.S. stock market, Dow Jones Industrial Average dropped 23%. NASDAQ's bubble bursting, the dot com bubble, that was a 78% drop in the market. 2008 Dow Jones Industrial Average dropped 54%. So China's in there. That's not unprecedented. In each of those instances the U.S. and other stock markets have intervened in some way or another. The Chinese are just much more dramatic, right? And, of course, we pay much more attention to that.

The question is going forward will they create policies that will make it less likely that they need to intervene? Can they make regulation better? Can they get rid of margin trading? Less stimulus. I don't know. That balancing act. We always like to say that China comes to some intersection that's historic. That happens, like, every day, so I don't see that we're in any clear intersection now where it's going to be one direction or another. Watching Chinese economic reform is like Waiting for Godot, that famous American play. Godot just never arrives. So I think we ought to be focusing on something different than that.

MR. LI: Yes, please.

MR. TUNG: Well, I'll just give you my take on the textbook issue. The thing is you're asking whether we should rewrite the textbook, but the thing is I think

there's no textbook to follow anyway to start with. When I wrote my dissertation on trade policy in China at Harvard, I mean, there is no model to be following. In terms of the, you know, the textbook of political economy models, I mean, simply we cannot find any models of the shelf to study China. So I supposed everyone who studies China, I mean, we actually, collectively, writing a new textbook on China. Maybe that's one of the reasons why the Chinese leadership is so proud of their achievements because they actually have no model to follow.

That's why this gradualist approach with groping the stone before crossing the river becomes the motto of the Communist Party. So in essence, I guess, I mean, we are writing a new textbook, and collectively, I guess, we wait until 10 to 20 years to actually write a textbook for ourselves.

MR. LI: Well, crisis is not always a bad thing, you know, in general terms, nothing specific, of course. Because it reviews some of the flaws in the Chinese stock market in the operation that this marriage between performance and also the stock list, and the over confidence about the governmental role. There are many other problems. I can give you a long list. But when it occurred I think that it's a wakeup call for a nation. Actually, over the past, you know, 20 some years always imparting the lessons from the previous mistakes, so I hope this one will serve that function.

Now, in Communist government interference I think that an American federist once said the bad governments are two kinds. One wants to do too much. One wants to do too little. I think we should find the balance (inaudible) financial regulations and etcetera.

We will take probably one last question. Yes.

QUESTIONER: (inaudible) University of Pennsylvania. If one were to have a panel like this 10, 15, 20 years ago on Chinese domestic developments and cross

strait issues a lot of it would have been about possible convergence, right? The openness to political reform on the Mainland, economic marketization, all of that. And, of course, from Li Donway through (inaudible) we've heard a lot about how Taiwan might help change the Mainland in some way.

That conversation's totally alien to this. I wanted to put to the panel how much of an issue this is in terms of Taiwan's receptivity to Mainland representations about cross strait accommodations? How much that receptivity is affected by a picture that is much more critical of the values that Taiwan pushes politically and that is apparently much more skeptical about the legal guarantees which ultimately would have to be the basis for any settlement.

MR. LI: Yes.

MR. TSE-KANG: To my understanding, in terms of local governors, China's trying to learn some experiences from (inaudible) in 1980s, even earlier, and try to avoid the mistakes, so called mistakes. Because the rise of civil society lead to democratization, but the current Chinese thinking is that how to have a kind of social forces under the control of the state without striving into democratization. Or the other side of the coin is how to consolidate the part of state control under such a kind of polarism?

I'm not quite sure what it is the experiences of Taiwan, but in the long term, I think we have to trust about social forces, the knowledge of the people, and also as we discussed earlier that generation change will have major impacts on the future developments.

MR. LI: Well, if I may, I also want to add I think that the thesis of convergence is not completely gone. In my view, actually more so now than ever before. If you look at Xi Jinping's full comprehensiveness, middle class development, market

economy, rule of law, and strong governance it can control official behaviors. These are all the things that Taiwan went through 1970s and the 80s. Earlier there were two questions about a rise of human rights' lawyers. Actually, I do not see that as pure negative news. I think, of course, that you know that since (inaudible) and the many other lawyers. There are lawyers still arrested and in their life later become president or vice president, etcetera.

So that's kind of a pattern. I think in certain ways it's parallel in both sides of Taiwan Strait. Of course, I'm not arguing that they will be entirely identical, no. Because of the size, because of historical circumstances, because of many other things that can profoundly impact. But I do see some of the similarities are more important than fundamental differences. But, of course, China early on many of the panelists talk about uncertainty. It's (inaudible) of uncertainty.

But it will be problematic to see all the things are quite negative or, you know, we become really pessimistic. I think, for instance, Winston Churchill once said, the difference between an optimist and a pessimist is a pessimist sees calamity in every opportunity, and an optimist sees opportunity in every calamity. So how you look at these things, I only wish that the other Chinese leaders will be optimistic to learn lessons from the stock market crisis, to learn lessons from China's problems for all domestic and foreign policies. So I think that my question is really about the pessimism and optimism when we look at China. So I will leave you to if, just if you would, please.

MR. TANG: I just want to offer some contrarian view on the four comprehensives that you just mentioned. So, I mean, just look at these terms you might think there will be a convergence of governance, right? I mean, the middle class, market economy, rule of law, governance, anti-corruption. These are all values that, I guess, pretty much universal, right? Every Western country agrees that these are important

values.

But the thing is, if you take a deeper look at these terms in the Chinese context, middleclass, well, I mean, it's a backbone of democracy or it's an important source of, you know, civic activism in Western society. But in China, there is not much space for civic activism really. Just, you know, citing someone who sat -- I mean, the rest of the lawyers. So for middleclass that's obviously not something people mean here.

Market economy, it also is not quite the same as the market economy people talk about here. I mean, the Communist Party still occupies the commanding heights of the economy, right? For the important, you know, sectors that -- you know, like, heavy, you know, capital intensive sectors that they still want to have important influence in those sectors. They don't want to give those controls away.

Rule of law, I mean, without an independent core how could you talk about rule of law. Finally, anti-corruption. Its anti-corruption campaign against cadres, the Communist Party, right? And so it's a very China specific institutional setting. So, I mean, in terms of the -- I guess on the face of it, we could all agree that these terms are, you know, symbols of modernity, but the thing is, I just kind of wonder how these terms should be correctly interpreted in the Chinese context.

I'm not saying that, well, China should just follow what Western countries or what other, I don't know, developing countries or developed countries have gone through. I'm not saying that. I mean, China, obviously, admitted China obviously should develop an entirely different kind of political culture or economic or social cultures. That's fine. I mean, I'm fine with that. But what I don't quite agree with was the confusion of, you know, different concepts when they should be interpreted in different ways to capture the real essence of those terms.

MR. LI: Well, it's quite fair, but still I think that it's better to hear these

terms rather than like a plutarian dictatorship, class struggle, etcetera. These things really create a lot of -- Article 9 in those things.

MR. TUNG: Touché.

MR. LI: Again, it's a really wonderful discussion. The good thing is that we not necessarily agree, actually we disagree, but this certainly really enforces the importance of this critical moment in terms of China's domestic, economic, and political development, and its implication to the stability and peace of the Taiwan Strait and beyond.

I would like the audience to join me to thank our panelists for another wonderful panel discussion.

(Recess)

MS. GLASER: Please continue to enjoy your lunch, while we proceed with our program. I'm Bonnie Glaser, and I'm a senior advisor for Asia at the Center for Strategic and International Studies. I'm privileged to be co-hosting this event today.

I'm very glad, and we should all be, I think, very pleased to have with us today as our luncheon speaker, Ambassador Ray Burghardt. We often talk about how over the last eight years, cross-strait relations have stabilized. I think there is often not enough attention paid to how much the U.S.-Taiwan relationship has really blossomed during this period. And there are, of course, many people whom we have to thank for that in Taiwan and the United States.

But one of the most important people is Ambassador Ray Burghardt, who has consistently emphasized the intrinsic value of the U.S.-Taiwan relationship, and has given his own attention to this relationship in a way that I think is extremely important, and I think he has had a major impact. Next February, I think, is going to mark 10 years -

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MR. BURGHARDT: That's right.

MS. GLASER: -- as Chairman (Laughter) of the Board at the American Institute in Taiwan. And indeed, Ray has accomplished a great deal over that period.

Prior to being Chairman of the Board at AIT, Ambassador Burghardt was ambassador to Vietnam. He was director of the AIT's Taipei office in the transition period (Laughter) to Chen Shui-bian in the early years, in 1999 to 2001, counsel general in Shanghai before that, deputy chief of mission at U.S. embassies in Manila and Seoul, and a political counselor in Beijing before that. And early in his career, he was on the NSC staff as a special assistant to President Reagan and senior director of Latin American affairs.

So, this speech is going to be, if I'm correct, on the record?

MR. BURGHARDT: Yes.

MS. GLASER: Yes? Terrific. So, will you please all join me in welcoming Ambassador Burghardt. (Applause)

MR. BURGHARDT: Thank you, Bonnie. Thank you, Richard, for inviting me to this important conference. Great to be with lots of friends and acquaintances from the many years I've worked on this subject. I sometimes talk about the period I was in -- the three years I was in Vietnam as having been my vacation away from Taiwan affairs.

But what I'm going to talk about today is -- because the conference is about cross-strait relations, I'm going to talk about the U.S.' perspective on cross-strait relations. But first, I want to talk a little bit about U.S.-Taiwan relations.

