

**Panel I: Change and Continuity in U.S.-Taiwan Relations:  
Tracking Trends Following the 2008 Elections**

The Future of US-Taiwan Relations

May 19, 2009 -- Washington D.C

*Ed McCord:* I'm Ed McCord. I'm the director of the Taiwan Education and Research Program at the Sigur Center for Asian Studies, and I again welcome you here today. Our first panel I think is very interesting. We're going try to be – at least trying, anyway, to track the trends in US-China relations since the 2008 elections.

We have at least three of our panelists here. I hope the other is going to arrive still. And I think what's interesting about this panel is the range of people that we have speaking for us today. Carolyn Bartholomew, if she comes, is – you actually have all the biographies; I'm not going go into great detail, but is from the US-China Economic and Security Review Commission. Then we have Liu Shih-chung, who is a former counselor to the president's office in Taiwan and vice chair of the Research and Planning Committee in MOFA. We have Edward Friedman, who's a professor of political science from the University of Wisconsin. And finally, Julian Baum, a journalist who is formerly bureau chief of the Taipei bureau for the *Far Eastern Economic Review*.

So without going into the details of each individual, I'll just turn the panel over to the panelists, and we'll go in the order in which they appear on the program. And again, we will stop whatever you're saying, at whatever point, whenever the congressman comes in, and we'll just pick it up after he leaves. So – well, actually, Carolyn's not here. So Liu Shih-chung, would you like to?

*Shih-Chung Liu:*

Well, thanks, Ed, for inviting me. It's a pleasure for me to be here to exchange some views with you this morning. Due to the time limit, I think I'll just get right to my points.

My presentation this morning focuses on two major parts. The first one is – since I think most people agree with that ever since President Ma Ying-jeou took power, US-Taiwan relations seems to move toward more better way, vis-à-vis what happened in the last couple of years. So I would presume that there's – it's a good start, but there's still a lot of uncertainties as well as challenge it has. So I'll just get right to the point and highlight a couple of major challenge for the Ma Ying-jeou administration in light of future US-Taiwan relations, and I'll focus specifically on **probably** domestic constraints that he's facing up to now. And the second part of my presentation will focus on what are the contending issues related to **Korea and US-Taiwan** relations. I'll offer a couple of examples.

So let me get to the first challenge of the Ma Ying-jeou administration. I will say that most people agree with that ever since he took power, cross-strait relations seems to stabilize temporarily, and cross-strait dialogue resumes. And also, the cross-strait diplomatic competitions suspended, and also Taiwan's international image seems to improve a little bit. And Chinese Taipei finally gets the accession to the World Health Assemblies as an observer.

Those look pretty rosy, and also cross-strait relations seems to move toward a more brighter future. But I would say that there is still a lot of uncertainties associated with those immediate \_\_\_\_\_ adopted by President Ma and his government.

The first challenge is, for most of the cross-strait policy **opening**, implemented and also adopted by the Ma Ying-jeou administration, seems to avoid sufficient policy evaluations, and they have resulted in very limited and closed policymaking procedures. And most importantly, most of the cross-strait policy adopted by the Ma administration seem to bypass legislative oversight, and also bypass opposition checks and balance, and without sufficient acknowledgement by the public.

For example, President Ma pledged that he's going to sign the so-called Economic Cooperation Framework Agreement with his Chinese counterpart by the end of this year. And

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some of the government – the KMT government poll shows that there are over 70 percent of public support that idea. But according to other polls in Taiwan, there are also over 80 percent of public have no idea what kind of – that kind of agreement is and what the pros and cons are associated with the signing of such an economic agreement.

And the second challenge – I would say that President Ma adopted this principle of mutual non-denial in terms of his engaging with the People's Republic of China. There's also – he kind of re-embraced this concept of 1992 consensus and also advocate that his Chinese counterpart, PRC President Hu Jintao, also accept not only 1992 consensus but also this notion of one China with individual interpretations.

Yesterday President Ma held his anniversary press conference, and **what** in the conference react – I would say he react to this May 17<sup>th</sup> big parade launched by the opposition Democratic Party and some of the social groups, in the way that he reiterate the notion that Taiwan is the Republic of China. I would say this is a very important way for President Ma to react directly to at least I would say 40 percent or more than 40 percent of public dissatisfaction over those controversial cross-strait policy that he has adopted in the past couple months.

And also, remember, former President Lee Teng-hui used to define this relationship between Taiwan and ROC as "ROC in Taiwan." And former President Chen Shui-bian of the DPP government, he redefined this relationship between Taiwan and ROC as "ROC is Taiwan," Republic of China is Taiwan. And now we heard that President Ma redefined this relationship as "Taiwan is ROC."

But according to this notion of one China with individual interpretations, I think Taiwan **side** advocate that Republic of China represent the only one China. And President Ma, in the most recent video conference with one of the think tanks here in Washington, DC, he advocate that Hu Jintao also accept this notion despite both sides refraining from talking about it when it comes to cross-strait negotiation.

But I would say that President Ma's new elaboration of "Taiwan is the Republic of China" will have some sort of impact on future cross-strait relations. It will also have something to do with whether it will affect future US-Taiwan relations. PRC's concession to President Ma's goodwill gestures are limited conditions and also politically calculated. Take the WHA accession, for example. Although, I mean, a lot of people has been speculating about this one-year reviewing as a basis for Taiwan to attend next year's WHA. Well, of course, the Ma administration denied that. But it clearly that at least for most international observers, it seems that this is based on China's assent that Taiwan get to attend this year's WHA. So I would say that in terms of a negotiation with China, the Ma administration need more careful and politically calculated thinking when it comes to decision-making process.

And final challenge to President Ma is – largely comes from some of the myth. For example, President Ma's belief that by signing – for example, by signing ECFA he will give Taiwan economic leverage to rejuvenate its fragile economies, but I would say that's more of a risky thinking associated with that. For example, yes, we have seen that there are increasing numbers, for example, of Chinese tourists to Taiwan in the last two months. But I would say in most cases that China has the power to control the quantity of the Chinese tourists to Taiwan. And also, by opening – by signing the ECFA with China, whether it's gonna guarantee that it's not gonna hurt some of the traditional – for example, the agricultural sectors in Taiwan, and so far President Ma pledged that he's not going to sabotage some of Taiwan's traditional sectors, but we don't know yet. We will see.

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Plus, the decision-making process was like President Ma pop out the idea first, and then the bureaucrats come up with more pros and cons evaluation, which is not the correct way to do such a bold policy toward the other side of Taiwan Strait. Not to mention that President Ma is facing severe domestic problems. One of them is the rising unemployment rate. It has reached almost 6 percent, and the hidden unemployment rate has also almost reached to 8 percent. And that's why President Ma in yesterday's press conference, he expressed – again, he expressed his determination to tackle this issue. He understand that pledging all his cards on cross-strait economic **opening** is not really enough. So now, later, he needs to take more consideration of some of these domestic pressures.

So I would say that, all in all, I would suggest the American foreign policymakers to take a more overall considerations on how good or how bad so far the Ma administration has been dealing with China. We're seeing some sort of a cross-strait stabilization, that's for sure. I think nobody, even people from the Green camp in Taiwan, can deny that.

