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**Welcome and Introduction:**

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The Brookings Institution

**Keynote Address:**

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**Panel Discussion:**

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

MR. BUSH: Why don't we go ahead and get started? I'm Richard Bush. I'm a senior fellow here at Brookings and the proud holder of the Chen-Fu and Cecilia Yen Koo Chair in Taiwan Studies. It's my great pleasure to welcome you to our program today on U.S.-Taiwan relations. Actually, U.S.-Taiwan-DRC relations. This seemed like a good time to do it. Tsai Ing-Wen has been in office for about a year and a half. The 19<sup>th</sup> Party Congress is coming up pretty soon. Donald Trump's trip to Asia is coming up pretty soon, so this is a good time to take stock. We have, I think, an excellent group of specialists to talk not only about Taiwan itself, which is important and a factor that doesn't always get as much attention as it should, but also U.S.-Taiwan relations.

To start off, we are very privileged to have my good friend, Jim Moriarty, speak to us on the topic of U.S.-Taiwan relations, and U.S. policy towards Taiwan. Jim is somebody that a lot of you know, especially those of you who spent time in the U.S. Foreign Service. And he has a distinguished career in the Foreign Service. Right now the important thing that he's doing and doing a good job at it is representing the people of the United States towards Taiwan and we're lucky to have him.

So without further ado, Jim?

MR. MORIARTY: Thank you everybody. I usually start off raising things just a little bit. It is good to see a lot of old friends out here in the audience, and I want to thank Richard for his kind introduction.

I'd also like to thank Richard for the strong stewardship of the American Institute in Taiwan he showed during his tenure. His efforts strengthened the institute and enabled us to become better stewards of the important relationship between the United States and Taiwan.

Can you hear me at the back of the room there? Okay, very good.

I also want to acknowledge Dave Brown and Doug Spellman, valued members of our board of trustees. They have done so much to educate the next generation of international relations professionals on Taiwan and cross-strait relations. I look forward to hearing both Richard and Dave's thoughts during the panel discussion.

Before I dive into U.S.-Taiwan relations, I'd like to provide the broader strategic framework that underpins this important bilateral relationship. As a Pacific power, the United States has a

vital interest in the security of our partners and in the overall security of the region. Since early in its history, the United States has recognized the importance of the Asia-Pacific region and has had a presence in that region for over a century and a half. Our commitment to the Asia-Pacific remains unwavering.

A few data points help illustrate the importance of Asia to the United States. The percentage of Americans who say Asia is more important than Europe to the United States jumped from 21 percent in 1994 to 52 percent, a majority, in 2012. We have five treaty allies in the region. Those allies remain the bedrock of our engagement. Five Asian economies, including Taiwan's, are among our top 12 trading partners, while APEC economies purchased nearly 60 percent of U.S. goods exports. We continue to bolster our alliances and build lasting partnerships across the region.

Against the backdrop, the United States considers the security of Taiwan central to the security of the Asia-Pacific. The United States also considers stable cross-strait relations as essential to maintaining regional stability. None of us should take the security of Taiwan for granted.

The authors of the Taiwan Relations Act had a keen understanding of the linkage between Taiwan security and that of the broader region. The act was written with an eye towards helping, and I quote, "maintain peace, security, and stability in the Western Pacific." The act asserts that peace and stability in the Western Pacific, and again I'll quote, "Are in the political security and economic interests of the United States and our matters of international concern."

Since its passage into law, every U.S. administration has reaffirmed the U.S. commitment to the TRA. The TRA, along with the three joint U.S.-China communiques, remains the foundation for U.S. policy toward and engagement with Taiwan. Through this framework, the United States and Taiwan have built a comprehensive, durable, and mutually beneficial partnership grounded in our shared interests and values.

This is truly a long-term, enduring partnership. Taiwan's friends should take comfort in the fact that the discussion in Washington is not whether to deepen our relationship with Taiwan, but rather how best to.

A key reason why my U.S. government colleagues value U.S. ties with Taiwan is because Taiwan has shown itself to be a reliable partner on the United States' most pressing security

challenges, challenges which threaten not only the United States but also the entire world. First among those is North Korea, with its reckless pursuit of its nuclear and ballistic missile programs. We thanked Taiwan for its recent decision to go beyond the requirements of the U.N. sanctions in exerting pressure on the DPRK by banning all trade with North Korea.

As Secretary Tillerson has said, U.N. Security Council resolutions represent the minimum of actions we expect the international community to take in putting pressure on North Korea. Taiwan clearly stands in solidarity with our position and has set a valuable example for the international community by cutting off the trade flows that enable the North Korean regime to continue threatening international peace and security.

Taiwan is also a valued member of the global coalition to combat ISIS. To support this international effort, Taiwan has contributed money and supplies to help people who have had to flee their homes in Syria and Iraq. AIT is currently working with Taiwan to finalize an additional contribution to support a humanitarian survey and ordinance clearance operations in liberated cities. The United States and Taiwan both recognize that violent extremism is a global challenge and requires a shared response by the international community.

More generally, Taiwan's participation in the international community is vital, precisely because Taiwan has shown time and time again both the will and the ability to play a positive role in addressing global problems.

Recognizing that Taiwan has much to offer, the United States will continue to support Taiwan's membership in international organizations where statehood is not a requirement for membership and its meaningful participation in international organizations where statehood is a requirement.

The United States strives to help find new ways for Taiwan to expand its international space outside the traditional U.N. system. For instance, under the Global Cooperation and Training Framework (GCTF), we work with Taiwan to address global and regional concerns by leveraging Taiwan's strengths and expertise in areas such as public health and humanitarian assistance and disaster relief to help improve the capabilities of others in the region.

We value our work together in the Asia-Pacific Economic Cooperation (APEC) to advance women's economic empowerment, energy, the digital economy, and other priorities. We were

also pleased that Representative Gao could attend the Community of Democracies Ministerial hosted by Secretary Tillerson in September.

While we work together to address regional and global problems, we should remember that cross-strait stability is a necessary, if not sufficient, condition for broader regional prosperity and stability. Thus, the United States has an abiding interest in cross-strait peace and stability. We believe that a Taiwan that is secure, confident, and free from both isolation and coercion is better able to engage Beijing constructively. Such engagement in turn supports a stable and peaceful cross-strait environment. That is why we work to expand Taiwan's international space, build our economic ties, and maintain close security cooperation.

In the security realm over the past decade, the United States has authorized the transfer to Taiwan of some of the most sophisticated weapons, weapons needed by Taiwan to maintain its self-defense capability. In June, the Trump administration notified to Congress \$1.4 billion in arms sales to Taiwan, underscoring the U.S. vow to uphold its commitments under the Taiwan Relations Act. At the same time, security relations with Taiwan are about much more than arms sales. Taiwan's key defense and military leaders have begun to understand the need to overhaul Taiwan's security concept and embrace modern asymmetric approaches and innovative ways to employ existing capabilities.

The United States supports this effort and we are working with Taiwan to ensure the successful transformation of its defense concept. For example, the Department of Defense is supporting Taiwan's efforts to overhaul its reserve forces and enhance jointness among its military services. These examples are emblematic of our continuing effort to fulfill both the letter and the spirit of the Taiwan Relations Act.

Let me underscore here, the United States will continue to make available to Taiwan defense articles and services necessary to enable Taiwan to maintain a sufficient self-defense capability.

The U.S. commitment under the TRA is firm, but it alone will not secure Taiwan in an increasingly complex regional environment. Taiwan must do its part to invest in capabilities that deter aggression and would help Taiwan mount an effective defense should deterrents fail.

While we commend Taiwan for the considerable strides it has made, it can and must do more as the security threat against it continues to evolve. Taiwan's defense spending simply put has not

kept pace with the changing environment, and it must address this situation with real urgency. Taiwan is spending significantly less on defense as a percentage of GDP than others that face similarly sophisticated threats, such as Israel, South Korea, and Ukraine. Taiwan must do better.

But let me be clear. Taiwan faces both security and economic challenges, and thus Taiwan's continued economic security and vitality are equally important to the United States. This is why we endeavor to deepen our economic ties. U.S.-Taiwan economic ties are extensive as we have grown to become each other's tenth and second largest goods trading partners, respectively. We continue to work through the process of the Trade and Investment Framework Agreement (TIFA) to address trade issues and market access barriers facing U.S. companies and investors. We are also actively identifying new opportunities for collaboration through our Digital Economy Forum, a venue for dialogue between our public and private sectors on a wide-range of cooperative topics.

The U.S.-Taiwan economic relationship is strong but could be even stronger. If Taiwan is to reinvigorate its economic growth, that will be done, in part, by pursuing through the TIFA mechanism the economic liberalization to which Taiwan has committed. If we can successfully use bilateral mechanisms like TIFA to resolve trade irritants between our two economies, that will help foster even stronger and closer trade relations.

I have had the honor of discussing our relationship with President Tsai, both in Taiwan and in the United States. I know that she deeply values this relationship and will do her part to move it forward. My interactions with President Tsai have reaffirmed my conviction that she is a responsible, pragmatic leader. The United States appreciates her determination to maintain stable cross-strait ties in the face of increasing pressure from the PRC on a number of fronts. It's clear that the cross-strait relationship currently suffers from a lack of trust and communication. The United States will continue to urge both sides to engage in constructive dialogue and to demonstrate patience, flexibility, and creativity in finding ways to engage with each other in order to avoid miscalculation and resolve their differences.

The United States will continue to insist on the peaceful resolution of differences between the PRC and Taiwan in a manner that is acceptable to the peoples on both sides of the Taiwan Strait. There should be no unilateral attempts by either side to change the status quo. After all, peaceful and cross-strait relations not only serve the two sides of the Taiwan Strait, but also the interests of the United

States and of the broader region.

The United States endeavors to improve our economic partnership, support Taiwan's confidence, and freedom from coercion, deepen the bonds of friendship between our people, and ensure that Taiwan can continue to make positive contributions to the international community. The United States considers Taiwan a vital and reliable partner in Asia, one which merits our continuing support.

I began by noting Taiwan's importance in a broader regional context and I'd like to close by returning to that theme. The United States has an abiding interest in Taiwan's security and has built a comprehensive, long-term relationship with Taiwan within the framework of the U.S. broader Asia strategy. The United States intends to remain steadfast in deepening its ties with Taiwan and upholding policies consistent with the TRA. To quote Secretary Mattis, we will not use our allies and partners, or our relationship with them, or the capabilities integral to their security as bargaining chips.

I look forward to continuing to advance this important relationship. Thank you all.

(Applause)

MR. BUSH: Thank you very much, Jim. I was trying to think if there was anything that you said that I could take issue with or challenge you on or contradict you, and I'm not sure I can think of a thing. And I wasn't just referring to the kind words you said about me in the beginning.

(Laughter)

MR. BUSH: So since we have a lot of smart people in the audience, I'm going to open it up. Right away, I may have a question. And the rules are wait for the microphone, identify yourself, and keep your question brief because obviously Jim's a very smart guy.

I'm going to start with my old boss, Stanley Roth, and so John Zang, you'll have the second question, not the first. But let's start with Stanley. And then I'll go back there.

Okay, right here. Up here.

MR. ROTH: Stanley Roth, retired. Former partner in crime with both these guys.