This conference actually comes at a very, very busy time for our interaction with Taiwan, our relations with Taiwan. As many of you know, last weekend, President Ma made a transit stop in Boston. I was there with him. He was on his way to the Caribbean and Central American region, and this week, as we all know, we have

mainland affairs counsel chairman Andrew Hsia with us here in Washington.

Later this week, President Ma will make another transit, that time in Los Angeles. Next week, we have other meetings here in Washington with high level Taiwan officials. At the same time, you know, we go ahead on the trade side preparing for later this year, our trade and investment framework agreement talks with Taiwan.

This is a lot of activity, but it's very typical. It's actually sort of a typical week in U.S.-Taiwan relations. And I think Harry Thayer might agree with me, looking at people who worked in early days on Taiwan relations. Those of us who were in the East Asia bureau or working in Asia -- I was in Hong Kong at the time, in 1979, when we changed recognition to mainland China, I think very, very few people imagined that we would be having this level of intensity in U.S.-Taiwan relations in the year 2015.

Frankly, some of the architects of that change in policy probably didn't think we'd be worrying much at all about Taiwan in 2015. But this is the world we have today. I've worked on U.S.-Taiwan relations now in three administrations of the U.S. government and with three Taiwan administrations. And in the past, as Bonnie alluded to in her remarks, in the six years of the Obama administration, maybe even starting a little bit before that, we've really transformed the way we deal with Taiwan and the nature of the relationship.

And a lot of this, as she also said, taking Taiwan seriously in and of itself. Viewing it as an important relationship, not some appendage or some small aspect of our relationship with Beijing, but as something that matters. And so, we've sort of transformed and redefined, in many ways, the way we think about Taiwan.

It's our 10th largest trading partner, 6th largest source of foreign students. Our private sector in the IT and other high tech industries are intimately connected, because as we all know, Taiwan is a key player in the world's supply chain for

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those industries. We cooperate on more and more, particularly in the last two or three years, on issues that extend beyond our bilateral ties to the region or the world -- things like counter terrorism, public health issues, economic issues, leadership training, all kinds of things.

This is, you know, for a place of 23 million people, they are really punching above their weight. Our policy toward Taiwan, I would say we have really three main focuses. We're committing to supporting Taiwan's security, its ability to deter aggression and coercion. We are promoting -- we are committed to promoting Taiwan's economic openness and diversification, and to helping Taiwan enjoy the dignity and respect it deserves in the international community.

I would think of these three aspects of the policy as really closely related to one central policy goal. And that is, to support the ability of the people on Taiwan to determine their own fate, free from intimidation or coercion. These are also the elements that give Taiwan the self confidence that we believe has made possible improved relations across the Taiwan strait.

The U.S. has very much welcomed the marked improvement in cross-strait ties during the past seven years. Both sides of the strait have reduced tensions, and they have reduced the possibility of miscalculation. That stability is in the interest of the United States. Stable management of cross-strait relations has been a major factor that has made possible the significant progress these past seven years in U.S.-Taiwan relations.

I think many people in this room can recall that during earlier eras when cross-strait relations were tense, progress also became difficult in U.S.-Taiwan relations during the same time. I was thinking about that when I was with President Ma in Boston last weekend, and we were just chatting about that outside.

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That transit stop -- the weather was warm, the mood was warm. It was a very friendly day and a half; great interaction with the local people and with major academics, including many in this room. And as I was thinking about that and sitting in the room there at the Harvard Faculty Club, my memory went back to (Laughter) -- Richard knows what I'm going to talk -- my memory went back to another transit stop (Laughter) in an earlier era, shall we say, when we were on the -- I think you were there. Yeah.

We were on the tarmac at Anchorage, Alaska, and the transit stop never left the airport. And it was in Anchorage, Alaska, and here's a key point -- it was in January (Laughter). So, we want to continue to have these kind of strong relations with Taiwan. We want to continue to see this kind of progress.

And to build on the progress of the last seven years is going to require a lot of leadership and wisdom in both Washington and in Taipei. And it's going to require the kind of wonderful bipartisan support that we've had for the relationship, which has prevailed in both capitols. And that's frankly, during a period when it's been difficult to get bipartisan support on many other issues in either Washington or Taipei.

Taiwan's status as a democracy that respects human rights and the rule of law is a major reason for the broad and deep respect that it enjoys in Washington from both parties. Now, the presidential and legislative elections that are going to take place in January now seem to be something routine. But we know that they are actually the product of a long and very difficult struggle in Taiwan, and we have deep respect for that extraordinary political achievement.

As President Obama said in Brisbane last November, Taiwan is a shining example that democracy is not just a westerner value. Now, we don't take sides in elections. We respect the right of voters in Taiwan to make their own choices.

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Regardless of who becomes the next president, we will work together with her (Laughter) -- I just -- I'm sorry, that wasn't in the type. Somebody else made -- yes, with her. Yes (Laughter). And with Taiwan's new leaders to strengthen our unofficial relations and to safeguard our own interests.

As I noted earlier, stable management of cross-strait relations is a key factor that has made possible our close cooperation. So, we encourage both Beijing and Taipei to continue their constructive dialogue on the basis of dignity and respect, but we don't push them -- either side in their negotiations.

We'd also -- I'm sure they can add, we don't discourage them from certain topics of negotiations. It's all up to them -- the content, the scope, the pace of cross-strait relations and cross-strait interaction has always been something which we have believed must be accepted by people on both sides of the strait. In the same way, the basis on which they conduct that interaction must also be something that is acceptable on both sides of the strait.

Now, some people say, well, what about the '92 consensus? Don't they both have to agree that? Or do they have to agree on that formulation? That's for people in Taiwan and people in the mainland to decide. There's no reason for a U.S. position on the best modality for cross-strait relations. I mean, why would we have that?

We have discussed with our friends in Taiwan our abiding interest in peaceful and stable cross-strait relations. But at the same time, we've also encouraged Beijing to exercise patience, to show flexibility, restraint, maybe even creativity. It is important that both sides of the Taiwan strait understand the importance of the many benefits that stable ties have brought to them, to the United States and to the region.

Maintaining these stable ties is the responsibility of both sides of the strait. It's important that they work together to establish a basis for continued peace and

stability, regardless of the specific formula that they might choose. Taiwan shares our values, has earned our respect, continues to merit our support.

One very important achievement, I think, of the last seven years, has been the excellent personal relations that develop between our foreign policy teams. Our friend, Andrew Hsia, has very much been part of that experience of continual engagement between people who learn to like each other and like working with each other, and see each other all the time. We hope to continue that in the years ahead, and maybe even to deepen further that close bond. Thank you very much. (Applause)

(Discussion off the record)

MR. BURGHARDT: No, Bonnie talked me out of it.

MS. GLASER: We changed the ground rules. (Laughter)

MR. BURGHARDT: Bonnie said it was better if she took the question, because then if I didn't call it on someone, that they could blame her instead of me, so (Laughter) --

MS. GLASER: You're in honest mode today. This is the time to ask questions, my friends (Laughter). Okay. So, we have about 20 minutes, I think, for questions. Again, please wait for the microphone and identify yourself, keep your question short and to the point. Who would like to start?

(Audio dropout)

MS. GLASER: Okay.

(Simultaneous discussion)

MR. BURGHARDT: She's getting back at me by calling Norman (Laughter).

SPEAKER: I just want to pick up where I left off (Laughter).

MR. BURGHARDT: Yeah, thanks a lot, buddy. (Laughter) Thanks a lot.

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SPEAKER: I asked Alan Romberg the question whether he was aware of any private assurances that Dr. Xiao Wen gave to the American officials in her conversations with them, when she visited Washington.

I don't want you to dock (sic) my question. You know, (Laughter) if you don't want to give me a direct answer, at least say something (Laughter). You know, like the atmospheres and all that --

MS. GLASER: All right, Norman (Inaudible) --

(Simultaneous discussion)

SPEAKER: Thanks.

MS. GLASER: Thank you very much.

MR. BURGHARDT: I was aware of what Xiao Wen said in private (Laughter). That I can tell you. I was in on all of the government meetings that she had; all of it. And as we agreed to say afterwards, they were use -- what was the term? Useful and constructive?

SPEAKER: Constructive.

MR. BURGHARDT: Constructive. Constructive talks. We made a really -- you know, the people made comments when she came four years ago, so, we decided we weren't going to do that this time. Okay? We decided that we would let her speak for herself when she was at CSIS; that having the U.S. government you know, somehow characterize her visit or speak for her in trying to describe what she had told us, that this was not a good move. And so, we're going to stick to that.

I will say this: That she came very -- you know, she prepared very, very carefully for the visit. We had a lot of interaction before the visit. So, that's sort of a factual statement, which I'll make that comment about.

(Audio dropout)

MR. BURGHARDT: I told you, I'm not going to characterize the visit.

(Audio dropout)

MS. GLASER: Any questions from non-journalists (Laughter)?

(Audio dropout)

MR. KING: Tony King, from American Councils for International Education. As you mentioned kind of the importance of the bilateral relationship, I wonder if you might say something about how that works in the region, where tensions seem to be on the rise -- South China Seas, you know, (Inaudible) -- all of that stuff.