But I think what Taiwan's people need, as the senator said earlier, is whether those – especially those bold policies can be forged in a more – based largely on the \_\_\_\_\_ and also the consensus reached by Taiwanese society and proceed in a more cautious way. And I would say that probably because of those challenge that President Ma is going to face, it will to a larger extent affect the future of US-Taiwan relation.

I kind of categorized at least four contending issues related to future US-Taiwan relation. The first one is regional security strategy, whether the Ma administration has a clear regional security strategy in Asia that can go within the parallel with the Obama administration. Let me just take one example.

There was this fishery dispute between Taiwan and Japan in mid-June last year. That was two weeks after President Ma took office, and most of his national security council member hasn't been in position yet, and there was this tension occur in this most controversial island, Senkaku \_\_\_\_\_ Diaoyutai. And there are also a lot of historical backgrounds associated with that island, so I don't want to explain it in details.

But the way that the Ma administration handled that tension – I mean, first, even the premier of KMT government, even some of the KMT legislators, threatened even to go to war with Japan at that time. And the minister of national defense in Taiwan agreed to send a Kidd class destroyer to accompany the KMT legislator to the Diaoyutai Islands. But of course, it took nearly a week for President Ma to come out and finally set a tone that we can solve this tension through diplomatic means instead of national sentiments.

So I think whether the Ma administration recognized the importance of Japan as key allies to the United States and Asia-Pacific region, I think that's a very important issue. I'm sure that after that kind of – after that episode, there has been very frequent communication between Washington and Taipei \_\_\_\_\_ hoping that Taiwan government can move along with the American government's policy in Asia-Pacific region.

The second **task** is, I would say that there are still some contending issues between Washington and Taipei on whether the Ma administration is going to – whether or when were the Ma administration going to reopen the beef, pork, and rice to Taiwan markets. The former DPP government used this strategy, the reopening of American beef to Taiwan, in some way as a tool to sort of mitigate some of the other political agendas that former President Chen Shui-bian **and his** government have been trained to push forward.

And it worked to a certain degree, but I so far haven't seen the Ma administration try to reciprocate to the American government the issue of reopening the US beef and pork and

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rice to Taiwan, probably because – this is just my guess – probably because President Ma feel that for those cross-strait \_\_\_\_\_ policy that he has adopted, the US government – Obama government has expressed a lot of – has given him a lot of credit on that. So there's no need for President Ma to further push forward issues like reopening of US beef. So I would – and also, plus, maybe he doesn't want to **like** his Korean counterpart, Lee Myung-bak. But this is a key issue. I think it's the most contending issue right now facing Washington and Taipei.

The third issue is, of course, the FTA between Taiwan and the US. This negotiation under TIFA has been frozen, like the arms sales issues, have been frozen in the early months under – even when President Ma came to power. But of course, the arms sales has been – former President Bush has met the announcement, arms sales \_\_\_\_\_ to Taiwan. But TIFA – I've just heard that the USTR just recently sent a team to Taiwan to resume the dialogue on TIFA.

But I would say that because some of the Ma Ying-jeou administration official from Ma Ying-jeou administration said something before that by signing a cross-strait Economic Cooperation Framework Agreement, that will help the US-Taiwan Free Trade Agreement in the future. I personally would say that it was a misleading concept. It was more of a political way to push forward the signing of – to accumulate support for the signing of ECFA. So I would say that from TIFA to FTA between Taipei and Washington, there's still a long way to go. But of course, these are very important issues when we talk about US-Taiwan relations.

Finally is the extent to preserve Taiwan's democracy. I mean, leaving aside cross-strait issues, for the past couple of months we have seen a lot of what I call backwardness of Taiwan democracy under the Ma Ying-jeou administration. For example, last December there has been some sort of abuse of power by the police when the ARATS chairman, Chen Yunlin, visited Taipei.

There's also some controversy over the Ma administration's overwhelmingly investigation and detention of the ex-DPP officials, including former President Chen Shui-bian. And there are also a lot of controversy over whether President Chen should be – the prosecutors should extend President Chen's detention.

So I would say that – and there's also a lot of the controversies over Ma administration's control of the medias in Taiwan. And the freedom has kind of downgraded Taiwan's liberty, freedom of the press to the 11<sup>th</sup> place, comparing to the earlier years when DPP was a power. The DPP was able to create a freer environment for the media in Taiwan.

So I would say that perhaps for most decision makers here, maybe they are quite pleased and quite satisfied with how cross-strait relations has been evolving in the past one year. But also I would urge them also to take into account what price and what are the long-term risks that might associate with this opening of a cross-strait détente.

Comparing with China, Taiwan – **elect** leader in Taiwan always has his reelection pressures. I would say that since a lot of people has accused former President Chen Shui-bian for his playing too much on the – playing out the domestic politics. But I would say that even for President Ma, he also has his pressures for reelection, so we have seen recent political maneuvering made by presidential **office** in terms of having President Ma to wearing another hat as a KMT chairman. And also, I think President Ma is right in the middle of arranging his **secession** team and hopefully can boost his reelection bid.

And he also – a couple of weeks ago, when he was interviewed by Singaporean media, he also said something like he wouldn't rule out any possibility of engaging in negotiation with

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China on the political issue. He didn't specifically say anything whether that unification would be part of that. Of course, later he denied that.

So I would say that President Ma has a clear agenda **setting** ahead in the next several years, but the question whether he's gonna achieve that in a more democratic way, and also taking into account both domestic pressures as well as regional concerns on his policies. So I guess I'll just stop here and welcome your comments and questions. Thank you.

*Carolyn  
Bartholomew:*

Thank you very much. Thank you for inviting me to speak today. Thank you both to the Formosa Foundation and to the Elliott School. It's a pleasure to be here. A little difficult to look out on an audience where at least half of you know more than I do and could be up here speaking, so we'll leave some time for questions and hope that we can handle them.

I was asked to talk about what a Democratic-controlled Washington might mean for US-Taiwan relations. And since politics has been injected into it, I'll simply say, as a Democrat I'm thrilled that we have a Democratic president, but as somebody who has worked on US-China policy for the past 20 years, I don't expect that there will be much difference in terms of how the overall policy is approached.

We've gone through this a number of times over the past 20 years. Some of us had great hopes that Bill Clinton would have a different US-China policy than the first George Bush had had and were greatly disappointed to find out that that wasn't the case. We then had hopes that the second George Bush president would have a different China policy than the Bill Clinton presidency had been and were disappointed in that front. So honestly, not to sound cynical, I came into this with not a whole lot of expectations that things were going to change very much.

And in fact, if you look at US-China policy, certainly over the course of the past 20 years, it really hasn't been a Democratic policy or a Republican policy. It's been one of the interesting things that somebody who spent 17 years on Capitol Hill has noticed about this. I'm pleased to see that Congressman Royce was here, was very encouraged by the things that he had to say. I think that Chairman Berman – we can be encouraged by some of the things that he has to say. So you can't really say in these circumstances that Democrats will behave X and Republicans will behave Y. It's, I think, a much more complicated dynamic.