I wanted to go to one of your final remarks when you talked about both sides needing patience, flexibility, and creativity. And while that strikes me as a great aspiration, it strikes me as unreal on one side. When I look at President Xi, I see zero flexibility, the dogmatic insistence on saying the words about the consensus is the opposite of flexibility. Numerous reports I can't say since I have no

access to classified is true, that diminishing patience wants a resolution possibly on his watch, can't be creative if one side isn't willing to engage, but in fact is increasing pressure. So that strikes me as the right formula with no chance of success and that leads me to the bottom line question, is there really anything Taiwan can do or is it really more the credibility of the U.S. deterrents that is the key to the future security of Taiwan?

MR. MORIARTY: You've got two separate questions implied there. I mean, in the sense of what you said about creativity, patience, flexibility, I think you're right. We haven't seen one side warmly endorsing those concepts, and that makes it even all the more urgent that we continue to push on it, continue to let the one side that is not showing those characteristics understand how important it is to us that they do.

In terms of deterrence, there are lots of things that Taiwan can do and I think their military is beginning to look at them coming up with new concepts. I think the three key words you heard out of me was asymmetric, innovative, and urgent. Those words actually have been used off and on by the Taiwan military itself for quite a while now. What we are doing is encouraging more rapid adoption of the steps that would actually put those concepts into implementation.

MR. BUSH: Okay. John Zang?

MR. ZANG: Thank you, two chairmen. John Zang with CTI TV of Taiwan.

Mr. Chairman, how do you see President Tsai's recent National Day address? Is it sufficient to jumpstart the cross-strait dialogue or, you know, what is lacking that the U.S. can help overcome to actually restart the cross-strait dialogue? Do you have any realistic expectation for cross-strait relations after the 19<sup>th</sup> Party Congress in Beijing?

Then I have a logistic question, if I may. APEC is about to convene. Will Secretary Tillerson follow the practice of his two predecessors having a bilateral with James Sohn? Thank you.

MR. MORIARTY: Well, actually, I think we'll have to wait a little bit. I don't think that the secretary's schedule is completely set yet and it's probably inappropriate for me to comment on it as you see Richard digging at me in the ribs here.

In terms of jumpstarting the cross-strait dialogue after the 19<sup>th</sup> Party Congress, to state an obvious, that's going to be up to the players on both sides of the strait. I think the previous question



outlined the issue. Another way to ask your question is will the view in Beijing evolve to a point where restarting the dialogue, a more meaningful dialogue would make sense, and I have no control over decisions on that side of the strait.

MR. BUSH: If I could just supplement, I've seen reports in the Taiwan media that President Tsai is actually planning to do a major address at the end of the month on cross-strait relations once she knows what Xi Jinping has said about Taiwan at the 19<sup>th</sup> Party Congress. And that seems to make a lot of sense.

MR. ROTH: What about the president's remarks?

MR. MORIARTY: Oh, I didn't answer the first part of the question? I thought they were appropriate. I mean, I do think, and particularly as you look at cross-strait sections, I don't think that there was anything inflammatory. I think they were not unhelpful at all. I think they were just solid remarks sort of at a time when, let's face it, everybody is waiting to see what happens in the 19<sup>th</sup> Party Congress, including all 1.4 billion Chinese.

MR. BUSH: The woman in the middle there.

SPEAKER: Thank you, Richard. (Inaudible) from the Central News Agency Taiwan.

My question is about a new face from the Chinese side. We are going to -- Taiwan is going to have to face the new director of the Taiwan affair from the Chinese side. I'm just wondering, chairman, are you familiar with Leoché Aee? If so, what's your impression about him? And do you have any suggestion for Taiwan after the 19<sup>th</sup> Party Congress, how can Taiwan want to deal and engage with the new face from the Chinese side? Thank you.

MR. MORIARTY: Now, normally I wouldn't say anything on this topic. I've actually known Leoché Aee for about 25 years. He was one of the first officials I dealt with in Beijing. I actually found him very reasonable at that time so I don't think that he's going to be an impediment if progress is going to be made, if that's the core of your question. And I hope I'm not causing him trouble by saying that. But anyhow, I think he is a seasoned diplomat who is pretty well thought of.

MR. BUSH: I'm sure any Chinese official you give praise to is going to do very well in his career.

(Laughter)

MR. BUSH: So let's do Dung Wei, and then Garrett, and then Shirley.

MR. WEI: Thank you. Dung Wei with China (inaudible) News Agency of Hong Kong. Today, the Foreign Affairs Committee of the House passed the appeal of Taiwan Travel Act. So if the bill is passed finally on Capitol Hill and is seconded by the Trump administration, do you believe the nature of the U.S.-Taiwan unofficial relationship will be somehow changing? Thank you.

MR. MORIARTY: Well, I was always taught by a very smart person, maybe Richard himself, that you don't deal in hypotheticals. And I think everybody in this room realizes that Congress has its authority, the executive has its authority. There's always a question about how those two balance out. And it's always premature to comment on any piece of legislation until it actually becomes law signed in by the president of the United States.

MR. BUSH: So Garrett Vander Weiss.

MR. VANDER WEISS: Hi, Garrett Vander Weiss, former editor of Taiwan Communique. In your remarks you said that the security of Taiwan is essential to the security of the Asia-Pacific. How does the policy of the Tsai administration, the new Go South policy fit in that? She is trying to strengthen relations with Southeast Asia in particular. Does that play a role there?

MR. MORIARTY: Well, let's put it this way. Any country has -- any entity has issues in deciding how much it's going to rely on one trading partner. And I think that there has been a very healthy debate in Taiwan about the question of overdependence on one market. The United States, and I actually did have cleared talking points on this, doesn't have any problems with Taiwan trying to expand its economic partners. Let's face it, a lot of other folks around the world that were that dependent on one market would be trying to diversify its sources of trade. So it makes sense in terms of economic policy alone.

MR. BUSH: Shirley Linn?

MS. LINN: Thank you, Ambassador.

My question relates to defense, and you mentioned it, and it relates also to President Tsai's initiative economically to strengthen defense by having more indigenous weapons, trainers, and submarines. But first, I'll have to come back to your speech. Is Taiwan doing enough to defend itself? As you know, in the last few weeks in Taiwan, if one's talking about the new thought of 2020 and how

long can Taiwan hold down the fort, in your discussion, is Taiwan moving forward in this? If not, what are the impediments? There's a very strong, vibrant debate on the island itself, and second is President Tsai's initiative, as I said, in developing indigenous weapons something that you would encourage?

MR. MORIARTY: The first question is one that's pretty complex in the sense that we do see Taiwan beginning to take a lot of good steps, really looking at its concepts of defense. And as I said earlier, recognizing the need for asymmetric and innovative approaches. I think overall, we would like to see Taiwan moving faster, that there does need to be a sense of urgency about the problems that Taiwan is confronting right now.

In terms of Taiwan's indigenous development of weapons, there are several good explanations as to why Taiwan might want to do this. I would hope, however, that if it goes ahead down that route it would do it in a way that really looked at the question of whether this is supporting the concept of asymmetric and innovative defense, or is it more geared towards traditional systems that might not come into being or utility for a long time. We do think that there's a need for some urgency, that the underlying problems and threats need to be addressed.

MR. BUSH: Was there a second question?

MR. MORIARTY: I think I got them both, didn't I? Good enough.

MR. BUSH: Let me respond to your question in a different way, and I've written about this so this is nothing new. Certainly, there is a hard security threat to Taiwan that stems from Beijing's growing military capabilities. I worry that there's also what you might call a soft security threat, the danger that Beijing might undertake a vigorous anti -- a vigorous intimidation campaign against Taiwan using all or most of the instruments of power. A shot is never fired but the existence of those military capabilities hangs like a dark cloud over the whole process. And it's easy to focus on the need to prepare yourself for a hard security action, whether you can do it or not depends on a lot of issues. I think the intimidation side is more difficult because it goes not just to military power; it goes to the power of a society and the capability of a society. One might even say that at a very low level the intimidation is already happening.

So Russell?

MR. MORIARTY: Can I actually add on to your point, which is to a degree it is allowed to happen or it flourishes in an environment where people assume that nothing can be done except relying

on the U.S. shield. Frankly, folks who know a lot more about security than I do tell me repeatedly that there are lots of things that Taiwan can do that would deter any invader effectively. And those are the sorts of things that we are trying to encourage Taiwan to -- I think they're belonging in these new concepts that we talk about but we want to see those concepts flushed out quickly to deter folks to the extent that the people in Taiwan understand that they have a robust defense against anybody trying to land on their beaches or trying to intimidate them through force or the threat of force.

MR. BUSH: Russell Hsiao?

MR. HSIAO: Russell Hsiao with the Global Taiwan Institute. Thank you, Ambassador.

My question relates to the comments, the allegations that were made by the president of the Philippines regarding the responsibility of an international criminal network headquartered in Taiwan for the transshipment of drugs using the Philippines to the United States and asking the United States to help. My question is, how can the United States help and whether or not you see this perhaps as something that the global cooperation and training framework between the United States and Taiwan can be utilized to enhance the mutual legal assistance agreements between the two sides in addressing the legal means by which the United States and Taiwan can work with other international partners because this is, in fact, an international criminal network and not just one that's isolated to Taiwan or the Philippines. So your response to that, please.

MR. MORIARTY: Yes, I will say that the isolation of Taiwan in the international police community is something that the U.S. worries about. And we did see the comments from President Duterte and we have been trying to reach out to see what response is appropriate. And I understand that the Taiwan authorities are also reaching out to the Philippines side. And if we can -- if there is a way for us to help facilitate things, if there is a way to improve cooperation on these issues with us playing a facilitator role, we'd be interested in looking into it.

MR. BUSH: Yes, Joe Bosco?

MR. BOSCO: Thank you. Joe Bosco, formerly with the Defense Department.

Ambassador, thank you for your remarks. I noted that you referred to Taiwan as a country --

MR. MORIARTY: No, I did not.

MR. BOSCO: And you corrected --

MR. BUSCH: Joe, hold the mic a little closer.

MR. BOSCO: You corrected yourself --

MR. MORIARTY: I'm not allowed to.

MR. BOSCO: -- to call it -- okay, let's talk about the entity of Taiwan then.

MR. MORIARTY: Okay.

MR. BOSCO: I think it was -- we appreciate your listening to the various contributions that Taiwan has made to the international community. There was one that I think you oversight -- did not mention. That was its participation in the proliferation security initiative in which there are 95 or 100 countries participating but not China. Taiwan has not only participated, they intercepted a North Korean ship that had illegal components.

But another thing you said that was of interest was that neither side should do anything to destabilize the cross-strait relationship. Now, Richard has recently written that China is considering setting an ultimatum schedule or timetable.

MR. BUSH: I didn't say that.

MR. BOSCO: Is that incorrectly reported?

MR. BUSH: I said that might be something they could do if they wanted to change the current policy.

MR. BOSCO: Okay. Well, if they did such a thing would you consider that a destabilizing move? It's analogous to what they did in 2005 with the buildup to the anti-secession law and the U.S. took a very mild response to that. I think there is a danger here that unless the U.S. makes it clear that that kind of move would be unacceptable it may happen.

MR. MORIARTY: Yeah, I think you always face the problem of preemptively taking options out of leaders' hands. I would say that this isn't 2005 anymore. You know, times have changed quite a bit. The issues, the threats have changed quite a bit and so I would expect a different response is all I'm going to say right here.

MS. CHING: Chia Ching from United Daily News.

We know that TIFA talks usually take place in October and we haven't heard anything as

of now. Does this mean that the talk has been suspended this year? And if yes, are we taking any other forms to further enhance the economic relationship between U.S. and Taiwan?

MR. MORIARTY: You said TIFA? Or what was the --

MS. CHING: TIFA talks.

MR. MORIARTY: TIFA talks.

MS. CHING: Yeah.