And Taiwan, up to now, certainly seems to be adhering relatively closely to the Chinese positions. But especially, if the mainland chooses to try and marginalize Taiwan, if you think that might change and if you care to gaze into the future of that situation. Any easy question. (Laughter)

MR. BURGHARDT: Right, yeah. Diplomats don't gaze into the future publicly, too much, but I would say (Laughter) on the South China Sea, that certainly, the Ma administration has been relatively cautious in its public remarks. But I'm not sure I would say it's an identical position to the PRC.

President Ma actually discussed this subject quite a bit at Harvard last weekend with people, and he of course -- Taiwan released an 8 point statement recently. And then before that, there was a statement -- was it April 29th, that they put on their web site?

One thing I would just notice in that statement, there was a specific reference to the United Nations Conventional Law of the Sea. Somebody who is more expert in the subject than I can correct me, but I don't believe that Beijing has ever made a reference to the applicability of UNCLOS in terms of South China Sea claims. So, that would appear to be a difference in opinion.

(Audio dropout)

MR. BURGHARDT: I've been talking to you constantly for the last three days, it seems. I don't know.

SPEAKER: That's right. Mr. Bazner (Laughter). I will pick up where I stopped yesterday.

MR. BURGHARDT: Oh thanks, thanks a lot. Yeah, thanks a lot. Yeah.

SPEAKER: Yeah. John Zann with CTI TV of Taiwan. This is a follow up to Norman Foo's question, actually. I understand why you wouldn't comment on Chairwoman Xiao Wen said in her conversation with her interrogators.

But could you comment what the U.S. side told her, in terms of cross-strait relations (Laughter)? You know, this I think you have a -- you know, probably a better perspective to say. You also said that 92 Consensus is not something that the United States will have to have a say, either to the DPP or to whoever.

But the Chinese government has made it very clear that they needed something, a formula, which may not be called 92 Consensus to actually continue the current exchange or dialogue across the Taiwan strait. Does the United States agree with that? You know, will the United States support the TPP or Chairwoman (Inaudible) in their pursuit of cross-strait relations on the basis of whatever formula that both sides or the three sides can agree to? Thank you very much.

MR. BURGHARDT: Yeah, I mean, there isn't -- first of all, there isn't a third -- I'm not sure what your three sides are. But I mean, again, this is not -- the U.S. has never sort of blessed a particular formula for cross-strait relations. I think the furthest we've ever gone is to say it's nice that something is working. You know? I mean, that's easy. You know?

And I think that -- as I said earlier, we encouraged Taiwan and in this

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case, the DPP, to also use flexibility and creativity, but also, Beijing. I mean, it is also the two side --

One of the things one of my old bosses, Winston Lord, used to often say, Americans aren't smart enough to mediate between Chinese. I guess George Marshall proved that (Laughter). Yeah. So, I think that's true today, as it was in 1947. So, I think it's the work -- you know, we knew that a lot has been going on. And we'll see, you know, whether something is found.

But the important thing is for each side to show flexibility and creativity. And I'll just leave it at that. The result is, I mean, as I said in remarks -- the result of maintaining stability and maintaining lines of communication, not having miscalculation -- that's what's important, and it's important to us. And so, we hope that no one will fail in the effort to achieve that. Yeah.

(Audio dropout)

SPEAKER: My name is (Inaudible) from Epoch Time Newspaper.

MR. BURGHARDT: From which newspaper?

SPEAKER: Epoch Time Newspaper.

MR. BURGHARDT: Epic Times. Okay.

SPEAKER: Yeah. And this morning (Inaudible) reported one -- over 106 human rights lawyers and their family members were arrested in mainland China. And also, last night, there's news come out (sic) -- a high profile Tibetan monk died in the (Inaudible) presence. So, my question is, what kind of row you think human rights, freedom of speech, freedom of religion plays in the relationship among U.S., among China and Taiwan? Thank you.

MR. BURGHARDT: As I said in my remarks, it's the commitment to human rights in Taiwan, the extraordinary achievement of the people of Taiwan in

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establishing a democracy, in having the courage to go through both political development as well as economic development, is something we deeply admire, and is one of the real bonds between the United States and the people of Taiwan.

I will leave it at that. It's a factor that's very important to our Congress, it's very important to our administration. The democratization of Taiwan was a -- if that was -- if binding the U.S. to was one of John Jingua's motivations for democratization, he certainly succeeded extraordinarily well.

(Audio dropout)

MS. GLASER: Question from somebody who is not a journalist, please, to balance things out. Okay, this gentleman in the back.

MR. FISHBACK: James Fishback, Georgetown University. You spoke a bit about the economic relationship between China and Taiwan. But in light of the current A-Share meltdown and what many argue is the looming economic decline on the mainland, do you see that in any way complicating the medium to long-term relations between both parties?

MR. BURGHARDT: You mean between Beijing and Taipei?

(No response heard)

MR. BURGHARDT: I don't know. Certainly, I mean, I've had a lot of chances to talk over the weekend with Taiwan's economic minister and various business people. Certainly, Taiwan is seeing -- I mean, you can read about this in the statistics that are publicly available.

Taiwan is seeing a decline in exports to the mainland. But I'm not sure that I can really -- you know, I'm not sure I'd draw some conclusions as to how that would somehow complicate relations between them. I think the political -- the economic factors, particularly those that business people can make decisions about themselves, are still

very much driven by the market.

As far as whether there will be greater ease in negotiations of Beijing to Taipei governmental arrangements, I don't think the economic problems will necessarily have that big an impact. The political problems, unfortunately, I think will be bigger.

(Audio dropout)

(Pause)

SPEAKER: Thank you for giving me -- as a reporter, the opportunity
(Laughter).

MR. BURGHARDT: What is (Inaudible)?

SPEAKER: My name is (Inaudible) with China, the (Inaudible) news agency of Hong Kong.

MR. BURGHARDT: Yeah.

SPEAKER: Ambassador, you mentioned that the U.S. doesn't take sides in Taiwan's elections. But in terms of Taiwan and Hong Shu Ju, who could be the competitors of the next election -- whose position do you feel more relaxed and comfortable with?

(Laughter)

SPEAKER: Did President Ma give you any reassurance in Boston?
Thank you.

MR. BURGHARDT: I didn't understand the last part. Did President Ma give me an assurance about --

MS. GLASER: Yeah.

MR. BURGHARDT: About what?

(Discussion off the record)

MR. BURGHARDT: Oh. I see. Anyway, you're just rephrasing the

same question in another -- you know, in a new package. I mean, no, we're not going to -- I'm not going to give a -- we really don't have an opinion, and we're not going to take sides. Personally, I know both women.

I've known Xiao Wen since I've first arrived in Taipei as director in 1999. I've known her through all of the various positions she's had. We have you know, a good relationship sometimes you know, sparring partners sometimes, but a good relationship.

I may be one of the American officials who knows Hong Shu Ju, also. By coincidence, at President Ma's 2012 inauguration, I was seated right next to her during the inaugural banquet at the Grand Hotel. So, we had a chance to talk for about an hour and a half. So, I --

MS. GLASER: Little did --

(Audio dropout)

MR. BURGHARDT: Little did I know (Laughter) -- so you know, yeah.

MS. GLASER: All right. We're going to take one last question.

(Audio dropout)

SPEAKER: Gregory (Inaudible) from Radio Free Asia. Chairman, you know, today the Chinese --

MR. BURGHARDT: I'm sorry. Where are you with?

MR. HOLE: Gregory Hole from Radio Free Asia.

MR. BURGHARDT: Radio Free Asia?

MR. HOLE: Asia.

MR. BURGHARDT: Okay.

MR. HOLE: Okay. The question is from -- about democracy and human rights. Since today, more than a hundred Chinese lawyers and their assistants were arrested, some Chinese media compared the situation now today in Taiwan -- in China's

it's pretty (Inaudible portion) -- the (Inaudible) era.

MR. BURGHARDT: Yeah.

MR. HOLE: Just like compare the Dark Ages, when so many Taiwanese lawyers were arrested during the (Inaudible) authoritarian regime. So, do you agree that China is actually now comparable to those dark days that the Taiwanese suffered many years ago?

MR. BURGHARDT: That's sort of an odd question (Laughter). I lived in China twice. I was there from 1987 to 1989. I was in China all through the summer of 1989, and didn't leave until September. And then, I lived there again in Shanghai, from 1997 till 1999.

So, I think -- you know, there are changes, and there's also a lot of continuity. Thank you (Laughter). (Applause)

MS. GLASER: All right. That was a terrific speech. I have to say, I'm a little bit disappointed in all of the questions (Laughter), but it's -- we are going to start the next panel in just a couple of minutes, so if everybody would just come up. I don't think we'll be taking a break, but please, join me in thanking Ambassador Burghardt. (Applause)

MR. GLASER: I hope everybody is rejuvenated after your cookies and coffee. We are now going to have the last panel of the day, which is "Opportunities and challenges for the new context in U.S.-Taiwan-mainland China relations." And we have a terrific panel. I'm going to ask everybody to please speak for just the 10 to 12 minutes, and we still, I think, have a timekeeper in front who will be giving you signals if you are going over.

So our first speaker to my immediate right is Dr. Huang Kwei-Bo, who is

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secretary-general of the Association of Foreign Relations and a professor of diplomacy in International Relations at National Chengchi University. And of course, importantly, a prior visiting fellow in the Center for East Asia Policy Studies at the Brookings Institution. So we'll start with you, Dr. Huang.

MR. HUANG: Thank you, Bonnie.