That said, I think that there are some things we can see that are going to be different. We certainly already see a much larger engagement in the world, a real effort on the part of the secretary of state and the president to reach out to places and to regions that had, as we had heard over the course of the past five or six years, been feeling neglected, regions and countries that had been feeling like the only time the United States spoke with them was to talk about terrorism and counter-terrorism issues. So I think that this renewed engagement raises a lot of questions and a lot of opportunities, frankly.

But I also think that the world circumstances are going to be what defines this more than anything else. The China commission, which I'm chairing this year, just got back last week from seven days in China. We are always limited as to how much time we can spend on the ground, as to how many of us can go in, and as to where we can go.

But I was really struck in the conversations, particularly in Beijing, by a renewed and expanded confidence on the part of Chinese officials. There was a definite subtext to our meetings, and in fact we were told directly sometimes, "If you, the US, does things that we don't like, then we won't do things that you want us to do." I think that the global economic crisis is going to have consequences. I think that it's going to shape the relationships that move forward.

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I think that there are a number of people in this country who seem to be moving in fear that if we're not careful in dealing with Beijing, then the Chinese government will stop purchasing US debt. I've been pretty soundly convinced that that indeed is not actually the case. The Chinese government has, first, really nowhere else it can go to purchase the levels of debt that it's been purchasing here, and, second, they don't want the value of their current investment to fall. But that argument really stays out there and is prevailing in a lot of places, and I think that those are the kinds of arguments that might shape how responses happen on Taiwan, so there's a context here that I think is really important for us to focus on.

Congress, of course – since we have two people from Congress who are supposed to be speaking here today, it's presumptuous for me to say anything, but Congress has always played a very, very important role in shaping the US-Taiwan relationship, as well as making sure that Taiwan has not been sacrificed in the bigger context of the US-China relationship. I think that that dynamic is going to continue, and I think that it's really important to continue a focus on Congress in terms of continuing support for Taiwan.

In that context also, I think it's really important to think about how clever the Chinese government just was in the World Health Assembly situation. It has been China's – Taiwan's participation in the World Health Organization has been one of the major issues that Congress has been able to focus on in terms of what it's doing.

We all live and work in a world here in Washington where people tend to focus on the issues that are a crisis as they are a crisis. There are a lot of crises going on right now, from the global economic situation to Pakistan to North Korea to Iran. And we have to presume that people who would otherwise be focusing on what's going on with Taiwan might not be spending as much time on it because nothing crisis-level has bubbled up so far. I think we have to hope that that continues to be the case.

But I think that that means that people really need to make an effort to make sure that nothing happens below the radar screen, that by the time Congress figures out what's going on, it's too late to try to have some input into. So that's one of the things that I always say, which is maintaining the focus and figuring out how to shape what it is that Congress is actually going to be focused on vis-à-vis Taiwan is going to be important.

I think it's also really important for people who care about Taiwan to ensure that from the perspective of the Taiwan government there's absolute clarity in terms of what Taiwan needs. I am talking particularly about the arms sales. I think, again, we're in a situation that unless the government of Taiwan is really clear about what it needs and what it's requesting on arms sales, there's going to be a tendency to probably not pay a whole lot of attention to that.

I think in this new administration, the role of Japan in dealing with this relationship is going to be heightened. I think that – my colleague mentioned regional security strategy from the perspective of Taiwan. I think we need to think about regional security strategy from the perspective of the United States too, and Japan plays a critically important role in that. Japan's heightened concern about the status of Taiwan I think is going to be something that is going to help keep Taiwan on the radar screen of the policymakers here.

At a lower level – and by lower, I mean assistant secretary, so it's really not low – I think that we have friends of Taiwan who are in the administration, people who have dealt with these issues in the past. Whether they are going to be able to get their views and concerns raised to the next higher level, when we have a secretary of state, a secretary of the treasury, all of whom have their own sets of issues in terms of dealing with China, is going to be a challenge. A lot of this, of course, remains to be seen, but I think it's things that we all need to focus on.

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I'm probably the skunk at the garden party when it comes to talking about the free trade agreement because I think that, much as it's a very interesting thing to pursue, realistically what is going on with the general picture of free trade agreements in the Congress right now is not encouraging. And so I think that it behooves people who care about China to think about some other issues and other ways to talk about what we can do to improve relations with the US and Taiwan, rather than necessarily hanging all of the expectations on an FTA. We've obviously got fights on the Hill going on about FTAs with Panama, FTAs with Korea, and it's honestly a little difficult for me to see that an FTA with Taiwan is going to be something that's going to move forward when there's a fight going on within the Democratic Party about trade, trade agreements, and free trade agreements. So I think that's something that I want to tamp down expectations on.

Human rights, one of the issues that a number of us care about. It's difficult to tell what the secretary of state's comments about human rights in China really mean and how that will play out. I know, obviously, that there's a lot of concern still on Capitol Hill about human rights in China. I think that there are a lot of people who, as Congressman Royce said, recognize the importance of maintaining freedom for the people of Taiwan. I think that talking about Taiwan as a human rights issue is an important thing to do. But I think that we're going to have to see how the human rights community generally interacts with the administration and what kind of a commitment the new administration actually has to promoting a human rights agenda.

I'm encouraged by some of the things I've seen about the new – who will, presuming he's confirmed, be the new ambassador to China. He has – after he was in Singapore – raised some questions about the status of human rights in Singapore which I think are encouraging because I'm hopeful that we will have an ambassador in Beijing who will continue to raise some of these issues. And again, it all plays out in terms of how people see Taiwan.

And I was also asked about whether players in Washington are concerned about the Ma administration and some of the steps that they've taken. I was really struck listening to Congressman Royce about – if you focus on that continuing reality of the number of missiles that are focused on Taiwan from the mainland, I think that's an important, important point that consistently needs to be made and consistently needs to be focused on, that people are encouraged that tensions have been reduced. Again, the World Health Assembly is a step. It's a concession by Beijing. It is a step. But I think that people are going – especially people who follow Taiwan closely are gonna be watching closely. And unless and until that missile battery is reduced, it's going to be very difficult to move forward with confidence believing that this is not still a power play on the part of Beijing.

So I think that people who follow Taiwan closely are encouraged, but I would say that they are not holding their breath but they are waiting to see what is going to happen and what real concessions Beijing might make in terms of the missiles. In addition to going to Beijing, we went to Xiamen, so we got to see some of the Taiwan issues from the other side, from the commerce side. We did not see any evidence of the missiles, although we know that they are around there. And it was interesting. It was really interesting.

And I think that – I know somebody asked a question earlier about sort of – essentially it was a question about freedom of speech in Taiwan. And I think that there are going to be friends of Taiwan who will continue to raise concerns about that to make sure that the people of Taiwan have their rights to peacefully protest against policies that they might see unfolding that they don't support.

So it's not as though, with the election of a Democratic president, the whole world has changed on these issues. But as I said, I think with certainly the global financial crisis and a

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perception that the power dynamic has changed, things are going to be complicated in terms of dealing with the relationship, the US-China relationship, vis-à-vis Taiwan. So it's something that I hope that we can see the administration engaging as much as they can with Taiwan, with Taiwan as directly as they can, because I think that that sends important signals to Beijing that what is happening with the status of Taiwan is a very important thing, certainly to people in the United States, and particularly to people in the Congress of the United States.