MR. MORIARTY: Yeah, the TIFA talks are not scheduled right now. There are pre-TIFA conversations in July in Taipei and they did not go badly but, you know, there is a -- there is a question of how do we hammer things out. There are issues where I think we're pretty close and perhaps the best way to begin strengthening the economic relationship is to begin talking more on some issues where we still have some daylight but are pretty close to agreement. I do think, as I said earlier, that we need to discuss the problems that we see in our economic relations and I do think that we will be talking on those going forward. But no, October was never suggested as a TIFA date as far as I know either, or at least not from our side.

MR. BUSH: In the very back and then I'll come up here.

SPEAKER: Thank you. My name is (inaudible). I come from --

MR. BUSH: I didn't recognize you.

SPEAKER: I'm a visiting scholar at Johns Hopkins SAIS.

I have a question. Just a few days ago the (inaudible) say something about Taiwan instead of ROC as a sovereignty and the independent state, something like that. I want to know, what's your comment about those kind of speeches? Thank you.

MR. MORIARTY: Well, we're not going to respond to every single comment by every single Taiwan politician or administrator. We will look closely at any policy changes that might be getting considered in Taiwan, and I think it was made pretty clear after those remarks that those remarks did not represent any policy direction that the current administration wanted to go in. So it seems as though that's a dead issue so we're not going to comment on it.

MR. BUSH: Just a historical point. I went back when I was writing another book to see when was the first time a Taiwan leader had said the ROC is an independent sovereign state and it was

John Jisher around 1971. So this is not a new concept. Whether the people who listen to this concept understand it is another question but it's a thread that's run through cross-strait relations for a long time.

Yes, right here. Sorry.

MS. HOLT: Hi, Lauren Holt, Holt Global Strategies. It's nice to see you, Ambassador. Former State Department.

So I have two questions. The first one is on security. Taiwan's current role update on the South China Sea issue, and the second one about trade. When TPP was still ongoing we thought it was a go potentially. I know that Taiwan wanted to be considered to be part of TPP. Now that the U.S. is out of it, it seems like Japan might be taking up some of that leadership role. Is Taiwan working closer with Japan to potentially do some things in that area? Thank you.

MR. MORIARTY: With respect to security in the South China Sea, it looks like the current administration in Taipei is pursuing a low profile. It's been less assertive in recognizing the broader or pushing the broader claims that it inherited from previous administrations in Taiwan. It hasn't abandoned them but has been less assertive, let's put it that way. And so in a way it's trying to be very careful not to inflame things further in a region that is very delicate.

With respect to trade, I can't really comment on Japan. I do think that there is Taiwan interest in strengthening economic ties with Japan. They are taking some steps to try and soothe out some of the perennial problems there and to the extent they can we would welcome it, of course.

With respect to trade with the United States, TPP is no longer on the table for us. There's been a lot of talk in Taiwan about a bilateral free trade agreement. We're more interested right now in trying to pursue through the TIFA mechanism, as I said in my remarks, bilateral issues and try to resolve bilaterally some of the issues that come up, and frankly we're going to get addressed within the TPP framework. So we're looking at these things, trying to figure out a way forward with Taiwan. Anything that increases their ties economically in the region and in the world is something we would welcome.

MR. BUSH: Yes, back there. And maybe this will be the last question.

MR. ROBINSON: Hi, Jonathan Robinson from CSIS. I'm just wondering if the Taiwanese are expressing any concern about the Trump administration, similar to comments about NATO

or South Korea and Japan and about our obligations to Taiwan security and upholding those obligations.

MR. MORIARTY: Well, they're not expressing them to me. Let's put it that way.

I do think that like the people of every entity -- I'm choosing my term carefully -- that people in Taiwan focus primarily on that which is closest to them. And I do think Taiwan needs to see that we continue to value our alliances in the region, that we will continue to uphold our commitments under the Taiwan Relations Act.

NATO, in theory, is interesting. It's much less important than what we do with respect to North Korea, and more importantly what we do with respect to keeping our alliances and our presence strong and cooperative in East Asia as a whole. So nobody has raised it with me in terms of the president but I do think that everybody needs to be reassured during every administration. We heard this during the Bush administration. I'm sure Ryan heard this during the Obama administration. Well, how reliable is the United States? We can say it all we want but we prove it by actions, and I think we are proving that as I speak in East Asia.

MR. BUSH: Okay, Jeanette. One last question.

MR. MORIARTY: That was so enthusiastic.

MS. CHAN: Jeanette Chan, China Times. Just follow the question actually and the answer.

Trump's administration seems to have the most ambitious -- try to build up the relationship with China. That's the notion about the 15 year relationship in the future with China and America. I'm just wondering in that case, where is Taiwan standing? And what also to your understanding that's about a so-called 15 years relationship with China -- America and China.

MR. MORIARTY: Again, I did this when I was at the NSC. Ryan did this when he was at the NSC. If we're not looking deep into the future, we're not doing our jobs. You know, it is important to try and figure out where we're going to be in the future. And then somehow the leap to therefore we must be negotiating a fourth communique, it is a leap, frankly. And whenever senior officials involved in previous community communique show up at the White House, we'll get a spate of articles wondering what's happening. I know nothing about a fourth communique. I can't imagine what the contours of a fourth communique would be. I know you're not asking directly about this but there is a question of what



the U.S.-China relationship is going to look like not just 50 years down the road but 10 years down the road. We know what we would like to see that relationship look like. Frankly, we don't know if China holds that same vision or even a similar vision. And therefore, it becomes very, very difficult to predict what U.S.-China relations are going to look like and any administration is going to be very careful or should be very careful in trying to map out the future of a China that is obviously changing so much and evolving so quickly and frankly being so much assertive in Asia in general.

MR. BUSH: Just to supplement, I think obviously China is very different from the entity it was at the time of the Nixon opening almost 50 years ago. Asia's very different than it was then. The United States is very different and Taiwan is very different. And so naturally there's going to be an evolution if people are focused on the reality of the situation. I think to some extent this talk about the next 50 years is just an acceptance that we're in a different world. So enough of a sermon from me.

Please join me in thanking Jim Moriarty for his views and his time.

(Applause)

MR. MORIARTY: Thank you.

MR. BUSH: So, let's move now to our panel. Each person is going to speak up here and then we will congregate on the stage and have a conversation.

Our first presenter is Syaru Shirley Lin, who has affiliations with both the University of Virginia and the Chinese University of Hong Kong. She's also a very good friend and it's always nice to have her here at Brookings whether she's speaking or anything else. So, Shirley?

MS. LIN: Thank you very much, Richard, Ambassador and my fellow panelists, David, Abraham, and Ryan, it's a privilege and honor to be back and thank you for the opportunity to share my views on challenges facing Taiwan's economy since I was here a year ago and how the Thai administration is addressing those issues.

I take the risk of doing something a little bit unusual. I think my fellow panelists wouldn't be boring you with the long-term vision of the economy, but I thought it deserves a few minutes, maybe five minutes, to talk about what Taiwan is really caught in, and it's something that is rather difficult for any administration to solve.

Taiwan, along with many other of its neighbors is caught in what I call a high-income trap.

There are increasing economic grievances and specific groups of people are experiencing a loss of identity and anger against the political and business elites. The consequence of this high-income trap, as I call it, is that there is rising support for extreme political leaders and extreme options including protectionism and mercantilism all around the world in other advanced economies too.

There are two reinforcing trends of economic malaise and political polarization which is putting great pressure on the Thai administration and producing high levels of uncertainties for leaders in Taiwan in all arenas. Let's examine how Taiwan is caught in this trap relative to its neighbors.

You can see here there is Japan, South Korea, Taiwan, Singapore, and Hong Kong. Without going into details everyone knows how growth has declined. Most interestingly last year everybody hovered around 2 percent. Now, these economies moved from middle-income trap. Out of 101 middle-income economies in the '60s only 13 moved into the high income but they're all caught in this trap now. While they were able to maintain high growth, often double-digits, even in the '80s sometimes, during that transition they relied on high-value added exports.

The growth rates have begun to slow down and all five are growing much slower with other problems that are very important for political leaders. Wages have stagnated and their manufacturing industries can no longer compete with lower-based countries like China. As a result they cannot provide the same benefits to a wide spectrum of society, and they've become increasingly reliant on China as a solution.

This slowdown is of course accompanied by something even more difficult to resolve and that is rising inequality. I think we're missing a slide here. Yes, okay. Rising inequality. These economies experienced an economic miracle decades earlier because the growth was accompanied by reducing inequality. You can see here China is the most unequal and advanced the most rapidly in its Gini coefficient. The triangle shows you 2000 level and the orange bar is current level, the blue is 1980. Hong Kong was the most unequal society among OECD economies.

So, Taiwan and South Korea and Japan you say doesn't look so bad. Well, there are many ways to look at this and Gini coefficient is not really the gold standard, if you will, to measure inequality. For example, Korea's income inequality is the worst in Asia Pacific according to the IMF and top 10 percent of the population receives 45 percent of the income. Taiwan's top 20 percent households

received 6 times that of the bottom 20 percent. It used to be at 4 times. This relativity is very important in terms of how the social stability is threatened.

The growth and inequality is fueled by something also very important and that is asset inflation, especially in housing. So, you see here this chart, which was released about a month ago, Hong Kong is the worst. What this chart shows you is if you buy a house, a medium-priced flat, with cash in Hong Kong it would take you 18 years without spending any money to save up to buy a medium-sized - medium-sized housing in Hong Kong you can imagine is nothing but very basic shelter. Taipei is very bad too, at 15.5 times. Of course there is a difference between city and rural. Taiwan on average is 9.3 years.

Now, there is also a generational divide when you look at this. Most assets are held by the older generation. The younger generation are living at home longer than ever before just like the United States, and youth unemployment is double that of the regular unemployment. In Korea youth unemployment is 3 times as bad as average unemployment. I have a chart on unemployment but -- here you are. So, you can see the youth unemployment differential among generations.

With high unemployment and sky-high housing prices young people are getting married later and not having children, and with retirees living longer than before you can see what is happening. The pressure on the economy is tremendous. The population is aging and it places burden on welfare entitlement which is something that President Tsai wanted to tackle right on. So, in France, just for comparison you can see the average age here, it's aging very, very rapidly. Just for comparison, in France the mean age is 41, the U.S. is 38, China 37, Nigeria is 18.

So, how can Taiwan compete with these middle-income countries, younger more vibrant, more open as they catch up? And what are the ramifications of these economic problems? Well, Taiwan has a dilemma that it has to resolve to escape the high-income trap.

Let's look at the effort to solve some of these long-term structural problems. First of all, to lift overall competitiveness and growth Tsai has initiated a 5 plus 2 industrial innovation plan. The first five were the internet of things or Asia Silicon Valley, biomedical, green energy, smart machinery, and defense. Two were added later, higher value agriculture and the circular economy. The program later expanded to include the digital economy and cultural innovation, even semiconductor and IC design, so

the list goes on. The 5 plus 2 is really 5 plus infinity. (Laughter) And it's, to me, a very big fiscal stimulus plan.

I believe these are important plans which will lift the growth rate by an estimated 0.2 percent for next year and the year after, GDP estimate. But to what extent can these initiatives solve the structural issues that I talked about earlier?

Well, I think what is commendable is to focus on the positive. The intention is correct. It is to move away from manufacturing and hardware, in other words 1.0 to 2.0 or 2.5 to services and software. But the strategy is difficult and questionable.