It's great to come back again to meet all of you who are interested in cross-regulations and U.S.-Taiwan-mainland China relations.

I have only 12 minutes, so I'll try to focus on just two big issues in the realms of economics and of politics. I think it's a little bit difficult to elaborate on these two big issues within the limited time, so please allow me to say something first on economics, then followed by politics with just a few points I would like to make or to stress.

First of all, I think -- oh, by the way, the general picture in my mind is that actually in the region of the Asia-Pacific, geographic conflicts or military conflicts have decreased, been replaced by economic and trade cooperation. Therefore, we have seen a lot of economic integration or cooperation gains, such as RCEP or TPP or AIIB as mentioned earlier, and also, issues or initiatives like Silk Road funds or FTAAP under APEC. We have had so many different integration or cooperation gains going on in the region of Asia Pacific, which has occupied a lot of countries' attention. Therefore, I think the main thing for the future Taiwan-U.S.-mainland China relations, might be going to focus a little bit more on economics than politics or other military dimension.

Let me say a little bit about the point I would like to make on the economic dimension. First, I think from Taiwan's perspective, Taiwan wants to be seen and the economic strategy radar screen of the U.S. and of mainland China. That could bring some salience to Taiwan's importance in these two parties' economic strategies.

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However, I think the U.S. and mainland China would have perceived Taiwan differently. The U.S. would see Taiwan as an indispensable important player that is in need of greater participation in probably U.S.-favored economic cooperation regimes in the region.

But I also know that maybe the U.S. doesn't think Taiwan has performed satisfactorily in this economic cooperation game. But in the eyes of mainland China, I think mainland China always views Taiwan as a non-sovereign entity, and whenever Taiwan would like to participate in any regional economic cooperation regime or institution, Taiwan should have asked Beijing, or at least Taiwan should have sent a heads-up to Beijing, not just meeting other countries' representatives for approval. So I think that's one of the things that Beijing has shown big concern about. Also, I think in the eyes of Beijing, it is of great importance that Taiwan's participation in economic integration or cooperation in the region will not lead to China's -- or One China, One Taiwan. So even though Taiwan wants to be seen, I think these are some limits faced by Taiwan.

And my second point on this is that Taiwan needs badly to be involved in TPP and/or RCEP. Taiwan's failure to participate in these economic institutions or cooperation will hurt Taiwan seriously. It will seriously damage Taiwan's economic competitiveness. But for U.S. and for mainland China, I think they're not wanting Taiwan to join TPP or RCEP for now has different reasons. For the U.S., I think the U.S. feels that Taiwan has a very slow move and uncertain determination in the modification of Taiwan's own domestic laws and regulations. If Taiwan fails to do that, then Taiwan cannot meet the high standards set in TPP. For mainland China, I think mainland China has a bigger concern about any of Taiwan's international participation that can be used by the next president of Taiwan, Republic of China, as an asset against mainland China.

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So it is a possible scenario that after May 2016, Xi in Taiwan is opposed to mainland China's "One China" Principle, or the so-called 1992 consensus, and Xi on mainland China -- it's not Xi. Xi of mainland China will feel insecure for giving more international space to Taiwan because that Taiwanese leader might take advantage of mainland China's openness and use that against Beijing. So it will be very complicated in 2016.

Okay. And I would like to emphasize as my third point that an economically weak Taiwan is troublesome for the U.S. but may be good for mainland China. I say so because I think for the U.S., an economically weak Taiwan will put the U.S. in a dilemma where it is forced to or it is expected to manage in a more proactive way its relations with people on the democratic Taiwan who have lost their economic robustness. And such economic robustness serves as an important basis for Taiwan facing a rising mainland China. So the U.S. has to, you know, be forced or is expected by other people to help Taiwan manage this dilemma. And for mainland China, an economically weak Taiwan means that mainland China may be more able to refrain Taiwan from dealing with Taiwan's external relations by Taiwan's economic power or economic means, which may lead to a greater possibility of national reunification. That is why some people in Taiwan have argued that actually mainland China doesn't want to see Taiwan's participation in TPP and RCEP, and mainland China might not be that eager to see real progress in cross-strait economic cooperation because if there is some real progress in Taiwan's participation in these economic regimes, fine. And especially with ECFA or with RCEP. However, if Taiwan fails to join these economic regimes, okay, if Taiwan fails, that doesn't hurt too much for mainland China-Taiwan's policy because then a weak Taiwan is easier for Beijing to manage its relations and to manipulate relations with a weaker Taiwan.

I have very limited time to talk about the politics. I think I only want to emphasize just one thing; that is status quo. I think status quo is not only a key word but also a magical word, guaranteeing stability and pace in the area.

So whenever there might be a clash of interests, then the party or both parties or there parties say status quo and then peace. Okay, but I have to argue that what we see as status quo is actually defined by three parties. Not only by the U.S., but also by Taiwan and by mainland China. And I, myself, see that Taiwan's definition and the U.S. definition come with a great degree of inclusiveness, mutual inclusiveness, while mainland China's definition is competing with Taiwan's and the U.S.'s. Okay, but I also think that if we really would like to maintain peace and stability in the Taiwan Strait, then probably there will be three auxiliary conditions. Three auxiliary conditions.

First, the U.S. must abide by the Taiwan Relations Act and does not force Taiwan to take sides on many controversial or sensitive issues where U.S. and mainland China might have a clash.

And second, I think Taiwan needs to exercise some self-restraint, not challenging the current status or arrangements explicitly or implicitly agreed by Washington and its friends or competitors or partners or dialogue partners, et cetera. That is, Taiwan should have its own voice. However, I think Taiwan should also listen to others. Why do the others think that things should be like this, not like the way Taiwan prefers? I think both Taiwan and others should have some responsibility on the peace and stability in the region, so no single side should dominate the development of future relations or regional arrangements here.

And three, that mainland China should continue to embrace such political ambiguity that defines current relations between Beijing and Taiping. Not trying to dominate the agenda, not trying to push Taiwan to accept the so-called "One China"

Principle singlehandedly favored and embraced by Beijing.

If the three auxiliary conditions can be met, then I think there should be hope for the continued peace and stability in the Taiwan Strait.

I think I have one more minute, and I can donate it to anyone here at the panel. Thank you very much.

MS. GLASER: Thank you very much, Huang Kwei-Bo.

Our second speaker is Dr. Wang Yuan-kang, who is associate professor in the Department of Sociology at Western Michigan University, and also has the distinction of having been at Brookings Center for East Asia Policy Studies as a visiting fellow. So over to you, Dr. Wang.

MR. WANG: Thank you, Bonnie. And I'd like to thank the Brookings, AFR, and CSIS for making this possible.

It's good to be back. I was here about 10 years ago with Richard. At that time it was called CNAPS, but now the northeast is becoming east, so that's a good sign because it's fed into more areas of interest.

So what I'm going to do today is talk about three recent major developments in U.S.-China-Taiwan relations, and then I'll offer also three observations about the trend lines of what to expect in the years to come.

So over the past few years we have seen three major developments in this kind of -- if you want to call it trilateral relations or not. The first thing is that China's rising economic and military power is leading to a more assertive foreign policy in the region, especially in the South China Sea and also East China Sea. And second, the United States is rebalancing toward East Asia, so it's putting more -- planning to put more military, economic, and also diplomatic resources to the region. And number three, Taiwan's economy. I think this dovetails with Kwei-Bo's point about Taiwan's economy, is

that it is becoming more and more dependent upon China, and that has security implications for Taiwan.

So my first point, I'll have to go back to my original training in IR theory, and that is, what do we expect of the behaviors of a rising power? So, in international relations, rising powers tend to do two things. First, they tend to expand interests abroad, and because improved capabilities foster greater ambitions, and once you have more capabilities, that means that you are going to project your power to more areas of the world.

And second, rising powers will try to reshape the international order to better serve its interests. Some of the existing rules of the game may service interests and they will keep it, but if they don't, they will try to revise it or change it to their favor.

And so these two expectations, based on IR theory, is bearing out in the case of China. The first thing that we see is that China is increasing its footprint everywhere in the world.

I just got back from a summer vacation with my family in Europe. So everywhere I went there were Chinese tourists and signs in Chinese. And if you go to Africa, South America, everywhere, you will see a lot of China's influence. So it is a natural outgrowth of China's rising economic power.

But when that happens, the Chinese government will try to develop some capabilities to protect those overseas interests, and we are seeing these kinds of things gradually to emerge. And so in the South China Sea, we see a lot of muscle flexing, like Beijing, and especially land reclamation projects in the South China Sea, and there are satellite pictures that show you how it is changing.

And second, about rules of the game, China is not trying to overthrow all rules of the game but it's trying to reshape the existing rules of the game to better service

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interest. So it has taken initiatives in creating a number of international organizations, so AIIB, the Asia Infrastructure Investment Bank that we have been talking about. And early on there was this Shanghai Cooperation organization which India is going to become a formal member very soon.

And number three, U.S. rebalance. Because Asia is going to be where the future is, and it's going to be an extension of gravity in international politics so that the rebalanced strategy has a very sound strategic logic to it, but the question for us is whether it can be done given what's happening in the Middle East. There's another force which keeps pulling the attention of the U.S. Government to the Middle East instead of China. And so these are the two developments.