Now I will defer to my colleagues and have a discussion.

*Ed Friedman:* It's an honor to have an opportunity to chat with you all today. I want to thank Terri for having invited me. My goal is to try to look at some of the long-term implications of changes in 2008, including the election of President Ma. In doing so, I'm going to build on what I think are already the wise insights on the Ma administration by Mr. Liu and the wise insights on both Beijing and Tokyo by Commissioner Bartholomew, whom I agree with.

Taiwan obviously can have no secure future that's peaceful and prosperous unless it has the acquiescence of China, and therefore, in some sense, all presidents of Taiwan know they have to make a deal with China. It's worth remembering that President Chen Shui-bian, when he took office, tried to do so and was turned down by President Jiang Zemin. We could go into the details of why that is; time doesn't permit. But basically it was under Jiang Zemin and after the events of 1989 to '91, starting at the crushing of the democracy movement in China and ending up the splintering of the Soviet Union and the end of power for the Communist Party, that the Chinese Communist Party militarized its policy towards Taiwan. Up until then, it had really not had a militarized policy towards Taiwan.

And when President Chen took office and Jiang Zemin was president, President Jiang was in no position to respond to the overtures that were made by President Chen. Ninety-nine was a disastrous year for President Jiang. There was no way he wasn't listening and trying to conciliate hardliners in China.

In contrast, when Ma Ying-jeou became president of Taiwan in 2008, as Commissioner Bartholomew has already suggested, it was a different China. It's a totally different China. It's not only that Hu Jintao is the president instead of Jiang Zemin, but China is now a self-confident world power and it intends to assert itself as a self-confident world power. As part of that policy, it carries out in its own – as it sees it, its own region what it calls a good-neighbor policy. It's a neighborly policy. And Taiwan in many ways is part of that policy, and in some sense it's an attempt to implement agreements made by President Hu and former vice president of Taiwan Lien Chan back in 2005. I'll leave to others the discussion of what that agenda means.

But the goal here is that China intends to assert itself as a world power. It sees the present moment as a unique opportunity because of the financial crisis. It sees the United States as discredited in the world. It sees Beijing with \$2 trillion in foreign exchange as an opportunity to act in the world and establish itself as the world's indispensable power. It has a view of gradually developing the renminbi as a world reserve currency. It has been sending missions all over the world, including to the state of Wisconsin, by the way, offering loan aids and investment at a time when the banking and loan windows of most of the OECD nations have dried up. It is really trying to establish itself as the global power.

What does it want from Taiwan's President Ma in this situation? It wants **quiet**. It does not want Taiwan to be a problem. It has bigger fish to fry. It wants not only Taiwan but other neighbors in Asia to present China to the world as a peaceful and friendly nation so that everybody in the world will see indeed China is the country to deal with.

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Now, obviously, this is good for Taiwan and for Ma in the sense that it buys time, and I think it really can buy time. I can imagine a future in which China is going to turn away from its militarized policy towards Taiwan, the kinds of things that Commissioner Bartholomew was talking about, because it's going to care more about energy, sea lanes, and China's role in the world and what – it wants to put Taiwan on the back burner.

If that policy lasts for 200 years, we'll live in a different world and we'll all come to the conclusion probably that this was a great policy that Taiwan carried out. If it turns out to be a short-term policy, we may have a different view of it. Why? Because the goal of China right now is to lock Ma Ying-jeou's Taiwan into positions that will make sure in the future there will be absolutely no room of maneuver for so-called independent forces on Taiwan; that they may not even be able to come to power; that China will have so many cards that if Taiwan ever tried to move in a different direction, the costs would so upset the Taiwan people that no one would want to keep those people in power. Mr. Liu referred to the way they're playing WHA, in which you only have a one-year shot at showing up, and China has the veto power of whether you'll show up next year. In other words, if you upset China, you're going to lose that amount of international space.

Similarly, China has allowed what is called a diplomatic peace. It's no longer rating the 20-plus governments that still recognize Taiwan, but at the same time they're building up their relations in those countries, and they're essentially saying that if Taiwan were to change its policies, it will steal every one of those countries. There is no long-term commitment that I can see to allowing Taiwan any international space. I think the Ma administration hopes to get out of this, that China is going to okay free trade agreements, especially with ASEAN and other countries. I would not expect that to occur. It just doesn't fit into this keeping Taiwan on a short leash which seems very much to be the policy of the Chinese government.

Now, it does not mean that China is not giving things to Taiwan and President Ma. I think the Chinese government – I know the Chinese government was shocked at the anger on Taiwan when it sent over a high-level visitor. And they came to the conclusion that if they want to keep Ma in power – they saw his unpopularity back then – they're going to have to make concessions to Taiwan and Ma. So I think that in reality, China has given more and earlier to Ma than it had ever intended to do, that it does respond to feelings expressed in Taiwan since I'm sure the recent marches – that makes China worry about whether it will have a Taiwan that it can count on.

The KMT view of its policy is one of clever balancing. It sees itself as halfway equidistance between the US and China. As an American, the way I hear that is halfway between a government with the missiles that threaten it and halfway between a government with an armed forces which protects it. It seems somewhat strange. But it might also be the case that the reality is, given the nature of China's policies, this is the best that Taiwan can do. This is something that the Taiwanese people are going to have to decide, not for me to tell 'em.

China clearly wants more from Taiwan, as suggested by Mr. Liu when he was discussing Japan, and also Commissioner Bartholomew. Similarly, China very much wants and it is going to continue to pressure Taiwan to back China all over Asia and its policies in the East China Sea with the Senkaku in the South China Sea and the Spratlys. And the pressure on these things, I believe, has only begun, and Taiwan is essentially going to have to make a choice between China and Asia. And I think this is the key thing to how you think about the rise of China.

The way China thinks about its rise in Asia is very different than the way the United States considers Asia. For China, China always was the center of Asia. For a while, it lost its natural position, but now it's going back to its natural position of the leadership of Asia.

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The United States sees Asia very differently. The United States sees Asia as a region which has arisen since the end of World War II. First Japan rose; then the Four Tigers, including Taiwan; then nations of ASEAN; then China; and, most recently, India. And the United States sees itself as tied to this risen Asia of which China is a part.

That is not how the Chinese Communist Party government sees it. It sees the United States as an extra-regional power which is in Asia which it has to deal with but it wishes and will slowly intend to decrease America's influence in the region, and eventually push America out of the region as an influential power.

The United States sees the Pacific Ocean as a water body which ties it to Asia, the same way it sees the Atlantic as tying the United States to Europe, in addition to which the US is tied to Asia because of Pearl Harbor, Korean War, Vietnam War, and because ever since 1982, US trade with Asia has been larger than US trade with Europe. But this is not how it is seen, as I say, inside of China, and there is a fundamental clash in, therefore, your view of Asia. Is it a China-dominated region, or is it a region where all of Asia is risen, including China? And the United States would like to see all of these nations, including Taiwan, having their day in the sun.