Let me talk about the area I'm most familiar with as a previous venture capitalist and banker. Asia Silicon Valley involves creating a startup culture in Taoyuan, which is near the airport, which will require changes in the primary, secondary, and tertiary education system, attract foreign talent, capital, clean up the listing market to create more liquidity and transparency, and as you all know the public markets in Taiwan are full of irregularities.

The plan is also to balance regional development, so there is something for China and something for (inaudible) and something for Taoyuan, and something for Taipei. This may or may not rebalance the economy but some have accused the government of favoritism in this kind of allocation. And, of course, most importantly real estate plans never creates innovation, has never done so in the past.

A further example is what the Ambassador had talked about, defense. This is a sector the government has talked about committing NT 500 billion to an indigenous submarine and trainer program without joint venture in order to create jobs and to make Taiwan more self-reliant. But bolstering defense including boosting morale and technology is a worthwhile and necessary goal for Taiwan.

But can Taiwan really produce the needed trainers and submarines for self-use and even export them? As the Ambassador said, are these strategies the right strategies to meet the requirement of an asymmetrical warfare?

Another fiscal stimulus initiative, the 100 billion forward-looking infrastructure plan is perhaps even more of a fiscal stimulus plan. Investments will be made in rail transportation, waterworks, urban and rural development, and digital development in green energy. These efforts will hopefully

create 40- to 50,000 jobs and make the environment more (inaudible)-friendly. A total of 82 billion NT will be invested over 8 years. GDP growth will be adjusted upward as well as a result of the infrastructure plan.

Next, to reduce welfare burden on the younger generations Tsai has used a lot, the majority of her political capital in these two years to push through pension reform, something very controversial and costly to her. This is remarkably important because retirement funds for private sector and retired servicemen will run out in 2027 and 2020 respectively. Current pension liabilities of the government stand at around \$600 billion U.S., according to *The Economist*, or 9 times total annual expenditure.

The reform will first affect 450,000 retired public officials and military personnel. The new law will reduce the 18 percent preferential return on pension, payment to civil servants including teachers over time.

You can imagine the controversy this has created.

Young people support this reform in majority but the executive has been painful, communication poorly carried out, and the result today is what you see in that there is not a lot of appreciation for tackling this issue.

Recent tax reform announced by the Ministry of Finance simplifies the tax system to be more in line with international tax systems is a big step forward for Taiwan, however, many say it will only increase inequality. If you look at the details of the tax plan there are lopsided benefits to the top taxpayers.

What is notable is what is not on the agenda. Problems such as waste stagnation is difficult to tackle as industries are suffering already. Another poorly executed reform which is well-intentioned is labor reform. Introducing a five-day workplan only to see backlash not only from businesses who complain about lack of flexibility, increasing labor costs, as well as workers who say this will reduce their pay because for one of the two days off you're not allowed to ask people to work overtime or pay them.

On youth unemployment it's almost impossible to tackle without long-term changes to the education system. All the plans otherwise are simply short-term plans. There are too many universities

providing too many unnecessary programs, training students in non-market oriented skills leaving students with no skills to compete domestically or internationally. Extensive consultation with civil society, businesses, and local political leaders is needed and so far remains lacking.

So, to come to the punchline: can China be a solution or is it part of the problem?

Taiwan has increasingly turned to China for creating investment. From nothing across the Taiwan Strait in 1990, now China constitutes nearly a quarter of Taiwan's total imports and exports. This trade is founded on of course investments, although in recent years trade surplus has declined to under 30 billion in the last two years from a high of over 40 billion.

When you look at how China has grown as a trading partner this was clearly at the expense of -- this is investment, trade, and here we are. You can see China overtaking the U.S. and Japan. If you look at the number of tourists, Chinese tourists also have become the most important source of foreign visitors in volume. Then dropping by nearly 700,000 last year only to be made up for by Japanese and Korean visitors.

But this overall trend in drop of tourism continues this year. With China's recent effort to lead regionally and globally, China could potentially be an even bigger solution. If Taiwan could benefit from one bill one road, join the AIIB, or join the Regional Comprehensive Economic Partnership. But none of this is possible today. Or simply allow group tourists to return to Taiwan.

For China to consider any of this Tsai would have to accept the '92 Consensus and acknowledge Taiwan is a part of China in some way. This is unlikely to happen because of how increasing reliance on China has turned an entire generation against all things Chinese. This rise of Taiwanese identity and a cautious approach to China remains on the island, and as China overtake the U.S. and Japan in terms of economic relations Taiwanese are increasingly ambivalent about deeper economic integration and because of the threat China poses to Taiwan's security.

So, an alternative that we talked about is the new southbound policy. With a budget of 134 million to increase more social and business linkages with ASEAN, plus India, Pakistan, Bangladesh, Nepal, Sri Lanka, Bhutan, Australia, New Zealand, we're kind of getting a lot of them in. In aggregate these constitute the second largest export market and investment destination for Taiwan, Vietnam being the key destination. Total trade with the new southbound countries is 19 percent in 2016. As you can

see, it has been growing gradually. Total foreign direct investment in those countries amount to 91 billion.

In some ways the government is following the private sector, not leading it. As China has become overly costly many Chinese companies and Taiwanese companies have moved from coastal cities in China to inland or to southbound countries where the cost is lower, growth is higher, and the workers are younger. Therefore, there's a strong push by the private sector in Taiwan for the government to sign bilateral investment agreements with some of these countries.

There is some 23 percent increase of tourists from these countries last year, and Taiwan hopes to see 2.2 million tourists by 2019. Having more Southeast Asian students study in Taiwan is a potential solution to Taiwan's demographic decline. But what is certain is that much of the investment is similar in nature to investing in China; low-end manufacturing and services which will not upgrade to Taiwan's competitiveness. Furthermore, most of these countries work very closely with China and will be reluctant to sign any agreement with Taiwan in fear of Beijing's pressure.

To conclude, most important for Taiwan to exit the high-income trap and not overly rely on China is to work more closely with other advanced economies. Tsai has called for Taiwan-UK free trade agreement, opening up the market for Japanese been import, and send the second largest delegation after China to the most recent invest U.S. summit.

There has been a steady decline in the bilateral trade relationship with the U.S., which is now only the third or fourth largest trading partner. Engaging with the U.S. must be a priority for Taiwan and needs to find common ground with the U.S. through TIFA and sign an economic partnership agreement before the Fast Track Trade Act expires with a republican congress.

Taiwan has to accommodate the U.S. in terms of agricultural commodities starting from industrial use, and mitigate impact on Taiwanese farmers who may be hurt. This will require political courage and will, but it is necessary for the ongoing negotiation under TIFA.

On the U.S. side some compromises will be needed too. U.S. has put forth a precondition that pork be liberalized before negotiations can continue which precludes progress on other issues. Considering in 2015 a total trade of 29 billion, agricultural commodities was only 335 million, pork was only 30 million.

Furthermore, on the investment side, Taiwan has the most potential for U.S. to expand its

services in Asia, especially in areas where U.S. has competitive advantage. The U.S. can invest more in service and technology and create jobs. The U.S. trade deficit with Taiwan is only 1.8 percent of total trade, but the service trade surplus is 4.2 billion and can increase.

Taiwan offers excellent IPR protection and we welcome U.S. investment over Chinese investment, that is for sure. But this will require Taiwan to liberalize in many ways. Taiwan has a lot of work to do to move into services and attract foreign companies, and this is something I am also deeply engaged in. Deregulation of finance is absolutely essential. Overregulation, low compliance has impeded high (inaudible) to compete with Hong Kong, Singapore, and Tokyo, and banking assurance and securities.

Overall the economic problems of the trap may have solutions in the long run but the second set of problems are more fundamental and harder to bridge because they relate to a deeper sense of community, values, and identity, specifically social justice, democracy, and freedom of speech. It is this difference in values and the lack of trust which makes deeper cooperation difficult between Taiwan and China and makes a deepening relationship with the U.S. and Japan not only desirable but much more plausible in trade, investment, to defense and will further the values cherished by the Taiwanese people.

So, as it becomes more enmeshed in the high-income trap, Taiwan needs leadership which can be inclusive not just represent the poor, the rich, the north, the south, the urban, the rural, or the young versus the old. They must also formulate and implement policies that can meet the socioeconomic challenges of today's Taiwan to solve long-term problems I have outlined even if it's difficult in the short-term.

The most important task is to broaden Taiwan's economic relations with leading partners like the U.S. in order to upgrade its value-added goods and services and remain dynamic and safeguard its way of life for the next generation. Thank you. (Applause)

MR. BUSH: Thank you very much. Shirley at least alluded to a lot of political dimensions of these problems of economic prosperity and economic policy which provides a segue to our next speaker, David Brown, who is going to talk about Taiwan politics. So, Dave?

MR. BROWN: Richard, thank you very much before you depart. (Laughter) Don't know



what this says about what he thinks I'm going to say. (Laughter)

Anyway, it's my pleasure to be here. I just want to say I was very pleased by the substantive quality of Ambassador Moriarty's remarks. He was speaking for AIT. Even though he mentioned that I'm on the Board, I have the privilege of speaking for myself, and please understand my remarks that way.

As Richard said, my task was to talk and set the stage with respect to domestic politics in Taiwan during the past 18 months of President Tsai's administration. Taiwan is a democracy; it's of course looking to the future and the future is comprehensive local elections in the end of 2018 and then legislative and presidential elections in early 2020. So, I'd like to say a few words about how the main parties are preparing for that and look to that kind of future, and weld into it a little bit about each of the parties' handling of cross-strait relations as a domestic political issue.

The DPP won such an impressive set of victories in the last two administrations that you might well have expected the party to suffer from a lot of internal conflict. If you think of how Ma Ying-jeou's own administration suffered from internal differences you can see that in a Chinese society with highly personalized politics, strong personalities within the DPP, a history of factions that the party might well have begun to fracture as it looked to the future.

That has not happened. Tsai Ing-wen has held the party together quite remarkably while dealing with a very complex series of domestic and international issues. She's just come out of a quite successful 30<sup>th</sup> anniversary DPP party congress. At that she dealt I thought rather skillfully with a move widely supported within her party to pardon former president Chen Shui-bian. She deflected that by putting it off to a central standing committee of the party and was able at the conference to put in place the nomination procedures through which the party will choose its candidates for the local election. So, the DPP is going in to these elections in a very strong position. It's hard to see how they can increase the overwhelmingly dominant position they have, but they're going into it well prepared.

One of Tsai's biggest challenges has been to hold the party together behind her with respect to her policy for dealing with Beijing. And this has been a major challenge because she is caught in a trap. On one side she has to deal with Beijing which continues to press her to accept the 1992 Consensus with respect to One-China and deploy a whole series of quite draconian measures to press

her in that direction. On the other hand, she has to deal with the deeper green elements within her own party which are upset with her moderate approach to dealing with Beijing and want her in the face of these hostile actions by Beijing to move more in the direction of a sort of Taiwan independence approach to things. She's had to steer her way between these two sets of pressures and maintain the party behind this policy that she laid out in her inaugural address May 20, 2016. I think she's done remarkably good job with that.

Even before she was sworn in as president, at a time when the DPP was trying to show good will to China by advancing what is called the Cross-Strait Agreement Oversight Bill, the members of her own party were putting forward version of this bill which were based on a Two-Chinas, or a One-Taiwan/One-China two-state kind of approach. And she had to spend a considerable amount of capital to steer the party back to conceptualizing this as a cross-strait problem. That has been the hallmark of her policy toward Taiwan which shows her commitment to handle cross-strait issues in keeping with the ROC Constitution and the statute for dealing with cross-strait issues.