And the third development is Taiwan's economic dependence on China. It is becoming more and more. So if you look at a few numbers, in terms of trade with China, China is now Taiwan's number one trading partner, and over 20 percent of Taiwan's foreign trade is with China. But compared to China, Taiwan only accounts for about 4 percent of China's total foreign trade. So there's kind of a symmetry you can see. And secondly, on foreign direct investment (FDI), about over 60 percent of Taiwan's FDI -- these are official numbers -- go to China. So over 60 percent of Taiwan's FDI. That means that most of the money is going to China. So Foxconn and a lot of Taiwanese companies, they are all invested in China. But it's not the other way around. There is some Chinese advancement but those are still a very small percentage.

And so this kind of economic dependence on China is creating a deep-seated anxiety within Taiwan, and so a survey in 2014 shows that 55.7 percent of the Taiwanese residents fear that China might use Taiwan's economic dependence to ask for political concessions. And that kind of concern, you can see that it was reflected in the sunflower movement in March last year, and there's kind of this kind of concern about

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what do we do? If our economy is becoming more and more dependent upon China, would China use it against us? And that's the kind of concern.

So these three developments -- China's rising assertiveness and U.S. rebalance, Taiwan's economic dependence, the common denominator we can see is China's rising power. Compared to 10 or 20 years ago, China today is becoming the number two economic power, and also the number two military spender in the world. It wasn't so 10 years ago or 20 years ago.

And so based on this, we can observe a few trend lines in U.S.-Taiwan-China relations. The first thing is that U.S.-China relations will become more competitive, and we are seeing a lot of indications of that recently. And so in the '90s, there was a lot of optimism. So we talk about engagement, and then moving to a responsible stakeholder. These buzz words, I don't hear them often today. What replaced it is an increased level of pessimism with regard to U.S.-China relations. And this has a lot to do with China's rising capabilities because it's easier to talk about engagement of a responsible stakeholder when there is a large power gap between the United States and China, but today, the gap is narrowing and that is going to make it more and more difficult. And that's the harsh reality of power politics.

And secondly, in terms of U.S.-Taiwan relations, it seems to become more and more closer as a result, and although Taiwan is not officially part of the rebalance because there is no official relations between Washington and Taipei, but there seems to be more and more defense cooperation between the two countries.

So one thing that a lot of people have been seeing is that maybe a recent AIT Facebook page -- it's good timing -- has a picture of Taiwan's defense chief of staff attending a ceremony at the Pacific Command. Right? We don't see that. We know it happened in the past, but we just don't -- the U.S. side doesn't make it very

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public. But not now. And there is also cooperation between Taiwan's Army Aviation Brigade and its counterpart in the U.S., and also cooperation between a psychological warfare battalion in Taiwan and its counterpart in the U.S. And these are all in the public sphere to date.

And so a lot can be traced to the geographical (inaudible) of Taiwan to the U.S., because if you do get the (inaudible) lines of communication (inaudible), Taiwan is in an important part in East Asia extending from Japan all the way to Southeast Asia. And the PLA also would like to control Taiwan, not for nationalist reasons but for strategic reasons because it's a breaking point of the PLA Navy. And so those kind of things are more likely to increase Taiwan's strategic value to the U.S., and I expect to see more cooperation on that side.

Moving to cross-strait relations, we are entering a period of uncertainty because of election in 2016, and the result will likely change the tone of cross-strait relations. Right now, the Taiwan Strait is on the backburners of everything. Now, if you talk about East Asia or the South China Sea, East China Sea, Taiwan is relatively peaceful. But we don't know what will happen after 2016. Taiwan may come to the front burner again; we don't know. But there is an uncertainty.

And secondly, if you do get what's happening within Taiwan again, there are at least two things that are happening. First, there is a rise of Taiwanese identity, and it has continued over the years, and today, over 60 percent of the residents in Taiwan identify themselves as Taiwanese only. Not Chinese, but just Taiwanese only. Sixty percent. Think of that. That's more than 50 percent. And about 32 percent identify themselves as both Taiwanese and Chinese. Only 32 percent. As to those who identify themselves as Chinese only, less than 5 percent. And so that's a big factor that's going to affect the future of cross-strait relations, that is the rising sense of Taiwanese identity.

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And secondly, this kind of dwindling support for unification. The support for unification, if you do get (inaudible), it's declining within Taiwan. And the survey over the years, one of my favorite questions is this -- if the political, economic, and social conditions across the Taiwan Strait become compatible, would you support unification or not? In the '90s, over 60 percent say yes, meaning that if the political, economic, and social conditions convert between China and Taiwan, most people will support unification, but the most recent survey done last year only says 27.9 percent will still support unification.

So if you look at the trend lines, if you are Beijing, you will be worried. It's not going in the direction that Beijing would like to see. And there is also a growing degree of impatience from Beijing about lack of political progress. Xi Jinping used to say that the political negotiation cannot be postponed generation after generations. He once said that. And so after 2016, what will Beijing do on the political front? We don't know. That's the wild card.

And so to conclude my talk here, what we are seeing here is that all the factors that we have seen as driving what's happening here is China's rising power, because the gap between U.S. and China is narrowing and is expected to continue to do so.

So the two questions for us is that first, if China's power continues to rise and when the day comes that China is as powerful as the United States is today, what will happen? So will the U.S. accept an Asia in which U.S. influence is substantially diminished? That's a big question mark. That is, will the United States agree to become not number one again in Asia? And that's a big question for us to think about.

And number two is that the U.S. has a security commitment to Taiwan, although it is ambiguous according to the Taiwan Relations Act, but will the U.S. become unable to offer security assistance despite its will to do so when China is as powerful as

the United States is? And that's the big question for us.

Thank you.

MS. GLASER: Okay. Thank you very much, Dr. Wang.

Our third speaker is Dr. Steve Goldstein, who is professor of Government at Smith College and the director of the Taiwan Studies Workshop at Harvard University. And I think he's going to talk to us all about different concepts of the term "status quo," which Huang Kwei-Bo also spoke about.

So please, over to you, Steve.

MR. GOLDSTEIN: I'm glad Bonnie said that because this talk is not directed at Dr. Huang. I should begin by saying that.

It's now approximately 1936 Greenwich Mean Time. The world is in status quo. As far as we can tell, New Horizons progress towards Pluto suggests that the universe is in status quo. It's not a very helpful term. Status quo means things as they are, and yet status quo has become the phrase of the year in 2018 -- or 2015, rather. And it's, you know, we talk about creating new status quos. We talk about accepting status quos. We talk about changing status quos. We talked today about improving status quos. We talked about status quo as a key word. And yet it's a very weak crutch to rely on. And status quo again simply means things as they are. And those of us who have worked in cross-strait issues are particularly aware of the nonsensical use of the term because you've got three status quos as the previous speaker suggested.

So should we give up using the term status quo, and should we find some other term? What I'd like to suggest today is that we should keep status quo, but that we should define status quo as a conceptual framework that will make it dynamic and that will make it meaningful. And the way I'd like to do that is to suggest that status quo is really a spectrum. And it's a spectrum on the one hand from what I would call a

stable status quo. And a stable status quo is a status quo where the actors accept the rules of the game, firstly, and secondly, they accept the rules of the game because the rules of the game are consistent with their aspirations. So status quo tends to be stable.

At the other extreme of the spectrum is what I call a conflicted status quo. And that's a status quo where all of the actors, or some of the actors believe that the existing situation does not serve their interests, and so they don't accept the norms of that status quo.

Now, of course, what you're all asking is what's the third status quo going to look like? And that's the status quo in the middle. And the status quo in the middle is one where the actors don't necessarily believe that that situation is consistent with their ultimate goals, but they accept the norms.

There's a slight paradox to that, so you've got to ask yourself why would an actor accept the norms of the situation that doesn't meet its needs? And there could be three possibilities. One possibility could be that they believe that ultimately, if they stay in that kind of situation, that kind of status quo, that the status quo will evolve in a manner that is consistent with their needs. So they'll wait it out. A second possibility is that they believe that that status quo, while it won't ultimately head to a satisfactory realization of their ultimate ends, it will at least start to get them there. And the third reason why an actor might accept the status quo, the norms of a status quo that are inconsistent with its goals, is because they have no choice because there are constraints. There are external constraints that restrain them from doing so.

Now, why, if you sort of take those three paradigms and you try to apply them to the situation as it exists in Asia, for example, it's pretty clear that the South China Sea and it's pretty clear that the East China Sea, that all of that tends on the spectrum to the conflicted side.

The question is where are the Taiwan Straits? Where is the situation between mainland China and Taiwan? And what is the future of that for American policy, which is what I was asked to talk about? And there we've got good news and bad news. The good news is many speakers have said that the last eight years have been some of the best years of cross-strait relations since 1949. That's the good news.

The bad news is that the status quo that exists across the strait is not a stable status quo. It's not a robust status quo. It's what I call an unstable status quo. Because there's one more characteristic of the status quo -- of an unstable status quo that has to be introduced at this point. That characteristic is that it is no longer -- it is not only, rather, that the existing norms do not meet the ultimate goals of reactors. But what is more corrosive of an unstable status quo is the fact that not only don't the existing norms meet their ultimate aspirations, but on all sides in this triangle there is a thread of reasoning that believes that the existing norms are actually eroding their ultimate goals; that by pursuing an unstable status quo, that by pursuing policies that are inconsistent with their ultimate goals, the actors are, in fact, eroding those ultimate goals.