I think the Chinese government does not like the thought of simply cooperating the United States' so-called G2 policy because it does see itself as uniquely central both in Asia and in the world, and I think we are going to see all sorts of problems arising out of that. The first one is going to come up in Copenhagen in December, where the Obama administration really wants cooperation on a climate agreement, and the Chinese government just worries that it is going to undermine all of its purposes and its rise in the world.

So there's a fundamental clash of interests here if you think about how to think about Asia and understand how Beijing and Washington think of it differently. Taiwan's going to have to make choices on this. If it buys into the Chinese view of Asia, which is where the Chinese pressure is going to come, then I think what will happen over time is it will alienate nations in Asia and it will end up, in the long run, all alone with China. Chinese stories about the frog going across the water with a wasp on the back that's eventually going to kill it. A Western story much more, a minister in Germany during the Nazi period who eventually is taken away by the Nazis and notices that when they came to take away the gays, he was silent; when they came to take away the Jews, he was silent; when they take the union leaders, he was silent; when they went to take away the Catholics, he was silent; and when they came for him, there was no one left to support him.

So I agree this notion that you have to understand that China's a serious power, a risen power. It has great power interest. It understands its interests in the world, and there are potential clashes and dangers as a result of that, and Taiwan is going to have to make some tough choices. I think the real problem with the Ma administration at the moment is it doesn't understand the toughness and the consequences of the choices that it is going to have to make.

But ultimately, that is the decision for the people of Taiwan, and I certainly wish and hope that what we really will see is that Taiwan is on a side which will make it more likely that China will be more cooperative with the United States, with Taiwan, and with Asia because if it doesn't happen, then what I foresee in the long run is a very, very dangerous outcome for Taiwan, the United States, and all of Asia. Thank you.

*Julian Baum:* Well, after Ed's mind-expanding view of the Taiwan situation, which was fascinating – I could've sat through that with and taken notes – I'd like to just get back again to the domestic

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issues in Taiwan. Many of the topics that Liu Shih-chung covered, and sort of bury down on how – what is happening in the streets, and certainly with the opposition and what their concerns are.

But let me just back up a little bit and talk about what has happened in the last 12 months to sort of set the stage, and again, it's referring to events that Congressman Royce touched on, and Shih-chung as well. We used to say – I used to feel, when I was in Taiwan working for their *Far Eastern Economic Review*, which I no longer work for, by the way – it's on the label there – that if I went away for a couple of weeks and came back, I felt like I was really out of touch since so much was happening. But usually when I came back, I discovered that really not that much has happened.

But the fact is, in the past 12 months, it's as if a dam has burst, and things that had built up and been discussed for years have suddenly come pouring over the spillway, heedless of the consequences for the downstream landscape. After two decades of debate, the three big links of direct mail, transport, and trade across the Taiwan Strait, plus the expanded mini three links from the offshore islands, are now set in place, connecting the two sides in ways that fit, more or less for the first time in 60 years, with the realities of the human and economic relations.

If these new initiatives stopped there, it would be more than enough for both sides to adjust to. However, this is really only the first installment of what President Ma told the *Wall Street Journal* last year was his goal of what he called total normalization of economic and financial relations across the Taiwan Strait, and those are his words. He may have overstated where things are actually headed, at least in the near term. What is almost certain, however, is that there will be reciprocity in commercial and financial ties, dismantling even the prohibitions on corporate investment, access to financial markets, and property ownership in Taiwan from the PRC. And I have to underscore, these prohibitions have been in place for 60 years.

To frame this radically reconfigured relationship, as others have mentioned, Ma has insisted that he will sign a radically – an economic framework agreement in what many fear will be a disguised version of Hong Kong's closer economic partnership arrangement. Of course, as others have said, what's being promised with all of this is a pot of gold for Taiwan's economy, plus the political reconciliation which has pleased the United States and many others.

What has been unsettling, though, is the breakneck speed and the murky process by which these changes are happening. In such circumstances it's only natural that there is deep anxiety among many Taiwanese about their economic, social, and even political landscape, which is changing in ways that no one can predict or control. And some even worry that their democracy, which has been oversold and perhaps overrated, may be swept away.

Adding to this unease is the new political atmosphere of intolerance and flashes of martial law-era abridgements of civil liberties. And there's also the confusion and controversy caused by the shabby treatment and the politically tainted prosecution of the former President Chen Shui-bian, his family, and his former colleagues in the previous government.

So this has been an anxious year. If there were any doubts about that, the street protests in Taipei and Kaohsiung this past Sunday were evidence of broad public anxiety. At least 1 in every 50 Taiwanese took to the streets. There was also a poll published yesterday in the *China Times*, which is a pro-government newspaper, which strongly suggests that Ma has a lot of work to do if he wants to build consensus for his China policies among the majority of the Taiwanese citizens.

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So in this situation I would just like to mention three areas where I think that there are legitimate concerns about the way things are moving, and that these are not political talking points or merely partisan criticisms of the government. And I see these three areas of concern as the sovereignty question, democratic accountability, and the stewardship of Taiwan's economy.

On the sovereignty question, President Ma signaled his new approach in his inaugural speech last year, and he then advocated avoiding conflict over sovereignty, and finding common cause in, quote, "ways of life and core values." This discounting of the sovereignty issue, which had been something of a battle cry under his predecessor, and the reassertion of a Chinese national identity was a sharp break not only from Chen Shui-bian but from the latter years of Lee Teng-hui in the 1990s.

In dealing with Beijing since then, Ma has been warmly praised by supporters here in the United States for subordinating the sovereignty issue and for emphasizing instead his support for one China with two interpretations, which Beijing now at least tolerates.

In commenting on this situation recently, Shi Hwei-yow, the former secretary general of the Straits Exchange Foundation, said that the reason the DPP government could not complete any new agreements with China during the previous eight years was the conflicting political agendas of the two sides and that China had therefore boycotted any new agreements.

Now that Beijing and Taipei have a common political agenda, which is to say one China, the talks are proceeding rapidly. Yet President Ma continues to insist that he has not put Taiwan's sovereignty at risk, and he says the public should be reassured because there are no explicitly political issues on the table. But as the former Straits Exchange Foundation official said, there is an underlying political element in all these discussions, and if this subtext is left unexamined for an indefinite time, then many are fearful that it will lead in the direction of cooperation that Beijing has prescribed, which is the endgame: one country, two systems. There is near zero prospect that the one country will be the Republic of China, which the KMT and President Ma prefer.

Compounding these concerns over sovereignty is the suspicion that the secret party-to-party meetings between the KMT and the Chinese Communist Party that officially began in 2005 are driving the cross-strait agenda. These officials, the KMT officials, have never had high levels of public trust in Taiwan, and there are legitimate worries that the lack of accountability in their closed-door meetings with their Chinese Communist Party counterparts is a problem for the negotiations. Assurances from President Ma that these party-to-party talks are private and merely as second-track communications are not very convincing.

The second area is democracy, and Congressman Royce mentioned that, and others have as well, which I would say is even a more urgent problem than the sovereignty issue, which sometimes can seem abstract or merely nitpicking over terms. The lack of accountability and public oversight has been a noticeable feature of the cross-strait agreements that have been signed – I think Shih-chung said nine of them in the last year.