This issue just keeps coming to the fore. It came to the fore during the very successful Universiade Games in Taipei two months ago when there was considerable pressure from within her own party for the Taiwan team delegation to go into the stadium carrying the ROC flag and not the Chinese Taipei Olympic flag. She had to, again, take a difficult position. She personally took this unpopular Chinese Taipei Olympic flag, handed it to the team leadership and sent them off to the games. Not an easy thing to do.

As soon as the games were over an amendment to the Sports Act in Taiwan has to be passed and members of her own party are urging that she drop the title Chinese Taipei Olympic Committee and substitute for it a term called the National Olympic Committee. Again, she has to deal with this pressure internally in order to maintain the centrist kind of policy towards Beijing that she's trying to deal with.

This never stops. Two weeks ago a member of her own party put forward a constitutional amendment to write a two-states kind of provision into the ROC Constitution. Then at about the same time her newly appointed premier stands up to the legislature and makes a statement that I'm a politician who supports Taiwan independence. She just has to deal with a remarkable series of pressures on this.

Premier Lai's statement was out of keeping with her policy, and quite frankly it was a surprise here in Washington and the U.S.-Taiwan relationship thrives on a no-surprises approach. (Laughter) It's a two-way street, Garret, I entirely agree with your comment.

So, the bottom line is I think she's done a remarkably good job in managing these things and keeping her administrations united behind the policy which she reiterated in her National Day address three days ago now.

Now, does she get any credit from Beijing for taking all this heat domestically? No. Does she get credit at home? Well, her public opinion approval rating is quite low. The last time I looked the TBS polls gave her a 29 percent approval rating and a 53 percent disapproval rating, which is a negative factor of 24. When that same organization polled right after her inauguration she had a 29+ rating. So, her popularity at home has suffered I would say primarily because of things that have happened domestically; how she handled the workweek issue, how she handled same sex marriage. Even though she took the initiative on indigenous people's rights she got criticized for not being more forward-leaning on that. She took a great courage, as Shirley said, to put through the Pension Reform Act, and quite surprisingly that gave her a slight bump up in her approval ratings. Then the economy had an electricity blackout and down her ratings go again.

So, that's a little bit about President Tsai and the DPP. Now, the KMT is also looking forward to an election but they come with exactly the opposite background, that is they suffered a humiliating set of defeats in the last local election and in the LY and presidential elections in 2016.

Right after the election the party was led briefly by Madam Hung Hsiu-chu. In May of this year they had a new election for the chairmanship of the party. Wu Den-yih, former Vice President Taiwanese, won that election with 51 percent in a five candidate field. He was seen not as a broadly popular individual but as someone who could sort of bring the party back to its roots and provide a stable base on which to move forwards.

In August they had their party convention. All the various faction leaders within the KMT participated in that event, and the party adopted a new platform. On the issues of cross-strait relations the party moved back to positions that had been adopted under President Ma in endorsing One-China with respective interpretations in Ma's Three No's and so forth. In other words, they moved away from the

rather pro-Beijing policies that Madam Hung had pursued while she was briefly the chairman of the party, and that broadly speaking moves the party back to the center of Taiwan politics with respect to these cross-strait issues and therefore is a positive.

But the party has lots of problems. It's still suffering under the legislation on ill-gotten gain party assets and is literally still struggling month-to-month to pay its restricted or more shrunken payroll. Chairman Wu has his strongpoints but he is a member of the older generation. He has very little appeal to young people. His base is very much within the KMT party. He's not very able to build bridges out to moderate voters.

What the party needs at this time is new, younger leaders, and quite frankly what I'm hearing is that Chairman Wu is more focused on putting in place people who will support his desire to be the KMT's candidate for president in 2020 than he is in trying to cultivate and bring up in a competitive environment young people who can provide future leadership of the party.

So, to sum up, the KMT is beginning to rebuild itself but is not moving into these coming elections in a strong position.

Just a few words about the third largest party in Taiwan, that is the New Power Party, or Shídài Lìliàng. It came out of nowhere. I shouldn't say that entirely because its chairman, Huang Kuo-chang, clearly came out of the Sunflower Student Movement when he was one of the most prominent leaders of it. But the party was born in 2015, competed in the 2016 elections, and emerged as Taiwan's third largest party.

It's a party with basically two platforms. One is domestic reform agenda, and the other is a quite deep green approach to cross-strait relations. The party chairman, Mr. Huang, is quite popular within his own party, but the party as a whole is still struggling in a sort of mid to upper single digits in terms of support within the Taiwanese society.

They are differentiating themselves from the DPP in part on these cross-strait issues. When the Oversight Bill was being considered 15 months ago they had a two-states approach to this bill. When, as I said, this Sports Act came up after the Universiade Games they were the ones who were championing the idea of having a national Olympic committee passed into law with that device. So, they are part of the problem that Tsai has to deal with in terms of managing internal opinion.

One last thing not to forget is that in Taiwan there is a huge block of independent voters. In fact, the most recent polling I've seen out of the Election Study Center says that in the last decade the number of people who identify as independent has gone from about 40 percent up to almost 50 percent of the electorate. So, these are an important factor in domestic politics, and this is one of the areas where Taiwan has seen her support rate decline, is among the independent voters.

The most prominent figure who represents the independents, you might say or the independent element in Taiwan politics, is Taipei Mayor Ko Wen-je. He came into office as an independent candidate supported by the DPP. His approval ratings were remarkably high at the beginning of his administration and they declined in his first year in office.

Two things I think have helped bring him back up. One was that the Universiade Games in August were universally seen as a tremendous success for Taiwan, and as the Mayor of the City responsible for the Games he saw his approval rating rise. The other thing is that he has had to deal with cross-strait relations too because Taipei has a formalized city-to-city relationship with Shanghai.

So, Mayor Ko, who comes from what I would call a moderate green background, a pro-independence figure, had to find a way to preserve this forum and continue to have the PRC through the city of Shanghai participating in it. And he was able to do that. He worked out a series of languages and things, he would say that we're satisfactory for Beijing but he did not have to explicitly endorse the '92 Consensus or the idea of One-China. So, he is seen as someone who has been quite successful in managing on a city-to-city basis his relations with the PRC.

With those remarks I think I will thank you for your attention and take my seat.

(Applause)

MR. BUSH: Thank you very much, Dave. You've given us a really nuanced understanding of what's going on in Taiwan right now and the dynamics of play.

We're going to shift to more U.S.-Taiwan relations, and our next speaker is Abe Denmark, who is the new Director of the Asia Program at the Woodrow Wilson Center. Congratulations, Abe. He's also a senior fellow with the Kissinger Institute there. Before that he was Deputy Assistant Secretary of Defense for East Asia, so he knows whereof he speaks when he speaks to us on U.S.-Taiwan security relations. Please, Abe. (Applause)

MR. DENMARK: Thank you, Richard, and thank you to Brookings for inviting me to speak. And thank you to Ambassador Moriarty both for your remarks but also for sticking around to hear what we have to say as well. (Laughter)

I wanted to focus most of my remarks in the limited time that we have on areas of change that I've seen in recent years in the U.S.-Taiwan military security dynamic. But before I get into the changes I think it's important to identify areas of continuity.

For almost 40 years, since 1979, the United States has been statutorily obligated to ensure that it retains the capability to defend Taiwan. This is different from a normal alliance treaty in which we pledge to defend a country, rather it commits us to maintaining the capability to defend Taiwan should our leadership decide to do so against aggression or coercion from the mainland.

One of the areas of change I'm going to be talking about is enhancing and deepening Chinese military capabilities. Often people ask the question if the United States retains that capability, and I personally, speaking for myself, feel very confident that yes, the United States does retain that capability despite the remarkable advances that the PLA has made in recent years, which I'll get into later.

So, I think that's a very important area of continuity, the other being the very robust if unofficial security relationship that exists between the United States and Taiwan. When people talk about the robust relationship between the U.S. and Taiwan in this area everybody always thinks about arms sales. I think it's true that there has been a regular drumbeat across administrations for several years now of regular arms sales from the United States to Taiwan, again, as part of the Taiwan Relations Act to ensure that Taiwan has the ability to defend itself.

But beyond that the cooperation and engagement between the United States and Taiwan, if unofficial, in the security area remains very robust, if unappreciated. That's been another area of continuity. I think that speaks to an area of what I think is an undeniable fact that I think is important to talk about here, and I expect Ryan will talk about it in his broader remarks after me, is that Taiwan is an absolute value for the United States outside of the context of the United States and the PRC, that Taiwan is an important trading partner, is an important security partner. Taiwan plays a very important role in the world across many different issues, across many different areas and that has not changed. I think that's a

very important basis for our broader relationship including our military relationship.

But, again, I wanted to focus on areas of change in the last few years that I think are important to acknowledge and broadly identified five areas. The first and most profound area of change is the improving capability of the People's Liberation Army. For over 20 years, for decades, the PLA has received significant increases in its budget year to year, has been making very targeted and specific investments in a wide variety of capabilities across multiple domains in order to ensure that it has the ability to act in a variety of contingencies, but as has been reported for several years by the U.S. Department of Defense it has been focused primarily on contingencies related to Taiwan; both the ability to coerce Taiwan and the ability to take other action if necessary, but also to prevent the United States from intervening in such a contingency if the United States were to decide to.

As I said, these investments were very targeted in that unlike the U.S. military the PLA does not have to deal with global responsibilities against a wide variety of potential challenges across the spectrum of warfare, but rather has a very limited number of contingencies with a very limited number of potential challenges and has therefore been able to tailor its investments to very specific capabilities that are designed to, again, coerce potentially Taiwan and conduct other actions against Taiwan and/or prevent the United States from intervening in such a contingency.

China has been reaping the benefits recently of these investments. These investments, again, have been going on for decades and we're seeing a wide variety of benefits for the PLA as a result of these investments from more advanced ballistic and cruise missiles to advanced aircraft, submarines, surface ships, capabilities in space and cyberspace. All the equipment has been improving remarkably so that just a few decades ago the PLA was described as an army of millet and rifles and now is one of the most advanced and one of the most capable military forces in the world.

I think more recently, and deserves to be acknowledged, has also been taking a lot of organizational reforms under Xi Jinping in which it adjusted from a large number of military regions into a smaller number of theater commands, adjusted its command structure to be much more of a western style, as they put it, joint command structure in which different pieces of the armed forces are theoretically at least integrated into a more joint capability. As I like to point out, the PLA does call this a western style command structure. I like to notice that when it comes to politics, when it comes to human rights, western

style is not acceptable, but when it comes to the military absolutely fine. (Laughter) Because it works.

So, that's an important area of change especially in the U.S.-Taiwan security area, is the incredible change in the PLA's capability which is changing the military bounds across the Taiwan Strait and giving China many more options across several domains than it had 10, 20 years ago. So, that's the first area.

The second area has been change in domestic politics both in Taiwan and in China. It was mentioned before, changing domestic issues in Taiwan in terms of how people in Taiwan increasingly identify as Taiwanese and less as Chinese. Other polling suggesting vast majorities of people in Taiwan continuing to support the status quo and not supporting either independence or unification but rather being fairly comfortable with how things are now.

Another important change with Taiwan that I think does not get acknowledged enough is efforts especially by the Tsai Ing-wen administration to increase the prestige of the Taiwan military. I'll talk a bit about this later but it's been very clear to me that President Tsai herself has been trying to increase the prestige of the military, trying to make it more attractive for young people to join the military in Taiwan, both with financial but also more cultural initiatives in order to try to make it more attractive, try to increase its prestige in society. I think that's an important piece in terms of change in domestic politics in Taiwan.