Let me make that more concrete. What are the ultimate goals of all the actors? Well, we know that. That's easy. The ultimate goal for the mainland is unification. The ultimate goal for Taiwan, both parties accept it though they have very different readings of what it actually means, but the ultimate goal is to maintain the sovereignty of Taiwan and the autonomy from the mainland. That's in the party platforms and it's also, of course, reflected in the public opinion.

The ultimate goal of the United States we've heard is a peaceful Taiwan Straits, and that's true. But why a peaceful Taiwan Straits? And there, I'd suggest that ever since John Foster Dulles and Dwight Eisenhower, the policy of the United States has been for there to be a peaceful Taiwan Straits so the United States can get out from

being in the middle of a very unpleasant conflict between what began as a conflict between the communists and the nationalists.

The real goal of the United States is not to be involved; to somehow have a situation in the Taiwan Straits that would not be embarrassing to the United States; that would not damage its national interests, but would allow it to withdraw. So those are the ultimate goals.

Now the question becomes, how have those ultimate goals been perhaps called into question by what has been going on for the last eight years or so in terms of status quo in the Taiwan Straits. As far as the Mainland is concerned, and the China Mainland has been very patient clearly and remains patient, but there are certainly signs ranging from statements by leaders through military drills to other activities or other statements that suggest that there's a degree of impatience also. As Xi Jinping said, this should not be passed to another generation. There's a concern that Taiwan could be stalling and that that could create a kind of peaceful unification.

So as far as the mainland is concerned, to on with this kind of status quo is tricky because it is allowing certain trends to develop on Taiwan that are not in the mainland's interest. As far as Taiwan is concerned, we just heard in terms of trend lines, as far as Taiwan is concerned, both in regard to the political parties and in regard to public opinion, there's a concern that the current good relations with the mainland are, in fact, resulting in the entrapment of Taiwan and that it's going to be some -- it's going to end -- this peaceful status quo is going to end in the eventual incorporation of Taiwan into the mainland.

I'll try one minute; it might be two.

Now, what about -- now, the point is that I'm not saying that this is going to immediately lead to a conflict. What I am saying is what Richard and Alan said this

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morning, that these kinds of concerns about adverse effects of the current status quo, this could begin a spiral. And it could begin a descending spiral of crisis across the straits as each side reacts and the other side escalates.

Now, what about the United States? We know the expression "cork in the bottle," and we know Jim Lilley used that in reference to the ability of the Taiwan Navy to get out to the open ocean and Taiwan's importance as a "cork in the bottle." But the United States is also the "cork in the bottle." The participation of the United States in the relationship between China and Taiwan and the stated positions that we've heard that the United States takes, is also something that modulates or clearly gives second thoughts to whatever either side might decide to do in this dangerous spiraling condition.

So in fact, the current status quo and the potential that it could have for this spiraling condition could, like Taiwan, like China, lead to policies that run counter to the American interests, which is not to leave through George Marshall again.

So, where does it end? My time is up.

Where does it end? Or how do I end? I think my focus is on American policy. My focus is on the trend lines which are moving, status quo be damned. Trend lines are moving in a way that could be indicative of difficulties ahead. And what my concern is, is that from the perspective of the United States, what we're going through now is what I would call the debate within a debate. One of those debates is not so serious. The second debate I think is serious.

The first debate is what about Taiwan? Should we continue to maintain the relationship that we have with Taiwan? And you all know the names that I can mobilize as to people who have argued here in Washington that Taiwan is an albatross around the neck of the United States. That debate is not terribly serious. The debate that is serious is the debate about policy towards China and is the Tellis-Blackwell and

the whole argument that the post-1972 policy has to be reevaluated and that we have to deal with Mearsheimer's rising power. That's the serious debate. And that debate, any debate about China has to affect American policy towards Taiwan. There will be temptations to somehow use the Taiwan issue as a way to toughen American policy, and I hope that doesn't happen.

MS. GLASER: Thank you, Steve. Provocative, and I like provocative arguments.

I will now turn to our last speaker, Dr. Zhao Suisheng, who is professor and director of the Center for China-U.S. Cooperation at the Graduate School of International Studies at the University of Denver. Over to you, Sam.

MR. ZHAO: Okay, thank you. It's no longer a graduate school; it's the Korbel School. Joseph Korbel School.

MS. GLASER: Oh, thank you for the correction. The bio that I was given must have been out of date.

MR. ZHAO: Oh, wow. Sorry for that.

MS. GLASER: So, but thank you.

MR. ZHAO: And I join other speakers to thank the Brookings Institution both for putting together such a timely conference and having me be part of this timely conference because this is really the right time to look back and forward to see what has happened and from that, what will happen in cross Taiwan Strait relations and what impacts on the U.S. foreign policy.

To look back, in retrospect, I will say that the relationship has moved from crisis management to a new normal of peace and stability across the Taiwan Strait, and also, a new normal of (inaudible) improvements of relationship between China, Taiwan -- between Taiwan and China. Before that there were tensions among all three

sides.

But look forward. I see this new normal is very fragile. And why fragile? We'll talk about it later on, but let me give you the conclusion just in case.

Because of those fragile challenges to the three sides, in fact, parts of the three sides is that China should actually being patient. Taiwan side should not make a surprise. And the U.S., stay on course. So these are my conclusions just in case.

Okay. Let's go back. To look back to the relationship of the three sides, really, I think people who have not given -- maybe people in Taiwan have not given fair credits to Ma Ying-jeou. Because look at Taiwan's policy base today, not on domestic policies, they have not blamed President Ma Ying-jeou and his administration. Even on the cross-strait relationship, which I think accomplishes so much, has also become so controversial in the last several years. In that context, we really have to look back to compare what Ma Ying-jeou has accomplished, the so-called new normal, versus pre-Ma Ying-jeou time. In fact, pre-Ma Ying-jeou time, those pre-2008 years, we saw three elections. Since 1996, the first Taiwan Strait -- Taiwan direct presidential election, crisis after crisis. During the 1996 election, we all know that before that China had military exercise three months after the (inaudible) visited the United States. And then in the year 2000, we saw the Taiwan affairs white paper threatening using force reconditions I think one more condition to the old ones. And then in 2004, we saw the entire succession law just after the election.

In those kind of crises, our sides were alarmed and China decided to use the military forces. The Taiwan side was preparing for the worst, and the U.S. and other countries in the region had to decide if they had to take sides with mainland China or with Taiwan, or prepare for the war. So that was a very, very bad situation.

And during that period, we saw a clear pattern leading to those crises.

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That is, when we said (inaudible) variables, Taiwan side, mainland China, and the United States side. During that period, the Taiwan side, I think was the most dynamic variable driving force, in fact, taking advantage of democratization, taking advantage of Taiwan's economic wealth, and also international environment. Taiwan's leaders at that time were very proactive, and China's side was, in fact, at that time, reactive, and very often was taken by surprise. They had high expectations about (inaudible) because he did not involve into the civil war. He did not have the burden. Then when he talked to Chinese leaders at that time, they told you. So they had high expectations over him. Then they were surprised. Every time they were surprised they used military force, but every time when they used military force they proved there was (inaudible) was not ready to use military force. Why? Because militarily they were not able. Because also their goal at that time was, and the emphasis was economic modernization, which the military force will hurt their modernization goal. And also, every time they found it backfired. Every time they used the threat it backfired. (Inaudible) Taiwan people further and further away. So they, at the end, decided they would refrain; they would step back every time.

So from that perspective, those administrations, (inaudible 16:04:35) was lucky. It was lucky from that perspective. Although they provoked it, they did not have consequences. President Ma Ying-jeou's administration came to office. What he has accomplished was much, much more difficult than his predecessors to accomplish. In fact, look back to 2008. When President Ma Ying-jeou came to office, China's side was very, very suspicious. Ambivalent thought Ma Ying-jeou. You talk to Chinese officials at times. They thought Ma Ying-jeou, he's got three nos, but one of those is no unification. Could we trust him? But we quickly realized, in fact, many people initially tried to convince China's leaders there was a really, really rare historical opportunity -- window of opportunity. If you don't take that window of opportunity, the window will be closed. So

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they worked with Ma Ying-jeou's administration. Ma Ying-jeou was proactive working with China, so it eventually accomplished the so-called new norm. I see the new norm in many, many aspects. What is that (inaudible) level. That is a very, very high level.

Three things. All those things. Now we take for granted everything. At that time it was very difficult to accomplish from the economy to politics. From the easy part to the difficult part. From nonofficial part to official part. All those (inaudible). Because they're smart, these people, on both sides, and on an official level, (inaudible). Although China will not accept that, but operational level, we really see Chinese has worked with the administration. They call the official title in the last several meetings. And also we see all those agreements at official level. And third, that international space, so called (inaudible) diplomatic truce. All those kind of (inaudible), mind you, came to Boston to everywhere was so different from the previous administrations. Still this new normal was accomplished in a very difficult situation because the bank's power across Taiwan Strait has shifted. The bank's power within China and the U.S. has shifted. The leadership in China has become much more proactive. Much more aggressive. Much more assertive. But Ma Ying-jeou's administration successfully worked with this much, much more difficult administration accomplished this new normal, new norms.

So that's why I said these new norms are very difficult, but they are also fragile. By fragile, (inaudible) challenges.