In his speech last month to the Center for Strategic and International Studies, President Ma was especially charming when he affirmed several times that Taiwan is a democracy, and therefore there should be no question of anyone, including himself, selling out the country. The people were the ultimate decision makers, he insisted. And in his closing remarks to that group, he told his audience that Taiwan would, quote, "bear the torch of democracy for all Chinese people."

To be sure, Taiwan has a peerless election culture, but its other democratic institutions are

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less than exemplary. The most obvious weakness is the absence of effective checks and balances in its heavily amended constitution. Perhaps the biggest missing link is an independent legislature, especially since the KMT won a supermajority in the legislature after last year's elections, of 75 percent of the seats, after a very controversial series of electoral reforms.

On the various accords signed with Beijing since last summer, there has been no legislative oversight or visible public input, so on matters of cross-strait relations, the government now runs by executive decree. It's true that the 1992 act governing relations between the two sides requires legislative consent on matters of cross-strait business activities, transportation, and the admission of people from the mainland area. This provision was inserted by pro-Taiwan KMT legislators in the early '90s when the act was drafted, specifically to prevent the executive branch from doing exactly what the Ma government is doing now, and the provision for consent has basically failed.

As it turns out, none of the agreements that were signed during the first and second round of talks last year were debated or even voted on in the legislature. They were sidelined in legislative committees on technicalities, and when the 30-day period of review expired, they were just decreed into existence by the Mainland Affairs Council.

The third round of talks, which concluded in late April in Nanjing, include a general agreement to begin negotiations on financial cooperation involving banking, the securities industry, future market access, and currency management, just to name some of the big topics that are covered in that. With such weighty measures to review, you might think that the legislature would be getting their teeth into these issues, but in fact they're on track to adjourn next week, to reconvene in September, taking the entire summer off for the first time in many years, and there are no votes scheduled on these new agreements.

This neutering of the legislative role in Taiwan is even worse than the rubber-stamp parliament in China. At least in Beijing, in the provinces, when they are – they take up or down votes on bills, they are expected to approve even if they are unanimous votes.

And thirdly, on the economy, which I'll just touch on very briefly, how the government deals with the many industries that are being impacted by the opening to China, the security of its financial markets, sensitive infrastructures such as telecommunications – these are all complex but domestic policy issues. But on the issue of the Economic Cooperation Framework Agreement with China, this is a broad interest of Taiwan's trading partners, and it's sometimes been described merely as a special case of a free trade agreement.

I was particularly interested in hearing what Dr. Tsai Ing-wen had to say here at GW last week when she spoke about this. Dr. Tsai was a tough trade negotiator when she was working on the preparations for Taiwan to enter the World Trade Organization ten years ago, and she knows how difficult these negotiations can be since there are substantial issues of economic power and industrial interests at stake. And she also knows that setting a firm deadline to have a done deal compromises one's leverage, especially for the weaker partner.

So President Ma's vow to sign a general framework agreement with Beijing by the end of this year needs to be considered in this context. Is it really about the economic benefits, or is it about setting parameters and affirming intentions for some future political cooperation or alliance? We just don't really know. As Dr. Tsai warned, there are serious substantive and procedural issues here, which may be why the Ma government has revealed almost nothing about the negotiations.

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And finally, just on the question of US policy, which is really our topic today, the trends that I have noticed in the last year – the only trend, really, the major trend that I have been able to see is just this warm reception for the reconciliation and the breakthroughs that have occurred in cross-strait relations under the new KMT government, and also the dismissal of the opposition as out of touch and as an obstacle to peace in the Taiwan straits.

If the history of 60 years of US-Taiwan relations has taught us anything, however, it's that we should not ignore the realities on the ground. In her superb new book, *Strait Talk: US-Taiwan Relations and the Crisis with China*, Nancy Tucker writes that the American diplomats during the Cold War were willfully ignorant of the situation in Taiwan. The diplomats of that era, which would be in the '50s and '60s and into the '70s, were so focused on the global struggle against communism in the Soviet Union that they paid little attention to Chiang Kai-shek's repression on the island.

The situation today is infinitely better and more hopeful, and I'd like to think that American policies and diplomats are much better informed. But we still see a good deal of ignorance and a reluctance to ask the difficult questions, and there are many reasons for this, I suspect.

Paradoxically, one reason for the lack of candor and real dialogue may be the fact that Ma Ying-jeou is that rarest of leaders, especially in East Asia. He's not only US-educated; he's deeply knowledgeable about the United States and even personally acquainted with many of the policymakers here over several generations.

But he also comes from a place that is familiar to many Asia hands, which is the ideology and worldview of the Republic of China that prevailed in Taiwan for 45 years under martial law and has lingered in tattered form into the democratic era. Ma's definition of "one China" is in many respects straight out of the lesson books of Chang Kai-shek and Chiang Ching-kuo. It's a political discourse that students of modern history can easily understand, even if it's one that is no longer and perhaps never was a plausible counter way to the People's Republic of China.

Yet this familiarity with the leader and his political sort of worldview should not inhibit our probing questions, and it should not inhibit us from showing empathy for a majority of the Taiwanese population, who are not hostile – who are agnostic, if they are not hostile, to the KMT's vision for the future. This majority needs to be engaged and not ignored or treated with paternalism. Thank you very much.

*Audience:* Judith Murphy, GW student. I was wondering if, with this latest financial crisis, we've learned anything interesting either from the side of Taiwan or China. I know in the '97 Asian crisis there was an interesting dynamic that developed, so I was wondering if you had similar other interesting lessons, and this is for the whole panel.

*Carolyn*

*Bartholomew:* I'll take this at the broadest level. I think we certainly have learned important lessons about the strengths and weaknesses of our own economy. But I think that for people who had been watching a rising China, it has provided – it is providing an opportunity for Beijing in a number of places around the world. As one of my colleagues made reference – and you made reference to that, that China is participating more actively in a lot of other places, using financial diplomacy. And the global financial crisis has created a whole lot more opportunity for that, going to countries elsewhere in the developing world where Beijing might have had some interests because of natural resources or just getting a foothold and is now actively offering to lend money, for example, in places that they might not have, had the global financial crisis not taken place.

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So I think that in terms of history, it's going to take a while for history to happen in order to be able to step back enough to see it. But I do think that it is creating opportunities for Beijing, and that rise of China, sort of a more rapid rise of China, is going to have consequences for Taiwan. And I'm not even going to talk about the economic consequences, but just of the power dynamic consequences.

*Ed Friedman:* I think the question is fabulous, actually, and it really is worth thinking hard about how the Asian financial crisis and responses to it in Asia have changed the world.

The first thing that happened was that Japan offered to help create a fund to bail out the nations that were in trouble, and the Clinton administration essentially vetoed it and said go through IMF. This made very bad – put the United States in very bad odor all over Asia. And China for the first time saw that it could cooperate in multilateral bodies financially and upset the United States, which was a good thing from their point of view. And so they first got involved with Japan in creating an Asian Monetary Fund and began to be seen as playing a very positive role financially in Asia.

Second thing that happened was that the Asian countries concluded that it was a very volatile world economy, and you didn't want to be without great amounts of foreign exchange when a crisis occurred. And so they began after the Asian financial crisis – all of them, not just China – to very self-consciously run policies of trying to accumulate as much foreign exchange as possible.