But there has also been, I think, a change in how the mainland has approached cross-strait issues in recent years, specifically on Xi Jinping's insistence on Tsai Ing-wen accepting the '92 Consensus as a precondition for maintaining the degree of connection that they had before, which is ironic to me since so much of China's foreign policy, so much of China's domestic policy, especially U.S.-China relations as it relates to Taiwan is based on ambiguity.

If you look at the U.S.-China relationship it's founded on ambiguity as it relates to Taiwan, and that goes for a wide variety of other issues in Chinese policy about China's claims on the South China Sea, a lot of issues in domestic policy. Ambiguity is central to that and yet in this specific area Xi Jinping has insisted on very specific clarity from Tsai Ing-wen. In my estimation Tsai Ing-wen has done everything that she could to demonstrate pragmatism, to try to get as close as she could considering her political base, and yet the mainland has not been willing to accept that. So, I think those are important



changes for where we are now.

Third, I wanted to highlight some changes in Taiwan's military strategy and defense policy. As a caveat, there has been some continuity and I'll get to that in a bit, but overall I think there have been some important changes. So, in terms of continuity in the defense strategy, if you look at the QDRs between 2013 and 2017 it does fundamentally retain emphasis on deterrence. The only change though is that in 2017 they added that it's deterrence across multiple domains. I had mentioned before that the PLA has been modernizing across several different types of military power, different types of domains, and Taiwan's 2017 QDR acknowledged that deterrence requires deterrence across a wide variety of domains, that it's not just a one direction challenge.

But beyond that there have been important changes. It was mentioned earlier that Tsai Ing-wen has emphasized the domestic defense industry both as a driver of indigenous technology development but also as a way to increase employment as an economic driver. That's been a new key part of Taiwan's defense strategy, that domestic defense industry.

The second area is that for the first time in Taiwan's QDR they started pointing out specific weapon systems that Taiwan wanted to purchase, specifically pointing to the V/STOL which is military acronym for vertical and/or short take-off and landing. It takes about a year in the Pentagon to learn that one. (Laughter) That also has stealth capabilities and as far as I know there is only one of those aircraft in the west that has those capabilities, it's the F-35B. Also pointing out diesel electric submarines as a key capability of that.

So, those are I think the main changes in the defense strategy, still identifying hard rock as the key objective, preventing the PLA from being able to invade, and I'd say a slow acceptance, a gradual acceptance, of the need for innovative and asymmetric capabilities. Taiwan has been investing in capabilities like that that are more survivable, that are more affordable, but also at the same time continue to call for capabilities that I would say are asymmetric and less innovative but are still quite costly.

So, the fifth area in terms of change has been in Taiwan's defense budget. I do think it's important to identify the change and the nuances of that change, that the Tsai Ing-wen administration announced that next fiscal year's defense budget would increase to 3 percent of GDP, at least according

to plan. But if you look at the numbers actually it's a more complex story than that. Most of the increase in the numbers goes to personnel. In fact, if you look at the numbers personnel increases are significant in the proposal for that budget, whereas money for equipment actually goes down a little bit according to the proposal.

Now, what happens to the LY and all that is a different story, but for now that budget still remains flat. I wanted to point out that Ambassador Moriarty mentioned Israel as a potential model for Taiwan's defense spending. Israel spends over 5 percent of its GDP on defense and the other countries, he mentioned South Korea as well, also spend a very significant number, and I think that's right. I completely agree that if you look at the tremendous security challenge that Taiwan faces that under 3 percent of spending, which is where they are now, is not enough to meet their defense needs.

So, I mentioned the five areas of change. I wanted to close by talking about two areas of uncertainty in the U.S.-Taiwan defense dynamic, the first being China and where China's policy is going to go. Everybody, as you know, in this audience I'm sure is watching what happens at the 19<sup>th</sup> Party Congress. There is a lot of focus on Xi Jinping's personal power and personal authority and how he may come out of this even stronger than he has been before in terms of his ability to drive and shape Chinese policy across every issue area. And there are many who believe that with a freer hand he may change approach on a wide variety of foreign policy issues, be it the United States, be it North Korea, and potentially even Taiwan.

I haven't seen any indication either way. I think a lot of this is a bit speculative, but it's certainly an area of uncertainty about how post-Party Congress China may approach Taiwan especially if they believe that the existing approach has not been successful to achieve their ends.

The second area of uncertainty, I'm sorry to say, in my estimation has been the United States. Not in terms of the overall policy. I think President Trump just before the inauguration and since injected a great degree of uncertainty about the One-China policy itself and what's actually up in the air, but I think a lot of that has settled back into a fairly normal U.S. approach to cross-strait relations in the United States and Taiwan. I haven't seen any indication in several months that this is still an open question. But it did, I think, inject a greater degree of uncertainty about the United States into Taiwan and other countries across the region.

Also the United States withdrawal from TPP without suggesting a replacement has been another driver of uncertainty about the United States, I would add not just in Taiwan but across East Asia. And to use parlance on other issues, it's not so much the repeal that's the problem, it's the lack of replacement that's been a driver of uncertainty about what we're doing to do in terms of economic policy. I think there's just a lot of thirst for knowledge, thirst for understanding what we're going to do on economic policy; if not TPP then what?

Third, in terms of concerns about the United States, is the I'd say ever present but I think intensified now fear of a grand bargain that the United States may strike with China. There have been reports flying around the internet, rumors about looking at as was mentioned a fourth communique, people have been speculating about that. People speculating about what may happen when President Trump meets with President Xi in a few weeks. I'm not expecting any grand bargain in that way but the idea that because President Trump is such an unpredictable figure I've heard questions across the region about what may happen, what may be up in the air in terms of negotiations and conversations between the two presidents.

I think we can actually see that being reflected in some documents coming out of Taiwan. So, I point to the QDR. I mentioned that before. And this is where I'll close. Having written several U.S. government documents in the past, I am always loath to do the compare and contrast between one and the other. I used to write the annual report that the Pentagon releases on the Chinese military and there are always the folks who point out, you know, this year you said this, and in this year you said this. That always frustrated me. (Laughter)

As a caveat, in 2013 Taiwan's QDR lauded the rebalance because it enabled the United States to continue to play a leading role in the Asia Pacific. In 2017, however, that statement changed, saying that U.S. policy quote "remains to be seen while the rise of China has a tremendous impact on the surrounding regions." That, to me, when I run that through my universal translator in my brain points to what I think is a challenge across the region, that all of our allies, our partners, our friends, see China continuing to rise, acting more assertively, and having a lot of questions about the future of the United States.

I think these questions existed before President Trump; to a degree they're always

present. It was mentioned before in terms of alliance management there is always the conversation of will you come to defend us? Yes, we will. Yeah, but will you really come to defend us? That's sort of ever present and I think it was starting to increase. It began to intensify in 2009 after the U.S. financial crisis. Some in China I think are still feeling those heady days of 2009 when China was rising and the United States economy was in trouble. But I think they've intensified since the inauguration of President Trump and due to the statements that he's made and the uncertainty about broader American policy, be it economic, military, political in the Asia Pacific.

But overall I think there is an important balance between continuity and change and how things come out of the Party Congress, how things come out after the president's trip to the region, if we're able to meet a foreign minister. If that's able to happen I think will tell us a lot about what happens in the next few years in this relationship. Thank you. (Applause)

MR. BUSH: Thank you very much, Abe. Very clear and concise.

Our final presenter is Ryan Hass, a new colleague here at Brookings. He is the David M. Rubenstein fellow. He is a part of the John L. Thornton China Center and also has an appointment with my East Asia Center at Brookings. It's great to have him here. He comes to Brookings after 15 years in the Foreign Service, the last four year of which were working night and day in the Asia Directorate of the National Security Council Staff where he spent a lot of time working on Taiwan. So, he brings a perspective about U.S.-Taiwan relations that I think will be very useful and valuable. Ryan? (Applause)

MR. HASS: Well, first of all thank you, Richard, for inviting me to be a part of such a great panel, and thank you to Ambassador Moriarty for such great comments to kick off our conversation today.

I had a belated revelation as I was preparing for today's discussion about how much more straightforward it is to talk about Taiwan from a government perspective than it is from a think tank perspective. Government presentations on Taiwan with the exclusion of Ambassador Moriarty's comments today follow a comfortably predictable pattern, a usual cadence. Talk about the One-China policy based upon the Taiwan Relations Act and the three joint communiqués with an occasional sprinkling of the six assurances depending upon the circumstances.

There is a logic to the predictability of these presentations. What happens in Taiwan

matters significantly to American interests. Freelancing is forbidden and consistency is key.

So, this consistency I believe has enabled a largely underappreciated success story in U.S. foreign policy over the last 40 years, and that is U.S. policy on Taiwan and on cross-strait issues. By and large, the consistency of the U.S. approach has served to protect America's top interests in the region, and on Taiwan, and on cross-strait issues. These top interests include preserving cross-strait peace and stability, for Taiwan to be strong, confident, and capable of pursuing its interests as it defines them, for Taiwan to be economically vibrant and politically stable, for Taiwan to enjoy dignity and respect on the world stage, for Taiwan to be able to deter coercion, and for close and enduring ties between the people of the United States and the people of Taiwan.

And even though it is widely understood among this group, I think it does bear pausing momentarily to reflect on how important the relationship for Taiwan is to the United States and to the people of the United States. Taiwan is our tenth largest trading partner. It's our seventh largest export market for agricultural products. It is the seventh largest source of overseas students studying in American schools. Trade investment with Taiwan supports over 320,000 jobs in the United States. Taiwan is a leader on environmental and clean energy issues. It is a leader, as Ambassador Moriarty pointed out, on humanitarian issues throughout the world, not just in Asia. It's a top purchaser of U.S.-produced military equipment. And it's a powerful example in a difficult neighborhood of a thriving democracy.

Taiwan brings enormous benefits to the United States on its own.

None of this success was preordained. While many people are due credit for the progress that has been achieved over the past 40 years I think that there are two in particular who stand out and deserve a round of applause today, two of the intellectual architects of our strategy towards Taiwan. That's Richard Bush and Alan Romberg. So, thank you. (Applause)

While it is appropriate for us to reflect on past accomplishments I think it is also important for this group to look forward and ask ourselves if we're on track to sustain the success that we've achieved over the past 40 years into the next 40. Frankly, on this question I worry that there may be insufficient appreciation in Taiwan and in the United States of the amount of effort that will be required to sustain this progress going forward.

The challenge in my mind at the most basic level is that the three central actors, the mainland, Taiwan, and the United States, have three different narratives of what is happening. And those narratives risk leading the three parties in different directions with potentially significant consequences for cross-strait peace and stability. I'll start out talking about the narrative that I understand, the mainland's, talk about the narrative I understand in Taiwan, and then close with a few thoughts about how things look from Washington.

From Beijing's perspective, Beijing is focused on the great rejuvenation of the Chinese nation. As an element of this effort Beijing is focused on making the nation whole again according to its conception of its territorial boundaries. There are two upcoming centenary celebrations, one in 2021, the 100-year anniversary of the founding of the Communist Party, and one in 2049, the 100-year anniversary of the People's Republic of China. These two centenary celebrations will focus attention on whether the Communist Party is making progress towards its goals of great rejuvenation of the Chinese nation.

As a consequence, Beijing's sensitivity over Taiwan will only increase, not just towards opposing formal independence but lily also towards any permanent separation of Taiwan form the mainland. I believe we've already begun to see signs of this trend.