Let me mention four challenges that the three sides have to consider. The first challenge is that our easy parts, fruit, have been harvested so far. We haven't had those hard, difficult issues. Peace negotiation, political negotiation, even on the economic front, but now the issues now become much much more difficult to accomplish. In the first couple of years all those things were difficult but now the service trade agreement (inaudible) those kind of issues, Taiwan's side has more resistance. China's

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side they say, "Oh, we should not give that much to Taiwan." So that kind of issues become much more difficult to accomplish each stage. It's over. It doesn't matter who comes to office. DPP or KMT. They have to face a total different, much more difficult situation to negotiate, to work with China.

Second, the challenge is on the mainland China side. China is no longer -- several people mentioned earlier China is no longer the China before Ma Ying-jeou came to office today. Not only their whole party or intentions changed. China used to be, for example, using foreign policy to serve domestic purposes, economic modernization. Now just reversed. Using economic wealth, economic power to serve foreign policy objectives. Totally different now. At that time, why they did not use force? Because it would hurt economic modernization. Nowadays, the economic consequences are still important but no longer as important as it used to be.

Second, China used to be (inaudible). China no longer. China is very proactive now. (Speaking in foreign language) tried to be really, really proactive in international affairs.

Third, the ban is power, as we mentioned, is no longer the same.

Fourth, China has (inaudible) national interests. What is called national interest? Two definitions. One is the bottom line of national survival. Second is nonnegotiable. It cannot compromise. So they now are talking about the South China Sea on those terms because the Taiwan Strait now is relatively peaceful. When Taiwan Strait comes to this foreign point, the (inaudible) definition makes the issue even more difficult to deal with.

The third challenge on the Taiwan side, because her, dealing with her, yes, with her, but who is the "her" here? The her, if in my mind, it doesn't matter who is the her. It really has to make sure no surprise. No surprise because TPP at that time,

the problem was surprise to both mainland China and Taiwan, making so many surprises. The new administration, whoever came to office, really has to be very calm and rational, try to make sure it's the continuity of the policy. It doesn't matter what can define the status quo. Of course it's very important, but here, the continuity is very important. Predictable is very important for Taiwan administration.

So that context, finally, for the U.S., the U.S. has been doing, I think, relatively well, so that's why I said the U.S. should stay on course. What is on course? Let me see three nos. Three nos is U.S. on course. Not take sides. Not take a position. Not to mediate. These notes I think were really good notes, makes really sense. Those notes assured the peace and stability. That is the objective of policy. So from that perspective, let me repeat my advice to all three sides.

The China side should be patient. The Taiwan side should be no surprise. The U.S. side, stay on course.

Okay, thank you.

(Applause)

MS. GLASER: Okay. Thanks to all of you for excellent, very thoughtful presentations, and the floor is now open for questions.

Who would like to start?

Mike Fonte. Wait for the microphone, please.

MR. FONTE: Mike Fonte. I'm the DVP, director of the mission here.

Thanks very much for the presentations.

Steve, I'd like to give you a chance to explore that last question that you raised, the policy debate about the seriousness. I presume the not-so-serious debate that you talked about was abandoning Taiwan. I don't think that one is a serious debate. But since you have unlimited time now, maybe you could explore that last one because I

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think that really is a very important debate. Actually, tell us, Robert Blackwell, Mearsheimer, all the stuff that's going on there.

Thank you.

MR. GOLDSTEIN: Well, Mike, if you were a student -- if you were a student I would say, "Do the reading." (Laughter) But I'm not like Alexander. I'm not a commander in chief.

As I read it, and again, I'm outside the beltway, well outside the beltway, thank God, but as I read it and as I talk to people, this whole concept of engagement, the whole concept of hedging is really now under deep discussion, at least among think tanks. Is it worth continuing to try to engage China? Or is that a waste of time given the fact that China is the stereotypical rising power, the so-called ascentive China, and that the only way to deal with China is to match China's power or build an alliance system. Mearsheimer has got all kinds of ideas, but one key part of his ideas is that we are going to have to someday cut Taiwan loose as you know.

The other side, there are people who are saying, "Look, this is just one more difficult period in Sino-American relations. It's against the background of a relationship that's multifaceted, that can't be easily abandoned or subverted by either side, and anyway, we're on the verge of a visit in September by Xi Jinping and China, as well as the United States, are going to try to do their best to somehow come back from what Mike Lampton again called the tipping point in the relationship.

But I guess I'm sort of an old enough guy to remember that periodically these kinds of things happen. Richard Nixon said at one point, talking about China, "Have I created a Frankenstein?" During the 1990s, the end of the Clinton administration, the various charges against China spying, interfering, in elections. So there is kind of a pattern of crisis.

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But to get back to the late '90s again, there's no question that as Clinton tried after 1996 to rebuild the relationship with China against the background of a republican Congress, that Taiwan became a very important part of the debate about dealing with China, and Congress was, whether they intended or not, whether the leadership intended or not, was provoking China with the Taiwan question. And I guess that's my concern, is that as a part of this debate, we'll get back to the point similar to the end of the Clinton administration. Congressman Salmon's comment that the "One China" policy is absurd. Well, you know, I don't think we have to hear much of that, or that the relationship that we have with Taiwan is absurd. We've got a very healthy relationship, and as somebody said this morning, a very deep military relationship. Actually, I think that somebody is the man who manages the relationship. So, you know, that's my concern. And we have an election coming. So it's -- and it's beginning, you know, to rev up this kind of debate about China.

MS. GLASER: I would just add briefly that I think that a distinction needs to be made about the kind of debates or the parameters of the debate that are taking place inside the administration and outside the administration. And I think that there are differences between them that are important. And particularly, this notion of engagement. We had an event at CSIS the other day where we had three senior people who were involved in the strategic and economic dialogue, and every one of them concluded what a useful process that is and the outcomes that had been achieved that continue to shape the relationship and create opportunities for the two countries to cooperate. And there are conversations in new areas, and there's a long list, of course, of outcomes. I don't think anybody that I talk to in the administration argues against engagement with China, but I think there is a debate about how best to influence China's choices, to influence China's policies, and you have to look at discreet policies. How do

you influence China's policy on some economic issues, like the negative list of the Bilateral Investment Treaty or how do you influence China's behavior in the South China Sea? And so there are debates about what we might do or not do. But I don't hear anybody in the administration arguing against engagement, and yet there are. You cited the Blackwell-Ashley Tellis piece that favors containment, and I don't think that's a view that's held within the administration.

So, there are definitely debates. I just think that one has to make a distinction about who is having them and what the parameters are of those debates and which ones matter and which ones don't.

Other questions?

Good. Over here.

SPEAKER: I'm (inaudible), visiting scholar in SAIS, John Hopkins University. Two questions.

The first is for Professor Steven Goldstein. Thank you very much for your wonderful definition for status quo. My question is about (inaudible) maintaining status quo. Do you think she has the ability to maintain the status quo?

Another question is for Professor Wang Yuan-Kang. You were talking about U.S. rebalancing strategy. Your point is quite thoughtful. So my question is what's Taiwan's role in U.S. rebalancing strategy?

Okay, thank you.

MR. GOLDSTEIN: Let me answer a different question and then I'll answer that question. Now I'm being a student, not a professor. If you don't know the answer to the question that's being asked, answer another question.

I would begin by saying that any politician who is going to be elected president of Taiwan in 2016 is not going to be able to manage the mainland relationship

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with the same ease as the first four years of the Ma administration. Will Tsai Ing-wen do any worse? And I think my answer to that would be that it's up to the mainland. I think Tsai Ing-wen is not (inaudible), but she has a party. But more than that, she has public opinion on Taiwan. And public opinion on Taiwan, I think we just have to read those public opinion polls very carefully, and we have to conclude that any party is going to have a very difficult time steering cross-strait relations.

The only advantage that a Kuomintang candidate might have is that they accept the 1992 consensus so the mainland will talk to them. But I think Taiwan is honest about wanting to maintain the status quo. As you know, since you were in on the meeting that I had in China, I've tried to tell the Chinese that, that they've got to give her a chance. They've got to listen. But that's up to China.

MR. WANG: Just briefly on the rebalance, there are two pillars to rebalancing strategy. One is the military pillar and strengthening alliances in East Asia, and the second economic, that's the TPP. And in terms of a military pillar, Taiwan is not officially part of it, but we see that defense cooperation will still continue. And so Taiwan will become an important part of the rebalance, although the U.S. probably will not specifically say it like Japan or South Korea's allies. And TPP, I think Kwei-Bo has said it. And I so I don't have much to add.

But just quickly on the engagement theme, I'm not from the beltway, so I'm free to offer a more academic view of it. And engagements, nobody will argue against engagement because it's a happy scenario that we all like to see. Right? How can you argue against engagement, engaging a rising power? So only a fool will argue against engagement.

But there's another side to it, and that is does China really want to become like us, like the United States or the West? Do we know what china wants?

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Engagement is based on the premise that we can socialize China into the existing rules of the game. Guess what? It's not happening. Right? China has its own agenda. And also, it's also based on the assumption that we know what China wants. We know China's intentions. We can see how it behaves. We can know China's intentions. But what matters in international politics is capabilities. And so when it comes to intentions, there is always uncertainty about intentions. We can never know for sure. And even if we know today, it can still change in the future. So intentions, as a guide to foreign policy, I don't think it's a very useful guide. What's a more useful guide is capabilities, and what's happening now is China's capabilities are rising and that's what's causing a lot of changes to date.

MS. GLASER: Other questions?

In the back.