And the consequences of that were to create two kinds of governments in the world: surplus governments (mostly Asia and the petro-states) and deficit governments. And there was a relationship. One loaned the money; the other benefit from it, spent it, bought the goods from the other country, and there seemed to be a cycle. Now the cycle eventually becomes a bubble, and it's the bubble which has burst, and it's worth understanding how that bubble grew out of the Asian financial crisis, but that's not how the world sees it.

What the world sees is that the crisis came from the United States and discredits the American model, and it creates an opportunity, therefore, for China to say, "We have had the right answer." And it's very tough to have the time, which you just gave me, thank you, to spell out what really occurred, but that's too much time for most people to pay attention to. And therefore you have to live with the world right now in which America is singularly blamed for the crisis, discredited by the crisis, and China is seen as the one that's had the correct policies, and that has long-term implications that really matter.

*Audience:* Neil Silver, former foreign service officer. This question is primarily for Professor Friedman. You may have already answered part of the question, but I was struck that in your description of the overall relations in Asia and the sort of struggle between this new, revived China-centric view of Asia and the old sort of America-centric maritime rim Asia which we all came to know and love so well. That Japan seems now to be an inert, possibly even a spent, diplomatic force in Asia. I mean, this is the second largest economy in the world. It had certain successes, all the way up through a decade or two ago, and now it seems to be absent from the discussion. Just interested in your thoughts.

I'm not going to ultimately answer your question, but I'd love to hear your ultimate answer to the question. I think your question is correct. First, the America-centric rim is dead. It's gone. And instead, you do have an Asia which has risen, all the way up to India, and a question of whether the United States has an Asia policy which gets reciprocated by Asia. I think we can have that. I think that is where the Obama administration is going to go, and I think that that is a good thing, and I'll detail why I thought China would not think that it is.

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But your question is "So where is Japan on this?" It's an amazing absence because, as I said, the Asian Monetary Fund was actually begun by a Japanese offer. Yet in Asia, China is seen as getting the credit for it. And in the present crisis, once again, Japan has put up more money to bail out countries in trouble in China, but China gets the credit for it.

So the real question, which I said I do not know the answer for, is how come China either runs a brilliant diplomacy and Japanese diplomats are dunces, or the world has learned to report a story about it as if the Japanese initiatives don't exist and don't count? I don't know the correct answer to the question, but the question sure is the correct question.

*Carolyn*

*Bartholomew:*

Ed, it's interesting with your pronouncement that the America-centric Asia is dead. I mean, I think that you made a very interesting analysis, but I guess I would put two observations out there. One is still the issue of hedging, which we see in countries in Asia and also here. One of the very interesting things about having served on the China commission for the course of the past six years is, I would say for the course of the past three, we have not had an administration representative come up and testify in front of us who has not mentioned hedging. Now, four years ago it started and there were a few experts who did, so I think that there's a recognition about hedging both here in the United States, and I think that – I mean, we hear it – we were in India even two years ago. And hear it elsewhere that people in a number of Asian countries are concerned about and interested in ensuring that the US maintains a strong presence in Asia because they're very uncomfortable about the possibility of a China-centric Asia.

And then the other issue that I'd just like to put out there is the questions about the true state of China's economy, going back to the first question about the economic issue. I agree with that, that some of what is coming out of this is China's ability to repudiate the sort of free-market capitalism model that the United States had been promoting around the world and to increase support for the rise of a Chinese economic model, which has also got more repression that goes along with the economy.

But I think that there are some really legitimate questions out there about how strong is China's economy, and what does that really mean? I mean, it's interesting that at a time where other countries are having negative growth or growth of 1 percent, that the government of Beijing is proclaiming 6.5 percent and that it's going to meet 8 percent. And given questions about China's statistics, I think we have some questions, so there are a lot of uncertainties that go along with this that I think play into it. But I think also, in terms of Japan, obviously the global economic crisis is having an impact on Japan's ability to step forward on things too.

*Audience:*

I have a question mainly for Commissioner Bartholomew, but the other panelists can comment on it as well. A couple years ago the Council on Foreign Relations came up with a taskforce report that really stressed the importance of US-China engagement. And it stressed that that engagement is beneficial to both the US and China, to such an extent that it would imply that Taiwan can be sacrificed if that relationship, US-China relations, can be improved.

My question is this. As you had mentioned, we owe China over \$1 trillion, maybe \$1.4 trillion, and that is going to keep increasing because our trade deficit is growing. The last figure was, what, \$265 billion? And I don't see where this is going to end. Assuming in the short time they will keep buying US treasuries and help us cope with the financial crisis and all, but if the long-term trend is the shifting of wealth from the US to China on a steady basis, and we keep building up our debt to China, where does this end? And also, does this really benefit China, as that taskforce report claimed?

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I see different things. For example, China's paying a high price, like environmental degradation, income disparity. A typical family in rural China, the husband is working as a temporary concession worker in Beijing, the wife is working in a factory in a coastal province, leaving a child under the care of a grandparent, and they get to see each other maybe twice a year. It's a very hard life. Does that benefit the Chinese people? I doubt it.

So my question to you, since you're the commissioner on US-China Commission, what's your view? I mean, is there any way we can reverse this trend? How are we going to reverse the trend so that this continuing shift of wealth to China can be stopped or reversed?

*Carolyn*

*Bartholomew:*

Well, these are difficult questions that people are asking today. I would note that the commission is responsible for the national security – or reporting on the national security implications of the U.S. China economic relationship, and the – while we don't directly deal with the fiscal health of the United States, obviously, that has something to do with it.

I think you put your finger on a really important point which is we have got to get the U.S. fiscal house in order, and that is a piece of U.S. China relationship, but it's a piece of the U.S. relationship with everybody in the world, and it is something that we have to deal with. But certainly, the solution to that goes beyond my expertise and entire conferences are put on that.

I did want to take one, I suppose, small swipe at the Council on Foreign Relations which is just to say that my sense has often been their analysis is a fairly status quo analysis. I think that the issue about engagement arises a lot of times out of what had been a very static definition during the MFN debates where you either were for engagement with China or, according to the analysts, you were against engagement with China. And it is not an issue about being for or against engagement, it is always, from my perspective, been an issue of the conditions and the terms of those engagements.

So I still have a tendency to say that when people talk about engagement, I mean there was next to nobody in the U.S. Congress during those debates who didn't support engagement. It was just making sure that the engagement benefited the American people.

I do think we have to acknowledge that China's economic growth had changed enormously and improved enormously the standard of living for a number of people 300 – over 300 million people have been lifted out of poverty. That's something to be commended, but obviously, you've put your finger on a lot of very difficult issues that the Chinese government is dealing – environmental degradation, income disparity, differential development between the coast and the inland regions and, interestingly, in addition to the subtext that we were hearing when we were in Beijing just a week and a half ago about, as I said, don't do things that we don't like because we don't – because we won't do things that you want us to do.

When we raises issues about China's role as a responsible stakeholder in the world, what we kept being told is, "Don't put too much burden on our shoulders because we're just a poor country, and we have all of these issues we have to deal with here at home – environmental degradation, dealing with a large and poor population still."