Over the past year Beijing has grown increasingly sensitive to what it perceives as De-Sinification in Taiwan. Examples Beijing often cites, and we used to hear in government, I'm sure our colleagues still do, of grievances from Beijing are revisions to history textbooks in Taiwan, promotion of aboriginal cultures in Taiwan, a sense of growing Taiwan identity, particularly among the Taiwan youth, that is separate and distinct from the mainland. And these trends have sparked debate inside China, some of which is evident to outside observers, about whether the current strategy that China is pursuing is working and has potential for success, and whether the current strategy will eventually deliver Taiwan back to the mainland.

Not coincidentally Beijing has begun to steadily ratchet up pressure on Taiwan, and on President Tsai specifically, over the past year. Tools that Beijing has used thus far include reducing numbers of mainland tourists, as Shirley talked about, increase in pressure on Taiwan in multilateral fora, expanding the scope of military activities around Taiwan, not just in the Taiwan strait, continuing to focus military training and development, including development of doctrine on the issue of Taiwan, and

beginning to poach Taiwan's few remaining diplomatic allies.

To be clear, I do not believe that Taiwan's actions to date represent a proximate indicator that Beijing is preparing to use force against Taiwan, rather I view them as warning flares but warning flares that we disregard at our own peril. The message that I take away is that Beijing wants Taiwan and us to understand that its patience is not bottomless, and that it remains to be determined to achieve unification as part of the great rejuvenation of the Chinese nation.

That's the narrative that I see when I look at Beijing. The narrative in Taiwan is different. Based on my conversations in Taipei earlier this month my sense is that leaders in Taipei look at cross-strait relations from a long-term perspective, they have patience and calm. They do believe they face an imminent existential threat to their survival. The people of Taiwan have grown conditioned to cross-strait tensions.

The population broadly supports sustaining the status quo. There is not popular support in Taiwan in any direction away from the status quo. The KMT, as David mentioned, is a politically weakened force, and as a result in the current environment the DPP is the only major political actor on the island. This causes the DPP to have confidence in their position and to believe that they can afford to have patience as long as they don't change the status quo because ultimately Beijing will have no one else to deal with other than them.

At the same time the DPP is working to advance an agenda that it believes will strengthen Taiwan. Elements of this agenda include bolstering the island's defensive capabilities, modernizing its economy, shifting the island to greater reliance on renewable sources of energy and less reliance on imports, diversifying its trade and investment flows including through the southbound strategy, and moving the island closer to other major actors, whether it be Japan, the United States, India, Australia, or the EU.

So, while Taipei believes that it's pursuing a prudent hedging strategy that is within the bounds of the cross-strait status quo Beijing fears Taiwan is distancing itself from the mainland and moving towards permanent separation. This is the difference between narratives that I see between Beijing and Taipei.

Now, from Washington's perspective, officials in Washington are concerned about

Beijing's intentions, about the limits of Taiwan's capacity to resist coercion, and the risks that Taiwan's dynamism will diminish as Beijing pushes to isolate the island further over time. This leads Washington to encourage Taiwan to feel a sense of urgency, to take steps to make itself stronger and to better defend itself.

Washington focuses on issues such as military preparedness, defense budgets, the balance between innovative and asymmetric capabilities versus big ticket items, and on Taiwan's stubborn refusal to remove impediments that would enable greater cooperation on trade and investment issues such as beef and pork imports.

Washington sees Beijing casting an ever larger shadow over Taiwan and worries that over time the shadow will limit Taiwan's ability to continue to flourish as a healthy, vibrant economy and political entity. Over the past four plus years I think that Washington has gained a greater appreciation of the scale of President Tsai's ambitions. This has led some in Washington to worry that she may in the future focus more of China's growing power on the question of Taiwan.

So, to pull this all together, my reading is that Beijing is growing more concerned, Taipei remains quite patient, and Washington is worried both about Beijing becoming impatient and aggressive and about Taiwan becoming overly complacent.

So, what to do? Let me start by saying there are no magic word formulation, no silver bullets that will untangle this challenge. There are however a few areas I think where additional tension and effort could contribute over time to positively protecting the gains that we've made. I will offer four modest proposals, two near-term and two longer-term, for the purpose of our subsequent conversation.

First, two near-term proposals. And I think that Ambassador Moriarty has already done this to great effect today but nevertheless I think it may be useful in advance of President Trump's trip to China, for the administration to send a clear and authoritative message to Taipei that our approach to Taiwan and our approach to cross-strait issues is unchanged. We will not entertain a fourth communique and we will not sacrifice Taiwan's interests in exchange for cooperation from Beijing elsewhere.

Second, I strongly encourage President Trump to be forceful when he meets with President Xi in Beijing. I've had the change to watch President Xi's presentation on Taiwan issues first hand, multiple times. And I believe it will be important for President Trump to leave President Xi with a



clear unambiguous understanding of the United States' strong, enduring, unchanged commitment to Taiwan and to cross-strait issues. This will help set expectations in Beijing as they relate to cross-strait issues for the years to come. President Trump's meeting in private with President Xi is an important opportunity to lay down a very clear marker.

Over the longer-term, I think that Washington and Taipei should commit to elevating the level of ambition in the bilateral relationship. There are many areas where the United States and Taiwan share common interests. Both sides I hope over time will become more creating and proactive in finding ways to launch initiatives that advance those interests and strengthen habits of cooperation between Washington and Taipei. I think the international environmental program, the global train, and cooperative framework provide useful models as does the deepening U.S.-Taiwan military-to-military training and exchanges. I hope that we build on those examples over time.

The last modest idea that I will leave you with is I hope that leaders in Taipei remain disciplined about preserving bipartisan support in Washington for Taiwan and about prioritizing Taiwan's strategic interests in close U.S.-Taiwan relations over short-term domestic political point-scoring.

To be sure this is not an exhaustive list. This is an illustrative list of the types of steps that will help us sustain the progress that we've achieved in the past 40 years for the next 40. The United States has invested considerably in this relationship. The challenge of maintaining this trend will only grow more as the mainland becomes more determined and capable of imposing its will on Taipei.

So, I believe that consistency and close coordination will be key to demonstrating that the United States and Taiwan maintain both the capacity and the fortitude to build on the gains of the past 40 years since into the next. Thank you. (Applause)

MR. BUSH: Thank you to Shirley, Dave, Abe, and Ryan. We've just had four really substantive, really well-informed presentations. We have a little time for questions. Again, the rules are wait for the mic, identify yourself, and keep your question brief. So who would like to go first? Is that Joe Bosco in the back?

QUESTIONER: Thank you. Abe, that was a wonderful survey of both Chinese capabilities and activities over the last 40 years and the U.S. response to them. But it seems to me there's a policy disconnect. You express confidence that the U.S. has maintained the capability to defend

Taiwan under the Taiwan Relations Act but has not declared an intention to defend Taiwan directly. Obviously China doubts our commitment to Taiwan which is why they continue with their military buildup and the kind of focused capabilities you talked about.

It seems to me that Mr. Hass has offered a partial solution to that and that is his recommendation that President Trump make it unequivocally clear to President Xi that the U.S. will defend Taiwan. The only caveat I would add to that is you mentioned it should be done in private; I believe it should be a public declaration in order to have real credibility.

MR. BUSH: Anybody want to respond to that? Abe or Ryan?

MR. DENMARK: Sure, thanks, Joe. I don't see a disconnect between those. In fact, that's been the foundation of our approach for almost 40 years, making a disambiguation between the ability to defend and the commitment to defend. I think that it's important to make it absolutely clear both in our confidence in our ability and also our willingness to defend Taiwan against Chinese coercion or aggression against Taiwan which is different than a commitment.

There are treaty allies that we have in which we have stated in clear commitments to defend them; Taiwan is not one of them which does not mean that we wouldn't defend them but it does leave the decision to the president should that time come. But I do think it's important -- and I agree with Ryan -- to make it absolutely clear to President Xi, to other leaders in China, both of our confidence and our capability but also in our determination to defend Taiwan in the case of Chinese aggression. But I also think it's important to allow for that ambiguity to remain for a wide variety of different reasons.

MR. BUSH: Next question. Back there?

QUESTIONER: (Inaudible) from (inaudible) now a visiting scholar at Johns Hopkins. I have a question for Dave. It was very interesting, I heard you mention Ko Wen-je in either a representative of the so-called third party power in Taiwan. You mentioned the Shanghai-Taipei two-city forum and actually took part in all of the forums in the past several years. I can see that really during the negotiation process Ko Wen-je has displayed great flexibility than most of the DPP politicians and that the forum can be happened (phonetic).

So, I want to know what's your opinion about the future, the political future, of Mr. Ko Wen-je and especially when KMT is so weak and which can now be a powerful competitor of the DPP.

Thank you.

MR. BROWN: Well, in the short-term I believe he's going to run for mayor again and that DPP hasn't made up its policy yet but it has definitely held open the door to possibly supporting him again. And I think in light of the politics of Taipei, which is that it's a blue stronghold, that it will be in the interest of the DPP to in fact support him in that election. So, that allows him to get reelected. And conceivably if he continues to be successful and he seems to have been learning on the job, the early stumbles he made seem not to be happening with the same frequency, he might conceivably be a potential candidate for the presidency in the future. But that is a long time away and I think it's too early to make any kind of meaningful comment on that now.

MS. LIN: I'll just add to what David said.

MR. BROWN: Please.

MS. LIN: In fact there's a lot more coverage internationally just in the last two weeks. I was given an interview by *Financial Times* last week about Ko Wen-je when I was in Taipei, and I think it's very interesting how if you look at local politicians, whether it's (inaudible) or (inaudible) there is precedence of this sort of local politician in situations where they can shine more. I think today's DPP situation with China is so difficult that if you look carefully and you were there at Ko Wen-je's performance in Shanghai, he was able to do a lot of things because it was not necessary for him to talk about the '92 Consensus.

Now the flipside of this is there is the older generation that actually contributed to his popularity dropping are saying that there are signs of Beijing wanting to support him, to divide basically the DPP. The interesting thing is if you ask younger people everyone you talk to under 30 will tell you that's not true, it's impossible to say he's being supported across the strait.

I think if you look at support levels since he became the mayor, for young people he's been very consistent and this comes to what David talked about. There is a huge percentage, about 40 percent that you would call swing voters who are not very in love with either the green or the blue right now, and for them having a way out it's similar to the Bernie Sanders phenomenon, hoping that this will be a third way out perhaps to pave a new way for cross-relations.

But the real question is without grassroots support and party organization is that

possible? As David says, it's still a long way away.

MR. BUSH: Garret?

QUESTIONER: Garret (inaudible) again. I had a comment and a question. A comment on what David said on popularity ratings, approval ratings. Those were indeed driven by domestic issues, as you indicate, going down to about 30 percent. But I think it is important to point out that the cross-strait relations were still relatively highly rated by the populists in general.

What was also driving the popularity ratings was the performance not of Tsai Ing-wen herself but of (inaudible), and after the appointment of William Lai we have seen much higher popularity ratings, going up to about 45 percent. So, that is surely an important point there.

The question was to Ryan. You had a number of propositions at the end and I particularly enjoy your proposition number 3, moving to elevate the ambition in U.S.-Taiwan relations. One of the ways to go about that would be to do away with some of the old self-imposed restrictions that we do have on relations with Taiwan. How do you see this moving forward into the future?

MR. HASS: Well, it's easy for me to comment on this because I have no role responsibility in it at the moment. (Laughter) I'm actually of the view that there is still a lot of space left before we hit the ceiling in our ability to cooperate with Taiwan under the existing framework that exists for the relationship. I also am of the view that it's better to do more and say less, and that there is plenty of space for us to do a lot very productively with Taiwan without needlessly poking or provoking some of the more symbolic issues that could heighten cross-strait tensions and prove detrimental to our interests.