MS. PAN: Hi. My name is Chloe Pan, and I'm a rising sophomore at UCLA, and a current intern at the White House AAP Initiative. My question is for Professor Goldstein.

So earlier today, Scott Kennedy said that the TPP is exactly what we need to leverage China. So do you see the TPP as a sign of a conflicted status quo and even a sign of a new Cold War between the United States and China as a way to contain growing Sino economic influence?

MR. GOLDSTEIN: I think there are people who are presenting the TPP like that. I think it shouldn't be presented like that, and I think it shouldn't be like that. But this idea of competing organizations and countering Chinese power by creating our own organizations and China increasing its power by the Silk Road and the Silk Belt and the investment bank, all of that has the appearance of being a way to contain China or exclude China. But I think that would be a mistake because any TPP that didn't include

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China would be a very, I think, weak TPP.

Let me say something about engagement very quickly. What concerns me, and hedging is a kind of engagement; right? You hedge. You pursue a policy of both seeking initiatives, seeking better relations, while also preparing yourself for the worst. Hope for the best; prepare for the worst.

Now, why do you pursue that policy? You pursue that policy because you don't trust the other side. The problem with engagement, or even mutual engagement, is because you don't trust the other side. The tendency is in interactions to take the -- what is perceived as the more aggressive actions of the other side as typical and the more cooperative actions of the other side as not typical. So hedging, really, if you don't trust the other side, and you don't trust its intentions, you're going to assume that any actions that they take that are ambiguous are by definition aggressive. And so you never improve with hedging, but there's a real doubt that you can make things worse with hedging. And that's the challenge, I think, for Sino-American relations is for each side -- each side is sending ambiguous signals about what their ultimate policies are. And because each side views the other as a potential opponent, we each tend to emphasize the more aggressive ambiguous signals and to dismiss the nonaggressive ambiguous signals as camouflage or something else. The thing is how do you take the nonaggressive seriously and work with those and not the other kinds of signals? I think that's the challenge of engagement with China, not containment.

MS. GLASER: Richard, you have a question?

RICHARD: Just a comment on Steve's response to Mike Fonte.

I think the more serious part of the debate about a relationship with China and our commitment to Taiwan has to do not with general categories but more the realities of China's changing military capabilities versus our military capabilities, and that

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if there were a conflict, does China have the capacity to project power in such a way that makes our forces vulnerable and makes it harder and harder to come to Taiwan's defense? That's just a comment.

I'd like to ask a question about domestic politics. Clearly, Taiwan's domestic politics infuses all aspects of cross-strait policy. As Steve suggested, sometimes Taiwan and our commitment to Taiwan becomes an issue in U.S. politics, but not as much as it was say 20-25 years ago. My question has to do with politics in China and whether and how that affects Beijing's policy towards Taiwan. I'm not so worried about the politics of the masses because I think Beijing can turn that off, turn that on as it wants, but it's more within the communist party, within the regime. And if a perception develops within Beijing that a new Taiwan president's intentions are a fundamental challenge to China's interest, what are the forces that are going to be unleashed on Xi Jinping to do something of a radical sort? Anybody who has an opinion can answer that question. Thanks.

MS. GLASER: Who wants to start?

MR. GOLDSTEIN: I'll start by saying Xi Jinping has a lot of enemies, and he's making new ones every day. And losing Taiwan or being the Ly Huong of the 21st century is a charge that a disaffected group within the party could muster. And I agree with you and I think we've probably heard others say this, too, that the real danger for concession on Taiwan doesn't come from the masses; it comes from a very small elite that is watching very carefully what the leader does, and ready to spring on him -- no hers in China -- ready to spring on him if there's a mistake. And she has made a lot of enemies.

MS. GLASER: Sheng?

MR. ZHAO: Let me address that question.

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I think the foreign military is -- the military is a very big unknown factor here. In fact, will be a driving force. Reading the Chinese newspaper, I found an article by (inaudible) region, the last commander (inaudible) in the journal. He had an article (speaking in foreign language), how China could unify with Taiwan by war. The grand strategy how China could deface Taiwan in a war. So these articles in China have been circulating a lot. So the military side has been pretty much driving this type of force, just like in the South China Sea (inaudible). Although you will say they will not represent the Chinese government, but they reflect a very strong opinion within the elite. The elite side, I think, of the military is a very big force, but I don't know how the (inaudible). But the Chinese leadership has not prepared for the mess on the Taiwan issue where (inaudible) poorly prepared for this issue now.

I just talked to people from China on two occasions and I found it very interesting. In the last central election, the three for one election, I talked to the Chinese side. Nobody protected this kind of slide defeat by the KMT. Only very individual -- very few individuals within Taiwan (inaudible) community, maybe one or two, predicted that. So they had (inaudible). The KMT is still in a very powerful position. They can work with them. And now, in this election coverage in China -- I was in Beijing in China talking to people, they overwhelmingly favor Hung Hsui-chu, the KMT candidate, and also, they think she will win. I was so surprised. Everybody talked to me. (Speaking in foreign language inaudible), she is so spicy and she is so active, she will win. I said, "How could you get that kind of conclusion?" It's too early. But looking at what's going on in Taiwan, but they still had (inaudible). So they will be surprised again. If this surprise takes place again, you can imagine both from the elite and from the mass will be -- I don't know what will happen at that point. The domestic dynamics.

MR. GOLDSTEIN: They're not going to be surprised again. There are

paneloads of American specialists going over to China and who will be going over to China in the next four or five months presenting very different views of Taiwan politics.

MR. ZHAO: But they don't want to listen. They don't want to believe.

MR. CHASE: Richard, I would just say in response to your very good question that I think that the tough remarks we have heard Xi Jinping state about Taiwan and cross-strait relations suggest that he's already shoring up his flank, that he doesn't want to be seen as soft on Taiwan, and so perhaps we're already seeing the direction that he will go if he sees that there is somebody, a president in Taiwan who is challenging Chinese bottom-line, so I share your concern.

So we have time for one more question, I think. Maybe two. We'll see if it's shot.

Okay, this young woman right here. Yes?

SPEAKER: (Inaudible) from Florida International University.

My question is for Dr. Zhao and all the panelists if you have an opinion.

Just now, Dr. Wang told us the public support for unification in Taiwan is dwindling. So my question is whether time is on mainland China's side to achieve its goal of unification. And just now, Dr. Zhao mentioned that the mainland China's side need to be patient, but how will being patient help China to achieve unification? Thank you.

MR. ZHAO: I think for quite a long time, I mean, before Ma Ying-jeou, China was not patient because they thought time was not quite on their side. After Ma Ying-jeou, I think they understand more and more the issue that time is on their side indeed because of the power shift and because of the trend of cross Taiwan Strait. And also because of China's relationship with the U.S. and other powers. Everything eventually will come to their favor. I think that's why I said they should be patient.

Whether they can be patient, that is another issue because all the surprises will really make them lose their patience. In fact, looking at Xi Jinping has talked on both sides. On the one side is (inaudible). He talks about heart to heart and he's kind of talking very, very -- so genuine, kind of patient, and try to work with the Taiwan people. On the other hand, you listen to him talk about we cannot leave this issue to the next generation. And those kind of talks on both sides. So really, I think if I were to the China leaders, I would say stay on their cause of modernization to be patient. Not only on the Taiwan issue; also on the issue with the United States and their neighbors.

Since 2009-2010, they have lost all their past. I mean, not only patience, all their foreign policy achievement. They're in a very awkward position. (Inaudible) I think is totally wrong. I mean, talking to those people in China's (inaudible) circle. I was in China the last three trips in a month talking to even those kind of hardline realists. They talk about (inaudible) foreign policy (inaudible). How can I afford all those kind of big, big money? I asked one person, "How do you think China can (inaudible) that money?" "Oh, be quiet." Because we never implement our agreements. Only 17 percent. Seventeen percent. All our signed contracts (inaudible). Even if they commit \$100 million, only \$17 million will come up. So it's (speaking in foreign language). So you see what's going on in China. You'll be surprised. You'll be surprised.

MS. GLASER: Okay. Well, I think we've reached about the end of our panel. I'm going to turn the floor over to Huang Kwei-Bo for some closing remarks. But before I do, please join me in thanking everybody on the panel.

MR. HUANG: Okay. I would like to thank all of you for coming to this very interesting and meaningful conference on cross-Taiwan Strait relations.

First, on behalf of the Association of Foreign Relations founded in

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December 2013 in Taipei, I would like to thank the other cohosts, the Center for East Asian Policy Studies and John Thornton, China Center at Brookings. And the Freeman chair in China Studies at CSIS. Without them, we couldn't have this very successful conference in Washington, D.C. today.

And secondly, I would like to extend my gratitude to the Manifest Council of the Mainland Affairs Council of the (inaudible) for providing financial sponsorship to the association so that we can organize a six-people delegation to Washington. You know, that cost a lot. So thanks to MAC.

And last but not least, we, all the cohosts would like to thank with our deepest appreciation to the audience, especially some of whom have attended from early morning today, and actually all of you have come to the right place but in the wrong timing. Wrong timing means it's Monday morning. It's summer vacation Monday morning, and it's a drizzly morning, but I really thank you all for coming here, even if the factors, as I mentioned, you know, were so inappropriate for this kind of big conferences.

So anyway, that being said, please allow me to announce the end of the conference and wish you all the best. Thank you very much.

(Applause)

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