So I'm afraid I don't really have the answers to your questions, but to say they're obviously critical, critical issues that we have to deal with in the relationship, and the days of feeling that diplomacy is about sort of a limited handful of issues are certainly over. If this global economic crisis has taught us anything, it is really how interconnected the economies are.

In – we were in Hong Kong for a couple of days, very interesting to see the difference in the ports. I'm sure many of you are used to visiting Hong Kong at a time where the containers are

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just stacked up as you go by the port, and the ships just waiting in line to come and pickup containers to bring stuff for the U.S. consumer to buy. That is not happening right now.

Right now there are freighters in the – outside the Port of Hong Kong that are sitting there with empty containers because there's nowhere else to store them. For those of us who raised concern about the trade deficit going back 15 years, for those of us who raised concern about the inequity in what is happening of the balance of China's currency valuation of the enormous foreign currency reserves that have come, this is sadly a case where the chickens have come home to roost.

You never want to actually have the scenario that you play out be the scenario that happens, but we are in a difficult situation. I do think that the Chinese government, it's pretty clear, at least where things stand right now, they're not going to have the economic growth that they want without a strong American consumer. If people are not buying t-shirts and TVs and more and more even look at cars, if people are not buying those things, then Chinese production has – will continue to take a big hit which has consequences, of course, for the ability of the communist part to stay in power.

So that stuff is all interconnected in ways that I think is becoming more obvious to a lot of people.

*Ed Friedman:* Just want to put all of these things into context of politics inside of China. Take the issue of that the Chinese government increasingly owns the United States. That's not how it's seen inside of Chinese politics. Inside of Chinese politics, the view is, "Why are we subsidizing those people? Dollar goes down in value. We're going to get less back for it. Why are we subsidizing them? They're stealing us blind."

And the government is under pressure, and the government has a hard time explaining to the Chinese people the things that Commissioner Bartholomew said which is simply correct about what other alternatives are there for parking their money and so on. That's a tough conversation to have.

So China – so there's tremendous pressure on the inside of China from what you might call a new left nationalist perspective inside of China. You see this also as Commissioner Bartholomew said on the issue of responsibility. The first response inside of China when you raise responsibility is, "What about all of our poor people? What about our own problems? Shouldn't we be responsible to our own problems? That's where we should be responsible." And they have a very hard time explaining why they should be responsible for, of all places, the United States of America which every day, the Chinese media is telling the Chinese people is their enemy and is out to do them in – is just a bad kind of place.

So they have a very hard time responding – responsibly because of the kinds of politics they have created in their own country. As for the hedging, I agree with everything Commissioner Bartholomew said. Of course, Japan, Indonesia, Singapore, India are not going to be pushovers for just surrendering to China. The Chinese government understands hedging as containment under a more polite name. It's seen as an anti-China policy, and so they have two responses to it.

One is they want to take the reasons away for hedging. This is their good neighbor policy that I talked about. They want to sell arms to these countries. They want it so you don't need the American military. They want to take away reasons for hedging.

Now I tend to think it's not going to succeed for reasons, again, inherent in what Commissioner Bartholomew said. There really are problems over the South China Sea,

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energy resources and very different visions of how Asia should be run. These are nothing to be happy about. These are tremendously potentially conflicting issues in the long run. We should not be wanting conflictful kinds of things to occur. I hope no one's in favor of a policy that's going to lead unnecessarily to a war in the region.

So diplomacy – the question is how do you work it out? How do you make a deal? How do you get on with China in this very difficult environment?

Last thought, Commissioner Bartholomew, what's the real story about the Chinese statistics right now? If you look at things such as energy production, it's declined tremendously. I think 35 percent in the last quarter while production supposedly grew six point one percent, and some people think there's a contradiction in that. And that therefore, the numbers are fudged.

That's a possibility. They fudged the numbers at the end of the 1990s, at the beginning of the 21<sup>st</sup> Century also. On the other hand, without doubting that, I am sobered by how all the people who since 1989 have predicted the Chinese economy is about to go down the tubes have turned out to be wrong, and I am not about to put myself in a position of joining those people. And I don't think one should underestimate the economic power of this Chinese rise.

Is that a contradiction that we can sort out? Well, here's something that everybody here knows, it's not a transparent government. We have lots of contradictions about how the Chinese government works that we can't sort out and hopefully conversations like this help.

*Audience:*

Henry Nau, George Washington University. Could I bring the conversation back perhaps to the domestic situation in Taiwan and ask as the U.S. government – has any official of the U.S. government said anything or respond – of the new administration – said anything or responded in any way to these developments under the new Ma administration over the last year and a half.

I'm just curious as to where this is on the radar screen of American officials and especially in the new administration.

*Shih-Chung  
Liu:*

Well, so far, because I have some conversation with some of the U.S. officials. But first, because Ma's demonstration – kind of a crossover both the Bush and Obama administrations. So I've heard some positive comments made by the Bush administration saying that, well, they encourage – they are happy to see what happens in the first couple of months of the Ma administration in terms of his forging towards the more cross trade \_\_\_\_\_.

But at that time, I would said in the first six months of the Ma administration, the Chinese still adopted a somewhat – is that the strategy they used \_\_\_\_\_ back in 19 – 2000, that is to watch \_\_\_\_\_.

So in terms of policy, even both sides reach an agreement on the opening of more \_\_\_\_\_ flies in mid-July. We haven't seen – in Taiwan, we haven't seen many – no –direct increase of the numbers of the Chinese tourists to Taiwan up until February this month – this year.

So I would say that – and again, the Bush administration, at that time, most of their comments were still to try to encourage - I would say encourage the Chinese side to seize the opportunity. And \_\_\_\_\_ maybe to not miss the opportunity as they did back in 2000, 2001 when \_\_\_\_\_ offers an olive branch.

So but in the second half of \_\_\_\_\_ administration, I would say that no – especially when President Obama took office, I feel they are more and more open \_\_\_\_\_ that encouraging

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what's going on right now across Taiwan's trade, but I'm sure there's – there are a lot of under the table negotiations between \_\_\_\_\_ and Taipei.

I'm sure people from Ma's team that will continue to explain through the American counterparts that, number one, Ma is not going to \_\_\_\_\_ Taiwan because I think what the strategy established by the Ma administration has tried to convince the Americans' government that he's not going to do anything that's going to jeopardize Taiwan sovereignty or any of that.

But as – what President Ma did in the video conference with the CSIS – but what President Ma did not say in that conference, seems to me, is he failed to provide more convincing elaborations on those critics that – not only just the VP but also a lot of the Taiwan social group have been challenging ever since he unveiled this cross trade \_\_\_\_\_.

So at – especially after the big march last Sunday and President Ma – I observed his reaction to that in yesterday's press conference, and he's going to have an international press conference today. I'm sure he's going to – he's going to say a lot more about how good cross trade relation is after he took power, but I'm sure he will have to react in more details those critics that have been targeting on him and his government.

*Carolyn*

*Bartholomew:* From the perspective of the new administration here, there's an interesting phenomenon for those of you who've lived through these transitions before where the people who are hoping to get positions in the administration go noticeably silent as we move right into the election and then –