MR. BUSH: So, what Ryan is saying is that these things might be going on but you wouldn't even know about it. (Laughter) The first part of that is a good thing, the second part not necessarily.

Another question? Yes?

QUESTIONER: Hi, my name is Carrie and I'm from AI (phonetic). I have a question. So, suppose the negotiation between Washington and Beijing only involves two topics. The first one is the North Korea and nuclear threats and the other one is Taiwan. Let's forget about the trade between U.S. and China and China and Japan dispute. I'm just wondering what you think is more critical to President Trump and to the U.S. interests?

MR. BUSH: Between North Korea and Taiwan what's more important?

MR. BROWN: This is really a question for other people on the panel but I think it's a false question. That's not the way the issues will come together in Beijing. I can understand why people in Taiwan are nervous that a president that changes his position almost daily by this causes uncertainty.

But on the other hand I think if you look at the way the administration has handled relations with Taiwan, and Ambassador Moriarty explained this with eloquence I think, there's no reason to think -- no ability to find examples of where Taiwan's interest has been sacrificed to do something favorable for Beijing. I think you can find examples of where the administration has moved ahead in things with Taiwan that might have caused trouble with their relations with Taiwan.

MR. BUSH: Anybody else?

MR. HASS: In previous administrations there has been a real effort not to link issues. The U.S.-China relationship is so complex that on any given day there are conversations taking place on literally a hundred issues. Once you start to weave them together you end up with a huge knot that's impossible to untangle.

Part of the reason why each issue has been handled on its own in the past has been so that we don't fall into this trap where in order to gain progress on one issue China is able to exact concessions from us on another. That is frankly why I was uncomfortable when President Trump linked North Korea and trade issues earlier in the administration because to Beijing's ear I think it meant, okay, so we can trade on North Korea. That leads us down a dangerous path that doesn't serve our interests or the interests that we have and the credibility of our commitments to friends and partners around the world.

Though I am dubious and uncomfortable with the idea of linking issues for this reason, more broadly I think that it's possible, and I speak from experience, to do good work on both sides of the Taiwan strait at the same time.

The example that I would draw from is early in 2014 the United States had made a decision that we're going to pursue climate cooperation in secret with the Chinese in hopes that when President Obama travelled to Beijing later in the year we would be able to surprise the world, reset paradigms, my showing that the United States and China were on the same side on climate issues.

At the same time that we were pursuing that track Gina McCarthy travelled to Taiwan to launch the International Environmental Program. She happened to be the first cabinet rank official to travel to Taiwan in 14 years. She had a productive visit. President Obama and President Xi surprised the world shoulder-to-shoulder in Beijing several months later and both moved forward in parallel.

I mention that just to say that we don't need to put ourselves in the position making these choices. We can do both simultaneously if we do them well.

MR. BUSH: Thank you. Harry Harding? For those of you who don't know, Harry was once a senior fellow at the Brookings Institution. It's always nice to see him back here.

QUESTIONER: It's always good to be back, thank you, Richard.

I hope this is not an impossibly big question but I'll ask it anyway. In addition to our oft stated desire in the United States for peace, stability, peaceful relations across the Taiwan strait, we've also talked ever since I think the Shanghai communique of a goal of seeing a peaceful solution to the issue by the -- we used to say the Chinese themselves, now we have to say by both sides.

What are the prospects for that? I'll actually engage in a little strategic foresight here. What are the prospects for a peaceful solution on what timeframe, if any, or is this the best we can hope for? Basically a status quo that hopefully will be everybody's second choice but still will be a stable one.

MR. BUSH: Slightly cosmic question. Anybody want to take a cosmic short at it?

(Laughter)

MR. HASS: Whenever I hear questions like that I always look at Richard. (Laughter)

MR. BROWN: It's a typically American question because like our use of the word solution we're always seeking solutions even if the problem is not amenable to solutions. In the last 40 years there as really been a question of managing, an impossible thing. Now the question for the future is is that kind of management going to be possible or not? I think I share a certain uncertainty about that.

MR. BUSH: Let me take a stab at it.

I think part of the obstacle to getting to some kind of solution which would be worked out by the two sides themselves is the content of Beijing's original and continuing formula for unification. One country, two systems. You live in Hong Kong half the year, you know how well that's working out there. It's not hard for people in Taiwan to see the demonstration effect or lack of it.

A lot has changed in Taiwan including the democratization of the political system, but the offer has not changed. I think I understand why Beijing is sticking with it but I think that they are making it more difficult to achieve the goal that they want.

There is another dimension to this, and that is that I think the assumption in China was always, you know, if we could get the circumstances right we could persuade the people of Taiwan or their leaders or both that unification was a good idea and that we could work out the terms and conditions.

I worry that maybe there is less confidence in the power of sweet persuasion, and as I suggested before, the growing attractiveness of something different, intimidation or worse, and that somehow that's the way to bend Taiwan to the mainland's will. I hope my concerns about this are wrong but you see an evolution in the thinking of at least some people in China in this direction.

MS. LIN: Richard, if I could, since it's such a cosmic question it calls for an academic to say something, hopefully implausible. (Laughter)

When I'm in Beijing I think people in Beijing are just as pessimistic, a lot of observers who are actually contributing to policy in Beijing are concerned as well that their strategy is not working. I think everyone understands it on both sides of the strait. The strategy for the last 30 years has not worked for Beijing and has not really worked for Taiwan because Taiwan is in a high-income trap and China has not bailed Taiwan out. So, what kind of benefit is China giving Taiwan?

I would say, because you're so pessimistic to provide a little optimism, I say to friends in Beijing if in 30 years Taiwanese young people can all become so Taiwanese surely you can convince them to become Chinese. It's a project that goes both ways because no other country that I've seen can change in 30 years, but obviously you've failed in moving the dial at all. Everything you've done is changing it to go the other way.

So, I think this is something very important for Beijing and after the 19<sup>th</sup> Party Congress if there is a real will to use soft power, and hard power is always part of it, to move Taiwan in a different direction I think what Richard said is most important, China also has to find a different governance model because the Hong Kong model has not worked and it's commonly understood that this will not be applied to Taiwan, it's not acceptable.

So, most of the Taiwan surveys that say young people don't support unification is predicated on today's China. I think China has the ability to change it, so as I said, Taiwan needs a more inclusive type of leader. It's actually something I would say more to Beijing leaders, if Beijing wants to rise they have to have a different leadership.

MR. DENMARK: If I could chime in, Richard.

MR. BUSH: Please.

MR. DENMARK: Just very quickly. I wanted to point out in my experience I think U.S. policymakers that I've interacted with have taken that phrase and emphasized a different part than you did, Harry. Your question on what's our vision for the peaceful solution to this issues, peaceful resolution, emphasize the word resolution, like what's the resolution? In all my time in government I have never had a conversation with any government official about how we would like to see this resolved. I suspect that if you brought ten American policymakers from different parties you would get ten different ideas about how this could work.

But I have had many countless conversations about how to make sure that it's peaceful. I think that's been the emphasis from an American perspective, not so much on what's the resolution and what's the modality and all that but how do we make it peaceful. The way I would put it in my last job in the Department of Defense is how do we make sure that military planners and the PLA would look at the situation and say today is not the day. I'm not going to be successful today, let's put this off. I think that's been the focus, not so much on the resolution but the peaceful part.

MR. BUSH: Last question in the back? Yes, Dave Keegan.

QUESTIONER: Hi, Dave Keegan. I want to ask sort of a pessimistic compliment to that question, and that is several of you talked about coercion and different forms of coercion, and we talk about the Taiwan Relations Act and our obligations under that. We can imagine a situation where a missile flies and we say, yep, balloon went up, we do something. But we're seeing the PRC it seems move more in a direction of what I'd call incremental salami-slicing economic and social and international coercion that may in the longer term get to the same place less directly.

At what point and how would we intervene? What is the role for us in that kind of very murky coercive process? I'd appreciate your thoughts.



MR. BUSH: Anybody?

MS. LIN: Maybe I could throw out to add to the question so that you could answer it.

(Laughter) I don't have the answer. I've been participating in a few summits with CEOs and there is not one Taiwanese CEO who operates in the mainland who is not under some kind of coercion. Nobody will talk about it publicly but if you ask personally the experience is common.

So, I think the salami-slicing is extremely clear in low levels in economic activities. Tourism is nothing but the surface of it because tourism spending in Taiwan by Chinese tourists is quite low per person. But if you look at large corporations operating and this kind of pressure is just building up. I think that I add to his question, what do you think the end result will be?

MR. DENMARK: My take on it, when I was a political appointee in the Obama administration I would often be asked how will the president react if this happens or if that happens? And I never answered the question because I could not speak for the president. I could not say this is how we would react. So, if I couldn't say it for the guy I was working for I certainly couldn't say that now.

And that's always true. The decision about how to act is such a personal decision contingent on such a wide variety of variables that anybody who says I know how the president is going to react is lying or they're the president.

So, I think the question that you're getting to is what's the breaking point, what's the tipping point of all this? Again, I think that that point is very subjective and very personalized. But I think it's very complex, and I think you're right to point out that it's a much more complex question than, oh, there's a missile going up. I think if you look at the QDR that I mentioned before when they talk about multi-domain deterrence it's a recognition that it's a much more complex issue than there is a missile or a bunch of missiles. There is cyber, there is economic coercion, there is a wide variety of different tools. How people salami-slice it I think is going to be very personalized.

Speaking personally, I think when it starts to fundamentally undermine the political and economic system of Taiwan then it's starting to get close to that tipping point, to my mind. But, again, nobody is going to be able to say definitively what that is.

In terms of responses there are a lot of different ways that we can work with Taiwan. I agree with Ryan in terms of enhancing the ambition in terms of cooperation on issues as varied as

economic cooperation and cybersecurity, et cetera, et cetera. But it comes down to that fundamental decision about enhancing our ambition, and both sides sort of lowering the barriers that have prevented us from doing those things before.

MR. BROWN: Maybe I could add a comment?

MR. BUSH: Please.

MR. BROWN: You never know how these things are going to arise in the real world, but I think one principle that the U.S. can follow is first consult with Taiwan because ultimately in dealing with all of these problems the first responsibility is Taiwanese. And our role, assuming we still have a government in Taipei that is committed to maintaining stability in the strait and is not trying to provoke a confrontation with the PRC, our role was to try and support and help them in the face of the coercion that we want to discourage.

I don't see how you can deal when this coercion comes in all different ways. What should we do if there's a story about another ally about to fall off? How supportive should we be to Taiwan in those circumstances if Beijing is about to cut off trade relations in some way with Taiwan? What do we do in response? I'm not predicting that Beijing is going to do anything. I think it's entirely possible after the 19<sup>th</sup> Party Congress that Beijing will take new economic initiatives towards Taiwan.

MR. BUSH: We moved into a sort of pessimistic direction but I think it's important to take away from this discussion the basic soundness of the U.S.-Taiwan relationship and the many different ways in which we interact with Taiwan for our shared interests. I think the communication that Dave just mentioned is a very important part of that and we have a lot of talented people in both governments who are doing it.

We also heard reassurance concerning this idea of some sort of grand bargain between the United States and China about Taiwan, or involving Taiwan. I agree with that. So, there are a lot of reasons to follow this closely and our panelists have helped us do that. But we don't start from a bad place.

So, thank you all for coming. Please join me in thanking our panelists. (Applause)

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